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CITY OF BAY ST. LOUIS, MISSISSIPPI
ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

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CITY OF BAY ST. LOUIS, MISSISSIPPI
LISTING OF CITY OFFICIALS
SEPTEMBER 30, 2007

ELECTED OFFICIALS

Mayor	Edward A. Favre
Councilman - Ward 1	Doug Seal, Jr.
Councilman - Ward 2	James C. Thriffiley
Councilman - Ward 3	Jeffrey C. Reed
Councilman - Ward 4	Robert J. Compretta
Councilman - Ward 5	William E. Taylor
Councilman - Ward 6	
Councilman - At Large	

APPOINTED OFFICIALS

City Clerk	Harold G. Olson
Police Chief	Tom Burleson
Fire Chief	Robert L. Gavagnie
City Attorney	Don Rafferty

INDEPENDENT AUDITORS' REPORT

WRIGHT, WARD, HATTEN & GUEL
PROFESSIONAL LIMITED LIABILITY COMPANY
(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)
Certified Public Accountants
HANCOCK BANK BUILDING
2510 - 14TH STREET
P. O. BOX 129
GULFPORT, MISSISSIPPI 39502

PAUL L. WRIGHT JR., CPA 1955-1993
HENRY D. WARD, CPA, 1949-2006
KENNETH M. HATTEN, CPA, CONSULTANT
MICHAEL E. GUEL, CPA, CFP®
SANDE W. HENTGES, CPA
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INDEPENDENT AUDITORS' REPORT

January 20, 2010

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 the City of Bay St. Louis, Mississippi, as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 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 opinion.

The City has not recorded accounts receivable for municipal court fines as of September 30, 2007, as required by generally accepted accounting principles (GAAP). Because of this departure from GAAP, we were unable to form an opinion regarding the balance of the municipal court fines receivable. The amount by which this departure would affect the assets, fund balances, and revenues of the general fund is not reasonably determinable.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the court fines receivable, 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, as of September 30, 2007, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Honorable Mayor and Councilmen
City of Bay St. Louis, Mississippi
January 20, 2010

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2010 on our consideration of the City'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 the 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.

The management's discussion and analysis on pages 4 through 9 and budgetary comparison information listed as Schedule 1 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 basic 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 basic financial statements of the City of Bay St. Louis, Mississippi. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in related to the basic financial statements taken as a whole.

Wright Ward Hatten & Guel

Wright, Ward, Hatten & Guel
Gulfport, Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF BAY SAINT LOUIS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Introduction

The following Management's Discussion and Analysis of the City of Bay Saint Louis ("the City") activities and financial performance provides an introduction to the financial statements of the City's for the fiscal year ended September 30, 2007. 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 comparisons with the previous year.

Financial Highlights

- The assets of the City exceeded its liabilities at September 30, 2007 by $23,553,828. Of this amount unrestricted net assets of $8,487,615 may be used to meet organizations ongoing obligations to citizens and creditors.

- The total net assets increased by $7,879,351. Of this amount $4,408,982 was associated with governmental and $3,470,369 with business-type activities.

- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $9,949,898 an increase of $1,392,461 which includes a prior period adjustment of $64,259, in comparison with the prior year.

- At the end of the current fiscal year, unreserved fund balance for the general fund was $7,757,524. This amount is 46% 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.

Overview of the Financial Statements (Continued)

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. 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, highway and streets, economic development, culture and recreation, and health and welfare. The major business-type activities of the City include providing water, gas, garbage and sewer services to the residents of the City of Bay Saint Louis.

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.

  Due to 2007 software limitations, the City maintains one governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the governmental funds.

Overview of the Financial Statements (Continued)

- Proprietary Fund

  Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City maintains one enterprise fund. Information is presented in the proprietary statement of net assets and the proprietary statement of revenues, expenses, and changes in net assets for the Utility Fund.

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.

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 utility fund are presented immediately after the basic financial statements as required supplementary information.

Government-wide Financial Analysis

Table 1 below presents the City's condensed statement of net assets as of September 30, 2007 derived from the government-wide Statement of Net Assets.

Table 1: Condensed Statement of Net Assets
As of September 30, 2007

	Governmental Activities	Business-type Activities	Total
Current and other assets	$ 14,841,534	$ 9,580,575	$ 24,422,109
Capital assets, net	15,081,103	8,786,532	23,867,635
Total assets	29,922,637	18,367,107	48,289,744
Current liabilities	3,153,655	9,128,982	12,282,637
Long-term liabilities	8,714,584	3,738,695	12,453,279
Total liabilities	11,868,239	12,867,677	24,735,916
Net assets:			
Invested in capital net of related debt	7,470,733	5,403,106	12,873,839
Restricted net assets	2,192,374	-	2,192,374
Unrestricted	8,391,291	96,324	8,487,615
Total net assets	$ 18,054,398	$ 5,499,430	$ 23,553,828

At September 30, 2007, the City's assets exceeded liabilities by $23,553,828. A large portion of the City's net assets (55%) reflects its investment in capital assets, less any related debt used to acquire or construct those assets. Capital assets will continue to increase as recovery projects from Hurricane Katrina progress. A small portion of the City's net assets (9%) is considered restricted to meet certain obligations. 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, 2007, as derived from the government-wide Statement of Activities.

Table 2: Condensed Statement of Activities
For the Year Ended September 30, 2007

	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues			
Charges for services	$ 925,595	$ 2,493,962	$ 3,419,557
Operating grants and contributions	1,623,950	-	1,623,950
Capital grants and contributions	3,071,325	3,685,531	6,756,856
Total program revenues	5,620,870	6,179,493	11,800,363
General revenues			
Property taxes	1,524,756	-	1,524,756
Sales taxes	1,326,836	-	1,326,836
Franchise taxes	263,569	-	263,569
Gaming revenue	2,690,300	-	2,690,300
Interest earnings	361,773	20,157	381,930
Insurance proceeds	37,589	-	37,589
Lease revenues	22,830	-	22,830
Other	187,196	-	187,196
Total general revenues	6,414,849	20,157	6,435,006
Total revenues	12,035,719	6,199,650	18,235,369
Program expenses			
General government	2,138,032	-	2,138,032
Public safety	2,829,991	-	2,829,991
Public works	1,084,284	-	1,084,284
Highways & streets	192,286	-	192,286
Economic development	209,579	-	209,579
Culture & recreation	680,637	-	680,637
Health & welfare	27,738	-	27,738
Interest	464,190	-	464,190
Water, sewer, gas		2,729,281	2,729,281
Total program expenses	7,626,737	2,729,281	10,356,018
Change in net assets	4,408,982	3,470,369	7,879,351
Beginning net assets, restated	13,645,416	2,029,061	15,674,477
Ending net assets	$ 18,054,398	$ 5,499,430	$ 23,553,828

Governmental Funds

As of the close of the fiscal year, the City's governmental funds reported a unreserved ending fund balance of $ 7,757,524.

- General Fund

  Fund balance at September 30, 2007 totaled $ 9,949,898. This is an increase of $1,328,202 which includes a prior period adjustment of $64,259, during the fiscal year.

Budget Variances in the General Fund

There were amendments to the original budget for the 2007 fiscal year. Refer to the budgetary comparison schedule for the General Fund in the RSI section of the annual report.

Capital Asset and Long-Term Activity

Capital Asset Activity

At September 30, 2007, the City reported $15,018,968 in net capital assets for governmental activities and $8,695,951 in capital assets for business-type activities. Additions to fixed assets amounted to $5,523,731 due primarily to the additions of construction in progress as a result of the construction and rebuilding of infrastructure as part of Hurricane Katrina recovery process. See Note 5 of the Notes to the Financial Statements for more detail.

Long-Term Debt Activity

At the end of the current fiscal year, the City had $ 13,462,013 in outstanding long term debt, which includes $226,675 of compensated absences payable. Long term debt, net of deferred loss on bond refunding, decreased $4,265,650 primarily due to the City's issuance of refunding general obligation bonds and subsequent defeasement of old debt. As of September 30, 2007 outstanding debt totaling $6,694,258 was directly related to Hurricane Katrina recovery. See Note 6 of the Notes to the Financial Statements for more detail.

Contact the City's Financial Management

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

David Kolf, City Clerk
Bay Saint Louis, Mississippi
P.O. Box 2550
Bay Saint Louis, MS 39521

FINANCIAL SECTION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ 10,314,741	$ 587,757	$ 10,902,498
Receivables, net	548,088	631,890	1,179,978
Due from other governments	3,185,642	1,513,335	4,698,977
Internal balances	(6,481,925)	6,481,925	-
Inventory	-	92,381	92,381
Prepaid insurance	136,643	7,610	144,253
Restricted assets:			
Cash and cash equivalents	7,138,345	265,677	7,404,022
Total current assets	14,841,534	9,580,575	24,422,109
Noncurrent Assets			
Capital assets:			
Land and construction in progress	3,774,902	4,214,660	7,989,562
Other capital assets, net of accumulated depreciation	11,244,066	4,481,291	15,725,357
Bond issuance costs, net	62,135	90,581	152,716
Total noncurrent assets	15,081,103	8,786,532	23,867,635
Total assets	29,922,637	18,367,107	48,289,744
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses	1,565,681	1,042,653	2,608,334
Retainage payable	97,128	-	97,128
Accrued interest	81,486	61,261	142,747
Deferred revenues	709,657	7,450,360	8,160,017
Bonds payable	660,000	290,000	950,000
Leases payable	6,991	-	6,991
Compensated absences, current	32,712	19,031	51,743
Payable from restricted assets:			
Customer deposits	-	265,677	265,677
Total current liabilities	3,153,655	9,128,982	12,282,637
Noncurrent Liabilities			
Bonds payable, net of deferred loss on bond refunding	2,575,881	3,002,845	5,578,726
Notes payable	5,958,408	735,850	6,694,258
Leases payable	5,363	-	5,363
Compensated absences	174,932	-	174,932
Total long-term liabilities	8,714,584	3,738,695	12,453,279
Total liabilities	11,868,239	12,867,677	24,735,916
NET ASSETS			
Invested in capital assets, net of related debt	7,470,733	5,403,106	12,873,839
Restricted net assets	2,192,374	-	2,192,374
Unrestricted net assets	8,391,291	96,324	8,487,615
Total net assets	$ 18,054,398	$ 5,499,430	$ 23,553,828

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, 2007

		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	$ (2,138,032)	$ 406,721	$ 69,194	$ -	$ (1,662,117)	$ -	$ (1,662,117)
Public safety	(2,829,991)	55,859	1,403,675	176,935	(1,193,522)	-	(1,193,522)
Public works	(1,084,284)	-	-	2,630,669	1,546,385	-	1,546,385
Highways and streets	(192,286)	-	-	-	(192,286)	-	(192,286)
Economic development	(209,579)	463,015	151,081	-	404,517	-	404,517
Culture and recreation	(680,637)	-	-	263,721	(416,916)	-	(416,916)
Health and welfare	(27,738)	-	-	-	(27,738)	-	(27,738)
Interest	(464,190)	-	-	-	(464,190)	-	(464,190)
Total governmental activities	(7,626,737)	925,595	1,623,950	3,071,325	(2,005,867)	-	(2,005,867)
Business-type activities:							
Water, sewer and gas	(2,729,281)	2,493,962	-	3,685,531	-	3,450,212	3,450,212
Total business - type activities	(2,729,281)	2,493,962	-	3,685,531	-	3,450,212	3,450,212
Total	$ (10,356,018)	$ 3,419,557	$ 1,623,950	$ 6,756,856	(2,005,867)	3,450,212	1,444,345
General revenues:							
Property taxes					1,524,756	-	1,524,756
Sales taxes					1,326,836	-	1,326,836
Franchise taxes					263,569	-	263,569
Gaming revenue					2,690,300	-	2,690,300
Interest earnings					361,773	20,157	381,930
Insurance proceeds					37,589	-	37,589
Lease revenues					22,830	-	22,830
Other					187,196	-	187,196
Total general revenues and transfers					6,414,849	20,157	6,435,006
Change in net assets					4,408,982	3,470,369	7,879,351
Net assets - beginning of year, restated					13,645,416	2,029,061	15,674,477
Net assets - end of year					$ 18,054,398	$ 5,499,430	$ 23,553,828

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
YEAR ENDED SEPTEMBER 30, 2007

Assets		
Cash and cash equivalents	$	17,453,086
Receivables:		
Sales taxes		221,292
Franchise taxes		75,958
Gaming receivable		198,766
Property tax		24,966
Other		27,106
Due from other governments		3,185,642
Due from other funds		1,382,949
Prepaid expenditures		136,643
Total assets	$	22,706,408
Liabilities and Fund Balance		
Liabilities		
Accounts payable	$	1,509,992
Retainage payable		97,128
Accrued wages payable		55,689
Compensated absences		32,712
Due to other funds		7,864,874
Deferred revenues		3,196,115
Total liabilities		12,756,510
Fund Balance		
Reserved for:		
Special Revenues		220,472
Debt service		517,069
Capital Projects - 2003 Bond		1,434,036
Unemployment Compensation		20,797
Unreserved		7,757,524
Total fund balance		9,949,898
Total liabilities and fund balance	$	22,706,408

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, 2007

Total governmental funds balance (Exhibit C)		$ 9,949,898
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	$ 18,556,592	
Less: accumulated depreciation	(3,537,624)	15,018,968
Long-term liabilities are not due and payable in the current period expenditures and therefore are not reported in the governmental funds.		(9,206,643)
Compendated absences are not due and payable in the current period expenditures and therefore are not reported in the governemntal funds.		(174,932)
Accrued interest not due and payable in the current period expenditures and, therefore, not reported in the funds.		(81,486)
Certain other long-term assets are not available to pay current period expenditures and therefore, are deferred in the fund financial statements.		2,486,458
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.		62,135
Net assets of governmental activities (Exhibit A)		$ 18,054,398

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

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF REVENEUS, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

Revenues	
Taxes:	
Property	$ 1,524,756
Sales	1,326,836
Franchise	263,569
Licenses and permits	463,015
Intergovernmental	4,964,296
Charges for services	220,351
Fines and forfeits	242,229
Interest	361,773
Lease revenue	22,830
Gaming revenue	2,690,300
Miscellaneous	187,196
Total revenues	12,267,151
Expenditures	
Current:	
General government	1,815,347
Public safety	2,946,312
Public works	2,251,596
Highways and streets	192,286
Economic development	286,699
Culture and recreation	286,451
Health and welfare	27,738
Debt service:	
Principal	8,530,543
Interest	430,513
Total expenditures	16,767,485
Excess (deficiency) of revenues over expenditures	(4,500,334)
Other financing sources:	
Loan proceeds	4,358,408
Insurance proceeds	1,470,128
Total other financing sources	5,828,536
Net change in fund balance	1,328,202
Fund balance - October 1	8,557,437
Prior period adjustments	64,259
Fund balance - October 1, restated	8,621,696
Fund balance - September 30	$ 9,949,898

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, 2007

Net change in fund balances - total governmental funds (Exhibit D)	$	1,328,202
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. This is the amount by which capital outlays $2,160,602 exceed depreciation $775,129.		1,385,473
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.		(657,673)
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.		4,172,133
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.		(1,701,560)
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		(11,316)
Accrued interest		(33,677)
Bond amortization		(72,600)
Change in net assets of governmental activities (Exhibit B)	$	4,408,982

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, 2007

	Utility Fund
ASSETS	
Current Assets	
Cash and cash equivalents	$ 587,757
Accounts receivable, net	631,890
Grant receivable	1,513,335
Inventory	92,381
Prepaid Insurance	7,610
Due from other funds	7,760,860
Total unrestricted current assets	10,593,833
Current Restricted Assets	
Cash	265,677
Total restricted assets	265,677
Noncurrent Assets	
Buildings	118,603
Machinery and equipment	419,365
Vehicles	188,087
Water and Sewer system	10,819,916
Construction in process	4,214,660
	15,760,631
Less: accumulated depreciation	7,064,680
Net property, plant and equipment	8,695,951
Noncurrent Other Assets	
Bond Issuance costs, net	90,581
Total other assets	90,581
Total assets	19,646,042
LIABILITIES	
Current Liabilities	
Accounts payable and accrued expenses	1,042,653
Accrued interest	61,261
Compensated absences	19,031
Due to other funds	1,278,935
Deferred revenues	7,450,360
Bonds payable	290,000
Customer deposits	265,677
Total current liabilities	10,407,917
Noncurrent Liabilities	
Bonds payable	3,002,845
Notes payable	735,850
Total noncurrent liabilities	3,738,695
Total liabilities	14,146,612
NET ASSETS	
Invested in capital assets, net of related debt	5,403,106
Unrestricted	96,324
Total net assets	$ 5,499,430

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, 2007

	Utility Fund
Operating Revenues	
Charges for services	$ 2,493,962
Total operating revenues	2,493,962
Operating Expenses	
Salaries and related expenses	527,498
Natural gas purchase	528,621
Supplies	10,262
Repairs and maintenance	8,342
Contractual services	1,017,392
Other services and charges	193,646
Depreciation expense	245,166
Amortization expense	20,204
Loss on asset disposal	10,733
Total operating expenses	2,561,864
Operating Income (Loss)	(67,902)
Non-Operating Revenues (Expenses)	
Interest earnings	20,157
Interest expense	(167,417)
Total non-operating revenue (expenses)	(147,260)
Capital contributions	3,685,531
Change in Net Assets	3,470,369
Net assets beginning of year	1,815,585
Prior period adjustment	213,476
Net assets beginning of year, restated	2,029,061
Net assets end of year	$ 5,499,430

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, 2007

	Utility Fund
Cash Flows from Operating Activities	
Receipts from customers	$ 2,056,726
Payments to employees	(522,668)
Payments to suppliers	(547,225)
Payments for contractual services	(3,719,292)
Payments for other goods and services	(193,646)
Net cash (used) by operating activities	(2,926,105)
Cash Flows From Financing Activities	
Principal payments on debt	(270,000)
Proceeds from debt	135,850
Interest expense	(149,115)
Grant revenue	6,535,080
Net cash provided by financing activities	6,251,815
Cash Flows From Investing Activities	
Interest received	20,159
Acqusition of capital assets	(3,129,638)
Net cash (used) by investing activities	(3,109,479)
Net increase in cash and cash equivalents	216,231
Cash and cash equivalents:	
Beginning of year	637,203
End of year	$ 853,434

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income (loss)	$ (67,902)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	245,166
Amoritization expense	20,204
Loss on asset disposal	10,733
(Increase) decrease in current assets:	
Accounts receivable	(4,084,067)
Inventory	113,019
Prepaid insurance	(7,610)
Increase in current liabilities:	
Accounts payable	877,191
Compensated absences	4,830
Customer deposits	(37,669)
Net cash (used) by operating activities	$ (2,926,105)

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

	Utility Fund	
	Current Assets	Current Restricted Assets
Cash and cash equivalents - October 1	$ 333,857	$ 303,346
Net increase/(decrease)	253,900	(37,669)
Cash and cash equivalents - September 30	$ 587,757	$ 265,677

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, Gas Service, Social and Recreational, Public Improvements, Planning and Zoning, and General Administrative Services.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2007.

B. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units of the City consist of oversight responsibility, special financing relationships and scope of public services. Oversight responsibility is determined by the extent of financial interdependency, control over the selection of the governing authority and management, ability to significantly influence operations, and accountability for fiscal matters. Based on these criteria, the City has no component units. However, see Note 9 for information describing related organizations not included in the City's reporting entity.

C. Basis of Presentation

Government –wide Financial Statements

The government-wide financial statements (i.e, the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the City. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements –

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

Governmental Funds –

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

General Fund

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

Proprietary Funds – Business-type activities

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

Water, Sewer and Gas Fund

Water, Sewer and Gas Fund is used to account for the provision of water, sewer and gas services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water, sewer and gas system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus/Basis of Accounting

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

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

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

E. Use of Estimates

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

F. Cash and Investments

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

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

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

G. Receivables and Payables

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

H. Inventory

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

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2007, 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

L. Long-Term Obligations

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

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

M. Compensated Absences

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The compensated absences liability was computed using the specific identification method whereby the actual number of vacation hours is multiplied by the employee's hourly rate at September 30, 2007. 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 fund reports 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. Designations of fund balance represent tentative management plans that are subject to change.

O. Net Assets

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

P. Post Employment Health Care Benefits

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

NOTE 2: CASH AND INVESTMENTS

Cash –

A summary of cash as of September 30, 2007, is as follows:

	Cash on Hand	Checking and Savings Accounts	Total
Governmental Activities			
General Fund	$ 457	$ 17,452,629	$ 17,453,086
Business-type Activities			
Utility Fund	100	853,334	853,434
Total cash and cash equivalents	$ 557	$ 18,305,963	$ 18,306,520

NOTE 2: CASH AND INVESTMENTS (Continued)

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

Under this program, the City's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation. By using this multiple financial institution collateral pool, all of the City's deposits at September 30, 2007 are covered by FDIC insurance or by collateral. The City's deposits are not subject to custodial credit risk.

At September 30, 2007, deposits (including restricted deposits) are as follows:

	Bank Balance	Carrying Amount
Cash and cash equivalents	$ 18,498,333	$ 18,305,963

Certificate of Deposit –

Mississippi municipalities may invest surplus funds in certificates of deposit with qualified depositories and in bonds and direct obligations of the United States of America; or the State of Mississippi; or any county, municipality or school district of the State of Mississippi which have been approved by a reputable bond attorney or have been validated by the decree of the chancery court.

At September 30, 2007, the City held a certificate of deposit at First Bank in the amount of $4,743,882 bearing interest of 4.85% with a maturity date of December 16, 2007.

NOTE 2: CASH AND INVESTMENTS (Continued)

The City maintained the following restricted assets as of September 30, 2007:

Governmental Activities:	
Cash and cash equivalents	
Restricted for capital projects - 2003 bond proceeds	$ 1,434,036
Restricted for debt service reserves	517,069
Restricted for public safety	422,592
Restricted for unemployment claims	20,766
Total restricted cash and cash equivalents-governmental activities	2,394,463
Certificate of deposit	
Restricted for capital projects - FEMA grant	4,743,882
Total restricted assets - governmental activities	7,138,345
Business-type Activities	
Cash and cash equivalents	
Restricted for customer utility deposits	265,677
Total restricted assets government-wide	$ 7,404,022

NOTE 3: RECEIVABLES

Receivables at September 30, 2007 consist of the following:

	Governmental Activities	Business-type Activities	Total
Sales tax	$ 221,292	$ -	$ 221,292
Franchise taxes	75,958	-	75,958
Gaming	198,766	-	198,766
Property tax	24,966	-	24,966
Accounts	-	1,825,245	1,825,245
Other	27,106	-	27,106
Total receivables	548,088	1,825,245	2,373,333
Less: allowance for doubtful receivables	-	(1,193,355)	(1,193,355)
Total receivables, net	$ 548,088	$ 631,890	$ 1,179,978

NOTE 3: RECEIVABLES (Continued)

(A) Property Taxes

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

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

The rates are expressed in terms of mills (i.e., ten mills equal one cent). The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt and other purposes for the year ended September 30, 2007, was 17.75 mills or $17.75 per $1,000 of assessed valuation. A summary of the assessed valuations and tax levies of the City for the year ended September 30, 2007 are as follows:

Real property	$ 77,837,714
Personal property	5,841,922
Public utilities	4,113,224
Automobiles	15,908,427
Mobile homes	63,977
Total	$ 103,765,264

The tax levies for the City were 15.08 mills for the General Fund and 2.67 mills for the Library for a total of 17.75 mills for each of the years ended September 30, 2007, 2006 and 2005.

NOTE 3: RECEIVABLES (Continued)

(B) Sales Taxes

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City) back to the City monthly. Sales tax revenue reported in the general fund was $1,326,836. Sales tax receivable consists of taxes collected in August and September 2007 not received by the City until October and November 2007.

(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 revenue for September 30, 2007 is $233,277 and is included in gaming revenue.

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 $2,457,023 in boarding fees for the year ended September 30, 2007, which is included in gaming revenue.

NOTE 4: DUE FROM OTHER GOVERNMENTS

Due from other governments consist of the following as of September 30, 2007:

	Governmental Activities	Business-type Activities	Total
Due from FEMA	$ 2,416,463	$ 1,513,335	$ 3,929,798
Due from other federal sources	58,297	-	58,297
Due from State	710,882	-	710,882
Total receivables, net	$ 3,185,642	$ 1,513,335	$ 4,698,977

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007 is as follows:

	Balance 10/1/2006	Additions	Deletions/ Transfers	Balance 9/30/2007
Governmental Activities:				
Capital assets, not being depreciated				
Land	$ 907,633	$ -	$ -	$ 907,633
Construction in progress	1,472,423	1,394,846	-	2,867,269
Total capital assets, not being depreciated	2,380,056	1,394,846	-	3,774,902
Capital assets being depreciated:				
Buildings	3,620,580	5,428	(33,855)	3,592,153
Machinery and equipment	864,554	303,539	(266,288)	901,805
Improvements/Infrastructure	8,826,549	196,321	(590,317)	8,432,553
Vehicles	1,620,211	260,468	(25,500)	1,855,179
Total capital assets, being depreciated	14,931,894	765,756	(915,960)	14,781,690
Less: Accumulated depreciation				
Buildings	(243,372)	(84,452)	8,692	(319,132)
Machinery and equipment	(265,914)	(132,192)	115,314	(282,792)
Improvements/Infrastructure	(1,914,208)	(360,379)	122,812	(2,151,775)
Vehicles	(597,288)	(198,106)	11,469	(783,925)
Total accumulated depreciation	(3,020,782)	(775,129)	258,287	(3,537,624)
Total capital assets being depreciated, net	11,911,112	(9,373)	(657,673)	11,244,066
Governmental activities capital assets, net	$ 14,291,168	$ 1,385,473	$ (657,673)	$ 15,018,968

NOTE 5: CAPITAL ASSETS (Continued)

	Balance 10/1/2006	Additions	Deletions/ Transfers	Balance 9/30/2007
Business - type Activities:				
Capital assets, not being depreciated				
Construction in progress	$ 1,318,508	$ 3,129,641	$ (233,489)	$ 4,214,660
Total capital assets, not being depreciated	1,318,508	3,129,641	(233,489)	4,214,660
Capital assets being depreciated:				
Buildings	118,603	-	-	118,603
Machinery and equipment	478,047	-	(58,682)	419,365
Water, sewer and gas system	10,611,100	233,488	(24,672)	10,819,916
Vehicles	197,187	-	(9,100)	188,087
Total capital assets, being depreciated	11,404,937	233,488	(92,454)	11,545,971
Less: Accumulated depreciation				
Buildings	(68,632)	(997)	-	(69,629)
Machinery and equipment	(386,192)	(12,273)	53,320	(345,145)
Water, sewer and gas system	(6,268,943)	(231,896)	20,211	(6,480,628)
Vehicle	(177,468)	-	8,190	(169,278)
Total accumulated depreciation	(6,901,235)	(245,166)	81,721	(7,064,680)
Total capital assets being depreciated, net	4,503,702	(11,678)	(10,733)	4,481,291
Governmental activities capital assets, net	$ 5,822,210	$ 3,117,963	$ 244,222	$ 8,695,951

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	$ 153,695
Public safety	177,976
Public works	404,167
Economic development	3,972
Culture and recreation	35,319
Total governmental activities depreciation	$ 775,129
Business-type Activities	
Water, sewer and gas	$ 245,166

NOTE 6: LONG-TERM DEBT

Changes in outstanding debt during the year ended September 30, 2007 are as follows:

Governmental Activities	Payable at 10/1/2006	Additions	Reductions	Payable at 9/30/2007	Due in one year
Bonds payable	$ 3,910,000	$ -	$ 635,000	$ 3,275,000	$ 660,000
Notes payable	9,490,000	4,358,408	7,890,000	5,958,408	-
Capital leases payable	17,897	-	5,543	12,354	6,991
Compensated absences payable	193,036	14,608	-	207,644	32,712
	13,610,933	4,373,016	8,530,543	9,453,406	699,703
Less deferred loss on bond refunding	(49,324)	-	10,205	(39,119)	-
Total governmental activities	13,561,609	4,373,016	8,520,338	9,414,287	699,703
Business-type Activities					
Bonds payable	3,670,000	-	270,000	3,400,000	290,000
Note payable	600,000	135,850	-	735,850	-
Compensated absences	14,201	4,830	-	19,031	19,031
	4,284,201	140,680	270,000	4,154,881	309,031
Less deferred loss on bond refunding	(118,147)	-	10,992	(107,155)	-
Total business type activities	4,166,054	140,680	259,008	4,047,726	309,031
Total government	$ 17,727,663	$ 4,513,696	$ 8,779,346	$ 13,462,013	$ 1,008,734

(A) Bonds Payable

At September 30, 2007, the City's outstanding bonds payable are described as follows:

	Date of Issue	Final Maturity Date	Rates	Original Issue	Balance 9/30/2007
Governmental Activities:					
GO Bond, Series 2003	8/27/2003	8/1/2013	1.0% -3.9%	$ 2,000,000	$ 1,300,000
GO Refunding Bond, Series 2005	5/2/2005	8/1//2011	5.0%-7.0%	3,275,000	1,975,000
				5,275,000	3,275,000
Less deferred loss on bond refunding				(63,781)	(39,119)
Total governmental activities				5,211,219	3,235,881
Business-type Activities:					
GO Water, Sewer, and Gas System Refunding Bonds, Series 2005	4/26/2005	7/1/2017	3.0% - 4.3%	4,290,000	3,400,000
Less deferred loss on bond refunding				(133,716)	(107,157)
Total business-type activities				4,156,284	3,292,843
Total bonds payable at year end				$ 9,367,503	$ 6,528,724

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
2008	$ 660,000	$ 100,115	$ 290,000	$ 138,315	$ 1,188,430
2009	690,000	78,689	295,000	126,715	1,190,404
2010	715,000	57,823	310,000	114,915	1,197,738
2011	740,000	36,191	325,000	102,515	1,203,706
2012	230,000	13,813	340,000	89,515	673,328
2013-2017	240,000	7,200	1,840,000	231,665	2,318,865
Total	$ 3,275,000	$ 293,831	$ 3,400,000	$ 803,640	$ 7,772,471

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

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

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

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

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

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

NOTE 6: LONG-TERM DEBT (Continued)

(B) Notes Payable

At September 30, 2007 the City's outstanding notes payable are described as follows:

	Date Issued	Final Maturity Date	Rates	Original Issue	Balance September 30, 2007
Governmental Activities:					
FEMA Community Disaster Loan	11/29/2005	12/14/2010	2.72%	$ 1,658,408	$ 1,658,408
State of Mississippi	11/29/2005	8/1/2007	4.50%	1,270,000	-
State of Mississippi	3/6/2006	8/1/2007	4.50%	1,730,000	-
State of Mississippi	6/30/2006	8/1/2007	4.50%	4,890,000	-
State of Mississippi	8/1/2007	8/1/2010	4.50%	4,300,000	4,300,000
				13,848,408	5,958,408
Business-type Activities:					
FEMA Community Disaster Loan	1/5/2006	2/13/2011	2.78%	735,850	735,850
Total notes payable at year end				$ 14,584,258	$ 6,694,258

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

Pursuant to HR 2206 – Public Law 110-28, FEMA may allow forgiveness of Community Disaster Loans in Presidentially declared disaster areas on a case by case basis.

Principal and interest maturities will be as follows:

Year Ending	Governmental Activities		Business-type Activities		Total
September 30,	Principal	Interest	Principal	Interest	Requirements
2008	$ -	$ 178,010	$ -	$ -	$ 178,010
2009	-	185,750	-	-	185,750
2010	5,958,408	250,551	-	-	6,208,959
2011	-	-	735,850	26,682	762,532
Total	$ 5,958,408	$ 614,311	$ 735,850	$ 26,682	$ 7,335,251

NOTE 6: LONG-TERM DEBT (Continued)

(C) Capital Leases Payable

The City has entered into various lease agreements as lessee for financing the acquisition of vehicles and certain small equipment needs. Those lease agreements qualify as capital leases for accounting purposes (titles transfer at the end of the lease term) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The general capital lease obligations outstanding as of September 30, 2007 are as follows:

	Date Issued	Maturity Date	Interest Rate	Original Amount	Outstanding Present Value
Governmental Activities:					
Office equipment	4/19/2006	4/19/2009	4.60%	$ 20,590	$ 12,354

The following is an analysis of property leased under capital lease as of September 30, 2007:

	Cost	Accumulated Depreciation	Net Book Value
Governmental Activities:			
Office equipment - 2 copiers	$ 20,590	$ (6,408)	$ 14,182

The following is a schedule of future minimum lease payments under capital leases and present value of net minimum payments at September 30, 2007:

Year Ending September 30,	Governmental Activities
2008	$ 7,361
2009	5,845
Total minimum lease payments	13,206
Less: amount representing interest	(852)
Present value of minimum payments	$ 12,354

(D) Legal Debt Margin

The City's legal debt limit for general obligation bonds is $15,564,790, of which is approximately $12,000,000 is available to the City for further borrowing.

NOTE 7: INTERFUND TRANSACTIONS

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

(A) Inter-fund Receivables and Payables

Generally, outstanding balances between funds reported as " due to/due from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as "due to/due from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans).

Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Inter-fund receivables and payables consisted of the following as of September 30, 2007:

	Due To	
Due From	Governmental Activities	Business-type Activities
Governmental Activities:		
General	$ -	$ 6,481,925
Business-type Activities:		
Utility	6,481,925	-
Total	$ 6,481,925	$ 6,481,925

(B) Inter-fund Transfers

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

The government-wide statement of activities eliminates transfers are reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement. There were no inter-fund transfers between funds during the year ended September 30, 2007.

NOTE 8: RESTRICED NET ASSETS

The following summarizes restricted net assets at September 30, 2007:

	Governmental Activities
Restricted donations	$ 220,472
Unemployment compensation	20,797
Debt Service	517,069
Capital Projects - 2003 Bond	1,434,036
Total restricted net assets	$ 2,192,374

There were no restricted net assets in the business-type activities at September 30, 2007.

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 Waveland 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, 2007, the City paid a total of $173,708 for solid waste services, included in the business-type activities expenses in the statement of activities.

NOTE 9: JOINT VENTURES (Continued)

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. The following is synopsis of the Authority's financial statements as of and for the year ended June 30, 2007.

STATEMENT OF NET ASSETS

ASSETS	
Current assets	$ 800,054
LIABILITIES	
Current and other liabilities	143,791
NET ASSETS	
Unrestricted	$ 656,263

CHANGES IN NET ASSETS

Operating revenues	1,860,503
Operating expenses	(1,694,030)
Non-operating revenues (expenses)	3,158
Increase in net assets	$ 169,631

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

Southern Regional Wastewater Management District/Hancock County Utility Authority

Prior to September 2007, the City contracted with Southern Regional Wastewater Management District (District) whereby the District treated and disposed of the City's wastewater in compliance with water quality standards established by the Mississippi Air and Water Pollution Control law and the Federal Water Pollution Control Act.

The District provided for the operation and maintenance of the sewer treatment plant on a cost reimbursement basis. Pursuant to the terms of the agreement, the City was 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.

NOTE 9: JOINT VENTURES (Continued)

The costs associated with contract total $839,317, for the year ended September 30, 2007, and have been in the business-type activities expenses in the statement of activities. A fee has been added to rates charged by the Utility System as an assessment for the Wastewater District.

The City's obligation to pay operational costs of the District was in conjunction with the obligations of all other public agencies similarly contracting with the District, including the City of Waveland and Hancock County, Mississippi. Whenever any public agency shall default in the payment to the District of its respective payment, the District may adjust the contract sums of the remaining public agencies which are not in default so as to increase their contract sums by a proportional amount. Accordingly, the City was jointly and severally liable for all of the liabilities of the District. The District is classified as a joint venture between the City of Bay St. Louis and the other members.

In September 2006, the District was merged into the Hancock County Utility Authority (Authority). The Authority will oversee water, wastewater, and storm sewer systems of Hancock County. The following is a synopsis of the Authority's financial statements as of and for the year ended September 30, 2007:

STATEMENT OF NET ASSETS		
ASSETS		
Current assets	$	1,332,652
Non-current assets		15,184,221
Total assets		16,516,873
LIABILITIES		
Current and other liabilities		717,510
Long-term debt outstanding		12,799,406
Total liabilities		13,516,916
NET ASSETS	$	2,999,957

CHANGES IN NET ASSETS		
Operating revenues	$	2,098,343
Operating expenses		(3,161,327)
Non-operating revenues (expenses)		340,501
Decrease in net assets	$	(722,483)

NOTE 10: RETIREMENT PLANS

(A) Public Employees' Retirement System

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

Plan description and provisions

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

Description of Funding Policy

PERS members are required to contribute 7.25% of their annual covered salary. The City is required to contribute an actuarially determined rate of annual payroll which is 11.85% for the year 2007. 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, 2007, 2006 and 2005 were $386,653, $326,743, and $370,494, 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 CONTIGENCIES

(A) Litigation

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

(B) Grants and Awards

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

(C) Contract Commitments

The City had the following contract commitments with respect to unfinished capital projects as of September 30, 2007, which will be paid from existing grants:

Water system	$	4,402,896
Sewer system		1,254,879
Gas system		854,712
	$	6,512,487

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:

	Exhibit B	Exhibit D	Exhibit F
Correct prior year construction in progress	$ 1,408,164	$ -	$ 213,476
Correct prior year grant receivable	64,259	64,259	-
	1,472,423	64,259	213,476
Beginning net assets/fund balance	12,172,993	8,557,437	1,815,585
Beginning net assets/fund balance, restated	$ 13,645,416	$ 8,621,696	$ 2,029,061

NOTE 14: SUBSEQUENT EVENTS

Subsequent to September 30, 2007, the City has entered into construction contracts and change orders totaling approximately $13,122,182 and $2,046,026 for governmental and business-type activities, respectively, which will be paid from proceeds of grants and debt.

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.

In May 2009, the City purchased 2.34 acres of land from CSX Transportation for $204,000.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	General Fund			
	Original Budget	Final Budget	Actual	Variance
REVENUES				
Taxes:				
Property	$ 1,199,000	$ 1,414,700	$ 1,470,915	$ 56,215
Sales	1,200,000	1,250,000	1,438,609	188,609
Franchise	225,000	243,000	263,569	20,569
Licenses and permits	378,000	386,000	463,015	77,015
Intergovernmental	1,248,775	1,651,078	11,718,321	10,067,243
Charges for services	37,000	35,500	55,859	20,359
Fines and forfeits	108,000	164,000	206,229	42,229
Interest	8,000	382,000	663,354	281,354
Lease revenue	19,200	19,200	22,830	3,630
Gaming revenues	2,000,000	2,618,000	2,690,300	72,300
Miscellaneous	15,000	104,000	85,788	(18,212)
Total revenues	6,437,975	8,267,478	19,078,789	10,811,311
EXPENDITURES				
General government	2,539,857	2,459,350	2,518,863	(59,513)
Public Safety	4,402,317	3,416,952	2,935,613	481,339
Public Works	479,171	431,675	790,167	(358,492)
Highways & Streets	6,453,009	936,360	6,218,566	(5,282,206)
Economic Development	147,500	79,000	288,705	(209,705)
Culture and Recreation	951,267	368,950	272,695	96,255
Health and Welfare	88,470	35,485	27,307	8,178
Debt service	757,480	3,878,680	3,885,992	(7,312)
Total general government	15,819,071	11,606,452	16,937,908	(5,331,456)
Excess (deficiency) of revenues over expenditures	(9,381,096)	(3,338,974)	2,140,881	5,479,855
OTHER FINANCING SOURCES (USES)				
Insurance Proceeds	-	76,000	90,394	14,394
Transfers out	-	(1,000,000)	-	1,000,000
Loan proceeds	5,100,000	-	-	-
Total other financing sources	5,100,000	(924,000)	90,394	1,014,394
Excess of revenues and other sources over expenditures	$(4,281,096)	$ (4,262,974)	2,231,275	$ 6,494,249
Fund balance - October 1 - GAAP basis, restated				
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year			(564,917)	
Changes in sales tax receivable			4,287	
Change in due from other governments			(136,295)	
Change in due to other funds			5,615,073	
Change in prepaid expenses			131,905	
Change in accrued expenses			(97,128)	
Change in deferred revenue			1,440,788	
Change in compensated absences			(3,292)	
Fund balance - September 30 - GAAP basis			$ 8,621,696	

NOTE A: BUDGETARY DATA

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

1. The City clerk's office prepares estimates of available revenue and the department directors submit proposed expenditure budgets to the City Clerk by June 1 of each year.

2. The Mayor and the department directors review expenditure budgets and necessary revisions are made.

3. Budgeted revenues and expenditures are balanced, and a summary budget is prepared and presented to the Mayor.

4. The Mayor submits the proposed budget to the Board by August 1 and public hearings are conducted to obtain taxpayer comments.

5. The final budget is approved by September 15 and is published in a local newspaper on or before September 30.

6. The budget is formally amended at the first meeting in September each year. However, budget revisions are made throughout the year (prior to September), as reallocations of funds are necessary, a budget deficit is indicated, or circumstances change which dictate the need for budget amendment.

7. Formal budget integration is employed as a management control device during the fiscal year for the general fund.

8. The general fund budget is adopted on a cash basis as required by State statute. The appropriated budget is prepared by fund, function and department. The legal level of budgetary controls is the department level. The City Clerk's office exercises budgetary monitoring throughout the fiscal year. An adopted budget may not exceed its appropriated level without Board approval. However, department heads may make transfers of appropriations within a department. Budgetary controls are implemented through the City Clerk's office through the use of budget to actual reports. Any purchase requisition that will cause a line item to exceed its budget will be disallowed by the City Clerk. The department head will then be required to make an inter-department budget transfer or request a budget amendment.

OTHER SUPPLEMENTARY INFORMATION

CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR CITY OFFICIALS
SEPTEMBER 30, 2007

Official's Title	Surety Company	Coverage Amount
Mayor	RLI Surety	$100,000
Councilmen	RLI Surety	$100,000
City Clerk	RLI Surety	$100,000
Comptroller	RLI Surety	$100,000

CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDEDSEPTEMBER 30, 2007

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 -			
Building Department Code Enforcement	14.228	R101-06	$ 180,673
Total U. S. Department of Housing and Urban Development			180,673
U. S. Department of Homeland Security			
Community Disaster Loan	97.030		1,658,408
Passed through State of Mississippi			
Emergency Disaster Agency			
Public Assistance Disaster Grants - Hurricane Katrina	97.036	FEMA-1604-DR-MS	6,069,688
Total U. S. Department of Homeland Security			7,728,096
U.S. Department of Justice			
Edward Byrne Memorial State and Local Law Enforcement			
Discretionary Grant Program	16.580	16PGCP13Z	65,581
Edward Byrne Memorial State and Local Law Enforcement			
Discretionary Grant Program	16.580	17PGCP13Z	53,766
Passed through the Division of Public Safety Planning			
Office of Justice Programs			
Edward Byrne Formula Grant - Katrina	16.738	2006-DH-BX-0438	1,192,197
Passed through Mississippi Department of Public Safety			
Division of Public Safety Planning			
DUI Enforcement Grant	20.600	06-TA-202-1	31,091
DUI Enforcement Grant	20.600	07-TA-202-1	40,880
Total U. S. Department of Justice			1,383,515
U. S. Department of Transportation			
Passed through Mississippi Department of Transportation			
Highway Planning and Construction Grant	20.205	ER-0003-01(121) 104638-	262,413
Highway Planning and Construction Grant	20.205	ER-0003-01(121) 104638-	48,242
Total U. S. Department of Transportation			310,655
Total Federal Financial Assistance			$ 9,602,939

NOTE A: BASIS OF PRESENTATION

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

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)
Certified Public Accountants
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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*

January 20, 2010

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Bay St. Louis, Mississippi, as of and for the year ended September 30, 2007, which collectively comprise the City of Bay St. Louis, Mississippi's basic financial statements and have issued our report thereon dated January 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Bay St. Louis, Mississippi's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of

Bay St. Louis, Mississippi's financial statements that is more than inconsequential will not be prevented or detected by the City of Bay St. Louis, Mississippi's internal control.

We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. 2007-1, 2007-2, 2007-3, and 2007-4.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Bay St. Louis, Mississippi's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies noted above, we consider items 2007-1, 2007-2, 2007-3, and 2007-4 to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of City of Bay St. Louis, Mississippi, in a separate letter dated January 20, 2010.

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

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

Wright Ward Hatten & Guel

Wright, Ward, Hatten & Guel
Gulfport, Mississippi

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

January 20, 2010

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

Compliance

We have audited the compliance of City of Bay St. Louis, Mississippi with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. City of Bay St. Louis, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Bay St. Louis, Mississippi City of Bay St. Louis, Mississippi's management. Our responsibility is to express an opinion on City of Bay St. Louis, Mississippi's compliance based on our audit.

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

In our opinion, City of Bay St. Louis, Mississippi complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

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 and which are described in the accompanying schedule of findings and questioned costs as items.

Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Bay St. Louis, Mississippi's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

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

Wright Ward Hatten & Guel

Wright, Ward, Hatten & Guel
Gulfport, Mississippi

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	No

Identification of major programs:

97.036	Department of Homeland Security – Public Assistance Grants
16.580	U.S. Department of Justice – Edward Byrne Memorial State & Local Law Enforcement Discretionary Grant

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low risk auditee?	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

2007-1 *Criteria:* The City should have a proper accounting of all court fines and court fine receivables This is a prior year finding.

Condition: During fiscal year 2006 and 2007, the City of Bay St. Louis, Mississippi did not maintain an adequate municipal court fine receivable ledger, nor were these receivables included in the general ledger.

Cause: Management has not adopted a methodology for reviewing the collectability of court fines receivable, and accordingly, has not considered the need to provide an allowance for uncollectible accounts required by accounting principles generally accepted in the United States of America.

Effect: The City is unable to accurately reflect the amount of money due and therefore can have a material effect on the financial statements.

Recommendation: We understand that the City has implemented a court fines receivable during fiscal year 2007. We recommend that the City enter all municipal court fines receivable from prior years into the new software and assess the need for an allowance for uncollectible accounts. The accounts receivable subsidiary ledger should be routinely reconciled to the general ledger, but not less often than at the end of each fiscal year.

Management's Response

After completion of the fiscal 2007 audit, all old Court receivables have been entered into the Court Management software. Outstanding receivables are reported from the Court Management software subsidiary ledger and the uncollectible account allowance will be calculated based on evaluation of current collections and aging analysis.

2007-2 *Criteria:* The City should establish a debt service fund for debt repayment This is a prior year finding.

Condition: Under the terms of the bond agreement, the City should have a debt service fund in order to properly match the taxes and debt service payments.

Cause: The City failed to set up a debt service fund as required by the Series 2003 general obligation bond indenture. Additionally, when the tax levy was set, the City failed to specify the portion of the taxes to be set aside for debt service.

Effect: As a result, an appropriate amount is not reserved for debt service and an allocation is not made of ad valorem taxes for debt service. The City is not compliant with the debt covenants.

Recommendation: We recommend that the City establish the debt service fund as required under the bond indenture and allocate the appropriate amount from ad valorem taxes to provide for debt service payments.

Management's Response

The City has implemented a fund accounting software system and has set up and is using Debt Service Fund for all debt service payments.

Future debt service levies will be allocated when the millage rates are established.

2007-3 *Criteria*: Improper use of donations to the City

Condition: During our audit of a particular cash account of the City, we discovered that some of the donations that the city received after Hurricane Katrina were used for purposes other than general governmental expenditures.

Cause: After the devastation from Hurricane Katrina, the City received numerous donations for various purposes. The individuals charged with control over these receipts were unaware of the rules and regulations regarding donations and municipalities.

Effect: The disbursement of the donations for purposes other than general government expenditures in which the City is legally empowered to expend the fund caused the City to be noncompliant with State law and donor restrictions.

Recommendation: We recommend that the City adhere to the receipt and disbursement of donations as prescribed in the Emergency Accountability Plan for Local Governments by the Mississippi State Auditor.

Management's Response:

Hurricane Katrina donations were received from individuals, cities, companies and many other sources. Donations were made with a specific use. All remaining Katrina relief funds have been moved into the General Fund. City Council authorized the purchase of a grapple truck for debris removal with donated funds.

Future donations to the City of Bay Saint Louis will be through the Hancock Community Development Foundation which is a chartered 501(c) 3 organization and will be limited to general government purposes.

2007-4 *Criteria:* Improper Payroll reporting/Recordkeeping/Review

Condition: During our testing of payroll we noted that the time on the time cards or work orders was not added correctly or incomplete resulting in unapproved time or overtime for certain employees. Certain payroll forms and payments contained clerical errors and were not timely remitted to taxing or reporting agencies resulting in penalties.

Cause: Supervisor signatures were missing from the time cards for all administrative employees and it appears that there was little if any review of payroll forms or reports by the payroll clerk or management.

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

Recommendation: We recommend that management review all time cards before payroll is processed for approved time and review of all payroll reports and forms that are submitted to taxing authorities, insurance companies and others to ensure that accurate amounts are reported and remitted timely.

Management's Response:

With the adoption of a new payroll system payroll reporting is more transparent. Time cards and time entry are being approved by management. In addition, City management is pursuing the adoption of a time entry system to automate the addition of time and interface with the payroll system to reduce clerical errors.

Management strongly recommends that the City change payroll cutoffs to allow more time for review of time entry prior to making the payment process.

SECTION III – FEDERAL AWARDS FINGINGS AND QUESTIONED COSTS

None

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

January 20, 2010

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, 2007, and have issued our report dated January 20, 2010. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards.*

As required by state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the City's financial statements disclosed the following material instances of noncompliance with state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding

During our review of the minutes of the council meetings of the City of Bay St. Louis, Mississippi we noted that the minutes were not timely approved by the council. We also noted that some of the meeting minutes were duplicate of prior meetings. On one particular meeting, it appeared part of the minutes were missing.

Recommendation

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

Wright Ward Hatten & Guel

Wright, Ward, Hatten & Guel
Gulfport, Mississippi

BAY SAINT LOUIS
A PLACE APART

Jennifer Bell, CPA
Wright, Ward, Hatten & Guel
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RE: 2006 Audit Corrective Actions

Jennifer,

The following corrective items are in response to the 2006 audit findings:

Finding 9/2006-B-1 – The City of Bay Saint Louis implemented a computerized Municipal Court software system in July 2007. Receivables are being entered from old case records which were manually recorded on a case basis prior to 2007.

Finding 9/2006-B-2 – A management discussion will be prepared for the fiscal 2007 audit and each reporting year going forward.

Finding 9/2006-B-3 – City Management is currently working with the Office of the State Auditor and the State Legislation to have a waiver issued for fiscal 2004 and 2005. A program audit was completed for Federal Funds received in fiscal 2005. A financial audit is not possible for fiscal 2004 and fiscal 2005 due to significant records destroyed in Hurricane Katrina. Fiscal 2006 has been completed. Fiscal 2007 and 2008 are expected to be completed by December 2009. Fiscal 2009 has been engaged and is expected to be completed on time in March of 2010.

Finding 9/2006-B-4 – As a result of Hurricane Katrina, the Fund Accounting software for the City of Bay Saint Louis was destroyed. Debt Service funds were accounted for as a separate entity from General and Enterprise funds. Incode accounting software has been implemented for fiscal 2010 restoring a true fund accounting system for debt service funds and payments.

If we can answer any additional questions, please contact either myself or the City Comptroller, Katherine Smith at (228) 466-5447.

Sincerely,

David Kolf
City of Bay Saint Louis, MS