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CITY OF PASS CHRISTIAN
Audited Financial Statements
For the Year Ended September 30, 2009

CITY OF PASS CHRISTIAN
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INDEPENDENT AUDITORS' REPORT
ON THE BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

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

Certified Public Accountants

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February 14, 2011

The Members of Board of Alderman
and the Honorable Leo "Chipper" McDermott, Mayor
Pass Christian, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Pass Christian, Mississippi, as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Pass Christian, Mississippi's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pass Christian, Mississippi, as of September 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. Management has chosen to not present the Management's Discussion and Analysis.

The budgetary comparison information on pages 40 through 42, 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 Pass Christian'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 not a required part of the basic financial statements. Such information 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 relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2011, on our consideration of the City of Pass Christian's internal control over financial reporting and 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.

Wayne Ward White & Sons

CITY OF PASS CHRISTIAN
FINANCIAL STATEMENTS

CITY OF PASS CHRISTIAN
Statement of Net Assets
September 30, 2009

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 11,043,357	895,263	11,938,620
Receivables (net of allowance for bad debt)	-	206,616	206,616
Other receivables	22,500	-	22,500
Internal balances	357,693	-	357,693
Due from other governmental agencies	5,535,036	19,938	5,554,974
Restricted cash	600,000	182,528	782,528
Total Current Assets	<u>17,558,586</u>	<u>1,304,345</u>	<u>18,862,931</u>
Capital assets, net of accumulated depreciation:			
Land	604,935	142,135	747,070
Construction in progress	6,760,149	-	6,760,149
Buildings	1,895,162	57,088	1,952,250
Infrastructure	183,659	13,249,688	13,433,347
Mobile equipment	1,054,517	28,691	1,083,208
Furniture and equipment	349,652	43,330	392,982
Property under capital leases	126,316	-	126,316
Total Capital Assets	<u>10,974,390</u>	<u>13,520,932</u>	<u>24,495,322</u>
Total Assets	<u><u>28,532,976</u></u>	<u><u>14,825,277</u></u>	<u><u>43,358,253</u></u>
Liabilities			
Accounts payable and accrued expenses	2,101,543	302,811	2,404,354
Customer deposits	-	182,626	182,626
Payable to other governments	14,074	-	14,074
Internal balances	-	57,148	57,148
Deferred revenue	271,282	50,336	321,618
Long-term liabilities			
Due within one year			
Accrued interest	18,997	-	18,997
Bonds payable	205,000	-	205,000
Notes payable	-	20,004	20,004
Capital leases payable	34,551	-	34,551
Due in more than one year			
Accrued interest	-	-	-
Bonds payable	900,000	-	900,000
Notes payable	3,396,031	300,895	3,696,926
Capital leases payable	73,400	-	73,400
Compensated absences	113,201	995	114,196
Total Liabilities	<u>7,128,079</u>	<u>914,815</u>	<u>8,042,894</u>
Net Assets			
Investment in capital assets, net of related debt	10,866,439	13,200,033	24,066,472
Restricted net assets			
Expendable:			
Restricted for Special Purposes	150,271	182,626	332,897
Restricted for Capital Projects	7,228,619	-	7,228,619
Restricted for Debt Services	1,533	-	1,533
Unrestricted	<u>3,158,035</u>	<u>527,803</u>	<u>3,685,838</u>
Total Net Assets	<u>21,404,897</u>	<u>13,910,462</u>	<u>35,315,359</u>
Total Liabilities and Net Assets	<u><u>\$ 28,532,976</u></u>	<u><u>14,825,277</u></u>	<u><u>43,358,253</u></u>

The notes to the financial statements are an integral part of this statement

CITY OF PASS CHRISTIAN
Statement of Activities
For the Fiscal Year Ended September 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General Government	\$ (1,199,453)			1,239,177	39,724		39,724
Public Safety	(3,244,327)	161,537	391,800	70,110	(2,620,880)		(2,620,880)
Public Works	(1,424,614)		136,478	7,532,852	6,244,716		6,244,716
Culture and Recreation	(392,848)			1,829,475	1,436,627		1,436,627
Interest on Long Term Debt	(59,493)				(59,493)		(59,493)
Total governmental activities	<u>(6,320,735)</u>	<u>161,537</u>	<u>528,278</u>	<u>10,671,614</u>	<u>5,040,694</u>		<u>5,040,694</u>
Business-type activities:							
Water and sewer	(3,240,678)	1,445,196	-	-		(1,795,482)	(1,795,482)
Port	(735,663)	398,746	-	335,511		(1,406)	(1,406)
Total business-type activities	<u>(3,976,341)</u>	<u>1,843,942</u>	<u>-</u>	<u>335,511</u>		<u>(1,796,888)</u>	<u>(1,796,888)</u>
General Revenues:							
Taxes:							
Property taxes					2,349,632	-	2,349,632
Franchise taxes					237,887	-	237,887
Sales taxes					354,075	-	354,075
Unrestricted grants and contributions:							
State					223,091	-	223,091
Local					247,500	-	247,500
Unrestricted investment earnings					92,142	3,696	95,838
License and permit fees					156,784	-	156,784
Collection fees					50,000	-	50,000
Miscellaneous					62,493	13,916	76,409
Capital contributions					-	896,382	896,382
Total general revenues					<u>3,773,604</u>	<u>913,994</u>	<u>4,687,598</u>
Changes in net assets before transfers					8,814,298	(882,894)	7,931,404
Transfers					<u>(5,473,103)</u>	<u>5,477,447</u>	<u>4,344</u>
Change in net assets					3,341,195	4,594,553	7,935,748
Net Assets - Beginning (as restated)					<u>18,063,702</u>	<u>9,315,909</u>	<u>27,379,611</u>
Net Assets - Ending					<u>\$ 21,404,897</u>	<u>13,910,462</u>	<u>35,315,359</u>

The notes to the financial statements are an integral part of this statement

City of Pass Christian
Balance Sheet - Governmental Funds
September 30, 2009

	Major Funds						Total Governmental Funds
	General Fund	Emergency Disaster Fund	Downtown Revitalization Fund	Library Construction Fund	Building Construction Fund	Other Governmental Funds	
ASSETS							
Cash and cash equivalents	\$ 2,100,733	125,043	180,124	538,776	6,224,351	1,874,330	11,043,357
Restricted cash	600,000	-	-	-	-	-	600,000
Due from other funds	6,881,315	887,901	46,749	896,874	377,088	2,616,766	11,706,693
Receivable from other governments	103,889	2,861,267	76,215	1,675,697	-	817,968	5,535,036
Other receivables	-	-	-	-	-	22,500	22,500
Total Assets	\$ 9,685,937	3,874,211	303,088	3,111,347	6,601,439	5,331,564	28,907,586
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued expenses	\$ 310,396	735,071	143,690	298,155	-	614,231	2,101,543
Due to other fund	1,570,203	3,139,140	98,674	2,813,192	580,582	3,147,209	11,349,000
Payable to other governments	14,074	-	-	-	-	-	14,074
Deferred revenue	-	-	60,724	-	-	210,558	271,282
Total Liabilities	1,894,673	3,874,211	303,088	3,111,347	580,582	3,971,998	13,735,899
Fund Balances:							
Unreserved, reported in non-major:							
General fund	7,791,264	-	-	-	-	-	7,791,264
Special revenue funds	-	-	-	-	-	150,271	150,271
Capital projects funds	-	-	-	-	6,020,857	1,207,762	7,228,619
Debt service	-	-	-	-	-	1,533	1,533
Total Fund Balances	7,791,264	-	-	-	6,020,857	1,359,566	15,171,687
Total Liabilities and Fund Balances	\$ 9,685,937	3,874,211	303,088	3,111,347	6,601,439	5,331,564	28,907,586

The notes to the financial statements are an integral part of this statement

CITY OF PASS CHRISTIAN
 Reconciliation of Governmental Funds Balance Sheet
 to the Statement of Net Assets
 September 30, 2009

	Amount
Total Fund Balance - Governmental Funds	\$ 15,171,687
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this funds financial statement, but are reported in the governmental activities of the Statement of Net Assets.	10,974,390
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Assets.	(4,722,183)
Accrued interest is not recognized in the fund financial statements, but are included in the governmental activities of the Statement of Net Assets.	(18,997)
Net Assets of Governmental Activities	\$ 21,404,897

The notes to the financial statement are an integral part of this statement

City of Pass Christian
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended September 30, 2009

	Major Funds						Total Governmental Funds
	General Fund	Emergency Disaster Fund	Downtown Revitalization Fund	Library Construction Fund	Building Construction Fund	Other Governmental Funds	
Revenues:							
Property taxes	\$ 2,343,828	-	-	-	-	5,804	2,349,632
Sales taxes	354,075	-	-	-	-	-	354,075
Fines and forfeitures	161,537	-	-	-	-	-	161,537
Licenses and permits	156,784	-	-	-	-	-	156,784
Intergovernmental	203,154	6,592,509	237,776	1,169,499	-	3,267,543	11,470,481
Charges for services	95,334	-	-	-	-	-	95,334
Franchise fees	237,887	-	-	-	-	-	237,887
Investment earnings	49,477	-	-	-	34,644	8,021	92,142
Miscellaneous	2,547	-	-	-	-	204,894	207,441
Total Revenues	<u>3,604,623</u>	<u>6,592,509</u>	<u>237,776</u>	<u>1,169,499</u>	<u>34,644</u>	<u>3,486,262</u>	<u>15,125,313</u>
Expenditures:							
General government	1,131,861	13,564	-	-	-	-	1,145,425
Public safety	1,990,253	355,439	-	-	-	394,335	2,740,027
Public works	643,055	436,631	9,421	-	-	208,916	1,298,023
Culture and recreation	185,215	28,735	-	47,203	-	65,307	326,460
Debt service:							
Principal	40,457	-	-	-	-	195,000	235,457
Interest and other fiscal charges	5,855	-	-	-	-	53,638	59,493
Capital Outlay	77,948	1,126,422	304,569	2,020,475	-	3,330,672	6,860,086
Total Expenditures	<u>4,074,644</u>	<u>1,960,791</u>	<u>313,990</u>	<u>2,067,678</u>	<u>-</u>	<u>4,247,868</u>	<u>12,664,971</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(470,021)</u>	<u>4,631,718</u>	<u>(76,214)</u>	<u>(898,179)</u>	<u>34,644</u>	<u>(761,606)</u>	<u>2,460,342</u>
Other Financing Sources (Uses):							
Proceeds from sale of assets	5,916	-	-	-	-	-	5,916
Insurance proceeds	3,804	-	-	-	-	-	3,804
Transfers in	217,654	12,815	76,214	898,179	-	1,326,370	2,531,232
Transfers out	(1,060,396)	(4,644,533)	-	-	(1,337,560)	(961,846)	(8,004,335)
Total Other Financing Sources (Uses)	<u>(833,022)</u>	<u>(4,631,718)</u>	<u>76,214</u>	<u>898,179</u>	<u>(1,337,560)</u>	<u>364,524</u>	<u>(5,463,383)</u>
Net change in fund balances	<u>(1,303,043)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,302,916)</u>	<u>(397,082)</u>	<u>(3,003,041)</u>
Fund balances - beginning	<u>9,094,307</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,323,773</u>	<u>1,756,648</u>	<u>18,174,728</u>
Fund balances - ending	<u>\$ 7,791,264</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,020,857</u>	<u>1,359,566</u>	<u>15,171,687</u>

The notes to the financial statements are an integral part of this statement

CITY OF PASS CHRISTIAN
 Reconciliation of the Governmental Funds Statement of
 Revenues, Expenditures, and Changes
 in Fund Balances to the Statement of Activities
 For the Year Ended September 30, 2009

	Amount
Net Change in Fund Balances - Governmental Funds	\$ (3,003,041)
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to \$6,860,086 and the depreciation expense amounted to \$484,858.	6,375,228
Gains or losses from sale of capital assets are reported as expenditures in the Funds Statement of Revenues, Expenditures and Changes in Fund Balances, but decreases in capital assets in the Statement of Activities.	(453,141)
Payment of principal on long-term debt liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	235,457
Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	173,927
Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	12,765
Change in net assets of governmental activities	\$ 3,341,195

The notes to the financial statements are an integral part of this statement

City of Pass Christian
Statement of Net Assets - Proprietary Funds
For the Year Ended September 30, 2009

	Proprietary Funds		
	Water and Sewer	Harbor	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 508,651	386,612	895,263
Due from other funds	2,651	19,938	22,589
Accounts receivable, net	180,074	26,542	206,616
Total Current Assets	691,376	433,092	1,124,468
Restricted Current Asset			
Customer deposits	182,528	-	182,528
Non-Current Assets:			
Capital assets:			
Land	1,548	140,587	142,135
Buildings	62,052	-	62,052
Furniture and equipment	-	68,286	68,286
Infrastructure	13,809,656	3,804,145	17,613,801
Vehicles	-	54,154	54,154
Less accumulated depreciation	(4,369,077)	(50,419)	(4,419,496)
Total Non-Current Assets	9,504,179	4,016,753	13,520,932
Total Assets	10,378,083	4,449,845	14,827,928
Liabilities			
Current Liabilities:			
Accounts payable and accrued expenses	271,589	31,222	302,811
Customer deposits	181,078	1,548	182,626
Due to other funds	-	59,799	59,799
Deferred revenue	-	50,336	50,336
Long term liabilities-due within 1 year:			
Notes payable	20,004	-	20,004
Total Current Liabilities	472,671	142,905	615,576
Long term liabilities-due beyond 1 year:			
Notes payable	300,895	-	300,895
Compensated absences	-	995	995
Total Long-term Liabilities	300,895	995	301,890
Total Liabilities	\$ 773,566	143,900	917,466
Net Assets			
Restricted for customer deposits	181,078	1,548	182,626
Unrestricted	9,423,439	4,304,397	13,727,836
Total Net Assets	\$ 9,604,517	4,305,945	13,910,462

The notes to the financial statements are an integral part of this statement

City of Pass Christian
Statement of Revenues, Expenses and
Changes in Fund Net Assets - Proprietary Funds
For the Year Ended September 30, 2009

	Proprietary Funds		
	Water and Sewer	Harbor	Total
Revenues:			
Charges for services	\$ 1,338,048	365,181	1,703,229
Tap and connection fees	76,053	-	76,053
Miscellaneous operating revenues	45,011	33,565	78,576
Total Operating Revenues	<u>1,459,112</u>	<u>398,746</u>	<u>1,857,858</u>
Operating Expenses:			
Personal services	-	165,749	165,749
Contractual services	1,719,151	123,651	1,842,802
Utilities	126,132	44,915	171,047
Repairs and maintenance	199,275	18,166	217,441
Other supplies and expenses	19,101	23,583	42,684
Depreciation	280,637	24,088	304,725
Total Operating Expenses	<u>2,344,296</u>	<u>400,152</u>	<u>2,744,448</u>
Operating income (loss)	<u>(885,184)</u>	<u>(1,406)</u>	<u>(886,590)</u>
Non-Operating Revenues (Expenses)			
Interest and investment revenue	3,696	-	3,696
Transfers in	3,316,328	2,161,119	5,477,447
Intergovernmental grant for capital expenditures	-	335,511	335,511
Contributions for repairs from outside party	896,382	-	896,382
Repairs to infrastructure as a result of hurricanes	(896,382)	(335,511)	(1,231,893)
Total Non-Operating Revenues (Expenses)	<u>3,320,024</u>	<u>2,161,119</u>	<u>5,481,143</u>
Change in net assets	<u>2,434,840</u>	<u>2,159,713</u>	<u>4,594,553</u>
Total net assets - beginning	8,013,417	1,302,492	9,315,909
Prior period adjustment	(843,740)	843,740	-
Total net assets - beginning (as adjusted)	<u>7,169,677</u>	<u>2,146,232</u>	<u>9,315,909</u>
Total net assets - ending	<u>\$ 9,604,517</u>	<u>4,305,945</u>	<u>13,910,462</u>

The notes to the financial statements are an integral part of this statement

City of Pass Christian
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2009

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Total</u>
Cash Flows From Operating Activities			
Cash received from customers	\$ 1,389,331	338,639	1,727,970
Other operating receipts	45,011	33,565	78,576
Cash paid to suppliers	(1,771,012)	(178,997)	(1,950,009)
Cash paid to employees		(164,013)	(164,013)
Net cash provided by (used in) operating activities	<u>(336,670)</u>	<u>29,194</u>	<u>(307,476)</u>
Cash Flows From Non-Capital Financing Activities			
Advances from (to) other funds	<u>3,316,328</u>	<u>2,199,005</u>	<u>5,515,333</u>
Net cash flows from non-capital financing activities	<u>3,316,328</u>	<u>2,199,005</u>	<u>5,515,333</u>
Cash Flows From Capital and Related Financing Activities			
Purchase of capital assets	(2,580,277)	(2,160,176)	(4,740,453)
Contributions and grants received for capital repairs	896,382	385,847	1,282,229
Nonoperating capital repairs and maintenance	(896,382)	(335,511)	(1,231,893)
Repayment of notes payable	(566,774)		(566,774)
Customer deposits received	13,128		13,128
Customer deposits refunded	(645)		(645)
Net cash used in capital and related financing activities	<u>(3,134,568)</u>	<u>(2,109,840)</u>	<u>(5,244,408)</u>
Cash Flows From Investing Activities			
Interest received	<u>3,696</u>		<u>3,696</u>
Net cash flows from investing activities	<u>3,696</u>	<u>-</u>	<u>3,696</u>
Net increase (decrease) in cash and cash equivalents	(151,214)	118,359	(32,855)
Cash and cash equivalents - October 1	<u>842,393</u>	<u>268,253</u>	<u>1,110,646</u>
Cash and cash equivalents - September 30	<u>\$ 691,179</u>	<u>386,612</u>	<u>1,077,791</u>

The notes to the financial statements are an integral part of this statement

City of Pass Christian
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2009

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Total</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities:			
Operating income (loss)	\$ (885,184)	(1,406)	(886,590)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	280,637	24,088	304,725
(Increase) decrease in assets:			
Accounts receivable	(24,770)	(26,542)	(51,312)
Increase (decrease) in liabilities:			
Accounts payable and accrued liabilities	292,647	31,318	323,965
Compensated absences	-	1,736	1,736
Net cash provided by (used in) operating activities	<u>\$ (336,670)</u>	<u>29,194</u>	<u>(307,476)</u>

Reconciliation of Cash and Cash Equivalents Per Statement
of Cash Flows to the Balance Sheet

	<u>Current Assets</u>	<u>Restricted Current Assets</u>	<u>Total</u>
Cash and cash equivalents - October 1			
Water and sewer	\$ 659,220	183,173	842,393
Harbor	268,253	-	268,253
Total cash and equivalents - October 1	<u>927,473</u>	<u>183,173</u>	<u>1,110,646</u>
Net increase (decrease)	<u>(32,210)</u>	<u>(645)</u>	<u>(32,855)</u>
Cash and cash equivalents - September 30			
Water and sewer	508,651	182,528	691,179
Harbor	386,612	-	386,612
Total cash and equivalents - September 30	<u>\$ 895,263</u>	<u>182,528</u>	<u>1,077,791</u>

The notes to the financial statements are an integral part of this statement

CITY OF PASS CHRISTIAN
Combining Statement of Assets and Liabilities
and Statement of Activities
Fiduciary Funds
September 30, 2009

		Unemployment Escrow	Agency Clearing Accounts	Total
Assets	\$			
Cash and cash equivalents		15,566	310,910	326,476
Due from other governments		-	96,284	96,284
Total Assets		15,566	407,194	422,760
Liabilities				
Due to other funds		-	320,483	320,483
Accrued liabilities		-	86,711	86,711
Held in trust for benefits and other purposes	\$	15,566		15,566
Total Liabilities		15,566	407,194	422,760
Agency Clearing Accounts Activities:				
Taxes received	\$	-	10,257,754	10,257,754
Taxes disbursed		-	(10,257,754)	(10,257,754)
Interest income			4,344	4,344
Transfers in			37,871	37,871
Transfers out		-	(42,215)	(42,215)
Change in Net Assets	\$	-	-	-

The notes to the financial statements are an integral part of this statement

NOTES TO THE FINANCIAL STATEMENT

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

(1) Summary of Significant Accounting Policies.

The City of Pass Christian, Mississippi, was incorporated February 21, 1848 under the laws of the State of Mississippi. The City operates under a Code Charter form of government, which provides for an elected mayor and a five-member board of Alderman. The following services are authorized by the City's charter: Public Safety (Police, Fire, Civil Defense and Protection Inspection), Street Maintenance, Garbage Collection, Water and Sewer, Social and Recreational, Public Improvements, Planning and Zoning, and General Administrative Services. The accounting and reporting policies of the City relating to the funds and accounts groups included in the accompanying combined financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the City has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretation, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below.

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the City's governing board. As defined by accounting principles generally accepted in the United States of America, the City is considered a "primary government." The City is governed by a five member board in which each member was elected by the citizens of each defined ward.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth in Accounting Principles Generally Accepted in the United States of America. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government's reporting entity.

Excluded from the reporting entity:

Pass Christian Municipal Separate School District, Pass Christian Recovery, Inc., and Pass Christian Housing Authority

These potential component units have separate elected and/or appointed boards and provide services to residents, generally within the geographic boundaries of the City. These are excluded from the reporting entity because the City does not have the ability to exercise influence or control over their daily operations, approve budgets or provide funding.

Harrison County Wastewater and Solid Waste Management District

This potential component unit was established by State Code and its governing board is appointed jointly by the area governments' governing bodies. This is an independent unit that selects management staff, sets user charges, establishes budgets and controls all aspects of its daily activities. The District has been determined to be a joint venture of the participating agencies.

See Note 9 for details.

B. Basis of Presentation.

The City's basic financial statement consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the City as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues.

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

The Statement of Net Assets presents the financial condition of the governmental activities of the City at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements:

Fund financial statements of the City are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

The City reports the following major governmental funds:

General Fund - This is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

Emergency Disaster Fund – A special revenue fund created to account for grant and donation monies awarded to aid due to disaster including Hurricane Katrina.

Downtown Revitalization Fund – A construction fund created for the purpose of accounting for federal reimbursements, insurance proceeds general revenues, and construction expenditures that are board approved for downtown revitalization.

Library Construction Fund – A construction fund created for the purpose of accounting for federal reimbursements, insurance proceeds, general revenues, and construction expenditures that are board approved for construction of the new library.

Building Construction Fund – A construction fund created for the purpose of accounting for insurance proceeds and board approved construction projects using those funds.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of Page 8 and Page 10.

Additionally, the City reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

PROPRIETARY FUNDS

The Proprietary Fund is the fund through which the City finances certain activities similar to business enterprises, where the determination of net income is necessary or useful to sound financial administration.

Utility Fund – The Water and Sewer Enterprise Fund is used to account for the operations of the City's utility system.

Harbor Fund – The Harbor Enterprise Fund is used to account for the City's harbor operations.

It is the intent of the Board of Alderman that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges and that periodic determination of revenues earned, expenses incurred, and net income be identified for capital maintenance, public policy, management control, account ability, or other purposes.

FIDUCIARY FUNDS

Agency Funds – Agency Funds are used to report resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations. These funds account for the payroll clearing, tax collector clearing, unemployment fund, workman's compensation, and health and disability insurance provided to departments of the City.

D. Encumbrances.

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

E. Cash and Cash Equivalents and Investments

Deposits. The board of alderman must advertise and accept bids for depositories no less than once every two years as required by Section 27-105-1, Miss. Code Ann. (1972). The collateral pledged for the City's deposits in financial institutions 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, Miss. Code Ann. (1972). Under this program, the entity'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.

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

F. Receivables and Allowance for Uncollectibles

All trade receivables are shown net of an allowance for uncollectibles. An allowance in the amount of \$284,631 at September 30, 2009 has been provided in the Water and Sewer Enterprise Fund for estimated uncollectible utility charges. Miss. Code Ann. (1972) does not allow for write-off of debt owed to municipalities. The amount represented above is conclusive of all bad debts owed by customers of the water and sewer department since the City started providing these services to citizens. The allowance is based on trade receivables in excess of 90 days outstanding.

G. Capital Assets.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	\$ 0	0
Buildings	50,000	20 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 for details.

H. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. See Note 6 for details.

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

I. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 4 for details for interfund transactions, including receivables and payables at year-end.

J. Restricted Assets.

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

K. Deferred Revenue.

Receipts from revenues and grants for which the earning process is not complete are classified as deferred revenue, a liability, on the statement of net assets.

L. Compensated Absences.

The City's vacation policy provides for two weeks vacation after two years of employment. Vacations must be taken in the calendar year following the calendar year in which the credits were earned. An employee may accumulate unused vacation leave hours without limitation, however, cash payments upon employee termination or retirement are limited to a maximum of two weeks pay. Any unpaid leave will apply towards the employee's PERS credits as time worked. A liability for unused vacation allowed has been provided in the financial statements.

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

Sick leave is calculated at the rate of four hours per month to a maximum of six days. Employees have no claim for accumulated sick leave at termination, for retirement, lay-off, or cause. As such, no provision for unused sick leave has been provided in the financial statements. Unused sick leave may be credited to the Public Employee's Retirement System (PERS) as time worked.

M. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, constructions or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved classified as designated and undesignated.

Following is a description fund reserves used by the City:

Unreserved - designated for, reported in special revenue funds - An account that represents a portion of the unreserved fund balance that the City's board has specifically obligated for future uses.

Unreserved – designated for, reported in capital project funds – An account that represents a portion of the unreserved fund balance that the City's board has specifically obligated for future uses.

Unreserved – designated for, reported in debt service funds – An account that represents a portion of the unreserved fund balance that the City's board has specifically obligated for future uses for debt service.

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

N. Budgetary Data.

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

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

(2) Cash

A summary of Cash at September 30, 2009 is as follows:

	<u>Cash</u>	<u>Restricted Cash</u>	<u>Total</u>
Governmental funds:			
General Fund	\$ 2,100,733	600,000	2,700,733
CDBG Downtown Grant Fund	180,124	-	180,124
Emergency Disaster Fund	125,043	-	125,043
Library Construction Fund	538,776	-	538,776
Building Construction Fund	6,224,351	-	6,224,351
Other Governmental Funds	1,874,330	-	1,874,330
Total governmental funds	<u>11,043,357</u>	<u>600,000</u>	<u>11,643,357</u>
Proprietary funds:			
Water & Sewer Fund	508,651	182,528	691,179
Harbor Fund	386,612	-	386,612
Total proprietary funds	<u>895,263</u>	<u>182,528</u>	<u>1,077,791</u>
Fiduciary Funds	<u>326,476</u>	<u>-</u>	<u>326,476</u>
Total cash	<u>\$ 12,265,096</u>	<u>\$ 782,528</u>	<u>\$ 13,047,624</u>

The carrying amount of the City's deposits with financial institutions was \$13,047,624 and the bank balance was \$13,203,185.

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a deposit policy for custodial credit risk.

However, the Mississippi State Treasurer manages that risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the City. The collateral for public entities' deposits in financial institutions is now 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, Miss. Code Ann (1972). Under this program, the entity'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 a failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace public deposits not covered by the Federal Depository Insurance Corporation. As of September 30, 2009, none of the City's bank balance of \$13,203,185 was exposed to custodial credit risk.

(3) Property and Sales Tax Revenue

A, Property Tax Revenues

The City levies a tax on real and personal property based on the assessed value of property as compiled by the Harrison 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 January 1. Taxes on real and personal property are levied by the Board of Alderman at the first regular meeting in September.

In accordance with the Mississippi Code of 1972, as amended, the Board of Alderman may levy taxes in any amount for general revenue purposes and general improvements. However, taxes collected for the current year are limited to an increase of not more than 10% over receipts for any one of the preceding ten years or a minimum of 20 mills. 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 but exclusive of school bond and interest for the year ended September 30, 2009 was 43.46 mills or \$43.46 per \$1,000 of assessed valuation.

Property taxes at the fund level are recorded as receivables and deferred revenues at the time the taxes are levied. Revenues are recognized as the related ad valorem taxes are collected including those collected 60 days after year-end. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with GAAP have been recognized as revenue.

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

B. Sales Tax Revenues

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City of Pass Christian) back to the City monthly. Tax revenue reported in the General Fund includes \$354,075 of sales tax revenue.

(4) Interfund Transactions and Balances

The following is a summary of interfund transactions and balances:

A. Due To/From:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Emergency Disaster	\$ 2,827,104
	Library Construction Fund	1,381,500
	Other Governmental	2,352,081
	Harbor	147
	Fiduciary	320,483
Emergency Disaster	General	2,801
	Library Construction	566,026
	Other Governmental	319,074
Downtown Revitalization	General	8,070
	Library Fund	36,879
	Other Governmental	1,800
Library Fund	General	47,202
	Building Construction	370,486
	Downtown Revitalization	98,674
	Emergency Disaster	118,804
	Other Governmental	202,057
	Harbor	59,651
Building Construction	General	153,394
	Other Governmental	223,694
Other Governmental	General	1,356,055
	Building Construction	210,096
	Emergency Disaster	193,233
	Library Fund	828,787
	Other Governmental	28,595
Water/Sewer	General	2,651
Harbor	General	30
	Other Governmental	19,908
Total		\$ <u><u>11,729,282</u></u>

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

During the course of the year, certain expenditures were paid on a reimbursement basis requiring the district to borrow monies at year-end from the General Fund in order to prevent a deficit cash balance in certain funds. Allocation percentages of federal reimbursement for construction projects caused expenditures to be paid from the wrong fund requiring many due to/due from transactions requiring cash transfer after year end.

B. Transfers In/Out:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General	Building Construction	\$ 117,970
	Other Governmental	60,128
	Fiduciary	39,556
Emergency Disaster	General	2,800
	Other Governmental	10,015
Downtown Revitalization	General	76,214
Library Construction	General	47,202
	Building Construction	404,114
	Emergency Disaster	244,806
	Other Governmental	202,057
Other Governmental	General	181,158
	Building Construction	815,476
	Emergency Disaster	329,736
Water/Sewer	General	715,150
	Emergency Disaster	2,579,808
	Other Governmental	18,711
	Fiduciary	2,659
Harbor	Emergency Disaster	1,490,184
	Other Governmental	670,935
Fiduciary	General	37,871
Total		<u>\$ 8,046,550</u>

The Emergency Disaster Fund (major fund) and Hurricane Gustav Repairs Fund (Other governmental fund) expended FEMA funds for new construction and repairs for proprietary funds (Water & Sewer and Harbor Funds). For consistent distinction between governmental-type and business-type activities, these expenditures were transferred to the appropriate fund for recognition of benefits received. Several transfers of federal revenues, local grants, and building insurance funds were transferred to appropriate construction funds.

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

(5) Capital Assets.

The following is a summary of changes in capital assets:

A. Governmental Activities

	Balance 09/30/08	Additions	Retirements	Construction Completed	Adjustments	Balance 09/30/08
<u>Non-depreciable capital assets:</u>						
Land	\$ 601,935				3,000	\$ 604,935
Construction in progress	1,759,412	6,317,852		(1,317,115)		6,760,149
Total non-depreciable capital assets	<u>2,361,347</u>	<u>6,317,852</u>	<u>-</u>	<u>(1,317,115)</u>	<u>3,000</u>	<u>7,365,084</u>
<u>Depreciable capital assets:</u>						
Buildings	1,044,933		(166,030)	1,126,795	(3,000)	2,002,698
Infrastructure	10,500		(10,500)	190,320		190,320
Mobile equipment	2,154,304	233,213	(644,771)			1,742,746
Furniture and equipment	287,798	309,021	(52,693)			544,126
Leased property under capital leases	-					-
	173,035					173,035
Total depreciable capital assets	<u>3,670,570</u>	<u>542,234</u>	<u>(873,994)</u>	<u>1,317,115</u>	<u>(3,000)</u>	<u>4,652,925</u>
<u>Depreciation:</u>						
Buildings	59,829	58,999	(11,292)			107,536
Infrastructure	473	6,661	(473)			6,661
Mobile equipment	740,633	297,386	(349,790)			688,229
Furniture and equipment	147,533	106,239	(59,298)			194,474
Leased property under capital leases	-					-
	31,146	15,573				46,719
Total accumulated depreciation	<u>979,614</u>	<u>484,858</u>	<u>(420,853)</u>	<u>-</u>	<u>-</u>	<u>1,043,619</u>
Total depreciable capital assets, net	<u>2,690,956</u>	<u>57,376</u>	<u>(453,141)</u>	<u>1,317,115</u>	<u>(3,000)</u>	<u>3,609,306</u>
Governmental activities capital assets, net	<u>\$ 5,052,303</u>	<u>6,375,228</u>	<u>(453,141)</u>	<u>-</u>	<u>-</u>	<u>\$ 10,974,390</u>

Adjustments to capital assets result from improperly recorded land in buildings upon completion of building project.

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

B. Business-type Activities

	Balance 09/30/08	Additions	Retirements	Construction Completed	Balance 09/30/09
<u>Non-depreciable capital assets:</u>					
Land	\$ 142,135	-	-	-	142,135
Construction in progress	6,037,908	3,803,956	-	(9,841,864)	-
Total non-depreciable capital assets	<u>6,180,043</u>	<u>3,803,956</u>	<u>-</u>	<u>(9,841,864)</u>	<u>142,135</u>
<u>Depreciable capital assets:</u>					
Buildings	62,052	-	-	-	62,052
Infrastructure	7,771,937	-	-	9,841,864	17,613,801
Mobile equipment	55,239	13,047	-	-	68,286
Furniture and equipment	24,371	29,783	-	-	54,154
Total depreciable capital assets	<u>7,913,599</u>	<u>42,830</u>	<u>-</u>	<u>9,841,864</u>	<u>17,798,293</u>
<u>Depreciation</u>					
Buildings	3,723	1,241	-	-	4,964
Infrastructure	4,084,717	279,396	-	-	4,364,113
Mobile equipment	24,138	15,457	-	-	39,595
Furniture and equipment	2,193	8,631	-	-	10,824
Total accumulated depreciation	<u>4,114,771</u>	<u>304,725</u>	<u>-</u>	<u>-</u>	<u>4,419,496</u>
Total depreciable capital assets, net	<u>3,798,828</u>	<u>(261,895)</u>	<u>-</u>	<u>9,841,864</u>	<u>13,378,797</u>
Governmental activities capital assets, net	<u>\$ 9,978,871</u>	<u>3,542,061</u>	<u>-</u>	<u>-</u>	<u>13,520,932</u>

C. Depreciation Expense

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental activities:

General government	\$ 15,663
Public safety	382,455
Public works	78,854
Health and welfare	7,886
Total depreciation expense – Governmental activities	<u>\$ 484,858</u>

Business – type activities:

Water and sewer	\$ 280,637
Port	24,088
Total depreciation expense – Business-type activities	<u>\$ 304,725</u>

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

D. Outstanding Construction Commitments

The City had the following outstanding construction commitments with respect to unfinished capital projects as of September 30, 2009, which will be paid from insurance proceeds, federal grants, and local contributions:

	<u>Contract Amount</u>	<u>Remaining Commitment</u>
Pass Christian Library	\$ 2,782,290	950,232
City Hall Municipal Complex	2,930,642	1,106,171
Randolph School Senior Citizen's Center	1,702,805	787,479
Police Emergency Operation Center	4,591,001	4,282,290
Phase II Water and Sewer Replacement	5,413,738	2,368,636
Sanitary Sewer System Cleaning and Repairs	1,394,578	396,203
	<u>\$ 18,815,054</u>	<u>9,891,011</u>

(6) Long Term Debt.

A. Governmental Activities

Transactions for the year ended September 30, 2009 are summarized as follows:

	<u>Balance 10/01/08</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 09/30/09</u>	<u>Due within one year</u>
Tax Increment Revenue Bonds	1,300,000	-	195,000	1,105,000	205,000
Obligations under Capital Leases	148,408	-	40,457	107,951	34,551
Community Disaster Loan	3,396,031	-		3,396,031	-
Compensated Absences	125,966	-	12,765	113,201	-
	<u>4,970,405</u>	<u>-</u>	<u>248,222</u>	<u>4,722,183</u>	<u>239,551</u>

Tax Increment Revenue Bonds – The City issued a tax increment revenue bond during the fiscal year 2009. The bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Issued</u>	<u>Rate</u>	<u>Outstanding</u>
Tax Increment Revenue Bonds	12/01/05	4.13%	\$ 1,105,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	205,000	45,592	250,592
2011	210,000	37,134	247,134
2012	220,000	28,469	248,469
2013	230,000	19,392	249,392
2014	240,000	9,902	249,902
Total	<u>1,105,000</u>	<u>140,489</u>	<u>1,245,489</u>

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

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

The following lease obligations are currently outstanding:

<u>Description/Security</u>	<u>Date</u>	<u>Outstanding</u>
Hancock Bank/Tractor	12/11/06	16,624
Hancock Bank/Equipment	02/14/07	32,869
Hancock Bank/Equipment	07/31/07	37,600
Hancock Bank/Equipment	09/18/07	20,858
		\$ <u>107,951</u>

The following is a schedule of the future minimum lease payments under those capital leases, and the present value of the net minimum lease payments:

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	34,551	4,415	38,966
2011	35,964	3,002	38,966
2012	37,436	1,531	38,967
Total	<u>107,951</u>	<u>8,948</u>	<u>116,899</u>

Community Disaster Loan - The City entered into a loan agreement with the U.S. Department of Homeland Security Federal Emergency Management Agency in February 2008 to assist the City with additional expenditures resulting from damage caused by Hurricane Katrina. On November 5, 2010, these loans were forgiven. This liability will be removed from the financial statement and a gain will be recognized during the year of forgiveness. At September 30, 2009 the loans outstanding are as follows:

<u>Purpose</u>	<u>Issued</u>	<u>Rate</u>	<u>Outstanding</u>
Community Disaster Loan	07/19/2006 - 09/27/2006	2.76%	\$ 568,016
Community Disaster Loan	02/01/2006 - 09/27/2006	2.67%	1,414,008
Community Disaster Loan	01/22/2007 - 06/06/2007	2.87%	1,414,007
			\$ <u>3,396,031</u>

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

B. Business-Type Activities

Transactions for the year ended September 30, 2009 are summarized as follows:

	Balance 10/01/08	Additions	Retirements	Balance 09/30/09	Due within one year
Revolving Loans	887,673	-	566,774	320,899	20,004
Compensated Absences	2,731		1,736	995	-
	<u>890,404</u>	<u>-</u>	<u>568,510</u>	<u>321,894</u>	<u>20,004</u>

Revolving Loans - The City's utility enterprise fund finances extensions and improvements to its system through note obligations, which are subordinate to the revenue bonds.

The utility currently has one state revolving loan, which enabled the City to provide sewer services in needed unserved areas. The loan is to be repaid over a period of twenty years, bearing an interest rate of 1.75%. Payment on this loan is made by way of sales tax reductions from amounts due to the City for sales tax collected in the City. The Water and Sewer Fund then reimburses the General Fund for the amount of the deduction.

A summary of note obligation outstanding is as follows:

<u>Description</u>		
State Revolving Fund Loan	1.75%	<u>320,899</u>
Total		<u>\$ 320,899</u>

As a result of Hurricane Katrina, the Commission on Environmental Quality concurred in the Mississippi Department of Environmental Quality restructuring WPCRLF loan repayment schedules to provide some financial relief to Gulf Coast loan recipients while they rebuild their communities. These restructured loan agreements provide a repayment forbearance period, during which there is no interest accrual (for up to two years as limited by state law), while providing loan amortization within the original 20 year term as required by current federal law. The City of Pass Christian was approved for a 24 month forbearance on September 25, 2005.

The City, on August 21, 2009, was approved for an additional two year forbearance which resulted in a corresponding increase in the monthly repayment amount(s) once repayment resumes on April 4, 2009, due to current limitations in State and Federal laws that only allows for 24 month interest forgiveness. On April 4, 2009 the City opted to pay the remaining principal balance on along with the accrued interest on two of the State Revolving Fund loans and the accrued interest and missed principal payments on the remaining loan in an effort to reduce the resulting additional debt.

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

Annual debt service requirements to maturity for this note payable is as follows:

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	20,004	5,456	25,460
2011	20,357	5,103	25,460
2012	20,716	4,744	25,460
2013	21,082	4,378	25,460
2014	21,454	4,006	25,460
2015-2019	113,080	14,220	127,300
2020-2024	104,206	3,999	108,205
Total	<u>320,899</u>	<u>41,906</u>	<u>362,805</u>

(7) Unemployment Compensation Fund.

The City maintains a revolving fund for unemployment compensation benefits with a balance of approximately 2% of the first \$6,000 of employee wages paid in the preceding calendar year. These contributions are in lieu of making payments to the Mississippi Employment Security Commission.

(8) Defined Benefit Pension Plan.

Plan Description: The City contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. 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 publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy: PERS members are required to contribute 7.25% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The current rate is 12% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City's contributions to PERS for the fiscal years ending September 30, 2009, 2008 and 2007 were \$284,443, \$251,382, and \$327,533, respectively, which equaled the required contributions for each year.

(9) Commitments and Contingencies.

Joint Venture - The City of Pass Christian contracts with the Harrison County Wastewater and Solid Waste Management District, whereby the District treats and disposes of the City's wastewater in compliance with water quality standards

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

established by the Mississippi Air and Water Pollution Control law and the Federal Water Pollution Control Act.

The District provides for the operation and maintenance of the sewer treatment plants on a cost reimbursement basis. Pursuant to the terms of the agreement, the City is required to pay monthly costs of operations and maintenance directly associated with the treatment facilities and to share in the construction costs of the treatment facilities. The costs associated with this contract totaled \$352,969 for the year. A fee has been added to rates charged by the Utility System as an assessment for the City's allocated share of the operations and maintenance costs of the Wastewater District.

The City's obligation to pay operational costs of the District is joint and several with the obligations of all other public agencies similarly contracting with the District. 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.

The following is a synopsis of the District's financial statements as of and for the year ended September 30, 2009:

STATEMENT OF NET ASSETS

(amounts expressed in millions of dollars)

ASSETS

Current assets	\$	19.2
Restricted assets		20.6
Capital assets		134.9
Other assets		1.7
Total assets		<u><u>176.4</u></u>

LIABILITIES

Current liabilities		6.0
Current liabilities from restricted assets		18.6
Long-term liabilities		125.2
Total liabilities		<u><u>149.8</u></u>

NET ASSETS

Invested in capital assets, net of related debt		12.2
Restricted for debt services and reserves		19.7
Unrestricted		(5.3)
Total net assets	\$	<u><u>26.6</u></u>

**STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN NET ASSETS**

(amounts expressed in millions of dollars)

Operating revenue	\$	17.9
Operating expenses		(18.0)
Depreciation and amortization		(4.5)
Nonoperating revenues, net		51.6
Changes in net assets	\$	<u><u>47.0</u></u>

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

A complete copy of these financial statement is on file at the administrative offices of the District which are located at 14108 Airport Road, Pass Christian, Mississippi 39503, or may be obtained by calling (228) 868-8752.

Contract for "Turnkey" Operations of Water and Wastewater Systems – In 2007, the City renewed a contract with WPSCO, Inc. for operation and maintenance of the City's water and sewer systems. The fee under the contract is \$38,959/mo for the year ended September 30, 2009. Annually, the amount shall be adjusted by the consumer price index by the U.S. Department of Labor Statistics. During the fiscal year ended September 30, 2009 the City paid a total of \$428,548 to WPSCO under this contract.

Cooperative Agreement with Mississippi Regional Housing Authority - In July 1980, the City entered into an agreement with Mississippi Regional Housing Authority No. VIII, authorizing "in lieu of taxes" on housing projects operated by the housing authority within the municipality.

Community Support - On May 18, 1976, the City entered into an agreement with the Board of Trustees of the Pass Christian Public Library, the City of Pass Christian, the Board of Supervisors of Harrison County, The Board of Trustees of the Pass Christian-Harrison County Library, the City of Biloxi, and the Board of Trustees of the Biloxi Public Library to mutually cooperate in securing a more economical public library system through combined resources, interests, materials and facilities to be known as the Harrison County Library System. There are no specific monetary terms in the agreement. However, a budget is approved every year by the County Library Board, which stipulates the amount of funds needed from the participating municipalities and various other funding sources.

Legal Actions - There are certain pending legal actions which, in the opinion of the City's management, the outcome will not have a material adverse effect on the accompanying general purpose financial statements and, accordingly, no provision for losses has been recorded.

FEMA Deobligation – In October 2005, the City received advanced funding from FEMA to assist the City in paying overtime wages to employees assisting in emergency disaster services. Of the original funding, approximately \$125,043 remains unexpended. As of the date of this report, there has been no final determination of the amount that is to be repaid; however, management had determined that it is likely that these funds will be repaid to FEMA. As of September 30, 2009, a liability in the amount of \$125,043 has been accrued to cover this commitment.

CITY OF PASS CHRISTIAN
Notes to the Financial Statements
For the year ended September 30, 2009

(10) Risk Management.

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Construction commitments are discussed in Note 5.

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors and their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

(11) Prior Period Adjustments

Adjustments were made to the business-type statements as follows:

A transfer of capital expenditures associated with capital projects was improperly recorded in prior year:

Increase in Proprietary Fund - Harbor	843,740
Decrease in Proprietary Fund - Water and Sewer	<u>(843,740)</u>
Net affect on Business-type Activites	<u><u>-</u></u>

(12) Subsequent Events

Management has evaluated subsequent events through February 14, 2011, the date on which the financial statements were available to be issued. Following is a summary of significant transactions after the year ended September 30, 2009.

Sale of parcel of land	\$ <u>550,000</u>
Contracts Awarded:	
Small Craft Harbor Waste Oil Tank	\$ 35,004
Highway 90 Lighting	98,498
Small Craft Harbor Repairs	34,407
Downtown Improvements (Phase I)	2,184,108
Water and Sewer Replacement Area 1	<u>3,048,107</u>
Total contracts awarded	<u><u>\$ 5,400,124</u></u>
Grants Accepted:	
Small Municipal Grant	\$ 100,000
Occupation Protection Grant	9,999
MDOT Surplus ARRA Funds	147,260
BP Deepwater Horizon Response Grant	<u>2,000,000</u>
Total grants accepted	<u><u>\$ 2,257,259</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Pass Christian
Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund
Budget and Actual
(Prepared on the Budgetary Basis)
For the Fiscal Year Ended September 30, 2009

	Budgeted Amounts		Actual Basis	Variances Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Property taxes	\$ 2,377,955	2,377,955	2,382,368	-	4,413
Sales taxes	364,000	364,000	358,359	-	(5,641)
Fines and forfeitures	-	-	161,564	-	161,564
Licenses and permits	169,400	169,400	159,293	-	(10,107)
Intergovernmental	250,885	250,885	253,154	-	2,269
Charges for services	10,000	10,000	9,334	-	(666)
Franchise fees	152,900	152,900	225,885	-	72,985
Investment earnings	-	-	47,310	-	47,310
Miscellaneous	127,235	127,235	133,282	-	6,047
Total Revenues	3,452,375	3,452,375	3,730,549	-	278,174
Expenditures:					
General government:					
Personnel services	610,454	608,201	608,201	2,253	-
Supplies	49,910	40,370	40,370	9,540	-
Contractual	453,399	311,895	311,895	141,504	-
Capital outlay	12,000	51	51	11,949	-
Total general government	1,125,763	960,517	960,517	165,246	-
Public safety:					
Personnel services	1,719,957	1,604,836	1,604,836	115,121	-
Supplies	276,990	203,039	203,039	73,951	-
Contractual	270,883	238,612	238,612	32,271	-
Capital outlay	129,911	76,177	76,177	53,734	-
Total public safety	2,397,741	2,122,664	2,122,664	275,077	-
Public works:					
Personnel services	392,437	373,586	373,586	18,851	-
Supplies	103,100	89,195	89,195	13,905	-
Contractual	216,107	199,832	199,832	16,275	-
Capital outlay	-	-	-	-	-
Total public works	711,644	662,614	662,614	49,031	-
Culture and recreation:					
Personnel services	123,495	119,897	119,897	3,598	-
Supplies	30,795	26,266	26,266	4,529	-
Contractual	27,119	23,353	23,351	3,766	-
Capital outlay	-	-	-	-	-
Total culture and recreation	181,409	169,516	169,514	11,893	-
Debt service	443,400	442,389	442,389	1,011	-
Total Expenditures	4,859,957	4,357,700	4,357,698	502,258	-
Excess (Deficiency) of Revenues Over Expenditures	(1,407,582)	(905,325)	(627,149)	502,257	278,174
Other Financing Sources (Uses):					
Proceeds from sale of assets	145,804	145,804	5,916	-	(139,888)
Insurance proceeds	-	-	3,804	-	3,804
Transfers in	54,000	54,000	217,654	-	163,654
Transfers out	(411,723)	(404,655)	(1,060,396)	7,068	(655,741)
Total Other Financing Sources (Uses)	(211,919)	(204,851)	(833,022)	7,068	(628,171)
Net change in fund balances	(1,619,501)	(1,110,176)	(1,460,171)	509,325	(349,995)
Fund balances - beginning	9,094,307	9,094,307	9,094,307	-	-
Fund balances - ending	\$ 7,474,806	7,984,131	7,634,136	509,325	(349,995)

Reconciliation of Cash-basis Budget to Statement of Revenues, Expenditures and Changes in Fund Balance

Net Change in fund balance - Budget-Cash Basis		(1,460,171)
Revenues per Cash-basis Budget	3,730,549	
Change in receivable from other governments	(125,926)	(125,926)
Revenues per Fund Financial Statements	<u>3,604,623</u>	
Expenditures per Cash-basis Budget	4,357,698	
Change in accounts payable	(279,765)	279,765
Change in payable to other governments	(3,289)	3,289
Expenditures per Fund Financial Statement	<u>4,074,644</u>	
Net Change in fund balance - Fund Financials		<u>(1,303,043)</u>

The Notes to the Required Supplementary Information are and integral part of this statement.

City of Pass Christian
Statement of Revenues, Expenditures and Changes in Fund Balance - Emergency Disaster Fund
Budget and Actual
(Prepared on the Budgetary Basis)
For the Fiscal Year Ended September 30, 2009

	Budgeted Amounts		Actual Basis	Variances	
				Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Intergovernmental	\$ 18,297,918	5,638,705	6,892,189	(12,659,213)	1,253,484
Charges for services	-	-	-	-	-
Investment earnings	-	-	-	-	-
Total Revenues	<u>18,297,918</u>	<u>5,638,705</u>	<u>6,892,189</u>	<u>(12,659,213)</u>	<u>1,253,484</u>
Expenditures:					
General government	4,650,039	719,717	13,564	3,930,322	706,153
Public safety	4,461,565	1,037,567	725,908	3,423,998	311,659
Public works	2,450,002	575,489	575,489	1,874,513	-
Culture and recreation	1,962,473	1,775,603	122,488	186,870	1,653,115
Total Expenditures	<u>13,524,079</u>	<u>4,108,376</u>	<u>1,437,449</u>	<u>9,415,703</u>	<u>2,670,926</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>4,773,839</u>	<u>1,530,329</u>	<u>5,454,740</u>	<u>(3,243,510)</u>	<u>3,924,411</u>
Other Financing Sources (Uses):					
Transfers in	-	12,815	12,815	12,815	-
Transfers out	(10,208,039)	(4,256,168)	(4,644,533)	5,951,871	(388,366)
Total Other Financing Sources (Uses)	<u>(10,208,039)</u>	<u>(4,243,353)</u>	<u>(4,631,718)</u>	<u>5,964,686</u>	<u>(388,366)</u>
Net change in fund balances	(5,434,200)	(2,713,024)	823,022	2,721,176	3,536,046
Fund balances - beginning (as restated)	-	-	-	-	-
Fund balances - ending	<u>\$ (5,434,199)</u>	<u>(2,713,023)</u>	<u>823,022</u>	<u>2,721,176</u>	<u>3,536,045</u>

Reconciliation of Cash-basis Budget to Statement of Revenues, Expenditures and Changes in Fund Balance

Net Change in fund balance - Budget-Cash Basis		823,022
Revenues per Cash-basis Budget	6,892,189	
Change in receivable from other governments	2,107,370	2,107,370
Change in deferred revenue	(2,407,050)	(2,407,050)
Revenues per Fund Financial Statements	<u>6,592,509</u>	
Expenditures per Cash-basis Budget	1,437,449	
Change in accounts payable	523,342	(523,342)
Expenditures per Fund Financial Statement	<u>1,960,791</u>	
Net Change in fund balance - Fund Financials		<u>-</u>

The Notes to the Required Supplementary Information are and integral part of this statement.

CITY OF PASS CHRISTIAN
Notes to the Required Supplementary Information
For the year ended September 30, 2009

Budgetary Comparison Schedule

(1) Basis of Presentation.

State statutes authorize the State Auditor to regulate the municipal budget process. Expenditures must be defined to the minimum level prescribed by the State Auditor. The State Auditor has set this level at the purpose level. Municipalities are prohibited from spending in excess of the lowest level adopted in the budget except for capital outlay, election expense and emergency warrants.

The budgetary comparisons present budget figures at the legal level of control. The Board of Alderman formally adopts the annual budget for the General Fund with revenues segregated by source (ad valorem tax, licenses and permits, intergovernmental, etc.). The General Fund expenditure budget is set at the character level (current, capital outlay, debt service) for each department (function) with current expenditures further detailed at the object level (personal services, supplies, contractual and capital outlay).

(2) Difference between Budget and GAAP

Differences between capital outlay expenditures reported in the budget comparison statements and the fund financial statements are that in the budget expenditures for tangible property are classified as capital outlay regardless of the capitalization threshold. For purposes of the budgetary schedule presentation capital outlay expenditures reported on the fund financial statements have been allocated appropriately to each department for a more concise comparison.

Accounting principles applied in preparation of the budget comparison statements differ from the generally accepted accounting principles used in preparation of the fund statements. The budgets for revenues are on a cash basis – revenue is recognized if actually received within the year. Also, budgeted expenditures are on the cash basis.

These differences in the principles used results in timing differences in the recognition of revenue and expenditures. Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances–Budget and Actual to the Statement of Revenues, Expenditures and Changes in Fund Balance for the General fund and major special revenue Emergency Disaster Fund is shown at the bottom of each statement.

SUPPLEMENTAL INFORMATION

CITY OF PASS CHRISTIAN
Schedule of Expenditures of Federal Awards
For the year ended September 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Identification Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Direct program			
Fire Protection Grant	10.XXX	Unavailable	\$ 34,745
Total U.S. Department of Agriculture			<u>34,745</u>
<u>U. S. Department of Housing and Urban Development</u>			
Passed-through the Mississippi Development Authority			
Community Development Block Grant	14.218	R-101-06-013-1	215,202
Community Development Block Grant	14.218	R-109-291-02-KCR	1,045,942
Community Development Block Grant	14.218	R-103-291-01-KCR	304,569
Community Development Block Grant	14.218	R-103-291-01-KP	104,500
Community Development Block Grant	14.218	R-109-291-03-KCR	1,050,694
Total U.S. Department of Housing and Urban Development			<u>2,720,907</u>
<u>U.S. Department of Justice</u>			
Passed-through the Mississippi Department of Public Safety			
Edward Byrne Memorial Formula Grant Program	16.738	2006-DH-BX-0438	249,433
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	2007-DJ-BX-0224	70,110
Total U.S. Department of Justice			<u>319,543</u>
<u>U.S. Department of Transportation</u>			
Passed-through Mississippi Division of Public Safety Planning			
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	06TA2271	32,680
Alcohol Open Container Requirements	20.607	09TA22771	31,153
Total U.S. Department of Transportation			<u>63,833</u>
<u>U.S. Department of Education</u>			
Passed-through Mississippi Division of Public Safety Planning			
Administered by the Multijurisdictional Task Force - City of Gulfport			
Safe and Drug-free Schools and Communities – State Grants	84.186	Unavailable	20,723
Total U.S. Department of Education			<u>20,723</u>
<u>U.S. Department of Health and Human Services</u>			
Passed-through Mississippi Department of Human Services			
Social Services Block Grant	93.667	710VK261-05	412,505
Total U.S. Department of Health and Human Services			<u>412,505</u>

Continued Next Page

CITY OF PASS CHRISTIAN
Schedule of Expenditures of Federal Awards - Continued
For the year ended September 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Identification Number	Federal Expenditures
<u>U. S. Department of Homeland Security</u>			
Passed-through Mississippi Emergency Management Agency			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1436-DR-MS	702,568
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1604-DR-MS	6,592,509
Pre-disaster Mitigation	97.047	PDMC-PL-04-MS-2008-06	31,500
Total U.S. Department of Homeland Security			<u>7,326,577</u>
Total Federal Expenditures			\$ <u><u>10,898,833</u></u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the City for the Safe and Drug-free Schools and Communities – State Grants.
4. The City of Pass Christian, Mississippi has the following federal loans outstanding as of September 30, 2009:

Program Title	CFDA Number	Entity Identifying Number	Outstanding Balance as of 09/30/09
<u>Environmental Protection Agency</u>			
Passed-through Mississippi Department of Environmental Quality for sewer improvements and pollution control			
Water and Sewer Improvements	66.458	SRF-C280803-03	\$ 320,899
Total Environmental Protection Agency			<u>320,899</u>
<u>U. S. Department of Homeland Security</u>			
Direct Loan Programs:			
Community Disaster Loan Program	97.30	EMA-2006-LF-1604MS15	3,396,031
Total U.S. Department of Homeland Security			<u>3,396,031</u>
Total Federal Loans			\$ <u><u>3,716,930</u></u>

CITY OF PASS CHRISTIAN
Schedule of Surety Bonds
For the year ended September 30, 2009

Position	Surety	Bond Amount
Accounts Payable	CNA Surety	50,000
Alderman	CNA Surety	100,000
Assistant Court Clerk	CNA Surety	50,000
Assistant Police Chief	CNA Surety	50,000
Asst. Code Enforcement Officer	CNA Surety	50,000
City Clerk	CNA Surety	50,000
City Clerk (Clerical 1)	CNA Surety	50,000
Code Clerk	CNA Surety	50,000
Code Clerk	CNA Surety	50,000
Court Clerk	CNA Surety	50,000
Harbor Clerk	CNA Surety	50,000
Harbor Maintenance	CNA Surety	50,000
Harbor Master	CNA Surety	50,000
Harbor Security	CNA Surety	50,000
Harbor Security	CNA Surety	50,000
Harbor Security	CNA Surety	50,000
Mayor	CNA Surety	100,000
Parks and Recreation Clerk	CNA Surety	50,000
Payroll Clerk	CNA Surety	50,000
Police Chief	CNA Surety	50,000
Police Dispatcher 1	CNA Surety	50,000
Purchasing Agent	CNA Surety	50,000
Record Clerk	CNA Surety	50,000
Recreation Director	CNA Surety	50,000
Undercover Drug Officer	CNA Surety	50,000

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

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

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February 14, 2011

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Members of Board of Alderman
and the Honorable Leo "Chipper" McDermott, Mayor
Pass Christian, Mississippi

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Pass Christian, Mississippi as of and for the year ended September 30, 2009, which collectively comprise the City of Pass Christian, Mississippi's basic financial statements and have issued our report thereon dated February 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider Finding **09-01**, described in the accompanying schedule of findings and questioned costs, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of City of Pass Christian in a separate letter dated February 14, 2011.

This report is intended solely for the information and use of the management, Board of Alderman entities with accreditation overview, Mississippi state agencies, 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. However, this report is a matter of public record and its distribution is not limited.

Wesley Wood White & Roof

WRIGHT, WARD, HATTEN & GUEL

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February 14, 2011

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

The Members of Board of Alderman
and the Honorable Leo "Chipper" McDermott, Mayor
City of Pass Christian, Mississippi

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Pass Christian, Mississippi as of and for the year ended September 30, 2009, which collectively comprise City of Pass Christian, Mississippi's basic financial statements and have issued our report thereon dated February 14, 2011. We conducted our audit in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, as we considered necessary in the circumstances.

In connection with our audit, several instances of noncompliance came to our attention that caused us to believe that the City of Pass Christian is not in compliance with the requirements of the State Department of Audit, as set forth in the Municipal Compliance Questionnaire. Our findings are as follows:

Monthly Budget Reports

During the course of our audit, it came to our attention that budget reports are not being submitted at the regular meetings held by the City. Mississippi State law requires that a report showing the expenditures and liabilities incurred against each separate budget appropriation item during the calendar month, including fiscal year to date information, be presented to the governing authorities at the regular monthly meetings. This report should include the unencumbered balance, and a detailed schedule of taxes received. We recommend that the responsible City personnel prepare such reports for monthly presentation in order to maintain state legal compliances.

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

This report is intended solely for the information and use of the Board of Alderman and management, entities with accreditation overview, 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. However, this report is a matter of public record and its distribution is not limited.

Wesley Wood 7/21/16 & Paul

WRIGHT, WARD, HATTEN & GUEL

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February 14, 2011

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

The Members of Board of Alderman
and the Honorable Leo "Chipper" McDermott, Mayor
Pass Christian, Mississippi

Compliance

We have audited the compliance of City of Pass Christian, Mississippi, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. City of Pass Christian'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 the City's management. Our responsibility is to express an opinion on City of Pass Christian's compliance based on our audit.

Except as discussed in the following paragraph, 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 Pass Christian'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 Pass Christian's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of City of Pass Christian with U.S. Department of Homeland Security – Public Assistance Grants (CFDA #97.036) regarding Reporting, Period of Availability and Cash Management, nor were we able to satisfy ourselves as to City of Pass Christian's compliance with those requirements by other auditing procedures.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding City of Pass Christian's compliance with the requirements of with U.S. Department of Homeland Security – Public Assistance Grants (CFDA #97.036) regarding Reporting, Period of Availability and Cash Management, City of Pass Christian complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item **09-02**.

Internal Control Over Compliance

Management of City of Pass Christian 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 Pass Christian'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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Pass Christian's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item **09-03**. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

City of Pass Christian's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. We did not audit City of Pass Christian's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Board of Alderman, others within the entity, State of Mississippi agencies, 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.

Wesley Ward White & Sons

CITY OF PASS CHRISTIAN
 Schedule of Findings and Questioned Costs
 For the year ended September 30, 2009

Section 1: Summary of Auditors' Results

Financial Statements:

1.	Type of auditors' report issued on the financial statements:	Unqualified
2.	Material noncompliance relating to financials statements?	No
3.	Internal control over financial reporting;	
	Material weakness(es) identified?	Yes
	Significant deficiency(ies) identified?	No

Federal Awards:

4.	Type of auditor's report issued on compliance for major programs:	Qualified
5.	Internal control over major programs:	
	Material weakness(es) identified?	No
	Significant deficiency(ies) identified?	Yes
6.	Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No

7. Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	U.S. Department of Housing and Urban Development/Community Development Block Grant
93.667	U.S. Department of Health and Human Services/Social Services Block Grant
97.036	U. S. Department of Homeland Security/Public Assistance Grants

8.	Dollar threshold used to distinguish between type A and type B programs:	\$ 327,000
9.	Auditee qualified as low-risk auditee?	No
10.	Prior fiscal year audit finding(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section 315(b) of OMB Circular A-133?	Yes

CITY OF PASS CHRISTIAN
Summary of Findings and Questionable Costs
For the year ended September 30, 2009

Section 2 – Financial Statements Findings

09-01 Internal Controls need Strengthening

Criteria: The City should design and maintain effective operation of internal controls.

Condition: The design and effective operation of internal controls is crucial to the effective operation of City government and for accurate financial reporting. The lack of central oversight has resulted in several reportable conditions that were noted in both the current and prior years.

Bank reconciliations – The City made several entries to the records subsequent to bank reconciliations being prepared. During our audit, we were unable to tie trail balance numbers to reconciled amounts and had to investigate discrepancies.

Checks written out of wrong funds – During our audit, we noted that multiple checks were written for expenditures that were coded and recorded in the wrong fund in the general ledger. These errors in coding resulted in improper reporting to federal agencies that maintain oversight of federal funds received by the City.

Interest allocation – Interest is being earned in several of the bank accounts including the city's main depository account which comprises of over 20 different funds. As interest is earned, it is being recorded in the general fund and not allocated throughout the funds based on cash balances of these funds. By not allocating interest earned several funds, including federal grants held in the city depository, are not showing proper ending cash balances and revenues.

Harbor – During our testing, we noted that several harbor accounts been delinquent for several months with no evidence of collection attempts or eviction procedures. We also noted that several accounts had large debit balances due to acceptance of monies in advance with no reconciling entry being reported for deferred revenue. Tracing deposits and rental receipts is difficult in that large amounts of deposits are held for several days. We recommend that receipts be deposited daily with backup supporting which berth rentals to which the berth rentals have been applied and payments in advance be reported and recorded as deferred revenue. Billing policies for each berth should be on a daily basis and forgiveness of days due to mid-month billing should be discontinued.

CITY OF PASS CHRISTIAN
Summary of Findings and Questionable Costs
For the year ended September 30, 2009

Section 2 – Financial Statements Findings – Continued

Context: The large number of adjusting journal entries proposed by external auditors highlight the potential for material misstatement of the City’s financial reports.

Cause: Rollover of comptroller and accounting personnel has caused an inconsistency in the manner of charging and recording expenses. Changes on the federal level of how construction charges were to be allocated against federal funding caused many funds to be over/under charged for capital expenditures.

Effect: These errors and weaknesses in internal control could result in errors going undetected until the annual audit and threaten the ability of elected officials to receive accurate and timely interim financial reports. Increasing focus on internal control can have the added benefit of changing controls from detective controls, which detect exceptions after they have occurred to preventive controls, which are designed to prevent errors or irregularities from occurring. By not allocating interest earned several funds are not showing proper ending cash balances.

Recommendation: We recommend that the City review its procedures for monitoring controls over recording transactions and its financial reporting. Those procedures should include review of financial information by appropriate management personnel to ensure its accuracy and completeness.

Section 3 – Major Federal Award Program Audit Findings

09-02 Reporting/Cash Management/Period of Availability of Federal Funds

14.218 U.S. Department of Housing and Urban Development – Community Development Block Grant

97.036 U.S. Department of Homeland Security – Federal Emergency Disaster Grant

Criteria: Federal guidelines require accurate and timely reporting.

Condition: During our audit, we observed that several federal grant documents had not been filed timely. There were also numerous adjustments that needed to be made to grant drawdown documents.

Context: We reviewed several grant drawdown worksheets during our audit that had misstatements in carryover amounts. Also, we noted numerous invoices that were to be processed for repayment that had not been timely processed.

CITY OF PASS CHRISTIAN
Summary of Findings and Questionable Costs
For the year ended September 30, 2009

Section 3 – Major Federal Award Program Audit Findings – Continued

Effect: City funds are being used to pay for expenditures in advance of federal reimbursement. Cash flows from federal grants are delayed when reporting is not timely and accurate. As of September 30, 2009 approximately \$5,431,000 of qualified obligated federal funds has been expended and not requested from the obligated federal agency. As of the date of this report, much of this amount has yet to be requested for reimbursement.

Cause: As a result of Hurricane Katrina, the City has experienced an extreme increase in federal grants and funding. During the fiscal year, a change in allocation was determined by the federal agencies funding capital projects which caused over/under expenditures in several federal funds. Reconciliation of these amounts must be performed before new expenditures can be requested for drawdown.

Recommendation: We recommend that the City financial personnel file accurate and timely federal grant documents. We also recommend that the financial personnel familiarize themselves with grant opportunities for advances on major construction projects. Reconciliation of prior drawdown requests and new drawdown requests should be performed as soon as feasibly possible.

09-03 Cash Management/Period of Availability of Federal Funds/Allowable Costs and Cost Principles

- 14.218 U.S. Department of Housing and Urban Development – Community Development Block Grant
- 97.036 U.S. Department of Homeland Security – Federal Emergency Disaster Grant

Criteria: The City should establish an appropriate fund system for accounting for federal awards and related capital expenditures.

Condition: During our audit, we noted that federal grant funds were not easily identifiable in the accounting system and charges against those grants were deducted from several inaccurate funds.

Context: Grant expenditures were not segregated from other fund expenditures or were recorded in error. The Municipal Audit and Accounting Guide recommends that financial personnel establish a clearly defined special revenue fund to account for federal funds and construction funds to account for large construction projects appropriately. We also noted that proprietary fund expenses that were approved by federal awards are being expended in the governmental type funds and reimbursements for these expenses in recognized as income in the governmental funds. As a result, numerous transfers between governmental and proprietary funds exist.

CITY OF PASS CHRISTIAN
Summary of Findings and Questionable Costs
For the year ended September 30, 2009

Section 3 – Major Federal Award Program Audit Findings – Continued

Cause: Familiarity with governmental accounting is essential to Mississippi municipal accounting personnel. The State requires that municipality books be kept on a cash basis with a predefined chart of accounts. Understanding the differences between governmental-type expenditures and proprietary-type expenses is also a necessity.

Effect: The co-mingling of federal funds with other general and other fund revenues and expenditures can cause errors in reporting to federal agencies. The recording of capital improvements that benefit the proprietary funds should be recorded appropriately in the proprietary funds not in a special revenue governmental-type fund.

Recommendation: We recommend that a separate special revenue fund be established for all federal funding and appropriate accounting for federal expenditures be reviewed for accuracy; that construction funds be established to track large construction projects; that approved expenditures for proprietary funds be recorded appropriately in the perspective funds; and, that accounting personnel be properly trained in the state requirements of governmental accounting.

CITY OF PASS CHRISTIAN
Summary of Prior Year Audit Findings
For the year ended September 30, 2009

As requested by Section _____.315 of OMB Circular A-133, the City of Pass Christian, Mississippi, has prepared the following summary schedule of prior audit findings.

08-03 This is a repeat finding. See finding 09-02.

08-04 This is a repeat finding. See finding 09-03.



City of Pass Christian

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Joseph Piernas, Alderman Ward 2
Anthony Hall, Alderman Ward 3
Huey Bang, Alderman Ward 4
Renee Brooks, Alderman-at-Large

Leo "Chipper" McDermott, Mayor

CORRECTIVE ACTION PLAN

February 14, 2011

The City of Pass Christian, Mississippi respectfully submits the following corrective action plan for the year ended September 30, 2009.

Accounting Firm:
Wright, Ward, Hatten and Guel

Audit Period:
Year ended September 30, 2009

09-01 Internal Controls – The City concurs with the recommendations of this finding. Specific controls that are being established are as follows:

Bank reconciliations – All bank reconciliations will be examined to ensure they match what is reflected in the accounting system.

Checks written out of wrong funds – Reconciliation of expenditures will be performed and adjustments made to appropriate funds for expenditures inaccurately reported.

Interest allocation – The City concurs with this recommendation and accounting personnel will review the bank statement for this year and future years to allocate interest earned to appropriate funds.

Harbor – The City concurs with this recommendation and management is setting up internal control procedures to be followed by harbor personnel.

09-02 Federal reporting – The City concurs with this recommendation and all efforts are being made to ensure that personnel that handle federal funds have the proper experience, training and oversight.

09-03 Fund system for accounting for federal awards – The City concurs with this recommendation and all efforts are being made to ensure that personnel that handle federal funds have the proper experience and training in governmental accounting and federal requirements.