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CITY OF BAY ST. LOUIS, MISSISSIPPI
ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

RECEIVED
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INTRODUCTORY SECTION

CITY OF BAY ST. LOUIS, MISSISSIPPI
LISTING OF CITY OFFICIALS
SEPTEMBER 30, 2011

ELECTED OFFICIALS

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

APPOINTED OFFICIALS

City Clerk	David Kolf
Police Chief	Mike Denardo
Fire Chief	Pam San Fillippo
City Attorney	Don Rafferty

INDEPENDENT AUDITOR'S REPORT

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

MICHAEL E. GUEL, CPA, CVA, PFS, CFP®
SANDE W. HENTGES, CPA, CFE
JENNIFER A. BELL, CPA, CFE
DEBORAH (DEE DEE) WOOD, CPA
LEAH HOLLAND, CPA
CHARLENE KERKOW, CPA

MEMBERS
AMERICAN INSTITUTE OF CPAS
MISSISSIPPI SOCIETY OF CPAS
TELEPHONE (228) 863-6501
FAX NUMBER (228) 863-6544
EMAIL: THECPAFIRM@AOL.COM

INDEPENDENT AUDITOR'S REPORT

October 9, 2012

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Bay St. Louis, Mississippi, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Bay St. Louis, Mississippi's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bay St. Louis, Mississippi, as of September 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2012, on our consideration of the City of Bay St. Louis, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 11 and 46 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an

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

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

The Surety Bond Schedule on page 50 is other supplemental information that is required by the Mississippi State Auditor's Office and is presented as other supplemental information that is not subject to auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Wright Ward Hatten & Guel

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF BAY ST. LOUIS, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Introduction

The following Management's Discussion and Analysis of the City of Bay Saint Louis ("the City") activities and financial performance provides an introduction to the financial statements of the City's for the fiscal year ended September 30, 2011. The information contained in this Management's Discussion and Analysis has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section.

The components of the annual financial report include:

- Management's Discussion and Analysis (MD&A)
- Basic Financial Statements
- Required Supplementary Information (RSI)

The MD&A, a component of RSI, introduces the basic financial statements and provides an analytical overview of the City's financial activities. This MD&A provides some comparisons with the previous year.

Financial Highlights

- The assets of the City exceeded its liabilities at September 30, 2011 by $120,020,724. Of this amount unrestricted net assets is $4,792,235.

- The total net assets increased by $13,385,911 which includes a prior period adjustment of ($2,007,710). Of this amount $10,272,048, was associated with governmental and $3,113,863 with business-type activities, respectively. This increase is almost all due to the ongoing Katrina capital recovery projects funded by FEMA and CDBG revenues.

- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $4,165,492, a decrease of $2,908,337 which includes a prior period adjustment of ($2,344,512).

- At the end of the current fiscal year, unassigned fund balance for the general fund was $654,138 or 5.6% of total general fund expenditures.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

Overview of the Financial Statements (Continued)

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

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

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

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

Fund Financial Statements

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

- Governmental funds

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

  In fiscal 2011, the City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, Disaster Recovery fund, and the CDBG Grant fund, which are considered major funds and the other governmental funds for the purpose of consistency.

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

Overview of the Financial Statements (Continued)

- Proprietary Fund

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

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

Notes to the Financial Statements

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

Other Information

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

General Fund Budgetary Highlights

During the fiscal year ended September 30, 2011, the City Council adopted amendments to the budget. As the impact of the sluggish economy continued, budgeted general fund revenues were decreased by $2,166,502. The property tax budget was reduced $202,902. Sales tax budgeted revenue was decreased by $72,519 due to smaller than anticipated sales tax receipts. The budget for intergovernmental revenues was decreased $2,176,213 due to accounting for these receipts in another fund. The budget for licenses and permits was decreased by approximately $85,600 due to a decrease in building permit revenues as new construction fell. Gaming budgeted revenues were decreased $38,975 due to the decrease in projected gaming revenue. Miscellaneous revenue increased due to the indirect cost fees from the Utility fund and non-governmental grant revenue budget increased due to the BP Oil Spill revenue that was received. To partially offset the decreased revenues, total budgeted expenditures were decreased by $470,987 mainly by reducing expenditures in general government, public safety and streets and public properties. Additionally, the budget for transfers out was decreased by $1,023,088 from the water and sewer fund.

Government-wide Financial Analysis

Table 1 below presents the City's condensed statement of net assets as of September 30, 2011 derived from the government-wide Statement of Net Assets.

	Governmental Activities		Business-type Activities		Total
	2011	2010	2011	2010	2011
Current and other assets	$ 7,622,838	$ 17,172,867	$ 1,343,810	$ 1,639,165	$ 8,966,648
Noncurrent assets	55,012,006	45,369,067	63,924,244	61,495,585	118,936,250
Total assets	62,634,844	62,541,934	65,268,054	63,134,750	127,902,898
Other liabilities	3,839,255	13,844,096	911,579	1,562,112	4,750,834
Long-term liabilities	1,341,243	1,515,540	1,790,097	2,120,123	3,131,340
Total liabilities	5,180,498	15,359,636	2,701,676	3,682,235	7,882,174
Net assets:					
Invested in capital assets, net of related debt	53,362,081	43,073,039	61,617,655	59,001,830	114,979,736
Restricted	248,753	6,758,766	-	-	248,753
Unrestricted	3,843,512	(2,649,507)	948,723	450,685	4,792,235
Total net assets	$ 57,454,346	$ 47,182,298	$ 62,566,378	$ 59,452,515	$ 120,020,724

At September 30, 2011, the City's assets exceeded liabilities by $120,020,724. By far the largest portion of the City's net assets (96%) reflects its investment in capital assets, less any related debt used to acquire or construct those assets. The unrestricted net assets of $4,792,235 can be used to finance government operations.

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

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

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

Table 2 presents the City's condensed statement of activities for the fiscal year ended September 30, 2011, as derived from the government-wide Statement of Activities.

Government-wide Financial Analysis (Continued)

	Governmental Activities		Business-Type Activities		Total
	2011	2010	2011	2010	2011
Revenues					
Program revenues					
Charges for services	$ 354,904	$ 447,217	$ 2,739,945	$ 3,186,783	$ 3,094,849
Operating grants	722,668	1,247,769	-	-	722,668
Capital grants	16,118,122	34,330,487	-	-	16,118,122
Total program revenues	17,195,694	36,025,473	2,739,945	3,186,783	19,935,639
General revenues					
Property taxes	1,922,632	1,661,030	-	-	1,922,632
Sales taxes	1,109,791	1,147,927	-	-	1,109,791
Franchise taxes	363,949	359,452	-	-	363,949
Gaming revenue	2,379,557	2,420,626	-	-	2,379,557
Interest earnings	9,470	9,876	419	518	9,889
Lease revenue	55,031	20,380	-	-	55,031
Other	530,144	565,244	-	-	530,144
Total general revenues	6,370,574	6,184,535	419	518	6,370,993
Total revenues	23,566,268	42,210,008	2,740,364	3,187,301	26,306,632
Program expenses					-
General government	2,057,782	2,878,647	-	-	2,057,782
Public safety	3,176,472	4,212,848	-	-	3,176,472
Public works	2,869,035	3,091,116	-	-	2,869,035
Culture and recreation	777,626	326,247	-	-	777,626
Interest	84,716	234,423	-	-	84,716
Water, sewer and gas	-	-	6,000,046	5,003,302	6,000,046
Total program expenses	8,965,631	10,743,281	6,000,046	5,003,302	14,965,677
Change before transfers	14,600,637	31,466,727	(3,259,682)	(1,816,001)	11,340,955
Transfers	(5,300,893)	(13,788,673)	5,300,893	13,788,673	-
Special item - SCDL loan forgiveness	3,316,816	-	735,850	-	4,052,666
Change in net assets	12,616,560	17,678,054	2,777,061	11,972,672	15,393,621
Beginning net assets, restated	44,837,786	29,504,244	59,789,317	47,479,843	104,627,103
Ending net assets	$ 57,454,346	$ 47,182,298	$ 62,566,378	$ 59,452,515	$ 120,020,724

Financial Analysis of the Government's Funds

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of $4,165,492 a decrease of ($2,908,337) in comparison with the prior year which includes a prior period adjustment of ($2,344,512). 16% percent or $654,138 of this combined fund balance is unassigned, while the remainder is reserved for capital projects, debt service and rebuilding efforts.

- General Fund

  The general fund is the chief operating fund of the City. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund balance expenditures. At the end of 2011, the general fund unassigned fund balance represents 5.6% percent of total general fund expenditures.

- Disaster Recovery Fund

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

- CDBG Grant Fund

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

Proprietary Fund

The Water, sewer and gas fund had an increase in total net assets of $3,113,863 at the end of the fiscal year in comparison with prior year which includes a prior period adjustment in the amount of $336,802. This increase is in capital assets, net of related debt from the completion of various phases of construction of the utility system that was destroyed by Hurricane Katrina.

Capital Asset and Long-Term Debt Activity

Capital Asset Activity

At September 30, 2011, the City reported $54,998,984 in net capital assets for governmental activities and $63,870,519 in capital assets for business-type activities. This represents a combined increase of $12,087,322 in capital assets during the 2011 fiscal year. Additional information on the City of Bay St. Louis's capital assets can be found in Note 5: Capital Assets on pages 32-33.

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

	Governmental Activities		Business-type Activities		Total
	2011	2010	2011	2010	2011
Land	$ 1,116,633	$ 1,116,633	$ -	$ -	$ 1,116,633
Buildings & Improvements	23,321,855	3,438,579	44,980	45,980	23,366,835
Machinery & Equipment	850,311	886,155	63,667	68,686	913,978
Infrastructure & Systems	15,980,986	10,394,984	63,736,839	60,426,615	79,717,825
Vehicles	688,433	1,017,524	10,393	18,809	698,826
Construction in progress	13,040,766	28,495,660	14,640	872,556	13,055,406
Total	$ 54,998,984	$ 45,349,535	$ 63,870,519	$ 61,432,646	$ 118,869,503

Long-Term Debt Activity

At the end of the current fiscal year, the City had $4,107,606 in outstanding debt. It should be noted that on January 11, 2011, the City of Bay Saint Louis was notified by the U.S. Department of Homeland Security regarding the cancellation of the Community Disaster Loans reported in the notes payable section below. The total amount of debt forgiveness amounts are $3,316,816 and $735,850 for the governmental and business activities, respectfully. Additional information on the City of Bay St. Louis's long-term debt can be found in Note 6: Long-Term Debt on pages 34-37 of this report.

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

	Governmental Activities		Business-type Activities		Total
	2011	2010	2011	2010	2011
Bonds Payable	$ 1,437,500	$ 2,276,496	$ -	$ -	$ 1,437,500
Revenue Bonds	-	-	2,116,805	2,430,815	2,116,805
Notes Payable	-	2,708,408	-	735,850	-
Capital Leases Payable	195,109	-	-	-	195,109
Compensated Absences	310,663	338,542	47,529	50,704	358,192
Total	$ 1,943,272	$ 5,323,446	$ 2,164,334	$ 3,217,369	$ 4,107,606

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

Contact the City's Financial Management

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

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

FINANCIAL SECTION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash	$ 2,001,098	$ 927,351	$ 2,928,449
Receivables, net	580,426	182,289	762,715
Due from other governments	4,398,072	-	4,398,072
Internal balances	182,429	(182,429)	-
Inventory	-	147,935	147,935
Prepaid insurance	212,060	-	212,060
Restricted assets:			
Cash	248,753	268,664	517,417
Total current assets	7,622,838	1,343,810	8,966,648
Noncurrent Assets			
Capital assets:			
Land and construction in progress	14,157,399	14,640	14,172,039
Other capital assets, net of accumulated depreciation	40,841,585	63,855,879	104,697,464
Bond issuance costs, net	13,022	53,725	66,747
Total noncurrent assets	55,012,006	63,924,244	118,936,250
Total assets	62,634,844	65,268,054	127,902,898
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses	1,371,734	132,619	1,504,353
Retainage payable	127,167	-	127,167
Accrued interest	4,294	136,059	140,353
Deferred revenues	1,734,031	-	1,734,031
Bonds payable	337,500	340,000	677,500
Capital leases payable	40,115	-	40,115
Compensated absences, current	224,414	34,237	258,651
Payable from restricted assets:			
Customer deposits	-	268,664	268,664
Total current liabilities	3,839,255	911,579	4,750,834
Noncurrent Liabilities			
Bonds payable, net of deferred loss on bond refunding	1,100,000	1,776,805	2,876,805
Capital leases payable	154,994	-	154,994
Compensated absences	86,249	13,292	99,541
Total long-term liabilities	1,341,243	1,790,097	3,131,340
Total liabilities	5,180,498	2,701,676	7,882,174
NET ASSETS			
Invested in capital assets, net of related debt	53,362,081	61,617,655	114,979,736
Restricted net assets	248,753	-	248,753
Unrestricted net assets	3,843,512	948,723	4,792,235
Total net assets	$ 57,454,346	$ 62,566,378	$ 120,020,724

The accompanying notes are an integral part of these financial statements

EXHIBIT B

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

		Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	$ 2,057,782	$ 195,051	$ 473,681	$ 2,367,318	$ 978,268	$ -	$ 978,268
Public safety	3,176,472	159,853	248,987	274,826	(2,492,806)	-	(2,492,806)
Streets and public properties	2,869,035	-		10,913,827	8,044,792	-	8,044,792
Culture and recreation	777,626	-	-	2,562,151	1,784,525	-	1,784,525
Interest	84,716	-	-	-	(84,716)	-	(84,716)
Total governmental activities	8,965,631	354,904	722,668	16,118,122	8,230,063	-	8,230,063
Business-type activities:							
Water, sewer and gas	6,000,046	2,739,945	-	-		(3,260,101)	(3,260,101)
Total business - type activities	6,000,046	2,739,945	-	-		(3,260,101)	(3,260,101)
Total	$ 14,965,677	$ 3,094,849	$ 722,668	$ 16,118,122	8,230,063	(3,260,101)	4,969,962
General revenues:							
Property taxes					1,922,632	-	1,922,632
Sales taxes					1,109,791	-	1,109,791
Franchise taxes					363,949	-	363,949
Gaming revenue					2,379,557	-	2,379,557
Interest earnings					9,470	419	9,889
Donations					62,049	-	62,049
Lease revenues					55,031	-	55,031
Other revenue					468,095	-	468,095
Special Item - Small Community Disaster Loan Forgiveness					3,316,816	735,850	4,052,666
Transfers					(5,300,893)	5,300,893	-
Total general revenues, special item, and transfers					4,386,497	6,037,162	10,423,659
Total change in net assets					12,616,560	2,777,061	15,393,621
Net assets - beginning of year, restated					44,837,786	59,789,317	104,627,103
Net assets - end of year					$ 57,454,346	$ 62,566,378	$ 120,020,724

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

FUND LEVEL FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

EXHIBIT C

CITY OF BAY ST. LOUIS, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2011

	General Fund	Disaster Recovery Fund	CDBG Grant Fund	Other Governmental Funds	Total
Assets					
Cash	$ 795,856	$ 955,198	$ -	$ 250,043	$ 2,001,097
Receivables:					
Sales taxes	173,050	-	-	-	173,050
Franchise taxes	103,268	-	-	-	103,268
Gaming receivable	153,502	-	-	-	153,502
Property tax	25,359	-	-	-	25,359
Court revenue	119,249	-	-	-	119,249
Other	5,998	-	-	-	5,998
Due from other governments	264,778	3,056,646	1,076,648	-	4,398,072
Due from other funds	124,972	386,864	116,472	57,457	685,765
Prepaid expenditures	212,060	-	-	-	212,060
Restricted assets:					
Cash	161,785	-	-	86,969	248,754
Total assets	$ 2,139,877	$ 4,398,708	$ 1,193,120	$ 394,469	$ 8,126,174
Liabilities and Fund Balance					
Liabilities					
Accounts payable	$ 344,170	$ 129,352	$ 882,412	$ -	$ 1,355,934
Rental Deposits	15,800	-	-	-	15,800
Retainage payable	-	5,987	121,180	-	127,167
Compensated absences	224,414	-	-	-	224,414
Due to other funds	503,336	-	-	-	503,336
Deferred revenues	-	1,734,031	-	-	1,734,031
Total liabilities	1,087,720	1,869,370	1,003,592	-	3,960,682
Fund Balances					
Nonspendable	212,060	-	-	-	212,060
Restricted	161,785	2,529,338	189,528	144,426	3,025,077
Committed	24,174	-	-	250,043	274,217
Unassigned	654,138	-	-	-	654,138
Total fund balance	1,052,157	2,529,338	189,528	394,469	4,165,492
Total liabilities and fund balance	$ 2,139,877	$ 4,398,708	$ 1,193,120	$ 394,469	$ 8,126,174

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

CITY OF BAY ST. LOUIS, MISSISSIPPI
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

Total governmental funds balance (Exhibit C)		$	4,165,492
Amounts reported for governmental activities in the statement of net assets are different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Governmental capital assets	63,301,384		
Less: accumulated depreciation	8,302,400		54,998,984
Long-term liabilities are not due and payable in the current period expenditures and therefore are not reported in the governmental funds.			(1,632,609)
Compensated absences are not due and payable in the current period expenditures and therefore are not reported in the governmetnal funds.			(86,249)
Accrued interest not due and payable in the current period expenditures and, therefore, not reported in the funds.			(4,294)
Governmental funds report the effect of issuance costs, discounts, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.			13,022
Net assets of governmental activities (Exhibit A)		$	57,454,346

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

EXHIBIT D

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	General Fund	Disaster Recovery Fund	CDBG Grant Fund	Other Governmental Funds	Total
Revenues					
Taxes:					
Property	$ 1,922,632	$ -	$ -	$ -	$ 1,922,632
Sales	1,109,791	-	-	-	1,109,791
Franchise	363,949	-	-	-	363,949
Licenses and permits	207,789	-	-	-	207,789
Intergovernmental	499,717	6,794,563	9,368,372	-	16,662,652
Non - governmental grant revenue	115,197	-	-	-	115,197
Fines and forfeits	159,853	-	-	-	159,853
Interest	2,574	6,121	-	775	9,470
Lease revenue	55,031	-	-	-	55,031
Gaming revenue	2,379,557	-	-	-	2,379,557
Donations	62,049	-	-	-	62,049
Miscellaneous	518,298	-	-	-	518,298
Total revenues	7,396,437	6,800,684	9,368,372	775	23,566,268
Expenditures					
Current:					
General government	1,979,127	104,629	2,287,460	-	4,371,216
Public safety	3,440,450	9,591	273,553	-	3,723,594
Streets and public properties	2,606,079	715,621	4,324,712	-	7,646,412
Culture and recreation	383,483	173,072	2,417,738	-	2,974,293
Debt service:					
Principal	3,333,148	-	-	847,500	4,180,648
Interest	2,792	-	-	66,910	69,702
Total expenditures	11,745,079	1,002,913	9,303,463	914,410	22,965,865
Excess (deficiency) of revenues over expenditures	(4,348,642)	5,797,771	64,909	(913,635)	600,403
Other financing sources:					
Loan proceeds	819,849	-	-	-	819,849
Loan forgiveness	3,316,816	-	-	-	3,316,816
Transfers in	1,634,352	-	320,048	334,175	2,288,575
Transfers out	(654,223)	(6,715,673)	(219,572)	-	(7,589,468)
Total other financing sources	5,116,794	(6,715,673)	100,476	334,175	(1,164,228)
Net change in fund balance	768,152	(917,902)	165,385	(579,460)	(563,825)
Fund balance - October 1	713,675	5,362,082	24,143	973,929	7,073,829
Prior period adjustment	(429,670)	(1,914,842)	-	-	(2,344,512)
Fund balance - October 1, restated	284,005	3,447,240	24,143	973,929	4,729,317
Fund balance - September 30	$ 1,052,157	$ 2,529,338	$ 189,528	$ 394,469	$ 4,165,492

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

CITY OF BAY ST. LOUIS, MISSISSIPPI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Net change in fund balances - total governmental funds (Exhibit D)		$ (563,825)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report outlays for capital assets as expenditures. In contrast, the statement of activities, the cost of those assets is allocated over the useful lives and reported as deprecition expense.		
Capital outlay	11,082,122	
Depreciation	(1,402,567)	9,679,555
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. However, the statement of activities reports only the gain or loss from the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.		(30,106)
The issuance of long-term debt provides current financial resources, while the repayment of principal on long-term debt consumes the current financial resources of governmental funds.		3,360,799
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.		
Compensated absences	295	
Accrued interest	184,856	
Bond amortization	(15,014)	170,137
Change in net assets of governmental activities (Exhibit B)		$ 12,616,560

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

PROPRIETARY FUND FINANCIAL STATEMENTS

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2011

	Utility Fund
ASSETS	
Current Assets	
Cash	$ 927,351
Accounts receivable, net	182,289
Inventory	147,935
Total unrestricted current assets	1,257,575
Current Restricted Assets	
Cash	268,664
Total restricted assets	268,664
Noncurrent Assets	
Buildings	118,603
Machinery and equipment	430,739
Vehicles	103,951
Water and Sewer system	74,848,694
Construction in process	14,640
	75,516,627
Less: accumulated depreciation	11,646,108
Net property, plant and equipment	63,870,519
Noncurrent Other Assets	
Bond Issuance costs, net	53,725
Total noncurrent other assets	53,725
Total assets	65,450,483
LIABILITIES	
Current Liabilities	
Accounts payable and accrued expenses	132,619
Accrued interest	136,059
Compensated absences	34,237
Due to other funds	182,429
Bonds payable	340,000
Customer deposits	268,664
Total current liabilities	1,094,008
Noncurrent Liabilities	
Bonds payable	1,776,805
Compensated absenees	13,292
Total noncurrent liabilities	1,790,097
Total liabilities	2,884,105
NET ASSETS	
Invested in capital assets, net of related debt	61,617,655
Unrestricted	948,723
Total net assets	$ 62,566,378

The accompanying notes are an integral part of these financial statements

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Utility Fund
Operating Revenues	
Charges for services	$ 2,739,945
Total operating revenues	2,739,945
Operating Expenses	
Salaries and related expenses	780,127
Natural gas purchase	344,890
Garbage	441,637
Wastewater treatment	376,655
Supplies	166,917
Repairs and maintenance	6,086
Other services and charges	536,326
Depreciation expense	2,712,511
Amortization expense	20,204
Total operating expenses	5,385,353
Operating Income	(2,645,408)
Non-Operating Revenues (Expenses)	
Interest earnings	419
Other Revenue-SCDL loan forgiveness	735,850
Interest expense	(124,894)
Loss on asset disposal	(489,799)
Total non-operating revenue (expenses)	121,576
Transfers in	5,300,893
Change in Net Assets	2,777,061
Net assets beginning of year, restated	59,789,317
Net assets end of year	$ 62,566,378

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

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Utility Fund
Cash Flows from Operating Activities	
Receipts from customers	$ 3,048,380
Payments to employees	(783,302)
Payments to suppliers	(466,026)
Payments for contractual services	(693,319)
Payments for other goods and services	(542,412)
Net cash provided by operating activities	563,321
Cash Flows From Financing Activities	
Principal payments on debt	(325,000)
Interest expense	(102,515)
Transfers in	5,300,893
Net cash provided by financing activities	4,873,378
Cash Flows From Investing Activities	
Interest received	419
Acqusition of capital assets	(5,303,382)
Net cash (used) by investing activities	(5,302,963)
Net increase in cash	133,736
Cash	
Beginning of year	1,062,279
End of year	$ 1,196,015
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income (loss)	$ (2,645,408)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	2,712,511
Amoritization expense	20,204
(Increase) decrease in current assets:	
Accounts receivable	293,912
Inventory	10,208
Increase (decrease) in current liabilities:	
Accounts payable	35,573
Due from other funds	124,973
Compensated absences	(3,175)
Customer deposits	14,523
Net cash (used) by operating activities	$ 563,321

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

	Utility Fund		
	Current Assets	Current Restricted Assets	Total
Cash - October 1	$ 808,138	$ 254,141	$ 1,062,279
Net increase/(decrease)	119,213	14,523	133,736
Cash - September 30	$ 927,351	$ 268,664	$ 1,196,015

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

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

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2011.

B. Financial Reporting Entity

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

C. Basis of Presentation

Government–wide Financial Statements

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements –

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

Governmental Funds –

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

General Fund

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

Disaster Recovery Fund

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

CDBG Grant Fund

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

Proprietary Funds – Business-type activities

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

Water, Sewer and Gas Fund

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

D. Measurement Focus/Basis of Accounting

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

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

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

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Use of Estimates

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

F. Cash and Investments

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

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

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

G. Receivables and Payables

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Inventory

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

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2011, are recorded as prepaid items.

J. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws. Restricted assets in the governmental fund represent unspent bond proceeds, amounts restricted per bond covenants, and amounts restricted by grantors and contributors. Restricted assets in the enterprise fund represent utility customer deposits subject to refund. When both restricted and non-restricted assets are available for use, the policy is to use restricted assets first.

K. Capital Assets

Capital assets, which include property, plant, equipment, and current infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), net of depreciation, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

L. Long-Term Obligations

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

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

M. Compensated Absences

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

The compensated absences liability was computed using the specific identification method whereby the actual number of vacation hours is multiplied by the employee's hourly rate at September 30, 2011. The resulting liability is then increased to include social security and retirement contributions that the City is required to pay upon liquidation of the liability.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Equity

In the fund financial statements, the governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose or other board designations. Refer to Note 9 for more detail on fund balance presentation.

O. Net Assets

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

P. Intergovernmental Revenues in Governmental Funds

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

Q. Post- Employment Health Care Benefits

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

NOTE 2: CASH AND INVESTMENTS

Cash – A summary of cash as of September 30, 2011, is as follows:

	Cash on Hand	Checking and Savings Accounts	Total
Governmental Activities			
General Fund	$ 2,795	$ 954,846	$ 957,641
Disaster Recovery Fund	-	955,198	955,198
Other Governmental Funds	-	337,012	337,012
Business-type Activities			
Utility Fund	100	1,195,915	1,196,015
Total cash	$ 2,895	$ 3,442,971	$ 3,445,866

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

Under this program, the City's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation. By using this multiple financial institution collateral pool, all of the City's deposits at September 30, 2011 are covered by FDIC insurance or by collateral. The City's deposits are not subject to custodial credit risk.

At September 30, 2011, deposits (including restricted deposits) are as follows:

	Bank Balance	Carrying Amount
Cash	$5,763,626	$3,442,970

NOTE 2: CASH AND INVESTMENTS (Continued)

The City maintained the following restricted cash as of September 30, 2011:

Governmental Activities:		
Cash		
Restricted for capital projects - 2003 bond proceeds	$	140,924
Restricted for unemployment claims		20,861
Restricted for debt service reserves		86,969
Total restricted cash governmental activities		248,754
Business-type Activities		
Cash		
Restricted for customer utility deposits		268.664
Total restricted cash government-wide	$	517.418

NOTE 3: REVENUE AND RECEIVABLES

Receivables at September 30, 2011 consist of the following:

	Governmental Activities	Business-type Activities	Total
Sales tax	$ 173,050	$ -	$ 173,050
Franchise taxes	103,268	-	103,268
Gaming	153,502	-	153,502
Property tax	25,359	-	25,359
Court revenue	476,996	-	476,996
Accounts	-	1,459,416	1,459,416
Other	5,998	-	5,998
Total receivables	938,173	1,459,416	2,397,589
Less: allowance for doubtful receivables	(357,747)	(1,277,127)	(1,634,874)
Total receivables, net	$ 580,426	$ 182,289	$ 762,715

(A) Property Taxes

The City levies a tax on real and personal property based on the assessed value of property as compiled by the Hancock County (County) tax assessor from information extracted from the County assessment tax rolls. The taxes on real property attach as an enforceable lien on the property as of January 1 and personal property taxes become a lien on March 1.

NOTE 3: REVENUE AND RECEIVABLES (Continued)

Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase. Taxes on real and personal property are levied by the City Council at the first regular meeting in September.

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

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

The rates are expressed in terms of mills (i.e., ten mills equal one cent). The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt and other purposes for the year ended September 30, 2011, was 17.75 mills or $17.75 per $1,000 of assessed valuation. A summary of the assessed valuations and tax levies of the City for the year ended September 30, 2011 are as follows:

Real property	$	99,392,157
Personal property		6,383,260
Public utilities		3,802,459
Automobiles		12,444,551
Mobile homes		86,487
Total	$	122,108,914

The tax levies for the City were 14.60 mills for the General Fund, .95 mills for the 2010 Bond, and 2.20 mills for the Library for a total of 17.75 mills for the year ending September 30, 2011.

(B) Sales Taxes

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City) back to the City monthly. Sales tax revenue reported in the general fund was $1,109,791 a 3.3% decrease from the prior year. Sales tax receivable consists of taxes collected in August and September 2011but not received by the City until October and November 2011.

NOTE 3: REVENUE AND RECEIVABLES (Continued)

(C) Gaming

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

Gross Revenue Gaming Tax and Gaming Device Tax

The gross revenue gaming tax is imposed and collected by the State of Mississippi similar to sales tax and remitted to the City.

The gaming device tax is similar to a personal property tax and is assessed on all gaming devices maintained by casinos within the City's corporate limits. The tax is also collected by the State. The amount of tax recognized as gaming revenue for September 30, 2011 is $117,429 and the amount of gaming device tax is $124,800, respectively. These revenues are included in gaming revenue on the Statement of Activities.

Boarding Fees

The City is permitted by law to collect a boarding fee from casinos within its corporate limits. Accordingly, the City has negotiated a contractual amount to be paid directly to the City on a monthly basis and is based on gross revenues. The City collected $2,137,328 in boarding fees for the year ended September 30, 2011; this is a decrease of 1.8% in comparison with the prior year. This amount is included in gaming revenue.

NOTE 4: DUE FROM OTHER GOVERNMENTS

Due from other governments consist of the following as of September 30, 2011:

	Governmental Activities
Due from the State of Mississippi	$ 183,664
Due from Hancock County	81,114
Due from FEMA	3,056,646
Due from CDBG	1,076,648
Total receivables, net	$ 4,398,072

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011 is as follows:

	Balance October 1, 2010	Additions	Sales/Transfers Adjustments	Balance September 30, 2011
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 1,116,633	$ -	$ -	$ 1,116,633
Construction in progress	28,495,660	10,796,477	(26,251,371)	13,040,766
Total capital assets not being depreciated	29,612,293	10,796,477	(26,251,371)	14,157,399
Capital assets being depreciated:				
Buildings	4,005,011	35,005	19,962,235	24,002,251
Machinery and equipment	1,798,390	250,640	-	2,049,030
Improvements/ Infrastructure	14,152,794	-	6,280,408	20,433,202
Vehicles	2,873,281	-	(213,779)	2,659,502
Total capital assets being depreciated	22,829,476	285,645	26,028,864	49,143,985
Less accumulated depreciation:				
Buildings	(566,432)	(113,964)	-	(680,396)
Machinery and equipment	(912,235)	(286,484)	-	(1,198,719)
Improvements/ Infrastructure	(3,757,810)	(694,406)	-	(4,452,216)
Vehicles	(1,855,757)	(307,713)	192,401	(1,971,069)
Total accumulated depreciation	(7,092,234)	(1,402,567)	192,401	(8,302,400)
Total capital assets being depreciated, net	15,737,242	(1,116,922)	26,221,265	40,841,585
Governmental activities capital assets, net	$ 45,349,535	$ 9,679,555	$ (30,106)	$ 54,998,984

NOTE 5: CAPITAL ASSETS (Continued)

	Balance October 1, 2010	Additions	Sales/Transfers Adjustments	Balance September 30, 2011
Business - type activities:				
Capital assets not being depreciated:				
Construction in progress	$ 872,556	$ 5,303,382	$ (6,161,298)	$ 14,640
Total capital assets not being depreciated	872,556	5,303,382	(6,161,298)	14,640
Capital assets being depreciated:				
Buildings	118,603	-	-	118,603
Machinery and equipment	430,739	-	-	430,739
Water, sewer and gas system	70,757,520	-	4,091,174	74,848,694
Vehicles	188,087	-	(84,136)	103,951
Total capital assets being depreciated	71,494,949	-	4,007,038	75,501,987
Less accumulated depreciation:				
Buildings	(72,623)	(1,000)	-	(73,623)
Machinery and equipment	(362,053)	(5,019)	-	(367,072)
Water, sewer and gas system	(10,330,905)	(2,706,492)	1,925,542	(11,111,855)
Vehicles	(169,278)	-	75,720	(93,558)
Total accumulated depreciation	(10,934,859)	(2,712,511)	2,001,262	(11,646,108)
Total capital assets being depreciated, net	60,560,090	(2,712,511)	6,008,300	63,855,879
Business -type activities capital assets, net	$ 61,432,646	$ 2,590,871	$ (152,998)	$ 63,870,519

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	$ 219,547
Public safety	329,914
Streets and public properties	806,038
Culture and recreation	47,068
Total governmental activities depreciation	$ 1,402,567
Business-type Activities	
Water, sewer and gas	$ 2,712,511

NOTE 6: LONG-TERM DEBT

Changes in outstanding debt during the year ended September 30, 2011 are as follows:

Governmental Activities	Payable at October 1	Additions	Principal Reductions	Payable at September 30	Principal Due in One Year
Bonds payable	$ 2,285,000	$ -	$ 847,500	$ 1,437,500	$ 337,500
Notes payable	2,708,408	608,408	3,316,816	-	-
Capital leases payable	-	211,441	16,332	195,109	40,115
Compensated absences payable	338,542	-	27,879	310,663	224,414
	5,331,950	819,849	4,208,527	1,943,272	602,029
Less deferred loss on bond refinancing	(8,504)	-	8,504	-	-
Total governmental activities	5,323,446	819,849	4,217,031	1,943,272	602,029
Business-type Activities					
Bonds payable	2,505,000	-	325,000	2,180,000	340,000
Note payable	735,850	-	735,850	-	-
Compensated absences	50,704	-	3,175	47,529	34,237
	3,291,554	-	1,064,025	2,227,529	374,237
Less deferred loss on bond refinancing	(74,185)	-	10,990	(63,195)	-
Total business type activities	3,217,369	-	1,075,015	2,164,334	374,237
Total government - wide	$ 8,540,815	$ 819,849	$ 5,292,046	$ 4,107,606	$ 976,266

NOTE 6: LONG-TERM DEBT (Continued)

(A) Bonds Payable

At September 30, 2011, the City's outstanding bonds payable are described as follows:

	Date of Issue	Final Maturity Date	Rates	Original Issue	Balance September 30
Governmental Activities:					
GO Bond, Series 2003	8/27/2003	8/1/2013	1.0% -3.9%	$ 2,000,000	$ 470,000
GO Katrina Loan Refinancing Bond, Series 2010	7/20/2010	3/1/2020	2.47%	1,075,000	967,500
				3,075,000	1,437,500
Less deferred loss on bond refunding				(63,781)	-
Total governmental activities				$ 3,011,219	$ 1,437,500
Business-type Activities:					
GO Water, Sewer, and Gas System Refunding Bonds, Series 2005	4/26/2005	7/1/2017	3.0% - 4.3%	$ 4,290,000	$ 2,180,000
Less deferred loss on bond refunding				(133,716)	(63,195)
Total business-type activities				4,156,284	2,116,805
Total bonds payable at year end				$ 7,167,503	$ 3,554,305

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

Year Ending September 30,	Governmental Activities		Business-type Activities		Total Requirements
	Principal	Interest	Principal	Interest	
2012	$ 337,500	$ 36,382	$ 340,000	$ 89,515	$ 803,397
2013	347,500	27,115	355,000	75,915	805,530
2014	107,500	17,259	365,000	61,715	551,474
2015	107,500	14,604	380,000	47,115	549,219
2016	107,500	11,949	380,000	31,440	530,889
2017-2020	430,000	21,242	360,000	15,480	826,722
Total	$ 1,437,500	$ 128,551	$ 2,180,000	$ 321,180	$ 4,067,231

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

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

NOTE 6: LONG-TERM DEBT (Continued)

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

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

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

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

(B) Notes Payable

On January 20, 2006, the City borrowed $2,394,258 from the U. S. Department of Homeland Security (FEMA) under the Community Disaster Loan program. On August 28, 2008, the City borrowed an additional $1,050,000 to help with general operations of the City. The City was allowed to draw the remaining amount of $608,408 during the fiscal year.

In January 2011, the U.S. Department of Homeland Security Federal Emergency Management Agency granted the City full cancellation of the Special Community Disaster Loans (SCDL). The total loan amount forgiven under Section 417(c) (1) of the Stafford Act (42 U.S.C. 5184) was $4,052,666 which is $3,316,816 in Governmental Activities and $735,850 in Business-type Activities.

(C) Capital Leases Payable

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

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

NOTE 6: LONG-TERM DEBT (Continued)

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

Year ending September 30:

	2012	$ 45,897
	2013	45,897
	2014	45,897
	2015	45,897
	2016	26,773
Total minimum lease payments		210,361
Less amount representing interest		(15,252)
Present value of minimum lease payments		$ 195,109

(D) Legal Debt Margin

The City's legal debt limit for general obligation bonds is $18,316,337, of which approximately $16,850,000 is available to the City for further borrowing.

NOTE 7: INTER-FUND TRANSACTIONS

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

(A) Inter-fund Receivables and Payables

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

NOTE 7: INTER-FUND TRANSACTIONS (Continued)

Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Inter-fund receivables and payables consisted of the following as of September 30, 2011:

	Due From				
Due To	General Fund	Disaster Fund	CDBG Grant Fund	Other Governmental Funds	Total
General Fund	$ -	$ 386,864	$ 116,472	$ -	$ 503,336
Utility Fund	124,972	-	-	57,457	182,429
Total	$ 124,972	$ 386,864	$ 116,472	$ 57,457	$ 685,765

(B) Inter-fund Transfers

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

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

Only transfers between the two columns appear in this statement. Inter-fund transfers consisted of the following as of September 30, 2011:

	Transfers In				
Transfers Out	General Fund	CDBG Grant Fund	Other Governmental Funds	Utility Fund	Total
General Fund	$ -	$ 320,048	$ 334,175	$ -	$ 654,223
Disaster Recovery Fund	1,634,352	-	-	5,081,321	6,715,673
CDBG Grant Fund	-	-	-	219,572	219,572
Total	$ 1,634,352	$ 320,048	$ 334,175	$ 5,300,893	$ 7,589,468

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

NOTE 8: FUND BALANCES & RESTRICED NET ASSETS

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

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

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

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

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

Unassigned—All amounts not included in other spendable classifications.

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

General Fund

The General Fund has Unassigned Fund Balance of $654,138 at September 30, 2011. Prepaid expenditures of $212,060 are considered Nonspendable Fund Balance, $24,174 is considered Committed Fund Balance for recreational purposes and $161,785 is restricted for the 2003 Bond Fund and unemployment purposes.

Other Funds

The amounts restricted in the Disaster Recovery Fund and the CDBG Grant Fund is considered Restricted Fund Balance for grantor funded disaster recovery and rebuilding efforts after Hurricane Katrina.

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

Municipal Reserve Fund	$250,043

The following summarizes restricted net assets on the Statement of Net Assets at September 30, 2011:

2003 Bond Fund	$ 140,924
Unemployment Compensation	20,861
Debt Service	86,968
	$ 248,753

NOTE 9: JOINT VENTURES

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

Hancock County Solid Waste Authority

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

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

During the year ended September 30, 2011, the City paid a total of $441,637 for solid waste services, included in the business-type activities expenses in the statement of activities. The City pays $6.45 per residential solid waste pickup. The City is jointly and severally liable for all of the liabilities of the Authority.

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

The following is synopsis of the Authority's financial statements as of and for the year ended June 30, 2011.

STATEMENT OF NET ASSETS

ASSETS		
Current assets	$	1,527,402
LIABILITIES		
Current and other liabilities		169,734
NET ASSETS		
Unrestricted	$	1,357,668

CHANGES IN NET ASSETS

Operating revenues	$	2,165,710
Operating expenses		(2,017,566)
Non-operating revenues (expenses)		18,095
Increase in net assets	$	166,239

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

NOTE 9: JOINT VENTURES (Continued)

Hancock County Utility Authority

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

The costs associated with the contract total $376,655, for the year ended September 30, 2011, and have been included in the business-type activities expenses in the statement of activities. A fee has been added to rates charged by the Utility System as an assessment for the Wastewater District.

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

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

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

At the time of issuance of this financial report, the Authority's financial statements for the fiscal year end 2011 are not complete. The following is a synopsis of the Authority's financial statements as of and for the year ended September 30, 2010:

NOTE 9: JOINT VENTURES (Continued)

STATEMENT OF NET ASSETS

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

CHANGES IN NET ASSETS

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

NOTE 10: RETIREMENT PLANS

(A) Public Employees' Retirement System

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

Plan description and provisions

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

NOTE 10: RETIREMENT PLANS (Continued)

Description of Funding Policy

PERS members are required to contribute 9.0% of their annual covered salary. The City is required to contribute an actuarially determined rate of annual payroll which is 12.0% for the year 2011. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City's contributions to PERS for the years ended September 30, 2011, 2010 and 2009 were $540,441, $594,447, and $515,687, respectively equal to the required contributions for the year.

(B) Deferred Compensation Plan

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

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

NOTE 11: COMMITMENTS AND CONTINGENCIES

(A) Litigation

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

(B) Grants and Awards

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

NOTE 11: COMMITMENTS AND CONTINGENCIES (Continued)

(C) Contract Commitments

The City had the following contract commitments with respect to unfinished capital projects as of September 30, 2011, which will be paid from existing grants:

Governmental Activity	Project Budget	Money Spent to Date	Remaining Commitment
PW 0641 Fishing Pier	$ 2,462,176	$ 78,502	$ 2,383,674
PW 5700 Roads & Sidewalks	3,138,621	916,203	2,222,418
PW 6148 McDonald Park	185,403	54,741	130,662
CDBG New City Hall Improvements	1,036,999	1,008,308	28,691
CDBG Waterfront Improvements	8,392,500	4,619,327	3,773,173
CDBG Longfellow Drive	2,979,077	2,945,256	33,821
CDBG Washington Street	2,981,470	2,973,386	8,084
CDBG Pier & Harbor	15,853,276	445,042	15,408,234
Total Governmental Activity	$ 37,029,522	$ 13,040,765	$ 23,988,757
Business - Type Activity			
PW 5782 Lift Station #1	$ 567,425	$ 14,640	$ 552,785
Total Business-Type Activity	$ 567,425	$ 14,640	$ 552,785

NOTE 12: RISK MANAGEMENT

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

(A) Self-Insurance -- Workers Compensation Fund

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

NOTE 12: RISK MANAGEMENT (Continued)

(B) Self-Insurance Liability Fund

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

NOTE 13: PRIOR PERIOD ADJUSTMENT

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

	Exhibit B	Exhibit D	Exhibit F
Correct prior grants receivable	$ (2,344,512)	$ (2,344,512)	$ -
Correct construction in progress	336,802	-	336,802
Total adjustments	(2,007,710)	(2,344,512)	336,802
Beginning net assets/ fund balance	106,634,813	7,073,829	59,452,515
Beginning net assets/ fund balance, restated	$ 104,627,103	$ 4,729,317	$ 59,789,317

NOTE 14: SUBSEQUENT EVENTS

Subsequent to September 30, 2011, the City has amended construction contracts by change orders increasing total construction by approximately $2,304,112. These construction contracts are funded from proceeds of FEMA and CDBG grants.

The City has accepted two grants in the amount of $350,000.

The City entered into a five year equipment lease with First Capital Equipment Leasing for five police vehicles.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE I

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (with Budget to GAAP Differences)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Taxes:				
Property	$ 1,898,100	$ 1,695,198	$ 1,695,198	-
Sales	1,200,000	1,127,481	1,127,481	-
Franchise	298,000	367,394	367,394	-
Licenses and permits	268,500	182,900	182,900	-
Intergovernmental	5,595,060	3,418,847	3,418,847	-
Non-governmental grant revenue	-	10,974	10,974	-
Charges for services	40,000	45,960	45,960	-
Fines and forfeits	143,000	145,500	146,268	768
Interest	500	2,574	2,574	-
Lease revenue	71,500	55,031	55,031	-
Gaming revenues	2,440,000	2,401,025	2,401,025	-
Miscellaneous	245,000	580,274	580,274	-
Total revenues	12,199,660	10,033,158	10,033,926	768
EXPENDITURES				
General government	2,602,725	2,402,067	2,403,978	(1,911)
Public Safety	4,152,641	3,774,449	3,774,449	-
Streets and public properties	2,402,823	2,548,793	2,548,793	-
Culture and Recreation	436,661	398,554	398,554	-
Total general government	9,594,850	9,123,863	9,125,774	(1,911)
Excess (deficiency) of revenues over expenditures	2,604,810	909,295	908,152	(1,143)
OTHER FINANCING SOURCES (USES)				
Loan & Bond Proceeds	-	711,736	711,736	-
Transfers out	(1,357,263)	(334,175)	(334,175)	-
Total other financing sources	(1,357,263)	377,561	377,561	-
Excess of revenues and other sources over expenditures	1,247,547	1,286,856	1,285,713	$ (1,143)
Fund balance - beginning	1,068,596	1,068,596		
Fund balance - ending	$ 2,316,143	$ 2,355,452		
Fund balance - October 1 - GAAP basis, restated			284,005	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year			(2,637,488)	
Changes in receivables			(2,619,305)	
Change in accrued expenses			(320,049)	
Change in transfers out			1,634,352	
Change in transfers in			108,113	
Change from loan proceeds			3,316,816	
Change in loan forgiveness				
Fund balance - September 30 - GAAP basis			$ 1,052,157	

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (with Budget to GAAP Differences)
DISASTER RECOVERY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Intergovernmental	$ 3,181,576	$ 4,415,592	$ 4,415,592	$ -
Interest	-	6,121	6,121	-
Total revenues	3,181,576	4,421,713	4,421,713	-
EXPENDITURES				
General government	342,536	94,181	94,181	-
Public safety	-	-	171,751	(171,751)
Streets and public properties	415,698	385,330	385,330	-
Culture and Recreation	1,936,104	494,859	494,859	-
Total general government	2,694,338	974,370	1,146,121	(171,751)
Excess of revenues and other sources over expenditues	$ 487,238	$ 3,447,343	3,275,592	$ (171,751)
Fund balance - October 1 - GAAP basis, restated			3,447,240	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year				
Change in due from other governments			2,378,971	
Change in accrued expenses			143,208	
Change in transfers out			(6,715,673)	
Fund balance - September 30 - GAAP basis			$ 2,529,338	

CITY OF BAY ST. LOUIS, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (with Budget to GAAP Differences)
CDBG GRANT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Intergovernmental	$ 20,142,589	$ 11,891,904	$ 31,482,849	$ 19,590,945
Total revenues	20,142,589	11,891,904	31,482,849	19,590,945
EXPENDITURES				
General government	2,518,173	1,121,640	2,125,655	(1,004,015)
Public Safety	375,591	262,581	2,634,070	(2,371,489)
Streets and public properties	6,178,162	4,873,901	8,799,242	(3,925,341)
Culture and Recreation	11,070,663	5,036,885	15,822,105	(10,785,220)
Total general government	20,142,589	11,295,007	29,381,072	(18,086,065)
Excess of revenues and other sources over expenditures	$ -	$ 596,897	2,101,777	$ 1,504,880
Fund balance - October 1 - GAAP basis			24,143	
Reconciliation to GAAP basis				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year				
Change in due from other governments			(22,114,477)	
Change in accrued expenses			20,077,609	
Transfers in			320,048	
Transfers out			(219,572)	
Fund balance - September 30 - GAAP basis			$ 189,528	

NOTE A: BUDGETARY DATA

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

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

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

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

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

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

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

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

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

NOTE B: EXCESS OF EXPENDITURES OVER BUDGET

The excess of expenditures over revenues in the General Fund budget to actual comparison schedule is due to auditor adjustments.

The excess of expenditures over revenues in the Disaster Recovery Fund is due to capital outlay.

OTHER SUPPLEMENTARY INFORMATION

CITY OF BAY ST. LOUIS, MISSISSIPPI
SURETY BOND SCHEDULE
SEPTEMBER 30, 2011

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

CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Pass-through Grantors Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Passed through Mississippi Development Authority			
Community Development Block Grant - Entitlement Grant	14.218	R103-112-01-KCR	$ 41,934
Community Development Block Grant - Entitlement Grant	14.218	R103-112-02-KCR	276,950
Community Development Block Grant - Entitlement Grant	14.218	R109-112-03-KCR	1,101,445
Community Development Block Grant - Entitlement Grant	14.218	R109-112-06-KCR	49,399
Community Development Block Grant - Entitlement Grant	14.218	R109-112-05-KCR	62,380
Community Development Block Grant - Entitlement Grant	14.218	R118-112-01-HCCR	533,324
Community Development Block Grant - Entitlement Grant	14.218	R118-112-02-HCCR	727,296
Community Development Block Grant - Entitlement Grant	14.218	R118-112-03-HCCR	758,727
Community Development Block Grant - Entitlement Grant	14.218	R118-112-04-HCCR	6,420
Community Development Block Grant - Entitlement Grant	14.218	R118-112-05-HCCR	219,572
Community Development Block Grant - Entitlement Grant	14.218	R118-112-06-HCCR	360,060
Community Development Block Grant - Entitlement Grant	14.218	R118-112-07-HCCR	1,942,449
Community Development Block Grant - Entitlement Grant	14.218	R118-112-08-HCCR	20,845
Community Development Block Grant - Entitlement Grant	14.218	R118-112-09-HCCR	581,801
Community Development Block Grant - Entitlement Grant	14.218	R118-112-10-HCCR	22,600
Community Development Block Grant - Entitlement Grant	14.218	R118-112-11-HCCR	274,197
Community Development Block Grant - Entitlement Grant	14.218	R118-112-12-HCCR	2,312,018
Total U. S. Department of Housing and Urban Development			9,291,416

(Continued)

CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

U. S. Department of Homeland Security			
Hazard Mitigation Grant	97.039	1604-212	$ 349,274
Hazard Mitigation Grant	97.039	1604-365	124,688
Hazard Mitigation Grant	97.039	HMGP-DR-1764-003-MS	47,500
Passed through Mississippi Emergency Management Agency			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1794-DR-MS	192,508
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1604-DR-MS	5,076,343
Total U. S. Department of Homeland Security			5,790,313
U.S. Department of Justice			
Passed-through Mississippi Department of Public Safety			
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grant Program	16.580	18PGCP540Z	140,530
Public Safety Partnership & Community Policing Grant	16.710	2010UMWX0176	26,754
Passed-through Mississippi Department of Public Safety/ Division of Public Safety Planning			
Bulletproof Vest Partnership Program	16.607		5,976
Total U. S. Department of Justice			173,260
U.S. Department of Transportation			
Passed through Mississippi Department of Transportation			
ARRA - Highway Planning and Construction Grant	20.205	STP-0032-01(034)LP	52,448
Passed through Mississippi Department of Transportation/ Department of Public Safety - Division of Public Safety Planning			
State & Community Highway Safety - NHTSA	20.600	10-AL-202-I	19,834
Total U.S. Department of Transportation			72,282
Total Federal Financial Assistance			$ 15,327,271

NOTE A: BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Bay St. Louis, MS and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organization. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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

MICHAEL E. GUEL, CPA, CVA, PFS, CFP®
SANDE W. HENTGES, CPA, CFE
JENNIFER A. BELL, CPA, CFE
DEBORAH (DEE DEE) WOOD, CPA
LEAH HOLLAND, CPA
CHARLENE KERKOW, CPA

MEMBERS
AMERICAN INSTITUTE OF CPAS
MISSISSIPPI SOCIETY OF CPAS

TELEPHONE (228) 863-6501
FAX NUMBER (228) 863-6544
EMAIL: THECPAFIRM@AOL.COM

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

October 9, 2012

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Bay St. Louis, Mississippi, as of and for the year ended September 30, 2011, which collectively comprise City of Bay St. Louis, Mississippi's, basic financial statements and have issued our report thereon dated October 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. 2011-1, 2011-2, 2011-3, 2011-4, and 2011-5.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. 2011-1, 2011-2, 2011-3, 2011-4, and 2011-5.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Bay St. Louis, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard.*

We noted certain other matters that we reported to management of City of Bay St. Louis, Mississippi in a separate letter dated October 9, 2012.

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

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

Wright Ward Hatten & Guel

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

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TELEPHONE (228) 863-6501
FAX NUMBER (228) 863-6544
EMAIL: THECPAFIRM@AOL.COM

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

October 9, 2012

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

Compliance

We have audited City of Bay St. Louis, Mississippi's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Bay St. Louis, Mississippi's major federal programs for the year ended September 30, 2011. City of Bay St. Louis, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Bay St. Louis, Mississippi's management. Our responsibility is to express an opinion on City of Bay St. Louis, Mississippi's compliance based on our audit.

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

In our opinion, City of Bay St. Louis, Mississippi, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-6.

Internal Control over Compliance

Management of City of Bay St. Louis, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Bay St. Louis, Mississippi's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Bay St. Louis, Mississippi's internal control over compliance.

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

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

City of Bay St. Louis, Mississippi's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit City of Bay St. Louis, Mississippi's responses and, accordingly, we express no opinion on the responses.

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

Wright Ward Hatten & Guel

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Gulfport, Mississippi

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

October 9, 2012

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

We have audited the accompanying financial statements of the City of Bay St. Louis, Mississippi as of and for the year ended September 30, 2011, and have issued our report dated October 9, 2012. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

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

Finding

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

Recommendation

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

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

Finding

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

Recommendation

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

Wright Ward Hatten & Guel

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF BAY ST. LOUIS, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

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

Federal Awards

4.	Internal control over major programs:	
	a.Material weakness(es) identified?	No
	b.Significant deficiency(ies) identified not considered to be material weaknesses?	No
5.	Type of auditors' report issued on compliance for major programs:	Unqualified
6.	Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	Yes
7.	Identification of major programs:	
	a. 14.218 U.S. Department of Housing and Urban Development Community Development Block Grants – Entitlement Grants to Cities	
	b. 97.036 U. S. Department of Homeland Security- Disaster Grants Public Assistance	
8.	Dollar threshold used to distinguish between Type A and Type B programs:	$459,818
9.	Auditee qualified as low risk auditee?	No
10.	Prior year audit findings and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section_.315 (b) of OMB Circular A-133?	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

2011-1 *Criteria:* Improper Payroll reporting/Recordkeeping/Review ***Prior year finding***

Condition: During our testing of payroll we noted that the time on the time cards was not added correctly per U.S. Department of Labor rounding procedures or incomplete resulting in unapproved time or overtime for certain employees. We also noted that there was inconsistencies within the classification of time used and paid (i.e. personal, sick or vacation). In some cases there was lack of manager approval for changes on time cards and time off.

Cause: Supervisor signatures were missing from the time cards for adjustments made to time cards and time off and it appears that there was little if any review of payroll forms or reports by the payroll clerk or management of approval and calculation of time cards.

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

Recommendation: We recommend that management review all time cards before payroll is processed for approved time and leave used and review of all payroll reports. It is imperative that management allow adequate time between collection of time cards, actual verification and recalculation of time cards before payroll is processed and ensure that timecards are calculated correctly and all time paid for is properly approved in accordance with city policy.

2011-2 *Criteria:* Code of Conduct/Conflict of interest statements ***Prior year finding***

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

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

Cause: Employees are not aware of job descriptions and responsibilities or any compliance requirements as set forth by granting agencies or state laws and regulations thereby making the City noncompliant with these rules and regulations and creating operating ineffectiveness and inefficiencies with financial accounting and reporting and daily operations within the City.

Lack of conflict of interest policies and enforcement of those policies creates opportunities for transactions to occur that are not necessarily in the best interest of the City.

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

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

2011-3 *Criteria:* Improper procurement procedures and documentation ***Prior year finding***

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

Condition: Purchase orders are dated after the invoice. We noted instances where invoices were paid twice and in some instances sales tax was paid when it should not have been.

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

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

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

2011-4 *Criteria:* Improper tagging of fixed assets ***Prior year finding***

Proper procedures over fixed assets require all items should be properly tagged and identified as city property.

Condition: During our audit testing it came to our attention that various items of equipment was not properly tagged or identified as city property.

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

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

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

2011-5 *Criteria:* Inconsistent Utility billing and collection procedures and review of costs incurred

Proper procedures over utility billing and collection require that billing for utility services are done in a consistent timely manner and better review is needed on outside fees charged to the city (i.e. solid waste and wastewater) versus the costs charged to customers. Any utility adjustments should be adequately documented and approved.

Condition: During our testing of utility billing and collection we noted that there were inconsisteucies in the timing of billing for utility usage. We also noted that there was no adequate review of costs charged to the city for solid waste and wastewater treatment compared to the costs billed to utility customers for such services. Utility adjustments made to various accounts were lacking proper documentation and approval.

Cause: There is no review of various billing reports prior to release of utility bills to catch exceptions nor is there adequate review of reports monthly to ensure collection and that the proper fees are charged to recapture various costs incurred in utility functions.

Effect: The City can over or underpay for solid waste fees and wastewater fees in comparison to what is being collected from utility customers upon billing.

Recommendation: We also recommend that the City formally document billing and collection procedures and print monthly reports for adequate management and oversight of this department. Costs charged from outside parties for services purchased should be independently compared to current city utility customers. All utility adjustments should be properly documented and approved.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

2011-6 *Criteria:* Improper cash management – U.S. Department of Housing and Urban Development – Community Development Block Grant CFDA # 14.218

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

Cause: Management was holding the cash receipts until payment of vendor invoices to ensure vendor payment within three days of federal funds deposit.

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

Effect: Lack of timely deposit of receipts could cause the City to be noncompliant with granting agencies requirements.

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

CORRECTIVE ACTION PLAN AND SUMMARY OF PRIOR YEAR FINDINGS

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Corrective Action Plan
For the Year Ended September 30, 2011

Section 2: Financial Statement Findings

Finding 2011-1: *Prior year finding*

Condition: During our testing of payroll we noted that the time on the time cards was not added correctly per U.S. Department of Labor rounding procedures or incomplete resulting in unapproved time or overtime for certain employees. We also noted that there was inconsistencies within the classification of time used and paid (i.e. personal, sick or vacation). In some cases there was lack of manager approval for changes on time cards and time off.

Corrective Action: A new electronic time-card system has been implemented in 2012 to improve time keeping. With the strict cut-off time required for direct deposit transmittal, management feels that there is not enough time to adequately review and approve payroll reports. Although the cut-off for the pay period was adjusted by two days, there frequently is less than one day to process payroll.

Finding 2011-2: *Prior year finding*

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

Corrective Action: The City of Bay Saint Louis follows guidelines as outlined in the Mississippi Accounting Manual for local governments. The City Clerk has met with City Council members to review the Audit and Accounting Guide, and copies have been made available to City Council members, department heads and other city employees. A draft of a conflict of interest policy has been created but not submitted for adoption as of Sept. 2012.

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As part of the 2013 budget, job titles have been assigned to each employee and the Human Resource Department is creating detailed job descriptions.

Finding 2011-3: *Prior year finding*

Condition: Purchase orders are dated after the invoice. We noted instances where invoices were paid twice and in some instances sales tax was paid when it should not have been.

Corrective Action: In some cases, purchase orders will continue to be issued after the invoice is received to ensure proper coding. Lack of employee turnover during 2012 in the accounts payable position has allowed for improvement in procurement procedures.

Finding 2011-4: *Prior year finding*

Condition: During our audit testing it came to our attention that various items of equipment was not properly tagged or identified as city property.

Corrective Action: Implementation of WASP software for inventory and fixed accounting is underway for the 2012 annual inventory. Bar-coded tags are being generated for all inventory and fixed assets. A scanning system is in place to allow for physical inventory counts.

Finding 2011-5:

Condition: During our testing of utility billing and collection we noted that there were inconsistencies in the timing of billing for utility usage. We also noted that there was no adequate review of costs charged to the city for solid waste and wastewater treatment compared to the costs billed to utility customers for such services. Utility adjustments made to various accounts were lacking proper documentation and approval.

Corrective Action: An update to the utility billing ordinance is currently being adopted. Solid waste issues collection issues have been resolved with Hancock County and corrections have been made to the billing system used by Hancock County for Bay Saint Louis residents. Discussions are currently underway with the Hancock County Utility Authority to address billing concerns for wastewater treatment charges.

Finding 2011-6:

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

Corrective Action: Receipts from granting agencies are sometimes advanced prior to receiving any invoiced costs. Depositing advance payments will cause noncompliance with granting agency requirements that payments are to be made within three days of the deposit of funds. CDBG invoices are submitted for board approval at each meeting as they come in. Invoice approval and requests for cash are two separate processes and do not coincide with each other. Unless funds are disbursed in advance, all federally funded invoices are submitted for board approval prior to receipt of payment.

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Summary of Prior Year Findings
For the Year Ended September 30, 2011

Finding 2010-7:

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

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

Current Status: All contracts and construction change orders are board approved and spread on the board minutes before work commences.

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