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WAVELAND

David A. Garcia, Mayor, CFM

May 31, 2013

Mr. Edward Smith, CPA
Office of the State Auditor
P.O. Box 956
Jackson, MS. 39205

Re: 2011 Financial Single Audit - REVISED DUAL DATED OPINION
(no numbers, including page numbers changed)

Dear Mr. Smith:

Our Auditors re-issued the City's Financial Audit for the fiscal year ended September 30, 2011 (FY 2011). I forward this dual-dated 2011 Audit via this letter.

Our auditors, Wright Ward Hatten & Guel began fieldwork for the city's FY 2012 audit on May 29, 2013; our auditors have told us they hope to have it complete by August.

We sincerely thank you and appreciate your cooperation regarding this matter as it relates to the City of Waveland.

Yours very truly,

Lisa Planchard,
City Clerk

Cc: Janet Dudding, Comptroller
Cc: Audit File, 2011
Cc: City Clerk Correspondence

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Lili Stahler, Alderman Ward #1 • Ricky Geoffrey, Alderman Ward #2 • Shane LaFontaine, Alderman Ward #3
Mark Kidd, Alderman Ward #4 • Lisa B. Planchard, City Clerk • Gary Yarbaraugh, City Attorney
301 Coleman Avenue • Post Office Box 539 • Waveland, Mississippi 39576 • 228-467-4134 • Fax 228-467-3177
mayorsoffice@mchsi.com / w.cityhall@mchsi.com

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CITY CLERK

CITY OF WAVELAND, MISSISSIPPI
ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

Revised

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CITY OF WAVELAND, MISSISSIPPI
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INTRODUCTORY SECTION

CITY OF WAVELAND, MISSISSIPPI
Listing of City Officials
September 30, 2011

ELECTED OFFICIALS

Mayor	David Garcia
Alderman- Ward 1	LiLi Stahler
Alderman - Ward 2	Ricky Geoffrey
Alderman - Ward 3	Shane Lafontaine
Alderman - Ward 4	Mark Kidd

APPOINTED OFFICIALS

City Clerk	Lisa Planchard
Acting Police Chief	David Allen
Fire Chief	Mike Smith
City Attorney	Gary Yarborough

INDEPENDENT AUDITORS' REPORT

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

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

February 8, 2013, except for Note 13, as to which
the date is May 20, 2013

Honorable Mayor and Board of Alderman
City of Waveland, Mississippi

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waveland, 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 the City's management.

As discussed in Note 9 to the financial statements, the City has entered into several federally funded construction projects. At September 30, 2011, the City had approximately $14,500,000 in remaining construction related to Department of Homeland Security/FEMA Public Assistance Disaster grants. Also, the City places emphasis on outside parties to oversee the vast number of federally funded projects without having City personnel assigned to oversee and account for these projects in total in a timely manner. The City does not have a fixed asset subsidiary ledger that is maintained independently of the general ledger accounting system depicting an accurate detail of capital assets by cost, date acquired and description, nor have donations of capital assets been properly recorded as required by generally accepted accounting principles (GAAP).

The City has not implemented policies and procedures over utility billings and collections and a thorough review of aged utility receivables is not timely performed or evaluated for collectability. The City has not implemented adequate policies and procedures over court fine revenue, related receivables and court assessments and a review of aged court fines and timely payment of court assessments is not performed or evaluated for collectability. The amount by which these departures from GAAP and the uncertainties involved in numerous lawsuits regarding federally funded projects would affect the assets, net assets, and expenses of the City's activities is not reasonably determinable and we are uncertain as to the material effect these departures may have on the overall financial statements taken as a whole.

We are reissuing the Annual Financial Report for the City of Waveland, Mississippi for the year ended September 30, 2011 as further explained in Note 13 on page 45.

Because of the significance of the matters described in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2013, on our consideration of the City of Waveland, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 11 and 47 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

We were engaged for the purpose of forming opinions on the financial statements that collectively comprise the City of Waveland, Mississippi's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Because of the significance of the matters described previously, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

Wright Ward Hatten & Guel

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF WAVELAND, 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 Waveland ("the City") activities and financial performance provides an introduction to the financial statements of the City 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 $120,504,230. Of this amount unrestricted net assets of $4,526,408 may be used to meet organizations ongoing obligations to citizens and creditors.

- The total net assets increased by $13,108,783. Of this amount $8,182,508 was associated with governmental and $4,926,275 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 $3,706,465 a net decrease of $4,594,388.

- At the end of the current fiscal year, unassigned fund balance for the general fund was $886,429 or 11.1% of total general fund expenditures.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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Overview of the Financial Statements (continned)

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

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

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

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

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 three 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.

Overview of the Financial Statements (continued)

In fiscal year 2011, the City maintains seven 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 Relief 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.

- Proprietary Fund

  The City maintains one type of proprietary fund. Proprietary 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.

- Fiduciary Funds

  Fiduciary funds are used to account for resources held for the benefit of parties outside of the City's normal operations. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the City's own programs. The accrual basis of accounting is used for fiduciary funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

  The fiduciary fund financial statements can be found on page 21 of this report.

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. Refer to *Note 1: Summary of Significant Accounting Policies* 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 major special revenue funds are presented immediately after the basic financial statements as required supplementary information.

Government-wide Financial Analysis

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

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	$ 8,303,777	$ 14,969,217	$ 1,424,192	$ 967,176	$ 9,727,969	$ 15,936,393
Non-current assets	39,019,026	29,307,886	83,517,070	79,918,757	122,536,096	109,226,643
Total assets	47,322,803	44,277,103	84,941,262	80,885,933	132,264,065	125,163,036
Other liabilities	5,110,063	10,014,548	722,519	1,554,907	5,832,582	11,569,455
Long-term liabilities	3,754,154	3,986,477	2,173,099	2,211,657	5,927,253	6,198,134
Total liabilities	8,864,217	14,001,025	2,895,618	3,766,564	11,759,835	17,767,589
Net assets:						
Invested in capital assets, net of related debt	34,748,936	24,934,146	81,169,139	77,527,220	115,918,075	102,461,366
Restricted	-	-	59,747	167,060	59,747	167,060
Unrestricted	3,709,650	5,341,932	816,758	(574,911)	4,526,408	4,767,021
Total net assets	$ 38,458,586	$ 30,276,078	$ 82,045,644	$ 77,119,369	$ 120,504,230	$107,395,447

At September 30, 2011, the City's assets exceeded liabilities by $120,504,230. 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 $4,526,408 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 1: Summary of Significant Accounting Policies* on page 28 for more detail.

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

Government-wide Financial Analysis (continued)

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.

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues						
Charges for services	$ 536,759	$ 975,196	$ 1,887,904	$ 1,757,393	$ 2,424,663	$ 2,732,589
Operating grants	314,460	682,144	-	-	314,460	682,144
Capital grants	13,282,080	29,555,368	-	-	13,282,080	29,555,368
Total program revenues	14,133,299	31,212,708	1,887,904	1,757,393	16,021,203	32,970,101
General revenues						
Property taxes	1,720,888	1,682,856	-	-	1,720,888	1,682,856
Sales taxes	2,071,925	2,257,437	-	-	2,071,925	2,257,437
Franchise taxes	258,250	225,401	-	-	258,250	225,401
Interest earnings	22,203	111,106	2,624	15,935	24,827	127,041
Insurance proceeds	-	8,239	-	-	-	8,239
Donations	60,868	27,293	-	-	60,868	27,293
Other	78,892	650,864	55,916	26,869	134,808	677,733
Total general revenues	4,213,026	4,963,196	58,540	42,804	4,271,566	5,006,000
Total revenues	18,346,325	36,175,904	1,946,444	1,800,197	20,292,769	37,976,101
Program expenses						
General government	1,213,206	1,509,447	-	-	1,213,206	1,509,447
Public safety	2,936,549	3,368,114	-	-	2,936,549	3,368,114
Public works	1,303,920	1,598,643	-	-	1,303,920	1,598,643
Health and welfare	187,666	223,591	-	-	187,666	223,591
Culture and recreation	1,391,638	713,193	-	-	1,391,638	713,193
Interest	212,807	269,775	-	-	212,807	269,775
Water, sewer and gas	-	-	3,864,091	4,511,047	3,864,091	4,511,047
Total program expenses	7,245,786	7,682,763	3,864,091	4,511,047	11,109,877	12,193,810
Change before transfers	11,100,539	28,493,141	(1,917,647)	(2,710,850)	9,182,892	25,782,291
Transfers	(5,841,379)	(11,955,357)	5,841,379	11,955,357	-	-
Special item - Forgiveness of SCDL loan	2,923,348	-	1,002,543	-	3,925,891	-
Change in net assets	8,182,508	16,537,784	4,926,275	9,244,507	13,108,783	25,782,291
Beginning net assets	30,276,078	13,738,294	77,119,369	67,874,862	107,395,447	81,613,156
Ending net assets	$ 38,458,586	$ 30,276,078	$ 82,045,644	$ 77,119,369	$ 120,504,230	$107,395,447

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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, unassigned 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 $3,706,465 a net decrease of $4,594,388 in comparison with the prior year. Of this combined fund balance, 24% percent or $886,429 is unassigned. $28,566 of this combined fund balance is nonspendable for prepaid items. $459,693 is restricted for public safety, culture and recreation and debt service and the remainder amount of $2,331,777 is committed to 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 11.1% percent of total general fund expenditures.

- Disaster Relief 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.

Financial Analysis of the Government's Funds (continued)

Proprietary Fund

The Water, Sewer and Gas Fund had an increase in total net assets of $4,926,275 at the end of the fiscal year in comparison with prior year. This increase is in capital assets, net of related debt from the completion of various phases of construction of the utility system that was destroyed by Hurricane Katrina.

Capital Asset and Long-Term Debt Activity

Capital Asset Activity

At September 30, 2011, the City reported $38,916,735 in net capital assets for governmental activities and $83,468,934 in capital assets for business-type activities. This represents a combined increase of $13,321,022 in capital assets during the 2011 fiscal year. Additional information of the City's capital assets can be found in *Note 5: Capital Assets* on pages 34-35 of this report.

City of Waveland's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	$ 2,527,663	$ 2,417,484	$ 76,182	$ 76,182	$ 2,603,845	$ 2,493,666
Buildings & Improvements	10,006,637	4,279,453	-	-	10,006,637	4,279,453
Machinery & Equipment	1,167,357	1,374,020	3,553	5,553	1,170,910	1,379,573
Furniture & Office equipment	74,610	99,463	-	-	74,610	99,463
Infrastructure & Systems	4,529,851	4,667,613	66,690,980	65,498,059	71,220,831	70,165,672
Vehicles	426,513	653,634	-	-	426,513	653,634
Construction in progress	20,184,104	15,706,062	16,698,219	14,287,124	36,882,323	29,993,186
Total	$ 38,916,735	$ 29,197,729	$ 83,468,934	$ 79,866,918	$ 122,385,669	$ 109,064,647

Long-Term Debt Activity

At the end of the current fiscal year, the City had $6,467,594 in outstanding debt, excluding compensated absences. It should be noted that on January 11, 2011, the City of Waveland was notified by the U.S. Department of Homeland Security regarding the cancellation of the Community Disaster Loans reported in the notes payable section below. The debt forgiveness amounts are $2,923,348 and $1,002,543 for the governmental and business activities, respectfully. Additional information on the City of Waveland's long-term debt can be found in *Note 6: Long-Term Debt* on pages 36-40 of this report.

Capital Asset and Long-Term Debt Activity (continued)

	City of Waveland's Outstanding Debt					
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Bonds payable	$ 2,873,071	$ 2,878,045	$ 1,370,539	$ 1,374,303	$ 4,243,610	$ 4,252,348
Revenue bonds	110,000	110,000	929,256	965,395	1,039,256	1,075,395
Notes payable	628,938	3,289,379	-	905,343	628,938	4,194,722
Capital leases payable	555,790	646,601	-	-	555,790	646,601
Compensated absences	125,227	205,822	24,689	13,739	149,916	219,561
Total	$ 4,293,026	$ 7,129,847	$ 2,324,484	$ 3,258,780	$ 6,617,510	$ 10,388,627

Economic Outlook and Relevant Decisions

As a result of Hurricane Katrina in August 2005, the City of Waveland continues to experience an unprecedented capital rebuilding process paid from federal funding sources. The $13,321,022 increase in capital assets during the 2011 fiscal year is due to the federal recovery effort and not as a result of governmental operating activities. At September 30, 2011, the City was facing significant financial challenges; however, through a proactive approach to budgetary control and an increase of millage rates and utility rates, the City is currently operating with greater financial efficiency and accountability.

Contact the City's Financial Management

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

Lisa Planchard, City Clerk
City of Waveland, Mississippi
P.O. Box 539
Waveland, MS 39576
(228) 467-4134

FINANCIAL SECTION

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EXHIBIT A

CITY OF WAVELAND, MISSISSIPPI
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ 1,910,262	$ 542,216	$ 2,452,478
Investments	-	113,384	113,384
Receivables, net	666,754	286,384	953,138
Internal balances	(514)	514	-
Due from other governments	5,698,709	-	5,698,709
Inventory	-	42,735	42,735
Prepaid insurance	28,566	1,529	30,095
Restricted assets:			
Cash and cash equivalents	-	437,430	437,430
Total current assets	8,303,777	1,424,192	9,727,969
Noncurrent Assets			
Capital assets:			
Land and construction in progress	22,711,767	16,774,401	39,486,168
Other capital assets, net of accumulated depreciation	16,204,968	66,694,533	82,899,501
Bond issuance costs, net	102,291	48,136	150,427
Total noncurrent assets	39,019,026	83,517,070	122,536,096
Total assets	47,322,803	84,941,262	132,264,065
LIABILITIES			
Current Liabilities			
Accounts payable	4,053,820	159,292	4,213,112
Accrued wages and compeosated absences	112,004	26,406	138,410
Retainage payable	394,170	-	394,170
Due to other governments	37,318	-	37,318
Accrued interest	53,676	24,668	78,344
Bonds payable	300,400	134,470	434,870
Notes payable	50,652	-	50,652
Leases payable	108,023	-	108,023
Payable from restricted assets:			
Customer deposits	-	377,683	377,683
Total current liabilities	5,110,063	722,519	5,832,582
Noncurrent Liabilities			
Bonds payable, plus deferred gain on bond refunding	2,682,671	2,165,325	4,847,996
Notes payable	578,286	-	578,286
Leases payable	447,767	-	447,767
Compensated absences	45,430	7,774	53,204
Total long-term liabilities	3,754,154	2,173,099	5,927,253
Total liabilities	8,864,217	2,895,618	11,759,835
NET ASSETS			
Invested in capital assets, net of related debt	34,748,936	81,169,139	115,918,075
Restricted net assets	-	59,747	59,747
Unrestricted net assets	3,709,650	816,758	4,526,408
Total net assets	$ 38,458,586	$ 82,045,644	$ 120,504,230

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

EXHIBIT B

CITY OF WAVELAND, 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	$ 1,213,206	$ 96,193	$ 15,755	$ 2,241,826	$ 1,140,568		$ 1,140,568
Public safety	2,936,549	230,548	87,520	3,659,463	1,040,982		1,040,982
Public works	1,303,920	-	157,345	6,442,461	5,295,886		5,295,886
Health and welfare	187,666	149,041	-	-	(38,625)		(38,625)
Culture and recreation	1,391,638	60,977	53,840	938,330	(338,491)		(338,491)
Interest	212,807	-	-	-	(212,807)		(212,807)
Total governmental activities	7,245,786	536,759	314,460	13,282,080	6,887,513		6,887,513
Business-type activities:							
Water, sewer and gas	3,864,091	1,887,904	-	-	-	(1,976,187)	(1,976,187)
Total business - type activities	3,864,091	1,887,904	-	-	-	(1,976,187)	(1,976,187)
Total	$ 11,109,877	$ 2,424,663	$ 314,460	$ 13,282,080	6,887,513	(1,976,187)	4,911,326
General revenues:							
Property taxes - for general purposes					1,343,980	-	1,343,980
Property taxes - for special purposes					376,908	-	376,908
Sales taxes					2,071,925	-	2,071,925
Franchise taxes					258,250	-	258,250
Interest earnings					22,203	2,624	24,827
Donations					60,868	-	60,868
Miscellaneous income					78,892	55,916	134,808
Transfers					(5,841,379)	5,841,379	-
Special item - Forgiveness of Small Community Disaster Loan					2,923,348	1,002,543	3,925,891
Total general revenues, transfers and special item					1,294,995	6,902,462	8,197,457
Change in net assets					8,182,508	4,926,275	13,108,783
Net assets - beginning of year					30,276,078	77,119,369	107,395,447
Net assets - end of year					$ 38,458,586	$ 82,045,644	$ 120,504,230

The accompanying notes are an integral part of these financial statements

EXHIBIT C

CITY OF WAVELAND, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	General Fund	Disaster Relief Fund	CDBG Grant Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 772,938	$ 110,883	$ -	$ 1,026,441	$ 1,910,262
Taxes receivable, net	409,852	-	-	5,735	415,587
Court fine receivable	251,167	-	-	-	251,167
Due from other funds	39,070	-	-	230,140	269,210
Receivable from other governments	44,568	3,101,608	2,525,916	-	5,672,092
Prepaid expenses	16,399	1,152	-	11,015	28,566
Total assets	$ 1,533,994	$ 3,213,643	$ 2,525,916	$ 1,273,331	$ 8,546,884
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 252,589	$ 1,513,284	$ 2,142,938	$ 145,009	$ 4,053,820
Accrued wages & compensated absences	110,605	422	-	977	112,004
Retainage payable	-	11,192	382,978	-	394,170
Due to other funds	230,654	-	-	12,453	243,107
Payable to other governments	37,318	-	-	-	37,318
Total liabilities	631,166	1,524,898	2,525,916	158,439	4,840,419
Fund balances:					
Nonspendable	16,399	1,152	-	11,015	28,566
Restricted for:					
Public safety	-	-	-	127,350	127,350
Culture and recreation	-	-	-	43,243	43,243
Debt service	-	-	-	289,100	289,100
Commited	-	1,687,593	-	-	1,687,593
Assigned	-	-	-	644,184	644,184
Unassigned	886,429	-	-	-	886,429
Total fund balances	902,828	1,688,745	-	1,114,892	3,706,465
Total liabilities and fund balances	$ 1,533,994	$ 3,213,643	$ 2,525,916	$ 1,273,331	$ 8,546,884

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

EXHIBIT C-1

CITY OF WAVELAND, MISSISSIPPI
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

Total governmental funds balance (Exhibit C)		$ 3,706,465
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	42,485,972	
Less: accumulated depreciation	(3,569,237)	38,916,735
Long-term liabilities are not due and payable in the current period expenditures and therefore are not reported in the governmental funds.		(4,103,128)
Compensated absences are not due and payable in the current period expenditures, therefore, they are not reported in the governmental funds.		(45,430)
Bond issue costs on long-term debt (net of amortizations) does not require current financial resources and, therefore, is not reported in the fund financial statements.		102,291
Accrued interest not due and payable in the current period expenditures and, therefore, not reported in the funds.		(53,676)
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.		(64,671)
Net assets of governmental activities (Exhibit A)		$ 38,458,586

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EXHIBIT D

CITY OF WAVELAND, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General Fund	Disaster Relief Fund	CDBG Grant Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$ 3,027,642	$ -	$ -	$ 785,076	$ 3,812,718
Licenses and permits	94,968	-	-	-	94,968
Franchise fees	258,250	-	-	-	258,250
Charges for service	171,082	-	-	40,847	211,929
Intergovernmental	294,200	2,478,112	10,342,589	478,362	13,593,263
Fines and forfeits	197,532	-	-	-	197,532
Donations	14,433	-	-	-	14,433
Interest	17,600	2,912	-	1,690	22,202
Miscellaneous	101,514	2,978	-	36,537	141,029
Total revenues	4,177,221	2,484,002	10,342,589	1,342,512	18,346,324
EXPENDITURES					
Current:					
General government	1,282,507	1,276,259	1,733,073	-	4,291,839
Public safety	2,376,269	1,494,391	3,045,563	52,426	6,968,649
Public works	1,012,739	8,191	2,264,766	-	3,285,696
Health and welfare	188,834	-	-	-	188,834
Culture and recreation	-	878,433	144,974	1,067,950	2,091,357
Debt Service:					
Principal	2,751,252	-	-	-	2,751,252
Interest and other charges	376,624	-	-	69,258	445,882
Total Expenditures	7,988,225	3,657,274	7,188,376	1,189,634	20,023,509
Excess (deficiency) of revenues over expenditures	(3,811,004)	(1,173,272)	3,154,213	152,878	(1,677,185)
OTHER FINANCING SOURCES (USES)					
Sale of assets	828	-	-	-	828
Transfers in	119,404	1,771,854	-	148,514	2,039,772
Transfers out	(1,895,135)	(2,559,319)	(3,154,213)	(272,484)	(7,881,151)
Total other financing sources and uses	(1,774,903)	(787,465)	(3,154,213)	(123,970)	(5,840,551)
Special item:					
Forgiveness of Small Community Disaster Loan	2,923,348	-	-	-	2,923,348
Change in Fund Balance	(2,662,559)	(1,960,737)	-	28,908	(4,594,388)
Fund balances - beginning	3,565,387	3,649,482	-	1,085,984	8,300,853
Fund balances - ending	$ 902,828	$ 1,688,745	$ -	$ 1,114,892	$ 3,706,465

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

CITY OF WAVELAND, 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)	$	(4,594,388)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report outlays for capital assets as expenditures. In contrast, the statement of activities, the cost of those assets is allocated over the useful lives and reported as depreciation expense. This is the amount by which capital outlays $10,679,733 exceed depreciation of $960,727.		9,719,006
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.		2,751,252
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore not reported as expenditures in governmental funds.		
Compensated absences		73,563
Accrued interest		235,969
Bond amortization		(2,894)
Change in net assets of governmental activities (Exhibit B)	$	8,182,508

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EXHIBIT E

CITY OF WAVELAND, MISSISSIPPI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

	Water/Sewer & Gas Fund
ASSETS	
Current assets:	
Cash and cash equivalents	$ 542,216
Investments	113,384
Accounts Receivable, net	286,384
Due from other funds	514
Inventories	42,735
Prepaid expenses	1,529
Total current assets	986,762
Restricted assets:	
Restricted cash	437,430
Total restricted assets	437,430
Non-current assets:	
Capital Assets:	
Land	76,182
Construction in Progress	16,698,219
Infrastructure	75,339,945
Equipment	15,552
Less Accumulated depreciation	(8,660,964)
Capital assets, net	83,468,934
Bond issuance costs, net	48,136
Total non-current assets	83,517,070
Total assets	84,941,262
LIABILITIES	
Current Liabilities:	
Accounts payable	159,292
Accrued wages	9,491
Accrued interest payable	24,668
Accrued compensated absences	16,915
Customer deposits	377,683
Long term liabilities-due within one year:	
Bonds payable	134,470
Total	722,519
Long term liabilities-due beyond one year:	
Bonds payable,plus deferred gain on bond premium	2,165,325
Compensated absences	7,774
Total	2,173,099
Total liabilities	2,895,618
NET ASSETS	
Invested in capital assets, net of related debt	81,169,139
Restricted	59,747
Unrestricted	816,758
Total net assets	$ 82,045,644

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

EXHIBIT F

CITY OF WAVELAND, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Water/Sewer & Gas Fund
REVENUES	
Charges for services	$ 1,887,904
Miscellaneous operating revenue	55,916
Total operating revenues	1,943,820
OPERATING EXPENSES	
Personnel services	480,495
Contractual services	936,413
Materials and supplies	144,852
Gas purchases	74,870
Depreciation	2,111,516
Total Operating Expenses	3,748,146
Operating income (loss)	(1,804,326)
NON-OPERATING REVENUES (EXPENSES)	
Interest and investment revenue	2,624
Interest expense	(115,945)
Transfers in	5,841,379
Total non-operating revenue (expenses)	5,728,058
Change in net assets	3,923,732
Special Item - Forgiveness of Small Community Disaster Loan	1,002,543
Net change in net assets after special item	4,926,275
Total net assets - beginning	77,119,369
Total net assets - ending	$ 82,045,644

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

EXHIBIT G

CITY OF WAVELAND, MISSISSIPPI
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Water/Sewer & Gas Fund
Cash Flows from Operating Activities	
Receipts from customers	$ 1,914,673
Payments to employees	(475,649)
Payments to suppliers	(103,166)
Payments for contractual services	(922,531)
Net cash used by operating activities	413,327
Cash Flows From Financing Activities	
Principal payments on debt	(39,903)
Interest expense	(79,269)
Transfers in	5,841,379
Net cash provided by financing activities	5,722,207
Cash Flows From Investing Activities	
Interest received	2,161
Acqusition of capital assets	(5,713,532)
Net cash used by investing activities	(5,711,371)
Net increase in cash and cash equivalents	424,163
Cash and cash equivalents:	
Beginning of year	555,483
End of year	$ 979,646
Reconciliation of Operatiog Income to Net Cash Provided by Operating Activities	
Operating income (loss)	$ (1,804,326)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	2,111,516
(Increase) decrease in current assets:	
Accounts receivable	(66,919)
Due from other funds	(514)
Due from other governments	11,207
Prepaid expenses	14,396
Inventory	9,440
Increase (decrease) in current liabilities:	
Accounts payable	107,116
Accrued wages	(6,104)
Compensated absences	10,950
Customer deposits	26,565
Net cash used by operating activities	$ 413,327

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

	Current assets	Restricted assets	Total
Cash and cash equivalents - October 1	$ 37,305	$ 518,178	$ 555,483
Net increase/(decrease)	504,911	(80,748)	424,163
Cash and cash equivalents - September 30	$ 542,216	$ 437,430	$ 979,646

The aeeompanying notes an integral part of these financial statement.

EXHIBIT H

CITY OF WAVELAND, MISSISSIPPI
STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUNDS
SEPTEMBER 30, 2011

	Agency Funds		
ASSETS	Unemployment Compensation Fund	Disbursement Fund	Total
Cash and cash equivalents	$ 30,201	$ 26,617	$ 56,818
Total assets	$ 30,201	$ 26,617	$ 56,818
LIABILITIES			
Assets held in trust	$ 30,201	$ -	$ 30,201
Due to other funds	-	26,617	26,617
Total liabilities	$ 30,201	$ 26,617	$ 56,818

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

NOTES TO THE FINANCIAL STATEMENTS

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Note 1: Snmmary of Significant Accounting Policies

I. Introduction

The City of Waveland, Mississippi, was incorporated March 18, 1888, under the laws of the State of Mississippi. The City operates under a Mayor-Aldermen form of government, which provides for an elected mayor and a four-member Board of Aldermen. The following services are authorized by the City's charter: Public Safety (Police, Fire, and Protection/Inspection), Street Maintenance, Garbage Collection, Water, Sewer and Gas Service, Social and Recreational, Public Improvements, Planning and Zoning, and General Administrative Services.

The accounting and reporting policies of the City relating to the funds included in the accompanying combined financial statements conform to accounting principles generally accepted in the United States of America, (GAAP) applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the City are described below.

II. Basis of Presentation

A. Financial Reporting Entity

The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships). Component units are reported as either "blended" or "discretely disclosed." Blended component units, although legally separate entities are, in substance, part of a City's operations and so data from these units are combined with data of the primary government. Based upon application of these criteria, it is determined that the City does not have any component units that are included in the financial statements as of September 30, 2011.

Joint Ventures

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which 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. See Note 11 for additional information describing related organizations not included in the City's reporting entity.

B. Basis of Accounting and Measurement Focus

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

Note 1: Summary of Significant Accounting Policies (continued)

Government-wide Financial Statements:

The *government-wide* financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Real estate taxes are recognized as revenues in the year for which they are levied. Derived tax revenues such as wage, business privilege, and income taxes are recognized when the underlying exchange transaction has taken place. Grant and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as *program revenue* in the government-wide financial statements include: (1) charges to customers or applicants for goods received, services rendered or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program specific revenues. Accordingly, general revenues include all taxes.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water, sewer and gas function and various other programs of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various programs concerned.

Fund Financial Statements:

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred as under accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. However, those expenditures may be accrued if they are to be liquidated with available resources. Imposed nonexchange revenues such as real estate taxes are recognized when the enforceable legal claim arises and the resources are available. Derived tax revenues, such as wage, business privilege, and income taxes, are recognized when the underlying exchange transaction has occurred and the resources are available. Grant revenues are recognized when all the applicable eligibility requirements have been met and the resources are available. All other revenue items are recognized only when cash is received by the City because they are not measurable until that time.

The City reports the following major governmental funds:

General Fund - This 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.

Note 1: Summary of Significant Accounting Policies (continued)

Disaster Relief Fund – A special revenue fund created to account for grant, insurance proceeds and donation monies awarded and received to aid in recovery expenses due to disaster including Hurricane Katrina.

CDBG Grant Fund – A special revenue fund created to account for Community Development Block Grant monies awarded and received by the city to aid in recovery and rebuilding expenses from Hurricane Katrina.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of pages 14 and 16, and shown in the combining statements on pages 51 and 52.

Additionally, the City reports the following governmental fund types:

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

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

Proprietary Fund:

The Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determination 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:

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

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 the integrity of the funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Note 1: Summary of Significant Accounting Policies (continued)

Fiduciary Funds:

Fiduciary Funds – Fiduciary Funds are used to report resources held by the City in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations. These funds account for the payroll clearing, accounts payable clearing, and unemployment fund.

C. Cash and Cash Equivalents

The Board of Aldermen must advertise and accept bids for depositories no less than once every two years as required by Section 27-105-1 et seq., Miss. Code Ann. (1972). The collateral pledged for the City's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

D. Investments

Section 21-33-323, Miss. Code Ann. (1972), authorizes the Board of Aldermen to invest surplus funds in the types of investments authorized by this law. This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration.

Investments are recorded at fair value in accordance with GASB Statement No. 31 with all investment income, including changes in the fair value of investments, reported as revenue in the financial statements. Income from short-term interest bearing securities is recognized as earned.

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 3 months when acquired.

E. Prepaid Items

Prepaid items are expenditures incurred by the City to provide services occurring in future periods.

Note 1: Summary of Significant Accounting Policies (continued)

F. Inventory

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

G. Capital Assets

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

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

	Capitalization Policy	Estimated Useful Life
Land	0	N/A
Buildings	50,000	20 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years

H. Long-term liabilities

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

I. Interfund Transactions and Balances

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

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

Note 1: Summary of Significant Accounting Policies (continued)

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

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

See Note 4 for details for interfund transactions, including receivables and payables at year-end.

J. Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Customer deposits on hand are also recorded as restricted assets in that they are held by the City in a fiduciary capacity and are to be refunded to the customer upon termination of services.

K. Deferred Revenue

Receipts from revenues and grants for which the earning process is not complete are classified as deferred revenue, a liability, on the statement of net assets. The City did not have any deferred revenue as of September 30, 2011.

L. Compensated Absences

The City's policy does not allow vacation and sick leave to accrue from year to year. Full-time employees are granted vacation from 5 to 10 days per year depending on the employee's length of service. All non-administrative employees may accumulate unused compensatory time (comp time). Retiring and terminating employees are paid for all unused vacation for that year and unused comp time not exceeding limits of 240 hours as established by the employee handbook. Amounts not expected to be liquidated with expendable available financial resources are recorded in the government-wide financial statements.

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

M. Equity Classifications

Government-wide Financial Statements:

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

Note 1: Summary of Significant Accounting Policies (continued)

Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, constructions or improvement of those assets.

Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Governmental Fund 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 ordinance or resolution. This includes the budget reserve account.

Assigned—Amounts that are designated by management for a specific purpose but are not spendable until a budget ordinance is passed by Board of Aldermen.

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(J), restricted funds are used first as appropriate. Assigned funds are reduced to the extent that expenditure authority has been budgeted by the Aldermen or the assignment has been changed by management.

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 a nonspendable balance of $16,399 for prepaid insurance and an unassigned fund balance of $886,429 at September 30, 2011.

Disaster Relief Fund

The Disaster Relief Fund has a nonspendable balance of $1,152 and a committed balance of $1,687,593 for rebuilding and recovery efforts as of September 30, 2011.

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Note 1: Summary of Significant Accounting Policies (continued)

Other Funds

The Recreation Fund and the Library Fund have a nonspendable fund balance for prepaid insurance in the amount of $6,963 and $4,052, respectively. The Recreation Fund has an assigned balance in the amount of $644,184. The following non-major funds have a restricted fund balance designated for specific purposes:

Library Fund	$	43,243
Bay-Waveland NTF Fund		127,350
Debt service fund		289,100
	$	459,693

N. Budgetary Data

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

(a) Prior to August 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.

(b) Public hearings are conducted to obtain taxpayer comments.

(c) No later than September 15, the budget is legally enacted through passage of a resolution.

(d) Formal budgetary integration is employed as a management control device during the year for all governmental fund types and the enterprise funds.

(e) Budgets for the governmental fund types and the enterprise funds are adopted on a cash basis except for expenditures which include those paid within 30 days of the fiscal year end as required by state statute.

(f) The budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the Board of Aldermen. The legal level of budgetary control is the department level.

Note 2: Cash and Cash Equivalents and Investments

(A) Cash and Cash Equivalents

The carrying amounts of the City's deposits with financial institutions were as follows:

	Cash	Cash	Cash	Hand	Total
Governmental Activities					
General Fund	$ 488,702	$ 283,786	$ -	$ 450	$ 772,938
Disaster Recovery Funds	-	110,883	-	-	110,883
Other Governmental Funds	898,788	127,463	-	190	1,026,441
Total governmental activities	1,387,490	522,132	-	640	1,910,262
Fiduciary Funds					
	-	56,818	-	-	56,818
Business-type Activities					
Utility Fund	-	541,566	437,430	650	979,646
Total cash and cash equivalents	$ 1,387,490	$ 1,120,516	$ 437,430	$ 1,290	$ 2,946,726

The carrying amount of the City's deposits with financial institutions was $2,945,436 and the bank balance was $4,031,370.

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

However, the Mississippi State Treasurer manages that risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the City. As of September 30, 2011, none of the City's bank balance was exposed to credit risk.

(B) Investments

At September 30, 2011, the City had an investment in a certificate of deposit in the amount of $113,384.

The City does not have a formal deposit or investment policy.

Note 3: Revenues

(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 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. Taxes on real and personal property are levied by the Board of Aldermen at the first regular meeting in September. The City's tax assessment roll is then approved by the Board after a series of public hearings to receive citizens' objections. Such taxes are billed and collected by the County.

In accordance with the Mississippi Code of 1972, as amended, the Board of Aldermen may levy taxes in any amount for general revenue purposes and general improvements. However, taxes collected for the current year are limited to an increase of not more than 10% over receipts for any one of the preceding ten years or a minimum of 20 mills. For purposes of the computation, taxes collected in the current year resulting from property added to the tax assessment roll are excluded from the computation.

The rates are expressed in terms of mills (i.e., ten mills equal one cent). The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt but exclusive of school bond and interest for the year ended September 30, 2011 was 26.235 mills or $26.235 per $1,000 of assessed valuation.

The assessed valuations of the City for the year ended September 30, 2011 are as follows:

Real property	$ 55,994,317
Personal property	5,575,080
Public utilities	888,416
Automobiles	7,292,122
Mobile homes	72,120
Total	69,822,055
Special exemption homestead	(3,641,812)
Net assessment	$ 66,180,243

Property tax revenue reported as taxes in the financial statements is accrued at year-end to the extent that it is measurable and estimated to become available to finance current operations.

Real property taxes are recognized as revenue when received because most delinquent real property taxes are collected by selling real property for taxes, together with all fees, penalties, and damages, accruing until the date of sale, before the close of the fiscal year. The remaining amount of real property not sold for taxes at the tax sale is considered immaterial; therefore, no end of year delinquent taxes receivable is recorded. The amount of delinquent personal property taxes unpaid at the year-end is also considered immaterial.

Note 3: Revenues (continued)

(B) Sales Taxes

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City of Waveland) back to the City monthly. Revenues reported in the general fund include $2,071,925 of sale tax revenue which decreased approximately 8% in comparison to the prior fiscal year.

(C) Grant Revenues

Revenues from federal, state and other grants, which fund specific City expenditures, are recognized at the time of the specific expenditure. Since the destruction of Hurricane Katrina, the Department of Homeland Security through the Federal Emergency Management Agency (FEMA) and the Department of Housing and Urban Development through its Community Development Block Grant program has contributed monies toward the rebuilding of the City of Waveland's infrastructure and repurchase of vehicles, machinery and equipment that was destroyed.

(D) Utility Revenues

The City reports receivables at net realizable value. The allowance for doubtful accounts determination is based upon historical losses and current economic conditions. Delinquent receivables are analyzed on a continuing basis and, once these receivables are determined to be uncollectible, they are written off through a charge against an existing allowance account.

Utility customer receivables consist of the following at September 30, 2011:

Water aud sewer utility charges billed but uncollected	$ 470,182
Water and sewer utility charges accrued but unbilled at year-end	114,687
Less: Allowance for uncollectible accounts	(308,485)
Utility accounts receivable	$ 276,384

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Note 4: Interfund Transactions and Balances

The following is a summary of interfund transactions and balances:

A. Due To/From:

	Due to Other Funds	Due from Other Funds
Governmental activties:		
General Fund	$ 230,654	$ 39,070
Other Governmental Funds	12,453	230,140
Total governmental activities	243,107	269,210
Water Sewer and Gas Fund	-	514
Disbursement Fund	26,617	-
	$ 269,724	$ 269,724

The due to/due from other fund amounts reported in the General Fund, Other Governmental Funds and the Water Sewer and Gas Fund are monies due for payments that were paid out of the General Fund, Other Governmental Funds or Water Sewer and Gas Fund which should have been remitted from the funds which incurred the actual expenditures.

B. Transfers In/Out:

	Transfers to Other Funds	Transfers from Other Funds
Governmental activties:		
General Fund	$ 1,895,135	$ 119,404
Disaster Relief Fund	2,559,319	1,771,854
CDBG Grant Fund	3,154,213	-
Other governmental funds	272,484	148,514
Water Sewer and Gas Fund	-	5,841,379
	$ 7,881,151	$ 7,881,151

The transfers from the General Fund, Disaster Relief 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 the CDBG grant program and accounted for in the Disaster Relief Fund or CDBG Grant Fund but were actual expenses of the Utility Fund.

Note 5: Capital Assets

The following is a summary of changes in capital assets for governmental activities:

	Balance October 1,	Additions	Sales/Transfers Adjustments	Balance September 30,
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 2,417,484	$ 110,179	$ -	$ 2,527,663
Construction in progress	15,706,062	10,526,531	(6,048,489)	20,184,104
Total capital assets not being depreciated	18,123,546	10,636,710	(6,048,489)	22,711,767
Capital assets being depreciated:				
Buildings	3,021,068	-	-	3,021,068
Machinery and equipment	2,296,224	-	-	2,296,224
Furniture and office equipment	313,806	-	-	313,806
Improvements other than Buildings	1,499,908	43,023	6,048,489	7,591,420
Infrastructure	4,919,974	-	-	4,919,974
Vehicles	1,631,713	-	-	1,631,713
Total capital assets being depreciated	13,682,693	43,023	6,048,489	19,774,205
Less accumulated depreciation:				
Buildings	60,421	60,423	-	120,844
Machinery and equipment	922,203	206,664	-	1,128,867
Furniture/Computers/Electronics	214,343	24,853	-	239,196
Improvements other than Buildings	181,103	303,904	-	485,007
Infrastructure	252,361	137,762	-	390,123
Vehicles	978,079	227,121	-	1,205,200
Total accumulated depreciation	2,608,510	960,727	-	3,569,237
Total capital assets being depreciated, net	11,074,183	(917,704)	6,048,489	16,204,968
Governmental activities capital assets, net	$ 29,197,729	$ 9,719,006	$ -	$ 38,916,735

Depreciation expense was charged as direct expense to programs of the governmental activities as follows:

General government	$ 29,930
Public Safety	354,391
Public Works	295,196
Culture & recreation	281,210
	$ 960,727

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Note 5: Capital Assets (continued)

The following is a summary of changes in capital assets for business-type activities:

	Balance October 1,	Additions	Sales/Transfers Adjustments	Balance September 30,
Business - type activities:				
Capital assets not being depreciated:				
Land	$ 76,182	$ -	$ -	$ 76,182
Construction in progress	14,287,124	5,713,532	(3,302,437)	16,698,219
Total capital assets not being depreciated	14,363,306	5,713,532	(3,302,437)	16,774,401
Capital assets being depreciated:				
Machinery and equipment	15,552	-	-	15,552
Infrastructure	72,037,508	-	3,302,437	75,339,945
Total capital assets being depreciated	72,053,060	-	3,302,437	75,355,497
Less accumulated depreciation:				
Machinery and equipment	9,999	2,000	-	11,999
Infrastructure	6,539,449	2,109,516	-	8,648,965
Total accumulated depreciation	6,549,448	2,111,516	-	8,660,964
Total capital assets being depreciated, net	65,503,612	(2,111,516)	3,302,437	66,694,533
Business - type activities capital assets, net	$ 79,866,918	$ 3,602,016	$ -	$ 83,468,934

Depreciation expense was charged as direct expense to programs of the proprietary activities as follows:

Business – type activities:	
Water Sewer and Gas	$ 2,111,516

Note 6: Long Term Debt

A. Governmental Activities

Transactions for the year ended September 30, 2011 are summarized as follows:

	Payable at 10/1/10	Additions	Reductions	Payable at 9/30/11	Due in one year
Governmental activities:					
General obligation bonds	$ 110,000	$ -	$ -	$ 110,000	$ 110,000
Special obligation bonds	2,808,400	-	-	2,808,400	190,400
Notes payable	3,289,379	-	2,660,441	628,938	50,652
Capital leases payable	646,601	-	90,811	555,790	108,023
Compensated absences	205,822	-	80,595	125,227	79,797
	7,060,202	-	2,831,847	4,228,355	538,872
Plus deferred gain on refunding	69,645	-	4,974	64,671	-
Total governmental activities	$ 7,129,847	$ -	$ 2,836,821	$ 4,293,026	$ 538,872

General Obligation Bonds – The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds may be issued for the general government and the City. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as serial bonds with certain amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

General obligation bonds	Original Amount	Issue Date	Interest Rate	Outstanding Amount	Due in 1 Year
Series 2004	$ 820,000	4/21/2004	2.74%	$ 110,000	$ 110,000
	$ 820,000			$ 110,000	$ 110,000

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

	Principal	Interest	Total
2012	$ 110,000	$ 1,507	$ 111,507
Total	$ 110,000	$ 1,507	$ 111,507

Note 6: Long Term Debt (continued)

Special Obligation Bonds – The City issued special obligation bonds with the Mississippi Development Bank in 2004 for public improvements. The proceeds of this bond issue were split between the various funds with $3,604,000 being allocated to the governmental-type activities and $1,696,000 to the business-type activities.

Special obligation bonds	Original Amount	Issue Date	Interest Rate	Outstanding Amount	Due in 1 year
MDA, Series 2004	$ 3,604,000	11/1/2004	1.9-5.0%	$2,808,400	$ 190,400
Plus deferred gain on bond refunding	99,489			69,645	-
	$ 3,703,489			$2,878,045	$ 190,400

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

	Principal	Interest	Total
2012	$ 190,400	$ 122,951	$ 313,351
2013	197,200	116,545	313,745
2014	282,200	107,915	390,115
2015	292,400	97,573	389,973
2016	302,600	84,745	387,345
2017-2021	1,543,600	186,320	1,729,920
Total	$ 2,808,400	$ 716,049	$3,524,449

This City bond is a general obligation of the City payable as to principal and interest out of and secured by an irrevocable pledge of the avails of a direct and continuing tax to be levied annually without limitation as to rate or amount upon the taxable property within the geographical City limits.

Notes Payable - On February 14, 2006, the City borrowed $1,306,642 from the U.S. Department of Homeland Security (FEMA) under the Community Disaster Loan program and drew down an additional amount of $1,306,642 on September 11, 2007 for a total loan amount of $2,613,284. The payments on this loan are deferred for five years, with an option to defer another five years.

In March 2011, the U.S. Department of Homeland Security Federal Emergency Management Agency granted the City full cancellation of the Special Community Disaster Loans (SCDL) plus accrued interest which was first issued to the City in December 2005. The total loan amount forgiven under Section 417(c) (1) of the Stafford Act (42 U.S.C. 5184) was $2,923,348 which includes accrued interest in the amount of $310,064.

Pursuant to HR 2206 – Public Law 110-28, FEMA may allow forgiveness of Community Disaster Loans in Presidentially declared disaster areas on a case by case basis. Please refer to Note 12 regarding the final status of this note payable.

In August 2009, the City settled a lawsuit with Magnolia Garden Condominiums, LLC for $720,000 in actual damages and $79,000 in attorney fees. The City received the subject property as part of the settlement and the related note payable with Mississippi Home Corporation. Please refer to Note 14 regarding the final status of this note payable.

Note 6: Long Term Debt (continued)

The following is a schedule of the principal and interest payments due for this loan:

	Principal	Interest	Total
2012	$ 50,652	$ 46,604	$ 97,256
2013	54,406	42,850	97,256
2014	523,880	-	523,880
Total	$ 628,938	$ 89,454	$ 718,392

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

The following lease obligations are currently outstanding:

Description/Security	Issue Date	Interest Rate	Present Amount
Hancock Bank/ Vehicles	6/20/2006	4.16%	$ 310,862
Hancock Bank/ Vehicles	11/2/2006	3.87%	244,928
			$ 555,790

The following is a schedule of the future minimum lease payments under those capital leases:

Year ended September 30	Total
2012	$ 123,489
2013	123,489
2014	123,489
2015	123,489
2016	123,489
Total minimum lease payments	617,445
Less: amount representing interest	(61,655)
Present value of future minimum lease payments	$ 555,790

Note 6: Long Term Debt (continued)

B. Business-Type Activities

Transactions for the year ended September 30, 2011 are summarized as follows:

	Payable at 10/1/10	Additions	Reductions	Payable at 9/30/11	Due in one year
Business-type activities:					
Revenue bonds	$ 965,395	$ -	$ 36,139	$ 929,256	$ 44,870
Special obligation bonds	1,321,600	-	-	1,321,600	89,600
Notes payable	905,343	-	905,343	-	-
Compensated absences	13,739	10,950	-	24,689	16,915
	3,206,077	10,950	941,482	2,275,545	151,385
Plus deferred gain on bond refunding	52,703	-	3,764	48,939	-
Total business-type activities	$ 3,258,780	$ 10,950	$ 945,246	$ 2,324,484	$ 151,385

Revenue Bonds - The City issues revenue bonds when income derived from the acquired or constructed assets are pledged to pay the debt service. Revenue bonds outstanding are as follows:

Revenue bonds	Original Amount	Issue Date	Interest Rate	Outstanding Amount	Due in 1 year
1992 United States Department of Agriculture (USDA) - Rural Development (formerly known as Farmers Home Administration) Combined Water, Gas, and Sewer System Revenue Bonds	$ 1,350,200	12/17/1992	5.50%	$ 929,256	$ 44,870
	$ 1,350,200			$ 929,256	$ 44,870

Annual debt service requirements to maturity for the revenue bonds are as follows:

	Principal	Interest	Total
2012	$ 44,870	$ 44,684	$ 89,554
2013	43,827	45,727	89,554
2014	46,202	43,352	89,554
2015	48,704	40,850	89,554
2016	51,346	38,208	89,554
2017-2021	301,611	146,158	447,769
2022-2026	392,696	55,073	447,769
Total	$ 929,256	$ 414,052	$ 1,343,308

Note 6: Long Term Debt (continued)

Special Obligation Bonds – The City issued special obligation bonds with the Mississippi Development Bank in 2004 for capital projects. The proceeds of this bond issue were split between the various funds with $3,604,000 being allocated to the governmental-type activities and $1,696,000 to the business-type activities.

Special obligation bond	Original Amount	Issue Date	Interest Rate	Outstanding Amount	Due in 1 year
MDA, Series 2004	$ 1,696,000	11/1/2004	1.9-5.0%	$ 1,321,600	$ 89,600
	$ 1,696,000			$ 1,321,600	$ 89,600

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

	Principal	Interest	Total
2012	$ 89,600	$ 57,859	$ 147,459
2013	92,800	54,845	147,645
2014	132,800	50,784	183,584
2015	137,600	45,917	183,517
2016	142,400	39,880	182,280
2017-2021	726,400	87,680	814,080
Total	$ 1,321,600	$ 336,965	$1,658,565

Notes Payable - On September 28, 2007, the City borrowed $905,343 from the U.S. Department of Homeland Security (FEMA) under the Community Disaster Loan program. The payments on this loan are deferred for five years, with an option to defer another five years.

In March 2011, the U.S. Department of Homeland Security Federal Emergency Management Agency granted the City full cancellation of the Special Community Disaster Loans (SCDL) plus interest which was first issued to the City in December 2005. The total loan amount forgiven under Section 417(c) (1) of the Stafford Act (42 U.S.C. 5184) was $1,002,543 which includes accrued interest in the amount of $97,200.

Pursuant to HR 2206 – Public Law 110-28, FEMA may allow forgiveness of Community Disaster Loans in Presidentially declared disaster areas on a case by case basis. Please refer to Note 12 regarding the final status of this note payable.

Note 7: Unemployment Compensation Fund

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

Note 8: Defined Benefit Pension Plan

Plan Description: The City contributes to the Public Employees Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy: PERS members are required to contribute 9.0% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer rate is 12.0% of annual covered payroll as of September 30, 2011. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature.

The City's contributions to PERS for the years ended September 30, 2011, 2010, and 2009 were $354,447, $437,056 and $445,173 respectively equal to the required contributions for the year.

Note 9: Commitment and Contingencies

(A) Litigation

As of the date of this report, the City is party to several lawsuits where the outcome is still pending, however, there is a reasonable possibility of a financial obligation of the City which could be significantly material. The amount of loss or adverse impact is undeterminable in the affected funds of the City, and therefore an estimate cannot be disclosed.

The City is party to various legal proceedings which normally occur in governmental operations. The City's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the City.

(B) Grants and Awards

The City has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowed expenses, including amounts already collected, might constitute a liability of the applicable funds of the City. As of September 30, 2011, the City has approximately $3,400,000 of de-obligated funds that are in second appeal of FEMA's denial of costs. However, as of the date of this audit report, FEMA has granted $1,492,985 of reimbursements for prior de-obligated funds. FEMA has denied the remaining amount on appeal for debris removal and related monitoring, and the vendors who provided these services to the City have agreed to waive any additional amounts due; therefore, the City has no further liability for debris removal and related monitoring. Accordingly, no provision for any liability has been recognized in the City's financial statements.

Note 9: Commitments and Contingencies (continued)

(C) Construction Contracts

As of September 30, 2011, the City had entered into various construction contracts that were not completed. The following schedule reflects the amounts spent as of year-end and the remaining amounts due:

	Amount spent as of 9/30/11	Remaining commitment
Coleman Avenue	$ 2,756,535	$ 48,880
City Hall & City Annex	2,784,874	1,369,209
Fire Station B	1,151,202	866,158
Fire Station A	3,699,434	4,736,354
Police Station	2,609,733	3,394,152
Library Building	1,819,690	778,331
Business Incubator	3,519,066	125,149
Sewer North	10,556,891	1,581,006
Water South	216,800	277,588
Drainage Improvements	1,843,570	157,430
Water System Extension	5,910,068	1,090,932
	$ 36,867,863	$ 14,425,189

Note 10: 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 – Worker's Compensation Fund

The City is one of the members of the Mississippi Municipal Worker's Compensation Group, Inc. This non-profit corporation is a self-insurance worker's compensation fund organized under the non-profit laws of the State of Mississippi.

The group is self-insured under statutory worker's compensation protection. Members are jointly and severally liable for the obligation of the group. The possibility of additional liability exists, but that amount, if any, cannot be determined.

(B) Self Insurance – Liability Fund

The City is a member of the Mississippi Municipal Liability Plan. The plan is a private non-profit corporation organized under the non-profit laws of the State of Mississippi. The plan provides liability and tort claims insurance for its members according to the limits established by the Mississippi Tort Claims Act.

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Note 10: Risk Management (continued)

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 11: Joint Ventures

(A) Hancock County Utility Authority

The City contracts with the Hancock County Utility Authority (Utility Authority) whereby the Utility Authority treats and disposes of the City's wastewater in compliance with water quality standards established by the Mississippi Air and Water Pollution Control Law and the Federal Water Pollution Control Act.

The Utility Authority provides for the operation and maintenance of the sewer treatment plants on a cost reimbursement basis. Pursuant to the terms of the agreement, the City is required to pay monthly costs of operations and maintenance directly associated with the treatment facilities and to share in the construction costs of the treatment facilities. The costs associated with this contract totaled $390,401 for the year. A fee has been added to rates charged by the Utility Authority as an assessment for the City's allocated share of the operations and maintenance costs of the Utility Authority.

The Utility Authority began leasing the City's sewer treatment plant on January 1, 1983, at a monthly rent of $1,206. The lease will terminate January 1, 2025. Lease revenue is included in Miscellaneous Revenue in the statement of revenues, expenses, and net assets.

Future minimum lease payments are as follows:

	Amount
2012	$ 14,472
2013	14,472
2014	14,472
2015	14,472
2016	14,472
thereafter	130,250
	$ 202,610

The City's obligation to pay operational costs of the Utility Authority is joint and several with the obligations of all other public agencies similarly contracting with the Utility Authority. Whenever any public agency shall default in the payment to the Utility Authority of its respective payment, the Utility Authority 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 is jointly and severally liable for all the liabilities of the Utility Authority.

Note 11: Joint Ventures (continued)

The following is a synopsis of the Utility Authority's financial statements as of and for the year ended September 30, 2011:

STATEMENT OF NET ASSETS

ASSETS	
Current and other assets	$ 1,722,205
Non-current assets	133,414,525
	135,136,730
LIABILITIES	
Current and other liabilities	6,799,394
Long-term debt outstanding	12,711,319
	19,510,713
NET ASSETS	
Invested in capital assets net of related debt	112,804,525
Restricted	857,711
Unrestricted	1,963,781
	$ 115,626,017

CHANGES IN NET ASSETS

Operating revenues	$ 1,922,995
Operating expenses	(2,661,608)
Non-operating revenues (expenses)	40,269,409
Increase in net assets	$ 39,530,796

(B) Hancock County Solid Waste Authority

The City provides for pickup and disposal of garbage and trash through a contract with the 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, Mississippi, the City of Waveland, Mississippi and Hancock County, Mississippi, late in the fiscal year 1974. 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 $188,859 for solid waste services, included in the business-type activities as contractual services. The City is jointly and severally liable for all of the liabilities of the Authority.

Note 11: Joint Ventures (continued)

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

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

STATEMENT OF NET ASSETS

ASSETS	
Current and other assets	$ 1,527,402
LIABILITIES	
Current and other liabilities	169,735
NET ASSETS	
Unrestricted	$ 1,357,667

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

Note 12: Special Item

In March 2011, the U.S. Department of Homeland Security Federal Emergency Management Agency granted the City full cancellation of the Special Community Disaster Loans (SCDL) which was first issued to the City in December 2005. The total loan amount forgiven under Section 417(c) (1) of the Stafford Act (42 U.S.C. 5184) was $3,925,891 which is reported on the Statement of Activities. $2,923,348 is reported on the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds as a special item and $1,002,543 is reported on the Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds.

Note 13: Reissuance of Financial Statements

The City of Waveland, Mississippi has reissued the annual financial report for the year ended September 30, 2011 to correct the independent auditors' opinion on the accompanying schedule of expenditures of federal awards as supplemental information presented in conjunction with the basic financial statements dated February 8, 2013.

Note 14: Subsequent Events

Events that occur after the Statement of Net Assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Assets date are recognized in the accompanying financial statements.

Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date requires disclosure in the accompanying notes.

Management of the City of Waveland, Mississippi evaluated the activity of the City through February 8, 2013 (the date the financial statements were available to be issued), and determined that the following subsequent events have occurred and require disclosure in the notes to the financial statements.

Subsequent to September 30, 2011, the City issued the following debt obligations:

On October 28, 2011, the City issued a $496,000 0.75% Tax Anticipation Note, which was repaid in full February 13, 2012.

The City issued $3,085,000 General Obligation Refunding Bonds, Series 2012, dated August 28, 2012 to advance refund a portion of the City's $5,300,000 General Obligation Public Improvement Bond, Series 2004, dated November 30, 2004. The advance refunding of the 2004 Bonds maturing in the years 2015 through 2020 will result in an overall net present value savings to maturity to the City of 2.291% for an economic benefit of $100,970.

On January 25, 2013, the City issued $1,500,000 1.625% General Obligation Bonds, Series 2013. A portion of the proceeds paid off in full the Mississippi Home Corporation note (see Note 6). The remainder of the proceeds can be used for capital projects as outlined in the notice of intent.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE I

CITY OF WAVELAND, 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 with Final Budget Positive (Negative)
REVENUES				
Ad valorem taxes	$ 935,735	$ 931,901	$ 937,054	$ 5,153
Sales tax	2,672,000	2,060,134	2,078,741	18,607
Franchise tax	233,825	257,679	258,041	362
Licenses and permits	232,610	87,530	94,969	7,439
Intergovernmental	495,655	366,172	362,370	(3,802)
Charges for services	235,507	201,138	204,894	3,756
Fines and forfeits	252,000	146,840	143,107	(3,733)
Interest	42,000	10,000	17,600	7,600
Miscellaneous	132,295	270,448	109,183	(161,265)
Total revenues	5,231,627	4,331,842	4,205,959	(125,883)
EXPENDITURES				
General government	1,413,366	1,593,131	1,433,190	159,941
Public safety	2,841,021	3,007,473	2,715,285	292,188
Public works	729,364	921,122	858,040	63,082
Health and welfare	180,419	222,439	196,093	26,346
Culture and recreation	65,000	12,500	2,760	9,740
Total general government	5,229,170	5,756,665	5,205,368	551,297
Excess (deficiency) of revenues over expenditures	2,457	(1,424,823)	(999,409)	$ 425,414
Fund balance - October 1	909,253	336,661		
Fund balance - September 30	$ 911,710	$ (1,088,162)		
Fund balance - October 1 - GAAP basis			3,565,387	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balances at beginning of year				
Changes in tax receivable			11,847	
Changes in other receivables			(39,757)	
Change in accrued expenses			140,491	
Transfers in			119,404	
Transfers out			(1,895,135)	
Fund balance - September 30 - GAAP basis			$ 902,828	

SCHEDULE II

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

	Origiual Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental	$ 12,804,732	$ 2,303,219	$ 2,771,158	$ 467,939
Interest	27,500	2,975	2,912	(63)
Total revenues	12,832,232	2,306,194	2,774,070	467,876
EXPENDITURES				
General government	2,255,464	2,203,867	1,848,842	355,025
Public safety	8,580,492	1,261,088	1,378,255	(117,167)
Public works	1,631,317	3,124,337	3,171,622	(47,285)
Health and welfare	103,575	-	-	-
Culture and recreation	24,699	782,257	782,254	3
Total general government	12,595,547	7,371,549	7,180,973	190,576
Excess (deficiency) of revenues over expenditures	$ 236,685	$ (5,065,355)	(4,406,903)	$ 658,452
Fund balance - October 1 - GAAP basis, restated			3,649,482	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year				
Change in receivables			(290,068)	
Change in accrued expenses			3,523,699	
Transfer in			1,771,854	
Transfer out			(2,559,319)	
Fund balance - September 30 - GAAP basis			$ 1,688,745	

CITY OF WAVELAND, 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 with Final Budget Positive (Negative)
REVENUES				
Intergovernmental	$ 10,035,268	$ 11,067,164	$ 11,646,126	$ 578,962
Total revenues	10,035,268	11,067,164	11,646,126	578,962
EXPENDITURES				
General government	-	2,233,681	2,233,681	-
Public works	4,221,515	6,883,160	7,166,792	(283,632)
Culture and recreation	5,813 753	1,950,323	1,958,601	(8,278)
Total general government	10,035,268	11,067,164	11,359,074	(291,910)
Excess (deficiency) of revenues over expenditures	$ -	$ -	287,052	$ 287,052
Fund balance - October 1 - GAAP basis, restated			-	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year				
Change in receivables			(1,303,537)	
Change in accrued expenses			4,170,698	
Transfer out			(3,154,213)	
Fund balanee - September 30 - GAAP basis			$ -	

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CITY OF WAVELAND
Notes to the Budgetary Schedules
For the year ended September 30, 2011

Note 1: Budgetary Presentation:

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

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

The budgets for revenues are on a cash basis – revenue is recognized if actually received within the year. Budgeted expenditures are on the cash basis with allowance for encumbrances for goods and services actually received prior to year-end and liquidated (paid) within thirty days after year-end.

Accounting principles applied in preparation of the budget comparison statements differ from the generally accepted accounting principles used in preparation of the fund statements. These differences in the principles used result in timing differences in the recognition of revenue and expenditures.

SUPPLEMENTAL INFORMATION

CITY OF WAVELAND, MISSISSIPPI
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	Recreation Fund	Library Fund	Bay Waveland NTF Fund	Debt - Service Fund	Total Other Governmental Funds
ASSETS					
Cash and cash equivalents	$ 567,995	$ 44,650	$ 127,450	$ 286,346	$ 1,026,441
Taxes receivable, net	1,833	1,148	-	2,754	5,735
Due from other funds	230,140	-	-	-	230,140
Prepaid expenses	6,963	4,052	-	-	11,015
Total assets	$ 806,931	$ 49,850	$ 127,450	$ 289,100	$ 1,273,331
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 143,654	$ 1,255	100	$ -	$ 145,009
Due to other funds	11,153	1,300	-	-	12,453
Accrued wages & compensated absences	977	-	-	-	977
Total liabilities	155,784	2,555	100	-	158,439
Fund balances:					
Nonspendable	6,963	4,052	-	-	11,015
Restricted, reported in non-major:					
Library fund	-	43,243	-	-	43,243
Bay-Waveland NTF fund	-	-	127,350	-	127,350
Debt service fund	-	-	-	289,100	289,100
Assigned, reported in non-major:					
Special revenue funds	644,184	-	-	-	644,184
Total fund balances	651,147	47,295	127,350	289,100	1,114,892
Total liabilities and fund balances	$ 806,931	$ 49,850	$ 127,450	$ 289,100	$ 1,273,331

CITY OF WAVELAND, MISSISSIPPI
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Recreation Fund	Library Fund	Bay Waveland NTF Fund	Debt Service Fund	Total Other Governmental Funds
REVENUES					
Taxes	$ 251,131	$ 157,037	$ -	$ 376,908	$ 785,076
Charges for services	40,847	-	-	-	40,847
Intergovernmental	443,186	-	35,176	-	478,362
Interest	482	25	586	597	1,690
Miscellaneous	36,487	-	50	-	36,537
Total revenues	772,133	157,062	35,812	377,505	1,342,512
EXPENDITURES					
Current:					
Public safety	-	-	52,426	-	52,426
Culture and recreation	928,227	139,723	-	-	1,067,950
Debt Service:					
Principal	-	-	-	-	-
Interest	-	-	-	69,258	69,258
Total Expenditures	928,227	139,723	52,426	69,258	1,189,634
Excess (deficiency) of revenues over expenditures	(156,094)	17,339	(16,614)	308,247	152,878
OTHER FINANCING SOURCES (USES)					
Transfers in	148,514	-	-	-	148,514
Transfers out	(119,404)	-	-	(153,080)	(272,484)
Total other financing sources (uses)	29,110	-	-	(153,080)	(123,970)
Change in Fund Balance	(126,984)	17,339	(16,614)	155,167	28,908
Fund balances - beginning	778,131	29,956	143,964	133,933	1,085,984
Fund balances - ending	$ 651,147	$ 47,295	$ 127,350	$ 289,100	$ 1,114,892

CITY OF WAVELAND, MISSISSIPPI

Schedule of Surety Bonds

September 30, 2011

Position	Employee	Amount
Mayor	David Garcia	$ 100,000
Alderman Ward 1	Lillian Stahler	100,000
Alderman Ward 2	Richard Geoffrey	100,000
Alderman Ward 3	Shane LaFontaine	100,000
Alderman Ward 4	Mark Kidd	100,000
City Clerk	Lisa Planchard	60,000
Comptroller	Janet Dudding	50,000
Deputy City Clerk	Tammy Fayard	50,000
Court Clerk	Paula Fayard	50,000
Deputy Court Clerk	Vacant	50,000
Deputy Court Clerk	Vacant	50,000
Deputy Court Clerk	Vacant	50,000
Building Dept. Manager	Christine Gallagher	50,000
Permits Clerk	Janita Cole	50,000
Director of Public Works	Brent Anderson	50,000
Public Works Admin.	Vacant	50,000
Utility Billing Clerk	Rhonda Aubert	50,000
Utility Billing Clerk	Vacant	50,000
Public Works Clerk	Vacant	50,000
Public Works Clerk	Vacant	50,000
Animal Shelter Director	Colin Freeman	50,000
Parks and Recreation Director	Chris Johnson	50,000
Director of Human Resources	Sharon Jacobi	50,000
Purchasing Agent	Joy Normand	50,000
Acting Police Chief	David Allen	50,000
Assisstant Chief	Vacant	50,000
Police Department - Other		25,000
All Non-Statutory Employees		10,000

CITY OF WAVELAND, 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 State of Mississippi Development Authority			
Community Development Block Grant - Entitlement Grant	14.218	R101-06-016-I	$ 706
Community Development Block Grant - Entitlement Grant	14.218	103-379-01-KCR	772,810
Community Development Block Grant - Entitlement Grant	14.218	103-379-02-KCR	199,904
Community Development Block Grant - Entitlement Grant	14.218	109-379-03-KCR	300,462
Community Development Block Grant - Entitlement Grant	14.218	109-379-04-KCR	1,537,672
Community Development Block Grant - Entitlement Grant	14.218	118-379-01-HCCR	2,058,666
Community Development Block Grant - Entitlement Grant	14.218	118-379-02-HCCR	671,753
Community Development Block Grant - Entitlement Grant	14.218	118-379-03-HCCR	1,429,063
Community Development Block Grant - Entitlement Grant	14.218	118-379-04-HCCR	133,319
Community Development Block Grant - Entitlement Grant	14.218	118-379-06-HCCR	1,847,692
Community Development Block Grant - Entitlement Grant	14.218	118-379-07-HCCR	1,564,135
Total U.S. Department of Housing and Urban Development			10,516,182
Corporation for National and Community Service			
Passed through Hancock County, Mississippi			
Retired and Senior Volunteer Program	94.002	N/A	58,840
Total Corporation for National and Community Service			58,840
U.S. Department of Homeland Security			
Passed through State of Mississippi Emergency Disaster Agency			
Public Assistance Disaster Grants - Hurricane Katrina	97.036	FEMA-1604-DR-MS	6,971,733
Total U.S. Department of Homeland Security			6,971,733
Total Expenditures of Federal Awards			$ 17,546,755

Note A - Significant Accounting Policies

The Schedule of Expenditures of Federal Awards was prepared using the modified accrual basis of accounting,

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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

February 8, 2013

To the Honorable Mayor and Board of Aldermen
City of Waveland, Mississippi

We were engaged to audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Waveland, Mississippi, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 8, 2013. The report on the financial statements as a whole was disclaimed due to the lack of construction oversight on federally funded projects, lack of fixed asset subsidiary detail, inconsistent procedures with utility billings and collections and lack of review of court fines, related receivables and court fine assessments.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be 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.

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, 2011-5, 2011-6 and 2011-7.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Waveland, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2011-2, 2011-3, 2011-4, 2011-5, 2011-6 and 2011-7.

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

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

Wright Ward Hatten & Guel

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

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

February 8, 2013

To the Honorable Mayor and Board of Aldermen
City of Waveland, Mississippi

Compliance

We have audited City of Waveland, Mississippi's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of City of Waveland, Mississippi's major federal programs for the year ended September 30, 2011. City of Waveland, 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 the City's management. Our responsibility is to express an opinion on the City'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 Waveland, 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 Waveland, Mississippi's compliance with those requirements.

As described in item 2011-3, 2011-4 and 2011-8 in the accompanying schedule of findings and questioned costs, the City of Waveland, Mississippi, did not comply with requirements regarding allowable cost principles, procurement suspension and debarment, and equipment and real property management that are applicable to its U.S. Department of Homeland Security Grant. Compliance with such requirements is necessary, in our opinion, for the City of Waveland, Mississippi, to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Waveland, 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. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2011-9.

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Internal Control Over Compliance

Management of City of Waveland, 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 Waveland, 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 Waveland, Mississippi's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-3, 2011-4 and 2011-8 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-9 to be a significant deficiency.

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

This report is intended solely for the information and use of management, Board of Aldermen, 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

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

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

February 8, 2013

Honorable Mayor and Board of Alderman
City of Waveland, 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 the City of Waveland, Mississippi as of and for the year ended September 30, 2011, which collectively comprise City of Waveland, Mississippi's basic financial statements and have issued our report thereon dated February 8, 2013. We conducted our audit in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, as we considered necessary in the circumstances.

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

Fixed Asset Reporting & Accounting

We noted during our audit that the City does not have a defined accounting system in place as required by the state auditor's property accountability regulations and adequate records are not maintained for financial reporting purposes. Physical tagging is a very important component of physical asset control. We noted that several city fixed assets were not properly tagged.

We recommend that the city comply with the state auditor's property accountability regulations and establish guidelines for property management and perform annual inventories of all city property.

Procurement Policy

The City is required to follow state guidelines regarding procurement of various goods and services of the City. During our testing of expenditures, we noted that certain expenditures were paid from copies of invoices and not the original invoice and some expenditures were improperly coded in the general ledger. Many of the invoices were not marked cancelled or paid. During our testing we had difficulty locating

various invoices on some federally funded projects due to lack of consistent filing of paid invoices and other documentation.

We recommend that the individuals in charge of purchasing and accounts payable are familiar with state procurement laws regarding procurement, payment and coding of expenditures. Sufficient documentation should be maintained in one central location for all City expenditures that require competitive pricing.

Performance Bonds

The City is required to follow state guidelines regarding performance bonds for construction contracts exceeding $25,000. A performance bond shall be for the amount not less than the amount of the total contract. During our testing of expenditures, we noted numerous change orders that increased the price of the contract. We recommend that the individuals in charge of construction ensure that all construction contracts have a performance bond in the amount of the total contract.

Court Fine Revenue, Receivables and Related Assessments

The City is required to follow state guidelines regarding the collection of court fines, maintaining a subsidiary of court fine receivables and remitting fine assessments to the various agencies monthly. During our testing of court fine revenue and related receivables we noted that the court fine receivable report was not timely generated or reviewed at the end of the fiscal year. The City is not actively pursuing the collection of aged outstanding fines. We also noted that related court fine assessments were not remitted to the various agencies in a timely manner.

This report is intended solely for the information and use of the Board of Aldermen and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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CITY OF WAVELAND, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2011

Section 1: Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued on financial statements:	Disclaim
Material noncompliance related to the financial statements?	Yes
Internal control over financial reporting:	
a. Material weaknesses identified?	Yes
b. Significant deficiencies identified that are not considered to be material weaknesses?	No

Federal Awards:

Type of auditors' report issued on compliance for major federal programs:	
U.S. Department of Homeland Security - Public Assistance Disaster Grant, CFDA #97.036	Qualified
U. S. Department of Housing and Urban Development - Office of Community Planning and Development - Community Development Block Grant, CFDA #14.218	Unqualified
Internal control over major programs:	
a. Material weaknesses identified?	Yes
b. Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Any audit findings reported as required by Section 510(a) of Cicular A-133?	Yes

Federal programs identified as major programs:

14.218 U. S. Department of Housing and Urban Development - Office of Community Planning and Development - Community Development Block Grant

97.036 U. S. Department of Homeland Security - Public Assistance Disaster Grant

The dollar threshold used to distinguish between type A and type B programs:	$ 526,403
Auditee qualify as a low-risk auditee?	No
Prior fiscal year audit finding(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section 315(b) of OMB Circular A-133?	Yes

Section 2 – Financial Statements Findings

2011-1 Segregation of Duties *Material weakness*

Criteria *Prior year finding*

Good internal control procedures over cash require adequate and defined segregation of duties which reduce the possibility of errors and irregularities and enforcement of these control procedures.

Condition

During our audit we noted that the comptroller receives cash receipts, posts to the general ledger, takes the deposits to the bank, and performs the monthly bank reconciliations. No one person should be in control of all receiving, posting and reconciling cash.

Cause

Segregation of duties is difficult to establish with a limited number of supervisory positions. The accounting department is relatively small due to the size of the City; therefore, the comptroller is the one responsible for receiving and posting cash receipts to the general ledger and also the one who reconciles the bank accounts.

Effect

The opportunity exists that an individual could misappropriate cash and conceal the misappropriation by manipulation of the cash receipts duties because the same person receives cash, records the receipts in the general ledger, and then reconciles the various bank accounts.

Recommendation

We recommend that management review the current assignment of accounting functions over cash and design a proper segregation of the authorization, maintenance and recordkeeping functions.

2011-2 Utility Billings and Receivables *Material weakness*

Criteria *Prior year finding*

An effective control procedure over utility billing and collection requires documentation of the processes employed, the reports generated each month, and consistency in timing of utility billing and adjustments of accounts. Employees performing these functions should be well trained and knowledgeable of the software used and employees should also be cross-trained in this department.

An effective control procedure over accounts receivable requires periodic review of water, sewer and gas receivables, appropriate collection of such receivables, and valuation for financial reporting purposes by city management. Reconciliation between the utility operating cash account and the list of direct drafts from customer accounts should be performed monthly to ensure proper posting of payments to customer accounts. Utility sales tax payable should be reconciled to the general ledger monthly to ensure the correct amount of sales tax is paid to the taxing authority.

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Condition

During our audit we noted that utility billings and adjustments to accounts, if necessary, were not performed at a consistent time each month. An accounts receivable review is not performed each month by management to identify water, sewer and gas accounts that have large outstanding balances; therefore, account collection or service cutoff has not been performed in accordance with city policy.

In some cases, City employees and their relatives had accounts that were delinquent. Due to the lack of monitoring of the utility department's accounts receivable balance and the lack of documentation of City policy, utility accounts receivable has greatly increased. The City offers customers a monthly direct draft payment option. In a few cases, it was determined that customer's accounts were not being drafted; money was not collected, but a payment was posted to their utility account

Cause

Those charged with billing and collections of utility revenues were not adequately trained nor were procedures documented for billing, collection and remittance of sales tax. A thorough review of accounts receivable was not performed and collection policies were not enforced for all city utility customers.

Effect

The issues noted above create financial statement errors in sales tax reported and paid, an overstatement of utility accounts receivable, improper revenue recognition, and financial statement disclosure on the City's financial statements.

Recommendation

We recommend that management implement written policies regarding the billing and collection of water, sewer and gas utilities. Those in charge of collecting utility receivables as well as management should periodically review outstanding receivables to determine cut off procedures and possibilities of collection. If an account is deemed uncollectible, then the account should be properly adjusted so that utility accounts receivable are correctly stated for financial reporting purposes. Reconciliations between direct draft customers should be performed against the bank statement each month before payment is posted to customer accounts. Sales tax payable should be reconciled to the sales tax report, and once paid, the liability should be cancelled in the general ledger.

2011-3 Procurement Policies and Payment of Invoices *Material weakness*

Criteria *Prior year finding*

Payments for goods and services should be made from original invoices and should be properly coded in the general ledger. Invoices should be marked "cancelled" or "paid" when the claims docket has been board approved and a check is issued. All checks issued from vendor invoices should be presented on the claims docket for board approval. All vendor invoices and related records should be maintained in a logical and consistent filing system.

Condition

During our testing of the expenditures, we noted that certain expenditures were paid from copies of invoices and not the original invoice and some expenditures were improperly coded in the general ledger. Many of the invoices were not marked cancelled or paid. During our audit testing we had difficulty locating various invoices on some federally funded projects due to lack of consistent filing of paid invoices and other documentation.

Cause

There has been inadequate training within the purchasing and accounts payable department of the City and the individuals in that department did not have proper knowledge or oversight by management.

Effect

The City was noncompliant with State purchasing laws, and due to lack of proper invoice approval, the City was noncompliant with granting agencies. The City must have adequate procurement documentation to receive reimbursement from federal granting agencies. If invoices cannot be located, the City will not be reimbursed.

Recommendation

We recommend that the City ensure that those responsible with procurement of goods and services for the City are aware of the State purchasing laws, and that they have written policies and procedures in place for following those requirements; they should maintain sufficient documentation in a central location to ensure compliance was met by the City. We also recommend that all invoices are paid from the original invoice and properly cancelled upon payment. All claims should be properly reported on the claims docket for board approval.

2011-4 Capital Asset Management *Material weakness*

Criteria *Prior year finding*

Proper accounting for and internal controls over capital assets of the City require formal written guidelines for the acquisition, disposal, capitalization, use and tagging of all City capital assets. The Office of the State Auditor requires municipalities to have adequate procedures for all capital assets and other inventoriable items and follow their guidelines for financial accounting of asset acquisitions and disposals for capital assets and inventoriable items.

Condition

During our audit test work we noted that the City did not have a formal policy for the purchase or disposal of capital assets. The City also does not have a formal capitalization policy for new asset acquisitions. We also noted that there is not a consistent detailed listing of all city assets that describe the asset, department, date acquired, cost or identifying number.

There are several pieces of equipment or vehicles that were donated to the City that have a material financial value but were never properly recorded in the general ledger system. Capital assets are not properly tagged with a separate identifying number nor is an annual inventory performed.

Cause

The City has had to replace almost all vehicles, furniture and office equipment and other machinery and heavy equipment used by various City departments that was lost or destroyed from Hurricane Katrina; no one individual was charged with the task of capital asset management or knowledgeable of state guidelines regarding capital assets.

Effect

No formal guidelines have been adopted and enforced by management, a capital asset listing has not been maintained, annual inventories have not been conducted, and assets are not properly tagged with separate identifying numbers. This environment can create opportunities for misuse, misappropriation, and errors in recording and accounting for City owned assets. This creates noncompliance with policies as set forth by the Office of the State Auditor.

Recommendation

We recommend that management adopt a formal written policy regarding the acquisition (purchase or donation), capitalization, disposal, tagging, inventory, and use of all capital assets by city employees that reflects the requirements of the Office of the State Auditor. We recommend that all employees are made aware of the adopted policies and procedures and that the policies are enforced.

2011-5 Building Permit and Privilege License Procedures *Material weakness*

Criteria *Prior Year Finding*

City ordinance requires that all new building construction and remodels are to have a valid building permit and that all permits are to be renewed if necessary. The City also requires that all businesses located within the City limits are to have a current business privilege license and occupancy permit.

Condition

During our testing of building permits, we noted that there were open building projects that did not have a valid permit. On some projects, construction and inspections occurred while the permit was expired; some building projects did not have the relevant certificates in the file. Some project files lacked the application packets as required by City policy. We also found instances where some businesses were operating within the City without an occupancy permit and other instances where some businesses do not have a privilege license to operate within the City.

Cause

It appears that the City has no documented procedures for review and verification within the permit and license departments to determine active or closed status. The permit department appears to lack oversight from building inspectors, and it appears that there is insufficient communication between department personnel. The City has no policies and procedures in place to ensure that all businesses within the City have current privilege licenses and occupancy permits.

Effect

There is lack of oversight in commercial and residential building construction or remodeling. In some cases, construction is not in accordance with various City building code ordinances. There are businesses operating within the City that do not have a valid business license, and therefore, operating unlawfully.

Recommendation

We recommend that the City implement and enforce policies to ensure that all required documentation and steps are followed prior to the issuance of a building permit and that construction is monitored and inspected on a reoccurring basis to ensure compliance with City building code ordinances. We also recommend that the City ensure that all businesses within city limits are operating with a current privilege license and occupancy permit.

2011-6 Payroll & Related Record-keeping *Material weakness*

Criteria

Proper payroll procedures require that payroll is accurately calculated and personnel files include necessary documentation to support pay rates, compensation and elected deductions.

Condition

During our testing of payroll we noted that some payrolls were improperly calculated and support documentation was missing from some employees' files for pay rates, compensation and elected deductions. We also noted that there were improper calculations in employees' sick and personal leave. Employees are writing their time in and out instead of using a time clock.

Cause

The payroll clerk processes approximately 9-10 payrolls each month for the various city departments. The time sheets are turned in with very little time to review time sheets before payroll is processed. Sick time and personal leave is manually calculated for all employees and there is inadequate reconciliation of time used by an employee to actual time available. Personnel files are not updated for employee changes in compensation or elected deductions.

Effect

If the payroll clerk does not have enough time to review and recalculate time cards between payroll processing then the risk of overpayment or underpayment to employees is great. This could be very significant in costs to the City with regards to compensated absences (paid time off) as well as possible violations of labor laws.

Recommendation

We recommend that the payroll clerk is provided with adequate time to properly review and calculate all time cards before processing payroll. We also recommend that time clocks or a different time keeping system is employed by the City to ensure accuracy of an employee's time worked. Paid time off should be reconciled each pay period and proper support should exist

substantiating the balance of an employee's paid time off. Personnel files should be reviewed periodically to ensure that all the necessary payroll and deduction data is current and on file.

2011-7 Court Fines, Related Assessments & Court Fines Receivables *Material weakness*

Criteria

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

Condition

During our testing of court fine revenue and related receivables we noted that the court fine receivable report was not timely generated at the end of the fiscal period. The omission distorts the amount of court fine revenue due to the City at any given point in time. The City is not actively pursuing the collection of aged outstanding court fines. We were informed by court personnel that there are an extraordinary amount of adjustments that need to be posted to the court software system on individual cases; to date, these adjustments have not been posted to each individual court case. We also noted that the related court fine assessments were not timely submitted to the various agencies, and we were unable to determine if the court fine assessments were paid for three months. We also noted that the court fine revenue report generated within the court department did not agree to the court fine revenue posted to the general ledger.

Cause

The City's court department had personnel changes near the end of the fiscal year. There appears to be no oversight by management regarding the timely remittance of court assessments to the various agencies and review of court fine receivables reporting and collection. Court fine revenue reported within the court software was not reconciled to the general ledger postings of court fine revenue.

Effect

Untimely payment of court fine assessments can cause the City to be non-compliant with state laws and regulations. Inadequate review and reconciliation of court fine revenue and related receivables can result in the financial statements of the City to be inaccurate as well as non-compliant with state laws regarding financial accounting and recordkeeping of all court fines and related receivables.

Recommendation

We recommend that management ensure that proper procedures are in place for timely remittance of all court assessments. We also recommend that court fine revenue is reconciled monthly from the court software system to the general leger accounting system and any discrepancies are corrected immediately. Court fine receivable reports should be generated monthly and reviewed for proper financial reporting and collection.

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Section 3 – Federal Award Findings and Questioned Costs

2011-3 See above financial statement finding *Material weakness* *Prior year finding*

CFDA 97.036 DHS Public Assistance Disaster Grants

2011-4 See above financial statement finding *Material weakness* *Prior year finding*

CFDA 97.036 DHS Public Assistance Disaster Grants

2011-8 Construction Oversight and Project Management *Material weakness*

CFDA 97.036 DHS Public Assistance Disaster Grants & CFDA 14.228 HUD Community Development Block Grant

Criteria *Prior year finding*

The accounting and oversight for construction in progress on federally reimbursed programs by city personnel is not adequate. Payment and performance bonds on projects are not updated for contract change orders.

Condition

During our audit we noted that the City places heavy reliance on contract personnel to monitor federal monies used for various projects. We discovered that no one individual in the City is responsible for the vast monetary projects that are on-going in the City. The City has approximately in excess of $51,000,000 in construction in progress and remaining commitments as of September 30, 2011 and received over $200,000,000 in federal funding for the Hurricane Katrina recovery process. Most of these federally funded projects have several change orders, and we noted that performance and payment bonds are not updated to reflect the total amount of a contract after change orders.

Cause

The City does not have policies and procedures in place for project oversight by City personnel and the City places heavy reliance on outside parties for project management of the construction projects.

Questioned Costs

There are no questioned costs associated with this finding.

Effect

We noted that questions concerning completeness of projects could not be readily answered by City personnel. No one individual at the City could address our questions concerning the tracking and monitoring of expenses and quality of work purchased with federal monies, verification of suspension and debarment of contractors, or updated performance and payment bonds.

Recommendation

We recommend that a knowledgeable City employee review projects for compliance, completion, and follow-up. Information about completed projects, work in progress and contracts out for bid should be readily available for any inquiry, and change orders to original bids should be readily explainable.

The City employee should be familiar with 44 CFR and FEMA federal laws. They should also be held accountable for gross failures in compliance with all provisions of the contract exclusive to federal guidelines, City policies and State disclosure and publication requirements. In addition, the City should track expenses so that matching requirements to federal grants can be accurately budgeted to complete the projects and provide oversight as to work quality.

2011-9 Cash Management *Significant deficiency*

CFDA 14.228 HUD Community Development Block Grant

Criteria

Grant compliance requires that cash received for a grant project has to be expended within three days of receipt by the granting agency.

Condition

During our testing of the grant noted above, we noticed that in several instances the monies were received on cash requests and these monies were not paid out to the various vendors within three days of receipt.

Cause

City personnel did not adhere to the grant compliance requirement of disbursement of funds within three days of receipt and funds were deposited into the wrong checking account of the City.

Effect

Because the City did not disburse funds within three days of receipt, the City is non-compliant in regards to the cash management compliance requirement of the federal grant.

Recommendation

We recommend that management adhere to the federal grant compliance requirements related to cash management and that they properly expend any cash receipts within three days unless the expenditures were paid prior to grant receipts.

SUMMARY OF PRIOR YEAR AUDIT FINDINGS

WAVELAND

David A. Garcia, Mayor, CFM

CITY OF WAVELAND, MISSISSIPPI
Summary of Prior Year Findings
For the Year Ended September 30, 2011

Finding Number	Prior Audit Finding
10-4	Procurement Policies and Payment of Invoices

Condition

During our testing of the expenditures of the City, we noted that certain expenditures that require price quotes or bids as set forth by the State of Mississippi Purchasing law did not have all of the required documentation noting whether or not the City was compliant with these regulations. Many of the invoices were not marked cancelled or paid and some were paid by statement instead of original invoice. Sales tax was paid in error on several invoices that were tested. In some instances vendors were overpaid because there was a clerical error on the invoice or coversheet recommending payment of goods and services or the invoice did not agree to the quote that was obtained before item was purchased. During our audit testing we had difficulty locating various invoices on some federally funded projects due to lack of consistent filing of paid invoices and other documentation. Conflict of interest statements were not completed for the individuals involved with purchasing and contracting for city goods, services and construction.

Recommendation

We recommend that the City ensure that those responsible with procurement of goods and services for the City are aware of the State purchasing law and have written policies and procedures in place for following those requirements and maintaining sufficient documentation in a central location to ensure compliance was met by the City.

We also recommend that these same employees and those charged with construction bidding complete an annual conflict of interest statement of various vendors that do business with the City to ensure that procurement transactions are handled as an arms-length transaction.

Current Status

This situation has been corrected subsequent to September 30, 2011 due to the timing of the completion of prior audits when it was discovered and reporting to City management.

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mayorsoffice@mchsi.com / w.cityhall@mchsi.com

10-5 Fixed Asset Management

Condition

During our audit test work we noted that the City did not have a formal policy for the purchase or disposal of fixed assets. The City also does not have a formal capitalization policy for new asset acquisitions. We also noted that there is not a consistent detailed listing of all city assets that describe the asset, department, date acquired, cost or identifying number.

There are several pieces of equipment or vehicles that were donated to the City that have a material financial value but were never properly recorded in the general ledger system. Fixed asset are not properly tagged with a separate identifying number nor is an annual inventory performed.

Recommendation

We recommend that management adopt a formal written policy regarding the acquisition whether by purchase or donation, disposal, capitalization, inventory, and use of these fixed assets by city employees that mirrors the requirements of the Office of the State Auditor. We also recommend that these policies are enforced and all City employees are aware of the adopted policies and procedures.

Current Status

This situation has been corrected subsequent to September 30, 2011 due to the timing of the completion of prior audits when it was discovered and reporting to City management.

10-7 Construction Oversight and Project Management

Condition

During our audit we noted that the City places heavy reliance on contract personnel to monitor federal monies used for various projects. We discovered that no one individual in the City held responsibility for the vast monetary projects that are on-going in the City. The City has over approximately $40,000,000 in construction in progress and remaining commitments as of September 30, 2010 and received over $175,000,000 in federal funding for the Hurricane Katrina recovery process. Most of these federally funded projects have several change orders and we noted that performance and payments bonds are not updated to reflect the total amount of a contract after change orders.

Recommendation

We recommend that an informed City employee review projects for compliance, completion, and follow-up. Information about completed projects, work in progress and contracts out for bid should be readily available for any inquiry and change orders to original bids should be readily explainable.

The City employee should not only be familiar with 44 CFR, and FEMA federal laws, but also be held accountable for gross failures in compliance with all provisions of the contract exclusive

to federal guidelines, City policies and State disclosure and publication requirements. In addition, the City should track expenses so that matching requirements to federal grants can be accurately budgeted to complete the projects and provide oversight as to work quality.

Current Status

This situation has been corrected subsequent to September 30, 2011 due to the timing of the completion of prior audits when it was discovered and reporting to City management.

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AUDITEE CORRECTIVE ACTION PLAN

David A. Garcia, Mayor, CFM

CITY OF WAVELAND, MISSISSIPPI
Corrective Action Plan
For the Year Ended September 30, 2011

Section 2 – Financial Statements Findings

2011-1 Segregation of Duties *Material weakness*

Condition

During our audit we noted that the comptroller receives cash receipts, posts to the general ledger, takes the deposits to the bank, and performs the monthly bank reconciliations. No one person should be in control of all receiving, posting and reconciling cash.

Recommendation

We recommend that management review the current assignment of accounting functions over cash and design a proper segregation of the authorization, maintenance and recordkeeping functions.

Response

The current administration corrected this situation. The Mayor's secretary opens and lists the incoming receipts. The Payroll/Receipt/Privilege License Clerk enters the receipt and makes the deposit. The Comptroller reconciles.

2011-2 Utility Billings and Receivables *Material weakness*

Condition

During our audit we noted that utility billings and adjustments to accounts if necessary were not performed at a consistent time each month. An accounts receivable review is not performed each month by management to identify water, sewer and gas accounts that have large outstanding balances, therefore, account collection or service cutoff has not been performed in accordance with city policy.

In some cases, City employees and their relatives had accounts that were delinquent. Due to the lack of monitoring of the utility department's accounts receivable balance and the lack of documentation of City policy, utility accounts receivable has greatly increased. The City offers customers a monthly direct draft payment option. In a few cases, it was determined that

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customer's accounts were not being drafted; money was not collected, but a payment was posted to their utility account

Recommendation

We recommend that the City implement written policies regarding the billing and collection of water, sewer and gas utilities. Those in charge of collecting utility receivables as well as management should periodically review outstanding receivables to determine cut off procedures and possibilities of collection. If an account is deemed uncollectible, then the account should be properly adjusted so that utility accounts receivable are correctly stated for financial reporting purposes. Reconciliations between direct draft customers should be performed against the bank statement each month before payment is posted to customer accounts. Sales tax payable should be reconciled to the sales tax report and once paid; the liability should be cancelled in the general ledger.

Response

The current administration corrected this situation. Each month, the aged accounts receivable goes to the City Clerk for review. The City Clerk reviews accounts for turn-off notices and adjustments and returns to Utility Customer Service for action.

The City contracted with the recently retired Utility Customer Service Office Manager to oversee operations, train staff and develop written procedures for billing and collection. Utility Customer Service staff has been trained on the billing and collection software. Utility Customer Service staff and meter reading staff have been trained on meter reading software.

2011-3 Procurement Policies and Payment of Invoices *Material weakness*

Condition

During our testing of the expenditures, we noted that certain expenditures were paid from copies of invoices and not the original invoice and some expenditures were improperly coded in the general ledger. Many of the invoices were not marked cancelled or paid. During our audit testing we had difficulty locating various invoices on some federally funded projects due to lack of consistent filing of paid invoices and other documentation.

Recommendation

We recommend that the City ensure that those responsible with procurement of goods and services for the City are aware of the State purchasing laws, and that they have written policies and procedures in place for following those requirements, they should maintain sufficient documentation in a central location to ensure compliance was met by the City. We also recommend that all invoices are paid from the original invoice and properly cancelled upon payment. All claims should be properly reported on the claims docket for board approval.

Response

The current administration corrected this situation and adopted purchasing policies and procedures. City Management authorized the Purchase Clerk to begin the process for Certified Purchasing Agent designation.

2011-4 Fixed Asset Management *Material weakness*

Condition

During our audit test work we noted that the City did not have a formal policy for the purchase or disposal of fixed assets. The City also does not have a formal capitalization policy for new asset acquisitions. We also noted that there is not a consistent detailed listing of all city assets that describe the asset, department, date acquired, cost or identifying number.

There are several pieces of equipment or vehicles that were donated to the City that have a material financial value but were never properly recorded in the general ledger system. Fixed asset are not properly tagged with a separate identifying number nor is an annual inventory performed.

Recommendation

We recommend that management adopt a formal written policy regarding the acquisition (purchase or donation), capitalization, disposal, tagging, inventory, and use of all fixed assets by city employees that reflects the requirements of the Office of the State Auditor. We recommend that all employees are made aware of the adopted policies and procedures and that they are enforced.

Response

The current administration corrected this situation. The City adopted policies and procedures. The City ensured its employees are aware and enforce its capital asset policies and procedures.

2011-5 Building Permit and Privilege License Procedures *Material weakness*

Condition

During our testing of building permits, we noted that there were open building projects that did not have a valid permit, on some projects construction and inspections occurred while the permit was expired, some building projects did not have the relevant certificates in the file and on some projects the project file lacked the application packets as required by city policy. We also found instances where some businesses were operating within the City without an occupancy permit and other instances where some businesses do not have a privilege license to operate within the City.

Recommendation

We recommend that the City implement and enforce policies to ensure that all required documentation and steps are followed prior to the issuance of a building permit and that construction is monitored and inspected on a reoccurring basis to ensure compliance with City building code ordinances. We also recommend that the City ensure that all businesses within city limits are operating with a current privilege license and occupancy permit.

Response

The current administration corrected this situation. The City's Payroll/Receipt/Privilege License Clerk took initiative to cross-reference the City's Privilege License history to an online search for businesses doing business in the City. In addition, the Fire Chief, upon returning to full staffing

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levels has pledged to resume auditing privilege license holders when doing annual fire inspections.

The City is reviewing its Building Permit procedures and software requirements.

2011-6 Payroll & Related Record-keeping *Material weakness*

Condition

During our testing of payroll we noted that some payrolls were improperly calculated and support documentation was missing from some employee's files for pay rates, compensation and elected deductions. We also noted that there were improper calculations in employees' sick and personal leave. Employees are writing their time in and out instead of using a time clock.

Recommendation

We recommend that the payroll clerk is provided with adequate time to properly review and calculate all time cards before processing payroll. We also recommend that time clocks or a different time keeping system is employed by the City to ensure accuracy of an employee's time worked. Paid time off should be reconciled each pay period and proper support should exist substantiating the balance of an employee's paid time off. Personnel files should be reviewed periodically to ensure that all the necessary payroll and deduction data is current and on file.

Response

The current administration corrected this situation. The payroll position has turned over twice. The current Payroll/Receipt/Privilege License Clerk is scheduled for training on federal and state payroll law and has been thoroughly trained in the payroll software.

The City changed from 9-10 payroll cycles to 5-6 payroll cycles per month. The City also approved moving the pay day back 2 days from the end of the respective pay period.

City Management is considering changing the policy on leave accrual so that the mechanics of accrual are handled mechanically. Additionally, the City is considering changing the pay basis to be consistent with the FLSA exempt or non-exempt classification to ease analysis and computation of compensation.

2011-7 Court Fines, Related Assessments & Court Fines Receivables *Material weakness*

Condition

During our testing of court fine revenue and related receivables we noted that the court fine receivable report was not timely generated at the end of the fiscal period. The omission distorts the amount of court fine revenue due to the City at any given point in time. The City is not actively pursuing the collection of aged outstanding court fines. We were informed by court personnel that there are an extraordinary amount of adjustments that need to be posted to the court software system on individual cases; to date these adjustments have not been posted to each individual case various court case. We also noted that the related court fine assessments were not timely submitted to the various agencies, and we were unable to determine if the court fine assessments were paid for three months. We also noted that the court fine revenue report

generated within the court department did not agree to the court fines revenue posted to the general ledger.

Recommendation

We recommend that management ensure that proper procedures are in place for timely remittance of all court assessments. We also recommend that court fine revenue is reconciled monthly from the court software system to the general ledger accounting system and any discrepancies are corrected immediately. Court fine receivable reports should be generated monthly and reviewed for proper financial reporting and collection.

Response

The current administration is taking action to correct this situation. Software needs are being identified. Training needs are being identified. Checks and balances are being evaluated and plan and timeline for correction is being formulated.

Section 3 – Federal Award Findings and Questioned Costs

2011-3 See above financial statement finding *Material weakness*

CFDA 97.036 DHS Public Assistance Disaster Grants *Prior year finding*

2011-4 See above financial statement finding *Material weakness*

CFDA 97.036 DHS Public Assistance Disaster Grants *Prior year finding*

2011-8 Construction Oversight and Project Management *Material weakness*
CFDA 97.036 DHS Public Assistance Disaster Grants & CFDA 14.228 HUD Community Development Block Grant *Prior year finding*

Condition

During our audit we noted that the City places heavy reliance on contract personnel to monitor federal monies used for various projects. We discovered that no one individual in the City is responsible for the vast monetary projects that are on-going in the City. The City has approximately in excess of $51,000,000 in construction in progress and remaining commitments as of September 30, 2011 and received over $200,000,000 in federal funding for the Hurricane Katrina recovery process. Most of these federally funded projects have several change orders, and we noted that performance and payments bonds are not updated to reflect the total amount of a contract after change orders.

Recommendation

We recommend that a knowledgeable City employee review projects for compliance, completion, and follow-up. Information about completed projects, work in progress and contracts out for bid should be readily available for any inquiry, and change orders to original bids should be readily explainable.

The City employee should be familiar with 44 CFR and FEMA federal laws. They should also be held accountable for gross failures in compliance with all provisions of the contract exclusive to federal guidelines, City policies and State disclosure and publication requirements. In addition,

the City should track expenses so that matching requirements to federal grants can be accurately budgeted to complete the projects and provide oversight as to work quality.

Response

The current administration corrected this situation and has shown no qualms at shutting a job down until compliant.

Purchase orders are now issued for every contract, providing oversight over contract amounts. One City employee is charged with and compensated for project oversight.

2011-9 Cash Management *Significant deficiency*

CFDA 14.228 HUD Community Development Block Grant

Condition

During our testing of the grant noted above, we noticed that in several instances the monies were received on cash requests and these monies were not paid out to the various vendors within three days of receipt.

Recommendation

We recommend that management adhere to the federal grant compliance requirements related to cash management and that they properly expend any cash receipts within three days unless the expenditures were paid prior to grant receipts.

Response

The current administration corrected this situation. CDBG grant expenditures are specifically approved by the board and that approval is spread on the minutes at the time the request for cash (RFC) is submitted. When the CDBG funds arrive in the mail, they are deposited into a separate non-interest bearing account. The same day funds are expended based on previously acquired board approval.

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