



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.



**Audited Financial Report**

**City of Ocean Springs  
Ocean Springs, Mississippi**

**Fiscal Year Ended September 30, 2010**

**City of Ocean Springs, Mississippi**  
**Audited Financial Report**  
Fiscal Year Ended September 30, 2010  
**Table of Contents**

<b>I</b>	<b>INTRODUCTORY SECTION</b>	
	Listing of City Officials	2
	Organizational Chart	3
<b>II</b>	<b>FINANCIAL SECTION</b>	
	Independent Auditors' Report	5-6
<b>A.</b>	<b>Management's Discussion and Analysis</b> (required supplementary information)	8-13
<b>B.</b>	<b>Basic Financial Statements</b>	
	<b>Government-Wide Financial Statements</b>	
	Statement of Net Assets	15
	Statement of Activities	16
	<b>Fund Financial Statements</b>	
	<b>Governmental Fund Financial Statements</b>	
	Balance Sheet	17
	Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	18
	Statement of Revenues, Expenditures, and Changes in Fund Balances	19
	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
	<b>Proprietary Fund Financial Statements</b>	
	Statement of Net Assets	21
	Statement of Revenues, Expenses, and Changes in Net Assets	22
	Statement of Cash Flow	23-24
	<b>Fiduciary Fund Financial Statement</b>	
	Statement of Assets and Liabilities	25
	<b>Notes to the Financial Statements</b>	26-48
<b>C.</b>	<b>Required Supplementary Information (other than MD&amp;A)</b>	
	Statement of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual – Budget Basis – General Fund	50-51

**City of Ocean Springs, Mississippi**  
**Audited Financial Report**  
Fiscal Year Ended September 30, 2010  
**Table of Contents**

**D. Combining Financial Statements**

**Non-Major Governmental Funds**

Balance Sheet	53-54
Statement of Revenues, Expenditures, and Changes in Fund Balances	55-56

**E. Supplemental Information**

Schedule of Long Term Debt	58
Schedule of Surety Bonds for Municipal Officials and Other Municipal Employees	59

**III. COMPLIANCE SECTION**

<b>Schedule of Expenditures of Federal Awards</b>	61-62
---	-------

**Independent Auditors' Report**

on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	64-65
--	-------

**Independent Auditors' Report**

on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	67-68
---	-------

**Independent Auditors' Report**

on Compliance with Mississippi State Laws and Regulations	69-70
---	-------

<b>Schedule of Findings and Questioned Costs</b>	71-73
--	-------

**Section I**  
**Introductory Section**

# City of Ocean Springs, Mississippi

Listing of City Officials as of September 30, 2010

## Elected Officials

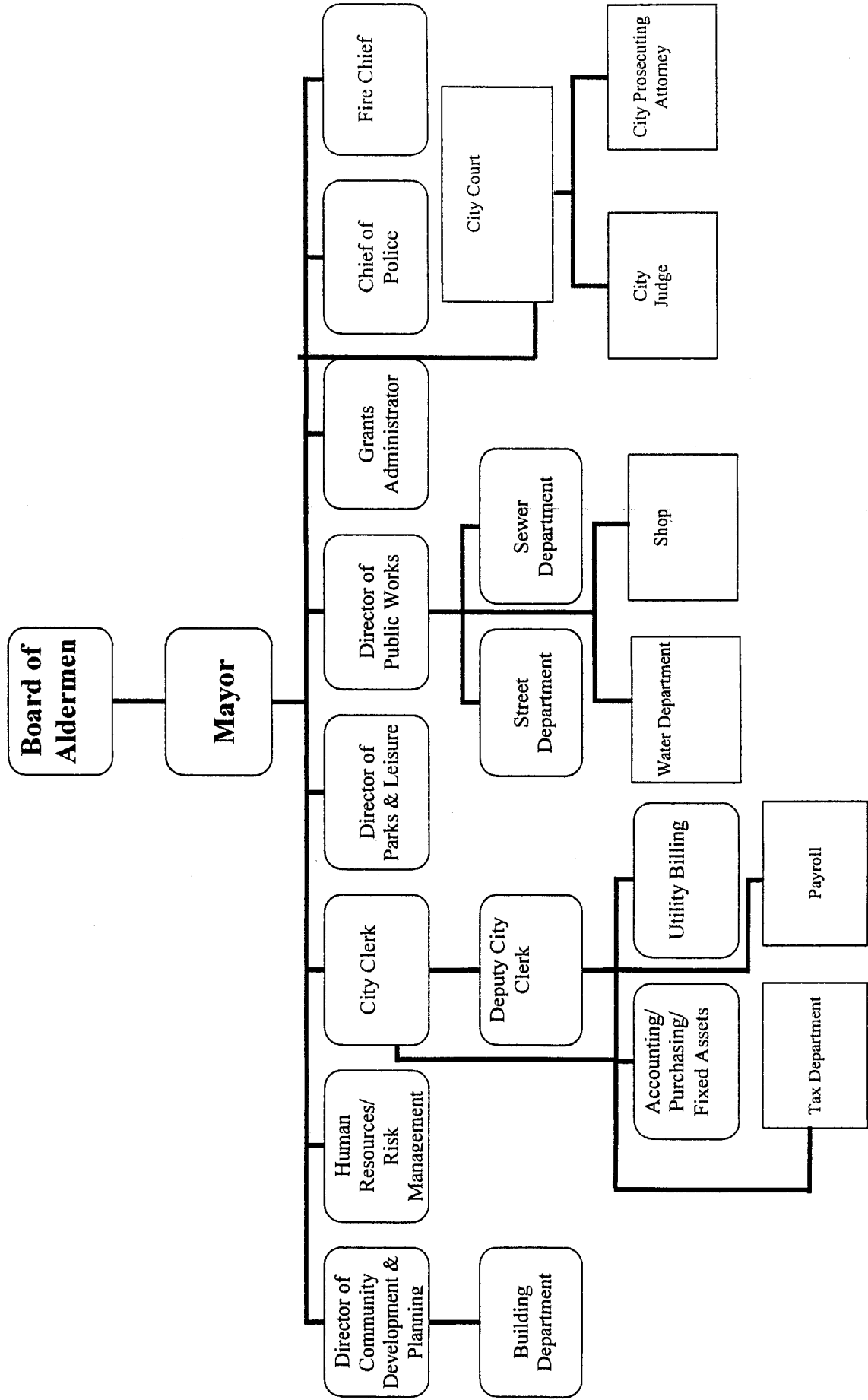
Mayor.....	Connie Moran
Alderman at Large .....	Joseph T. Ross
Alderman Ward 1.....	John Gill
Alderman Ward 2.....	Matt McDonnell
Alderman Ward 3.....	Frederick Cody, Jr.
Alderman Ward 4.....	Greg Denyer
Alderman Ward 5.....	Jerry Dalgo
Alderman Ward 6.....	James Hagen

## Department Heads

City Clerk.....	Shelly Ferguson
City Attorney .....	John Edwards
Police Department.....	Lionel Cothern
Fire Department .....	Jeffrey Ponson
Public Works.....	Andre Kaufman
Community Development.....	Eric Meyer
Parks and Recreation.....	Geri Straight
Human Resources .....	Mindy McDowell

# Organizational Chart

## City of Ocean Springs, MS



**Section II**  
**Financial Section**

## Independent Auditors' Report

To the Board of Aldermen  
City of Ocean Springs  
Ocean Springs, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ocean Springs, Mississippi (City), as of and for the year ended September 30, 2010, 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 of Ocean Springs, Mississippi's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ocean Springs, Mississippi, as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 17, 2011, on our consideration of the City of Ocean Springs, 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 reporting 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.

Management's discussion and analysis on pages 8 through 13 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ocean Springs, Mississippi's, basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Ocean Springs, Mississippi. The combining and individual nonmajor fund financial statements, the budgetary comparison information, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Culumber, Fletcher, Hawley & associates, P.A.*

Certified Public Accountants

Gulfport, Mississippi  
June 17, 2011

## **Management's Discussion and Analysis**

**CITY OF OCEAN SPRINGS, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**Introduction**

The following Management's Discussion and Analysis of the City of Ocean Springs's ("the City") activities and financial performance provides an introduction to the financial statements of the City's for the fiscal year ended September 30, 2010. The information contained in this Management's Discussion and Analysis has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section.

The components of the annual financial report include:

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

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

**Financial Highlights**

- The assets of the City exceeded its liabilities at September 30, 2010 by \$51,651,392. Of this amount unrestricted net assets of \$3,812,504 may be used to meet organizations ongoing obligations to citizens and creditors.
- The total net assets increased by \$5,277,036, and of this amount, governmental activities increased by \$3,457,208, and business type activities increased by \$1,819,828, net of prior period adjustment.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$13,945,927, a decrease of \$1,497,795 in comparison with the prior year, net of prior period adjustment.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,494,834 or 15% of total general fund expenditures.

**Overview of the Financial Statements**

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

*Government-Wide Financial Statements*

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

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

**CITY OF OCEAN SPRINGS, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**Overview of the Financial Statements (Continued)**

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 & welfare, economic development, and culture and recreation. The major business-type activities of the City include providing water and sewer services to the residents of the City of Ocean Springs.

*Fund Financial Statements*

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

- **Governmental funds**

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

The City maintains twenty-two 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, and the food and beverage tax fund, which are determined to be major funds, and the other governmental funds for the purpose of consistency. The general obligation debt service fund was also selected by the City to be reported as a major fund due to its importance to readers.

- **Proprietary Fund**

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

*Notes to the Financial Statements*

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

Refer to Note 1 in the financial statements for more detailed information on the elements of the financial statements.

*Other Information*

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

**CITY OF OCEAN SPRINGS, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**Government-wide Financial Analysis**

The table below presents the City's condensed statement of net assets as of September 30, 2010 and 2009.

**Government-Wide Statement of Net Assets**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
<b>Assets:</b>						
Current and other assets	\$ 17,608,801	\$ 17,876,898	\$ 2,949,175	\$ 3,707,145	\$ 20,557,976	\$ 21,584,043
Capital assets, net	45,283,659	35,729,370	18,353,735	16,330,839	63,637,394	52,060,209
Total assets	<u>62,892,460</u>	<u>53,606,268</u>	<u>21,302,910</u>	<u>20,037,984</u>	<u>84,195,370</u>	<u>73,644,252</u>
<b>Liabilities:</b>						
Current and other liabilities	7,144,902	4,091,892	1,283,081	1,478,449	8,427,983	5,570,341
Long-term liabilities	18,019,629	15,243,655	6,096,366	6,455,900	24,115,995	21,699,555
Total liabilities	<u>25,164,531</u>	<u>19,335,547</u>	<u>7,379,447</u>	<u>7,934,349</u>	<u>32,543,978</u>	<u>27,269,896</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	28,047,509	22,838,073	11,949,059	9,734,419	39,996,568	32,572,492
Restricted	7,726,863	10,182,864	115,457	-	7,842,320	10,182,864
Unrestricted	1,953,557	1,249,784	1,858,947	2,369,216	3,812,504	3,619,000
Total net assets	<u>\$ 37,727,929</u>	<u>\$ 34,270,721</u>	<u>\$ 13,923,463</u>	<u>\$ 12,103,635</u>	<u>\$ 51,651,392</u>	<u>\$ 46,374,356</u>

**Analysis of Government Wide Statement of Net Assets:**

The City's assets exceeded liabilities by \$51,651,392 for 2010 and by \$46,374,356 for 2009. By far the largest portion of the City's net assets (70%) reflects its investment in capital assets, less any related debt used to acquire or construct those assets. In 2010 that amount increased by \$7,424,076 from \$32,572,492 in 2009 to \$39,996,568 in 2010, while the Capital assets, net of depreciation increased from \$52,060,209 in 2009 to \$63,637,394 in 2010. This is due to the issuance of \$10,710,000 of special obligation bonds from 2009 and \$4.6 million from 2010 that have not been completely spent, which is also the reason for the large increase of long-term liabilities and the large increase in current and other assets. The restricted net assets of \$7,842,320 are comprised of the unspent debt proceeds of \$5,794,692 for capital improvements, and \$2,047,628 for future debt service. The remaining \$3,812,504 of net assets is unrestricted, which can be used to finance government operations.

The table below presents the City's condensed statement of activities as of September 30, 2010 and 2009.

**CITY OF OCEAN SPRINGS, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**Government Wide Statement of Activities**

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 1,202,394	\$ 1,349,113	\$ 5,938,055	\$ 5,837,252	\$ 7,140,449	\$ 7,186,365
Operating grants	3,184,488	2,175,376	-	-	3,184,488	2,175,376
Capital grants	5,881,692	4,005,423	1,797,513	2,058,208	7,679,205	6,063,631
Total program	10,268,574	7,529,912	7,735,568	7,895,460	18,004,142	15,425,372
General revenues						
Property taxes	3,996,731	4,156,976	-	-	3,996,731	4,156,976
Franchise taxes	882,162	835,514	-	-	882,162	835,514
Sales, restaurant, and hotel taxes	5,393,867	5,449,842	-	-	5,393,867	5,449,842
Intergovernmental	1,159,807	2,138,779	-	-	1,159,807	2,138,779
License and permits	159,163	236,765	-	-	159,163	236,765
Interest earnings	260,319	116,725	5,074	25,261	265,393	141,986
Other	133,994	212,543	33,353	39,379	167,347	251,922
Total general	11,986,043	13,147,144	38,427	64,640	12,024,470	13,211,784
Total revenues	22,254,617	20,677,056	7,773,995	7,960,100	30,028,612	28,637,156
<b>Expenses</b>						
General government	3,548,837	3,876,915	-	-	3,548,837	3,876,915
Public safety	8,165,947	7,842,149	-	-	8,165,947	7,842,149
Public works	4,528,670	3,017,789	-	-	4,528,670	3,017,789
Health & welfare	1,071,237	-	-	-	1,071,237	-
Economic development	1,339,111	1,348,123	-	-	1,339,111	1,348,123
Culture and recreation	786,804	2,185,328	-	-	786,804	2,185,328
Interest	836,516	410,199	-	-	836,516	410,199
Water	-	-	1,417,619	1,516,152	1,417,619	1,516,152
Sewer	-	-	2,381,526	2,656,454	2,381,526	2,656,454
Garbage	-	-	1,355,022	1,380,072	1,355,022	1,380,072
Total expenses	20,277,122	18,680,503	5,154,167	5,552,678	25,431,289	24,233,181
Net change before transfers	1,977,495	1,996,553	2,619,828	2,407,422	4,597,323	4,403,975
Operating Transfers	800,000	368,571	(800,000)	(368,571)	-	-
Change in net assets	2,777,495	2,365,124	1,819,828	2,038,851	4,597,323	4,403,975
Beginning net asset	34,270,721	31,905,597	12,103,635	10,064,784	46,374,356	41,970,381
Prior period adjustment	679,713	-	-	-	679,713	-
Beginning net asset, restated	34,950,434	31,905,597	12,103,635	10,064,784	47,054,069	41,970,381
Ending net assets	\$ 37,727,929	\$ 34,270,721	\$ 13,923,463	\$ 12,103,635	\$ 51,651,392	\$ 46,374,356

**Analysis of Government Wide Statement of Activities:**

Total revenues for 2010 increased by \$1,391,456 from \$28,637,156 in 2009 to \$30,028,612 in 2010, mostly due to increased capital grants received. Property taxes, however, decreased by \$160,245 from \$4,156,976 in 2009 to \$3,996,731 in 2010. Total program expenses increased by \$1,198,108 from \$24,233,181 in 2009 to \$25,431,289 in 2010, resulting in an increase in net assets of \$5,277,036 in 2010 compared with an increase of \$4,403,975 in 2009, net of prior period adjustment.

**CITY OF OCEAN SPRINGS, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**Governmental Funds Analysis**

As of the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$13,945,927, a decrease of \$1,497,795 from the previous fiscal year, including prior period adjustment. Of that balance \$5,794,692 is restricted for capital improvements, \$2,538,467 for economic development, \$190,537 for public safety, \$83,402 for library support, and \$1,932,171 is restricted for future debt service payments, with the remainder in the general fund.

- **General Fund**

Fund balance at September 30, 2010 totaled \$3,406,658, a decrease of \$1,465,993 from the previous fiscal year, including prior period adjustment. Of that total \$724,090 has been designated for subsequent year appropriations with \$2,494,834 remaining as unassigned.

**Budget Variances in the General Fund**

Amendments to the original budget increased total appropriations by \$519,936; however actual expenditures were still under budget by \$2,211,618, as a result of a conservative fiscal management plan. Budgeted revenues were also increased by \$94,350, while actual revenues were under budget by \$2,159,757 mostly due to CDBG and FEMA grant reimbursements not being received in a timely manner. Refer to the budgetary comparison schedule for the General Fund on page 50-51 in the RSI section of the annual report.

**Capital Asset and Long-Term Debt Activity**

Capital Asset Activity

At September 30, 2010, the City reported \$45,283,659 in net capital assets for governmental activities and \$18,353,735 in net capital assets for business-type activities for a total of \$63,637,394 compared to \$52,060,209 for 2009. Construction in progress increased from \$11,440,620 in 2009 to \$12,283,055 in 2010. Land increased by \$922,413 from a purchase of distressed beachfront property with FEMA mitigation funds. Additional information on the City's capital assets can be found in Note F: Capital Asset Activity on pages 39-40 of this report.

**Capital Assets  
(net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 5,103,471	\$ 4,181,058	\$ 29,413	\$ 29,413	\$ 5,132,884	\$ 4,210,471
Buildings & Improvements	4,226,517	4,023,166	3,191	4,059	4,229,708	4,027,225
Machinery & Equipment	1,054,448	468,026	246,663	61,898	1,301,111	529,924
Infrastructure & Systems	17,841,209	18,763,629	17,428,099	9,381,298	35,269,308	28,144,927
Other Improvements	3,968,130	2,532,456	-	-	3,968,130	2,532,456
Vehicles	1,148,355	911,675	304,843	262,911	1,453,198	1,174,586
Construction in progress	11,941,529	4,849,360	341,526	6,591,260	12,283,055	11,440,620
<b>Total</b>	<b>\$ 45,283,659</b>	<b>\$ 35,729,370</b>	<b>\$ 18,353,735</b>	<b>\$ 16,330,839</b>	<b>\$ 63,637,394</b>	<b>\$ 52,060,209</b>

**CITY OF OCEAN SPRINGS, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Long-Term Debt Activity

At the end of the current fiscal year, the City had \$26,461,068 in outstanding debt. During the year the City issued \$4,600,000 in general obligation bonds for construction of municipal projects. The City also issued \$128,931 in additional Drinking Water Improvement notes to make repairs and improve and replace water and sewer projects. Additional information on the City's long-term debt can be found in Note H: Long-Term Debt on pages 40-44 and the Schedule of Long-Term Debt on page 58 of the supplemental information section of this report.

**General and Special Obligation Bonds and Other Loans**

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Special obligation bonds	\$ 10,500,000	\$ 10,710,000	\$ -	\$ -	\$ 10,500,000	\$ 10,710,000
General obligation bonds	4,600,000	-	-	-	4,600,000	-
Notes payable	3,246,387	4,767,182	6,404,676	6,596,420	9,842,807	11,363,602
Capital leases payable	1,710,005	234,357	-	-	1,710,005	234,357
Total	<u>\$ 20,056,392</u>	<u>\$ 15,711,539</u>	<u>\$ 6,404,676</u>	<u>\$ 6,596,420</u>	<u>\$ 26,461,068</u>	<u>\$ 22,307,959</u>

**Contact the City's Financial Management**

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

Shelly Ferguson, City Clerk  
City of Ocean Springs, Mississippi  
1018 Porter Avenue  
Ocean Springs, MS 39566

## **Basic Financial Statements**

**City of Ocean Springs, Mississippi**  
**Statement of Net Assets**  
September 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 191,509	\$ 740,849	\$ 932,358
Investments	6,647,563	-	6,647,563
Restricted assets:			
Cash - customers deposits	-	597,587	597,587
Investments - bond reserve	829,500	-	829,500
Investments - bond proceeds trust	5,050,167	-	5,050,167
Receivables:			
Taxes	1,077,083	-	1,077,083
Customer accounts, net	-	608,861	608,861
Grants	3,921,489	5,958	3,927,447
Other	155,643	-	155,643
Internal balances	(924,205)	924,205	-
Prepaid insurance	187,734	71,715	259,449
Deferred Charge	472,318	-	472,318
Capital assets:			
Land and construction in progress	17,045,000	370,939	17,415,939
Other (net of accumulated depreciation)	28,238,659	17,982,796	46,221,455
Total assets	<u>62,892,460</u>	<u>21,302,910</u>	<u>84,195,370</u>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Accounts payable	2,748,389	373,163	3,121,552
Accrued payroll	251,510	25,510	277,020
Accrued interest payable	529,057	-	529,057
Retainage payable	150,472	17,706	168,178
Developer deposits payable	40,185	482,130	522,315
Due within one year:			
Bonds and notes	3,425,289	384,572	3,809,861
Due beyond one year:			
Bonds and notes	16,631,103	6,020,104	22,651,207
Compensated absences	1,388,526	76,262	1,464,788
Total liabilities	<u>25,164,531</u>	<u>7,379,447</u>	<u>32,543,978</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	28,047,509	11,949,059	39,996,568
Restricted for:			
Debt service	1,932,171	115,457	2,047,628
Capital improvements	5,794,692	-	5,794,692
Unrestricted	1,953,557	1,858,947	3,812,504
Total net assets	<u>\$ 37,727,929</u>	<u>\$ 13,923,463</u>	<u>\$ 51,651,392</u>

*The Accompanying Notes are an Integral Part of the Financial Statements.*

**City of Ocean Springs, Mississippi**  
**Statement of Activities**

For the Fiscal Year Ended September 30, 2010

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Primary Government Business-Type Activities	
			Grants and Contributions	Capital Grants and Contributions		Activities	Total
<b>Governmental Activities:</b>							
General Government	\$ 3,548,837	\$ 20,000	\$ 160,199	\$ -	\$ (3,368,638)	\$ -	\$ (3,368,638)
Public Safety	8,165,947	720,148	177,080	996,289	(6,272,430)	-	(6,272,430)
Public Works	4,528,670	-	2,125,748	-	(2,402,922)	-	(2,402,922)
Health & Welfare	1,071,237	-	139,446	812,248	(119,543)	-	(119,543)
Economic Development	1,339,111	-	-	2,588,307	1,249,196	-	1,249,196
Culture and Recreation	786,804	462,246	582,015	1,484,848	1,742,305	-	1,742,305
Interest and Other, Long-Term Debt	836,516	-	-	-	(836,516)	-	(836,516)
Total Governmental Activities	20,277,122	1,202,394	3,184,488	5,881,692	(10,008,548)	-	(10,008,548)
<b>Business-Type Activities:</b>							
Water	1,417,619	2,039,150	-	388,240	-	1,009,771	1,009,771
Sewer	2,381,526	2,538,901	-	1,409,273	-	1,566,648	1,566,648
Non-major	1,355,022	1,360,004	-	-	-	4,982	4,982
Total Business-Type Activities	5,154,167	5,938,055	-	1,797,513	-	2,581,401	2,581,401
Total Primary Government	\$ 25,431,289	\$ 7,140,449	\$ 3,184,488	\$ 7,679,205	(10,008,548)	2,581,401	(7,427,147)
<b>General revenues:</b>							
Property taxes					3,996,731	-	3,996,731
Sales, restaurant, and hotel taxes					5,393,867	-	5,393,867
Franchise and utility taxes					882,162	-	882,162
Licenses & Permits					159,163	-	159,163
Intergovernmental					1,159,807	-	1,159,807
Interest Earnings					260,319	5,074	265,393
Miscellaneous					133,994	33,353	167,347
Operating Transfers					800,000	(800,000)	-
Total general revenues and transfers					12,786,043	(761,573)	12,024,470
Change in net assets					2,777,495	1,819,828	4,597,323
Net Assets - beginning of period as previously stated					34,270,721	12,103,635	46,374,356
Prior period adjustment					679,713	-	679,713
Net Assets - beginning of period as adjusted					34,950,434	12,103,635	47,054,069
Net Assets - end of period					\$ 37,727,929	\$ 13,923,463	\$ 51,651,392

*The Accompanying Notes are an Integral Part of the Financial Statements.*

**City of Ocean Springs, Mississippi**

**Balance Sheet**

**Governmental Funds**

September 30, 2010

	General	Food and Beverage Tax	General Obligation	Other Non-Major Governmental	Total Governmental
<b>Assets</b>					
Cash and cash equivalents	\$ 23,080	\$ 127,313	\$ -	\$ 41,116	\$ 191,509
Investments	6,647,563	-	-	-	6,647,563
Restricted assets:					
Investments - bond reserve	-	829,500	-	-	829,500
Investments - bond proceeds trust	-	5,050,167	-	-	5,050,167
Receivables:					
Taxes	909,625	157,659	3,224	6,575	1,077,083
Grants	16,229	-	-	3,905,260	3,921,489
Other	95,643	-	-	60,000	155,643
Due from other funds	175,001	2,751,711	1,536,500	2,243,312	6,706,524
Prepays	187,734	-	-	-	187,734
Total assets	<u>8,054,875</u>	<u>8,916,350</u>	<u>1,539,724</u>	<u>6,256,263</u>	<u>24,767,212</u>
<b>Liabilities and Fund Balance</b>					
<b>Liabilities</b>					
Accounts payable	721,403	446,437	-	1,580,549	2,748,389
Accrued payroll	251,510	-	-	-	251,510
Retainage payable	-	71,297	-	79,175	150,472
Developer deposits	40,185	-	-	-	40,185
Due to other funds	3,635,119	-	437,053	3,558,557	7,630,729
Total liabilities	<u>4,648,217</u>	<u>517,734</u>	<u>437,053</u>	<u>5,218,281</u>	<u>10,821,285</u>
<b>Fund Balances</b>					
Restricted for:					
Economic development	-	2,518,949	-	19,518	2,538,467
Library support	-	-	-	83,402	83,402
Public safety	-	-	-	190,537	190,537
Debt service	-	829,500	1,102,671	-	1,932,171
Capital improvements	-	5,050,167	-	744,525	5,794,692
Nonspendable for prepaids	187,734	-	-	-	187,734
Unassigned	2,494,834	-	-	-	2,494,834
Assigned for subsequent year appropriations	724,090	-	-	-	724,090
Total fund balances	<u>3,406,658</u>	<u>8,398,616</u>	<u>1,102,671</u>	<u>1,037,982</u>	<u>13,945,927</u>
Total liabilities and fund balances	<u>\$ 8,054,875</u>	<u>\$ 8,916,350</u>	<u>\$ 1,539,724</u>	<u>\$ 6,256,263</u>	<u>\$ 24,767,212</u>

*The Accompanying Notes are an Integral Part of the Financial Statements.*

**City of Ocean Springs, Mississippi**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets**  
as of September 30, 2010

Total fund balances of governmental funds in the balance sheet, page 17 \$ 13,945,927

Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not financial resources  
and, therefore, are not reported in the funds.

Governmental capital assets	84,600,616	
Less: accumulated depreciation	<u>(39,316,957)</u>	45,283,659

Long-term liabilities, including bonds payable are not due and payable in  
the current period and therefore are not reported in the funds. Also  
governmental funds report the effect of issuance costs when debt is  
first issued, whereas these amounts are deferred and amortized in the  
statement of activities.

Deferred charges on debt issuance costs	213,748	
Deferred charges on bond discounts	258,570	
Accrued interest payable	(529,057)	
Governmental bonds and notes payable	(20,056,392)	
Compensated absences payable	<u>(1,388,526)</u>	<u>(21,501,657)</u>

Net assets of governmental activities, page 15		<u><u>\$ 37,727,929</u></u>
--	--	-----------------------------

*The Accompanying Notes are an Integral Part of the Financial Statements.*

**City of Ocean Springs, Mississippi**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
For the Fiscal Year Ended September 30, 2010

	General	Food and Beverage Tax	General Obligation	Other Nonmajor Governmental	Total Governmental
<b>Revenues</b>					
Ad valorem taxes	\$ 3,488,896	\$ -	\$ 306,563	\$ 201,272	\$ 3,996,731
Franchise fees	882,162	-	-	-	882,162
Licenses and permits	159,163	-	-	-	159,163
Intergovernmental	5,503,642	956,219	-	93,813	6,553,674
Charges for services	482,246	-	-	-	482,246
Grants	868,763	-	-	8,197,417	9,066,180
Fines & forfeitures	666,564	-	-	53,584	720,148
Interest Income	115,893	139,266	3,636	1,524	260,319
Other	23,416	-	-	-	23,416
Total revenues	<u>12,190,746</u>	<u>1,095,485</u>	<u>310,199</u>	<u>8,547,610</u>	<u>22,144,040</u>
<b>Expenditures</b>					
Current:					
General government	2,311,907	-	-	-	2,311,907
Public safety	7,071,840	186,633	-	571,206	7,829,679
Public works	3,981,989	-	-	459,936	4,441,925
Health & welfare	1,064,032	-	-	7,205	1,071,237
Economic development	1,135,579	-	-	58,273	1,193,852
Culture & Recreation	491,604	-	-	287,329	778,933
Capital Outlay:					
Public safety	-	547,920	-	734,948	1,282,868
Public works	-	-	-	1,390,266	1,390,266
Health & welfare	-	-	-	922,413	922,413
Economic development	-	-	-	2,543,666	2,543,666
Culture & Recreation	422,136	3,049,155	-	1,687,867	5,159,158
Debt service:					
Principal retirement	-	231,314	1,520,795	83,269	1,835,378
Interest and agent fees	-	569,477	72,632	8,966	651,075
Total expenditures	<u>16,479,087</u>	<u>4,584,499</u>	<u>1,593,427</u>	<u>8,755,344</u>	<u>31,412,357</u>
Excess (deficiency) of revenues over expenditures	<u>(4,288,342)</u>	<u>(3,489,014)</u>	<u>(1,283,228)</u>	<u>(207,734)</u>	<u>(9,268,318)</u>
<b>Other financing sources (uses)</b>					
Insurance proceeds	65,882	-	-	-	65,882
Sale of capital assets	44,697	-	-	-	44,697
Debt issuance proceeds	1,250,000	2,699,888	1,536,516	693,827	6,180,231
Transfers in	800,000	-	147,245	274,141	1,221,386
Transfers out	(17,943)	(256,198)	-	(147,245)	(421,386)
Total other financing sources (uses)	<u>2,142,636</u>	<u>2,443,690</u>	<u>1,683,761</u>	<u>820,723</u>	<u>7,090,810</u>
Net change in fund balance	<u>(2,145,706)</u>	<u>(1,045,324)</u>	<u>400,533</u>	<u>612,989</u>	<u>(2,177,508)</u>
Fund balance, beginning	4,872,650	9,443,940	702,138	424,993	15,443,721
Prior Period Adjustments	679,713	-	-	-	679,713
Restated fund balance, beginning	<u>5,552,363</u>	<u>9,443,940</u>	<u>702,138</u>	<u>424,993</u>	<u>16,123,434</u>
Fund balances, end of year	<u>\$ 3,406,658</u>	<u>\$ 8,398,616</u>	<u>\$ 1,102,671</u>	<u>\$ 1,037,982</u>	<u>\$ 13,945,927</u>

*The Accompanying Notes are an Integral Part of the Financial Statements.*

**City of Ocean Springs, Mississippi**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
for the Fiscal Year Ended September 30, 2010

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances of governmental funds, page 19	\$ (2,177,508)
--	----------------

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.

Expenditures for capital assets	11,298,369	
Less: current year depreciation	(1,744,082)	9,554,287

The issuance of long-term debt (bonds payable) provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of borrowed principal is an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the statement of net assets, and bond issue costs are capitalized. This is the amount by which proceeds exceed repayments.

Bond and loan proceeds	(6,180,231)	
Principal payments	1,835,378	(4,344,853)

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds

Accrued interest expense	(164,893)	
Amortization of bond issue costs	(9,306)	
Amortization of bond discounts	(11,242)	
Change in long-term compensated absences	(68,991)	(254,432)

Change in net assets of governmental activities, page 16	\$ 2,777,495
--	--------------

*The Accompanying Notes are an Integral Part of the Financial Statements.*

**City of Ocean Springs, Mississippi**  
**Statement of Net Assets**  
**Proprietary Funds**  
September 30, 2010

	Business-Type Activities-Enterprise Funds			
	Major Funds			Total
	Water	Sewer	Non-Major	Enterprise
	Fund	Fund	Funds	Funds
<b>Assets</b>				
Current assets:				
Cash	\$ 672,510	\$ -	\$ 68,339	\$ 740,849
Restricted cash	-	-	597,587	597,587
Receivables:				
Customer accounts, net	136,652	277,335	194,874	608,861
Federal CDBG Grant	5,958	-	-	5,958
Prepaid Insurance	31,488	40,227	-	71,715
Due from other funds	837,995	334,064	-	1,172,059
Total current assets	<u>1,684,603</u>	<u>651,626</u>	<u>860,800</u>	<u>3,197,029</u>
Noncurrent assets:				
Capital assets:				
Land and construction in progress	365,584	5,355	-	370,939
Other (net of accumulated depreciation)	<u>10,179,984</u>	<u>7,802,812</u>	<u>-</u>	<u>17,982,796</u>
Total noncurrent assets	<u>10,545,568</u>	<u>7,808,167</u>	<u>-</u>	<u>18,353,735</u>
Total assets	<u>12,230,171</u>	<u>8,459,793</u>	<u>860,800</u>	<u>21,550,764</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	238,864	23,504	110,795	373,163
Accrued payroll	11,983	13,527	-	25,510
Retainage payable	17,706	-	-	17,706
Due to other funds	-	247,854	-	247,854
Customer deposits payable from restricted assets	-	-	482,130	482,130
Current portion of bond and notes	<u>291,517</u>	<u>93,055</u>	<u>-</u>	<u>384,572</u>
Total current liabilities	<u>560,070</u>	<u>377,940</u>	<u>592,925</u>	<u>1,530,935</u>
Non-current liabilities:				
Compensated absences	28,418	47,844	-	76,262
Notes payable, non-current	<u>5,450,189</u>	<u>569,915</u>	<u>-</u>	<u>6,020,104</u>
Total non-current liabilities	<u>5,478,607</u>	<u>617,759</u>	<u>-</u>	<u>6,096,366</u>
Total liabilities	<u>6,038,677</u>	<u>995,699</u>	<u>592,925</u>	<u>7,627,301</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	4,803,862	7,145,197	-	11,949,059
Restricted for debt service	-	-	115,457	115,457
Unrestricted	<u>1,387,632</u>	<u>318,897</u>	<u>152,418</u>	<u>1,858,947</u>
Total net assets	<u>\$ 6,191,494</u>	<u>\$ 7,464,094</u>	<u>\$ 267,875</u>	<u>\$ 13,923,463</u>

*The Accompanying Notes are an Integral Part of the Financial Statements.*

**City of Ocean Springs, Mississippi**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Proprietary Funds**  
For the Fiscal Year Ended September 30, 2010

	Business-Type Activities-Enterprise Funds		
	Major Funds		Total
	Water Fund	Sewer Fund	Enterprise Funds
<b>Operating Revenues</b>			
Charges for services:			
Water sales, sewer revenues			
penalties & installations, net	\$ 2,039,150	\$ 2,538,901	\$ 1,360,004
Grants	388,240	1,409,273	-
Total operating revenues	<u>2,427,390</u>	<u>3,948,174</u>	<u>1,360,004</u>
<b>Operating expenses</b>			
Personal services	381,512	463,674	-
Contracted services	42,766	1,220,874	1,355,022
Other services and charges	478,495	350,669	-
Depreciation	340,709	315,024	-
Total operating expenses	<u>1,243,482</u>	<u>2,350,241</u>	<u>1,355,022</u>
Operating income	<u>1,183,908</u>	<u>1,597,933</u>	<u>4,982</u>
<b>Non-operating revenues (expenses):</b>			
Interest income	2,631	-	2,443
Gain on sale of assets	21,768	11,585	-
Interest expense	(174,137)	(31,285)	-
Transfers out	(400,000)	(400,000)	-
Total non-operating revenues (expenses)	<u>(549,738)</u>	<u>(419,700)</u>	<u>2,443</u>
Change in net assets	634,170	1,178,233	7,425
Net assets, beginning of year	<u>5,557,324</u>	<u>6,285,861</u>	<u>260,450</u>
Net assets, end of year	<u>\$ 6,191,494</u>	<u>\$ 7,464,094</u>	<u>\$ 267,875</u>

*The Accompanying Notes are an Integral Part of the Financial Statements.*

**City of Ocean Springs, Mississippi**  
**Statement of Cash Flow**  
**Proprietary Funds**  
For the Fiscal Year Ended September 30, 2010

	Business-Type Activities-Enterprise Funds			
	Major Funds			Total
	Water Fund	Sewer Fund	Non-Major Funds	Enterprise Funds
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 2,010,273	\$ 2,581,490	\$ 1,294,861	\$ 5,886,624
Receipt of grants	390,314	1,729,734	-	2,120,048
Payments to suppliers	(478,628)	(1,857,626)	(1,369,834)	(3,706,088)
Payments for services of employees	(413,994)	(536,088)	-	(950,082)
Net cash provided by (used in) operating activities	<u>1,507,965</u>	<u>1,917,510</u>	<u>(74,973)</u>	<u>3,350,502</u>
<b>Cash flows from non-capital financing activities</b>				
Transfers (to) from other funds	(400,000)	(400,000)	-	(800,000)
Net cash provided by (used in) non-capital financing activities	<u>(400,000)</u>	<u>(400,000)</u>	<u>-</u>	<u>(800,000)</u>
<b>Cash flows from capital and related financing activities</b>				
Acquisition of capital assets	(1,030,621)	(1,645,655)	-	(2,676,276)
Proceeds of debt	128,931	-	-	128,931
Retirement of debt	(230,400)	(90,275)	-	(320,675)
Interest paid on debt	(143,107)	(31,285)	-	(174,392)
Net cash provided by (used in) capital and related financing activities	<u>(1,275,197)</u>	<u>(1,767,215)</u>	<u>-</u>	<u>(3,042,412)</u>
<b>Cash flows from investing activities</b>				
Temporary loan repayments	988,198	663,849	337,619	1,989,666
Temporary loans to other funds	(503,930)	(414,144)	-	(918,074)
Interest and dividends on investments	2,631	-	2,443	5,074
Net cash provided by (used in) investing activities	<u>486,899</u>	<u>249,705</u>	<u>340,062</u>	<u>1,076,666</u>
Net increase (decrease) in cash and cash equivalents	319,667	-	265,089	584,756
Cash and cash equivalents, beginning	352,843	-	400,837	753,680
Cash and cash equivalents, ending	<u>\$ 672,510</u>	<u>\$ -</u>	<u>\$ 665,926</u>	<u>\$ 1,338,436</u>
<b>Classified as:</b>				
Current assets	\$ 672,510	\$ -	\$ 68,339	\$ 740,849
Restricted assets	-	-	597,587	597,587
Totals	<u>\$ 672,510</u>	<u>\$ -</u>	<u>\$ 665,926</u>	<u>\$ 1,338,436</u>

**City of Ocean Springs, Mississippi**  
**Statement of Cash Flow**  
**Proprietary Funds**  
For the Fiscal Year Ended September 30, 2010  
(Continued)

	Business-Type Activities-Enterprise Funds			
	Major Fund		Non-Major Funds	Total Enterprise Funds
	Water Fund	Sewer Fund		
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income	\$ 1,183,908	\$ 1,597,933	\$ 4,982	\$ 2,786,823
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	340,709	315,024	-	655,733
Changes in assets and liabilities:				
Accounts receivable	(28,877)	42,589	(65,143)	(51,431)
Grants receivable	2,074	320,461	-	322,535
Accounts payable and accrued expenses	10,151	(358,497)	(1,351)	(349,697)
Customer deposits	-	-	(13,461)	(13,461)
Net cash provided by (used in) operating activities	<u>\$ 1,507,965</u>	<u>\$ 1,917,510</u>	<u>\$ (74,973)</u>	<u>\$ 3,350,502</u>

*The Accompanying Notes are an Integral Part of the Financial Statements.*

**City of Ocean Springs, Mississippi**  
**Statement of Assets and Liabilities**  
**Agency Funds**  
September 30, 2010

<b>Assets</b>	School District Tax	Tax Sale & Redemption	Payroll Clearing	Flexible Medical Spending	Total
Cash	\$ 132,725	\$ 5,727	\$ 168,928	\$ 3,564	\$ 310,944
Receivables:					
Taxes	183,745	-	-	-	183,745
Total assets	<u>316,470</u>	<u>5,727</u>	<u>168,928</u>	<u>3,564</u>	<u>494,689</u>
 <b>Liabilities</b>					
Accounts payable	-	5,727	168,928	3,564	178,219
Due to other government	316,470	-	-	-	316,470
Total Liabilities	<u>\$ 316,470</u>	<u>\$ 5,727</u>	<u>\$ 168,928</u>	<u>\$ 3,564</u>	<u>\$ 494,689</u>

*The Accompanying Notes are an Integral Part of the Financial Statements.*

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

**I. Summary of Significant Accounting Policies**

The financial statements of the City of Ocean Springs, Mississippi (the City) have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) applicable to governmental units. The following is a summary of the more significant accounting policies of the City:

**(A) Reporting Entity**

The City of Ocean Springs, Mississippi was incorporated on September 10, 1892 under the laws of the State of Mississippi. The City operates under a Mayor-Alderman form of government and provides the following services: public safety, (police, fire and civil defense), public works (highways, streets, and sanitation), health and social services, culture-recreation, community development, planning and zoning, and general administrative services.

The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. As required by GAAP, these financial statements present the City of Ocean Springs (the primary government) and its components.

**(B) Component Unit Disclosure**

The criteria for including component units consist of identification of legally separate organizations for which the elected officials of the City are financially accountable. This criteria also includes identification of organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the governments-wide financial statements to emphasize that they are legally separate from the government. The City has no component units.

**(C) Related Organizations**

The Ocean Springs Municipal Separate School District has been excluded from the reporting entity, because it is an "other stand-alone government". The school district is a related Organization of, but not a component unit of the City of Ocean Springs. The governing authorities of the City do select a majority of the school district's board, but do not have ongoing financial accountability for the school district.

**(D) Joint Ventures and Jointly Governed Organizations**

Additionally, during its evaluation of potential component units, management identified one joint venture (Mississippi Gulf Coast Regional Wastewater Authority), and one jointly governed organization (the Jackson-George Regional Library System).

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

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 the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Generally, the purpose of a joint venture is to pool resources and share the 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.

A jointly governed organization is similar in nature to a joint venture in that they provide goods and services to the citizenry of two or more governments. However, they do not meet the definition of a joint venture because there is no ongoing significant financial interest or responsibility by the participating governments

**(E) Basic Financial Statements- GASB Statement 34**

**Government-Wide and Fund Financial Statements**

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial reporting model the focus is on either the City as a whole, or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

The government-wide financial statements, including the *statement of net assets* and the *statement of activities*, report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from the statements. Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely extensively on fees and charges for support. In the government-wide statement of net assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

**(F) Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual, i.e., measurable and available to pay liabilities of the current period. *Available* means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recognized when the related fund liability is incurred, if measurable, except for interest on long-term debt and the long-term portion of accumulated compensated absences, which are recognized when due.

Year-end accruals of ad valorem taxes, sales taxes, and franchise fees are based upon actual collections of amounts remitted to the City within 60 days of year end. Anticipated refunds of taxes are recorded as liabilities and reductions of revenue when they are measurable. Other licenses and permits, charges for services, fines and penalties, and miscellaneous revenues are recorded as revenues when they are received as they are generally not measurable until actually received; however, charges for services which are measurable are recorded as revenue in the period earned.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33 the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

The financial transactions of the City are recorded in the individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets liabilities, reserves, fund equity, revenues and expenditures / expenses. The various funds are reported by generic classification within the financial statements.

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

GASB Statement No. 34 sets forth minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

The proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal operations. The principal operating revenues of the Water and Sewer funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The preparation of the basic financial statements in conformity with GAAP requires management to make use of estimates that affect reported amounts in the basic financial statements. Actual results could differ from estimates.

**(G) Fund Types and Major Funds**

**Governmental Funds**

Governmental funds are those funds through which the City finances most of its municipal services and are accounted for on the basis of a spending measurement focus. The focus on governmental funds are on the determination of changes in financial position rather than upon net income determination. The City's major governmental funds are as follows:

**General Fund** is the City's primary operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in a separate fund. This fund is always classified as a major fund by definition.

**General Obligation Fund** is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. Revenues are received primarily from a separate property tax levy. This fund was selected to be classified as a major fund due to the type of expenditures.

**Food and Beverage Tax Special Revenue Fund** is used to account for a special 2% sales tax on local food and beverage sales. This money will be used for economic development projects and will repay the debt on a recent \$10.7 million bond issue. This fund was deemed to be a major fund by the requirements set forth in GASB 34 issued by the Governmental Accounting Standards.

**Other Non-Major Governmental Funds** is a summarization of all of the non-major governmental funds including:

**Special Revenue Funds**

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

**Capital Projects Funds**

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

**Debt Service Funds**

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

**Proprietary Funds**

The focus of Proprietary Fund measurement is upon determination of operating income, changes in fund net assets, financial position, and cash flows, which is similar to businesses. The following is a description of the Proprietary Funds of the City:

**Water Fund** accounts for the activities of the City's water system.

**Sewer Fund** accounts for the activities of the City's sewer system.

**Non-Major Proprietary Funds** account for the City's garbage billings and costs, utility deposits, and sewer maintenance reserves.

**Non-Current Governmental Assets / Liabilities**

GASB Statement No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide Statement of Net Assets.

**(H) Assets, Liabilities and Net Assets or Equity**

**Cash and Cash Equivalents**

The City considers cash on hand, cash with fiscal agents, demand deposit, certificates of deposit and bank repurchase agreements as cash and cash equivalents. In addition, each fund's equity in the City's investment pool has been treated as a cash equivalent since cash may be deposited or withdrawn from the pool at any time without prior notice or penalty.

**Investments**

Investments are stated at fair value.

**Accounts Receivable**

Accounts receivable are recorded in the Governmental, and Business-type Funds. Where appropriate, an associated allowance for doubtful accounts has been established in the related fund.

**Inventories**

Governmental and Proprietary Fund inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are consumed.

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

**Capital Assets**

Capital assets, including land, buildings, improvements other than buildings, infrastructure (i.e., roads, bridges, street lighting and other similar items) and equipment are reported in the applicable governmental and business-type activities columns in the government-wide financial statements. The City's capitalization levels are as follows: purchased assets costing more than \$500 are capitalized; building renovations are capitalized when their cost exceeds 25% of the building's previously capitalized cost and if the repair extends the building's estimated useful life; contributed capital assets are capitalized and recorded at the estimated market value at the time of the contribution. Assets acquired using capital lease obligations are treated in the same manner as purchased capital assets.

Depreciation of capital assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	40-50 years
Improvements	40-50 years
Infrastructure	20-60 years
Equipment	3-15 years

**Compensated Absences**

The City accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. Employees are paid for up to 30 days of unused vacation and all unused comp time upon retirement or termination, while excess vacation and all accumulated sick leave remaining are counted as creditable service toward retirement.

**Post Employment Health Care Benefits**

The City has no costs associated with post-employment benefits for retired employees.

**Interfund Transactions**

Disbursements made by one fund which are properly chargeable to another fund result in the creation of interfund receivables and payables. This type of transaction is normally settled by a cash payment between the funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government financial statements as "internal balances". All other interfund transactions are accounted for as either an operating transfer or a capital transfer. A capital transfer results when a governmental fund permanently transfers funds to a proprietary fund as a capital infusion for the construction of fixed assets, for example. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government wide columnar presentation.

**Advances to Other Funds**

Various funds have made short-term advances to other funds. These advances, shown as "Due From Other Funds", are temporary in nature, bear no interest, and are considered "available spendable resources". Long-term advances, if any, are those for which the timing of repayment is uncertain: thus, an allocable portion of fund balance would be reserved in governmental funds.

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

**Bond Discounts, Bond Premiums, and Issuance Costs**

In governmental funds, bond discounts, bond premiums and issuance costs are treated as period costs in the year of issue and are shown as "Other Financing Sources (Uses)".

In proprietary funds (and for governmental activities, in government-wide statements) bond discounts, bond premiums and issuance costs are deferred and amortized over the term of the bonds using the bonds outstanding method, which approximates the effective interest method. Bond discounts and premiums are presented as a reduction and increase, respectively, of the face amount of the revenue bonds payable, whereas issuance costs are recorded as other assets.

**Restrictions of Fund Equity**

The City does not have a formal minimum fund balance policy; however, the state of Mississippi Code does not allow deficit fund balances. There were no individual funds reported with deficit fund balances.

Note III (I) discusses in more detail the fund balance classification determinations for the governmental funds.

**II. Stewardship, Compliance and Accountability:**

**A. Budgetary Data**

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

1. Prior to October 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.
2. Public hearings are conducted to obtain taxpayer comments.
3. Not later than September 15, the budget is legally enacted through passage of a resolution.
4. The budgetary comparisons present budget figures at the legal level of control. The City legally adopts annual budgets for all funds. The Board of Aldermen formally adopts the annual budget for the general fund with revenues segregated by source (ad valorem tax, licenses and permits, intergovernmental, etc.). The general fund expenditure budget is set at the character level (current, capital outlay, debt service) for each department (function) with current expenditures further detailed at the object level (personal services, supplies, other services and charges, and contractual services).

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

5. The budget for capital project funds is adopted at total fund type level with the revenue budget set at the source level and expenditures set at the total expenditure level. Proprietary fund budgets are adopted for the Water and Sewer Funds with revenues delineated at the source level (total intergovernmental revenue and total charges for services) and expenditure budgets delineated by character (current, capital outlay debt service).
6. State statutes authorize the State Auditor to regulate the municipal budget process. Expenditures must be defined to the minimum level prescribed by the State Auditor. The State Auditor has set this level at the purpose level. Municipalities are prohibited from spending in excess of the lowest level adopted in the budget except for the capital outlay, election expense and emergency warrants.
7. Formal budgetary integration at the "account level" is employed by management for expenditure control purposes. Management may transfer budget between expenditure accounts within each character grouping of the expenditure accounts for each department.
8. The City's budgets are adopted in accordance with state statutes and regulations of the State Auditor and not on a basis consistent with Generally Accepted Governmental Accounting Principles. 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 financial statements. These differences in the principles used results in timing differences in the recognition of revenues and expenditures. Below is a reconciliation of the General Fund Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual – Budget Basis to the General Fund column of the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds:

	<u>General Fund</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses, budgetary basis	\$ ( 2,230,510)
<b>Adjustments</b>	
To convert receivables	448,676
To convert liabilities	( 363,872)
Totals, GAAP basis	\$ ( 2,145,706)

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

**B. Excess Expenditures over Appropriations**

There were no funds with excess expenditures over appropriations and available resources in individual funds for the current year.

**III. Detail Notes - All Funds**

**A. Property Tax Revenues**

The City levies a tax on real and personal property based on the assessed value of property as compiled by the Jackson County Tax Assessor. The taxes on real and personal property attach as an enforceable lien on the property as of January 1 of each year. Taxes on real and personal property are levied by the Board of Aldermen at the first regular meeting in September. Through an inter-local agreement, all of the property taxes of the City of Ocean Springs are collected by the Jackson County Tax Collector and remitted as tax settlements (less an appropriate collection fee) to the City on a monthly basis. Taxes for the Ocean Springs Municipal Separate School District are also billed and collected by the county and remitted to the schools through the City.

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 any one year may not exceed one hundred and ten percent (110%) of the taxes collected for the prior assessment year. 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. In addition, the Board of Aldermen may levy additional taxes for specific purposes, such as culture and recreation, as authorized by law.

The tax levies to be collected in the fiscal years ending 9/30/10, 9/30/09, and 9/30/08 are as follows:

	<u>9/30/10</u> <u>Millage</u>	<u>9/30/09</u> <u>Millage</u>	<u>9/30/08</u> <u>Millage</u>
<b>City Funds</b>			
General fund	19.05	21.05	22.32
Special revenue fund:			
Library fund	1.01	1.01	1.01
Debt service Fund	<u>1.77</u>	<u>1.77</u>	<u>1.77</u>
Total City administered funds	<u>21.83</u>	<u>23.83</u>	<u>25.10</u>
<b>School Funds</b>			
District maintenance	51.76	50.82	54.56
School debt	<u>10.41</u>	<u>6.03</u>	<u>6.82</u>
Total School administered funds	<u>62.17</u>	<u>56.85</u>	<u>61.38</u>
<b>Total levy</b>	<u><u>84.00</u></u>	<u><u>80.68</u></u>	<u><u>86.48</u></u>

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

**B. Deposits and Investments**

**Deposits**

The City deposits funds in financial institutions selected by the Board of Aldermen in accordance with state statutes. Furthermore, the City invests excess funds in various investment instruments that are allowed by statutes. Various restrictions on deposits and investments are imposed by statutes. Deposits and investments are summarized below.

Deposits consist of cash amounts in demand accounts and certificates of deposit. The collateral for public entities' deposits in financial institutions are now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation. By using this multiple financial institution collateral pool, all of the City's deposits at September 30, 2010 fall into the credit risk category of "*Insured or collateralized with securities held by the entity or by its agent in the entity's name*".

The City awarded Hancock Bank the designated depository for calendar year 2009-2010, who then allocates resulting balances of cash to other City approved depositories as follows:

	<u>Allocation Percentage</u>
Hancock Bank	50.00%
Peoples Bank	16.66%
BancorpSouth Bank	16.67%
Merchants & Marine Bank	<u>16.67%</u>
Total	<u>100.00%</u>

*Custodial Credit Risk.* Deposits. Custodial credit risk is the risk that in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a formal policy for custodial credit risk. However, state law permits the Mississippi State Treasurer's office to manage 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. By signed agreement the Mississippi State Treasurer's office is acting on behalf of the City.

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

Deposits at September 30, 2010 (including restricted deposits) are as follows:

	<u>Bank Balances</u>	<u>Carrying Value</u>
<b>Pooled deposits:</b>		
Cash and cash equivalents	\$ 1,997,075	\$ 1,667,027
<b>Non-pooled deposits:</b>		
Cash and cash equivalents	168,689	173,862
Total	<u>\$ 2,165,764</u>	<u>\$ 1,840,889</u>

**Reconciliation to Government-wide Statement  
of Net Assets:**

Government activities	
Unrestricted cash	\$ 191,509
Business-type activities:	
Unrestricted cash	740,849
Restricted cash (Utility Deposits)	597,587
Total	<u>1,529,945</u>
Agency fund cash (not included in government- wide statements)	310,944
Total	<u>\$ 1,840,889</u>

**Investments**

The City is allowed, by statute, to invest excess funds in any bonds or other direct obligations of the United States of America or the State of Mississippi, or of any county or municipality of this State, when such county or municipal bonds have been properly approved.

Investments held by the City's safekeeping agent, and registered in the name of the City:	<u>Fair Market</u>
Hancock Horizon Treasury Securities (6-12 months)	\$ 2,460,009
Federal Home Loan Mortgage Corp (6-12 months)	464,486
Federal Home Loan Mortgage Corp (13-24 months)	511,720
Federal Home Loan Mortgage Corp (25-36 months)	490,502
U.S. Treasury bonds (6-12 months maturities)	2,503,996
U.S. Treasury bonds (13-24 months maturities)	3,552,312
U.S. Treasury bonds (25-36 months maturities)	<u>2,544,205</u>
Total	<u>\$ 12,527,230</u>

*Interest Rate Risk.* The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

*Credit Risk.* State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The city does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

*Custodial credit risk – Investments.* Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the city will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The city does not have a formal investment policy that addresses custodial credit risk. The investment in the Hancock Horizon Treasury Securities Money Market Mutual fund is uninsured and unregistered and is not backed by the full faith and credit of the federal government, however is made up exclusively by short-term U.S. Government Securities.

**Prior Period Adjustment**

The prior period adjustment reported on the Statement of Activities (page 16) and on the Statement of Revenues, Expenditures and Changes in Fund Balances (page 19) in the amount of \$679,713 is a result of correcting the cash balances through reconciliation to bank statements.

**C. Receivables**

The Statement of Net Assets of the City of Ocean Springs includes the following receivables at September 30, 2010:

Taxes receivable:	
Franchise taxes	\$ 241,200
Sales, restaurant, and hotel taxes	793,499
Ad valorem taxes	<u>42,384</u>
Total taxes receivable	<u>1,077,083</u>
Customer accounts receivable:	
Garbage fees	273,757
Water and sewer utility charges (billed)	601,908
Less allowance for doubtful accounts	( 347,778)
Customer accounts receivable earned but not billed	<u>80,974</u>
Total customer accounts receivable, net	<u>608,861</u>
Grants receivable:	
Federal, state, and local grants	<u>3,927,447</u>
Other receivables	\$ <u>155,643</u>

**D. Prepaid Insurance**

Prepaid Insurance at September 30, 2010 consists of the following:

Governmental Funds (Health insurance premiums)	\$ 187,734
Proprietary Funds (Health insurance premiums)	<u>71,715</u>
Total	\$ <u>259,449</u>

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

**E. Interfund Receivables and Payables**

Almost all funds are pooled into one bank account, therefore limiting the need for interfund loans, except for grant funds that have been expended but not yet reimbursed by year end. Interfund loans are reported on the government wide statements as internal balances. The following is a recap of interfund loans as of September 30, 2010:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
<b><i>Government-type activities</i></b>		
Major Funds:		
General	\$ 175,001	\$ 3,635,119
Food and Beverage Tax	2,751,711	-
General Obligation	1,536,500	437,053
Non-major Funds	2,243,312	3,558,557
<b><i>Business-type activities</i></b>		
Major Funds:		
Water	837,995	-
Sewer	334,064	247,854
Total	<u>\$ 7,878,583</u>	<u>\$ 7,878,583</u>

Interfund transfers for the year ended September 30, 2010 is as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
<b><i>Government-type activities</i></b>		
Major Funds:		
General	\$ 800,000	\$ 17,943
Food and Beverage Tax	-	256,198
General Obligation	147,245	-
Non-major Funds	274,141	147,245
<b><i>Business-type activities</i></b>		
Major Funds:		
Water	-	400,000
Sewer	-	400,000
Total	<u>\$ 1,221,386</u>	<u>\$ 1,221,386</u>

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them 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.

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

**F. Capital Asset Activity**

Capital asset activity for the year ended September 30, 2010 was as follows:

	Balance 10/1/2009	Additions	Deletions/ Transfers	Balance 9/30/2010
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 4,181,058	\$ 922,413	\$ -	\$ 5,103,471
Construction in progress	4,849,360	8,985,692	(1,893,523)	11,941,529
Total capital assets, not being depreciated	9,030,418	9,908,105	(1,893,523)	17,045,000
Capital assets being depreciated:				
Buildings and improvements	5,603,532	294,972	-	5,898,504
Machinery and equipment	5,016,116	942,356	(112,855)	5,845,617
Other improvements	4,348,382	1,542,837	-	5,891,219
Infrastructure	47,620,592	55,714	-	47,676,306
Vehicles	1,887,949	447,910	(91,889)	2,243,970
Total capital assets, being depreciated	64,476,571	3,283,789	(204,744)	67,555,616
Less: Accumulated depreciation				
Buildings	(1,580,366)	(91,621)	-	(1,671,987)
Machinery and equipment	(4,548,090)	(355,934)	112,855	(4,791,169)
Other improvements	(1,815,926)	(107,163)	-	(1,923,089)
Infrastructure	(28,856,963)	(978,134)	-	(29,835,097)
Vehicles	(976,274)	(211,230)	91,889	(1,095,615)
Total accumulated depreciation	(37,777,619)	(1,744,082)	204,744	(39,316,957)
Total capital assets being depreciated, net	26,698,952	1,539,707	-	28,238,659
Governmental activities capital assets, net	35,729,370	11,447,812	(1,893,523)	45,283,659
<b>Business - type activities:</b>				
Capital assets, not being depreciated				
Land	29,413	-	-	29,413
Construction in progress	6,591,260	2,339,789	(8,589,523)	341,526
Total capital assets, not being depreciated	6,620,673	2,339,789	(8,589,523)	370,939
Capital assets being depreciated:				
Buildings	35,390	-	-	35,390
Machinery and equipment	680,006	274,577	(33,483)	921,100
Water & sewer system- Other Improv	19,709,672	8,589,523	-	28,299,195
Vehicles	800,473	64,263	(72,842)	791,894
Total capital assets, being depreciated	21,225,541	8,928,363	(106,325)	30,047,579
Less: Accumulated depreciation				
Buildings	(31,331)	(868)	-	(32,199)
Machinery and equipment	(618,108)	(89,812)	33,483	(674,437)
Water & sewer system- Other Improv	(10,328,374)	(542,722)	-	(10,871,096)
Vehicles	(537,562)	(22,331)	72,842	(487,051)
Total accumulated depreciation	(11,515,375)	(655,733)	106,325	(12,064,783)
Total capital assets being depreciated, net	9,710,166	8,272,630	-	17,982,796
Business activities capital assets, net	16,330,839	10,612,419	(8,589,523)	18,353,735
<b>Primary Government</b>				
Total capital assets, net	\$ 52,060,209	\$ 22,060,231	\$ (10,483,046)	\$ 63,637,394

**City of Ocean Springs, Mississippi**  
**Notes to Financial Statements**  
For the Year Ended September 30, 2010

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

Governmental activities:	
General government	\$ 1,225,602
Public safety	299,118
Public works	76,229
Community development	3,106
Culture and recreation	<u>140,027</u>
Total	<u><u>1,744,082</u></u>
Business-type activities:	
Water system	340,709
Sewer system	<u>315,024</u>
Total	<u><u>655,733</u></u>
Total All Depreciation	<u><u>\$ 2,399,815</u></u>

**G. Lease Purchases**

**Capital Leases**

The City has entered into several capital leases to finance the purchase of equipment and vehicles. The purchases were financed at a fixed, simple interest rate. Title to the assets is held in the name of the City and the banks as lien holder. The City insures the assets and has accounted for the leases as financing arrangements. The City will make the following payments of principal and interest on all leases:

	Principal	Interest	Total
2011	\$ 124,967	\$ 107,819	\$ 232,786
2012	124,346	99,584	223,930
2013	130,203	90,789	220,992
2014	105,388	83,270	188,658
2015	111,731	76,926	188,657
2016-2020	506,045	290,784	796,829
2021-2025	<u>607,325</u>	<u>102,892</u>	<u>710,217</u>
	<u>\$ 1,710,005</u>	<u>\$ 852,064</u>	<u>\$ 2,562,069</u>

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

Assets acquired through capital leases are:

<u>Asset</u>	<u>Governmental Activities</u>
Fire Truck	\$ 535,875
Court Software	91,231
Hwy 57 Sportsplex Lighting	<u>1,489,000</u>
Total	\$ <u>2,116,106</u>

Future minimum lease payments and the net present value of the lease payments are:

<u>Year Ended September 30</u>	<u>Governmental Activities</u>
2011	\$ 232,786
2012	223,930
2013	220,992
2014	188,658
2015	188,657
2016-2020	796,829
2021-2025	<u>710,217</u>
Total minimum lease payments	2,562,069
Less: amount representing interest	<u>(852,064)</u>
Present value of minimum lease payments	\$ <u>1,710,005</u>

#### H. Long-Term Debt

The following is a summary of bond and other long-term debt transactions of the City for the year ended September 30, 2010:

	<u>Beginning 10/01/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending 9/30/10</u>	<u>Amounts Due Within One Year</u>
<b>Governmental activities</b>					
General & Special Obligation					
Bonds and Notes	\$ 15,477,182	\$ 4,600,000	\$ 1,730,795	\$ 18,346,387	\$ 3,300,322
Capital leases	234,357	1,580,231	104,583	1,710,005	124,967
Compensated absences	<u>1,319,535</u>	<u>68,991</u>	<u>-</u>	<u>1,388,526</u>	<u>-</u>
Total governmental activities	<u>\$ 17,031,074</u>	<u>\$ 6,249,222</u>	<u>\$ 1,835,378</u>	<u>\$ 21,444,918</u>	<u>\$ 3,425,289</u>
<b>Business-type Activities</b>					
Water and Sewer, pollution control notes and bonds	\$ 6,596,420	\$ 128,931	\$ 320,675	\$ 6,404,676	\$ 384,572
Compensated absences	<u>190,536</u>	<u>-</u>	<u>114,274</u>	<u>76,262</u>	<u>-</u>
Total business-type activities	<u>\$ 6,786,956</u>	<u>\$ 128,931</u>	<u>\$ 434,949</u>	<u>\$ 6,480,938</u>	<u>\$ 384,572</u>

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

**H. Long-Term Debt (Continued)**

Bonds, notes, and other long-term debt payable at September 30, 2010 are comprised of the following individual issues:

<b>Governmental Activities</b>	<u>Original Issue</u>	<u>Range of Interest Rates</u>	<u>Amount Outstanding</u>
General & Special Obligation Bonds and Notes:			
Mississippi Development Bank special obligation bonds, semi-annual payments through July 2034	\$ 10,710,000	various	\$ 10,500,000
General obligation bonds series 2009, semi annual payments through December 2029	4,600,000	various	4,600,000
Unsecured Community Disaster Loan, payment deferred until January 2011	2,820,242	2.74%	2,820,242
Mississippi Development Bank promissory note, due monthly installments of \$2,773 through May 2013	250,000	3.00%	76,829
Mississippi Development Bank promissory note, due monthly installments of \$2,414 through Sept 2013	500,000	3.00%	<u>349,316</u>
Total General & Special Obligation Bonds and Notes			<u>18,346,387</u>
Capital Leases:			
Hancock Bank capital lease, payable in monthly installments of \$5,521, maturing December 2015	\$ 535,438	4.35%	153,275
Musco Finance capital lease, payable in semi-annual installments of \$78,913, maturing December 2024	1,489,000	6.6%	1,467,686
Baytree Leasing capital lease, payable in monthly installments of \$2,940, maturing September 2012	91,231	9.90%	<u>89,044</u>
Total Capital Leases			<u>1,710,005</u>
Compensated absences			<u>1,388,526</u>
Total Governmental Debt			21,444,918
Less: Current Portion			<u>(3,425,289)</u>
Total Governmental Long-Term Debt			<u>\$ 18,019,629</u>

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

**H. Long-Term Debt (Continued)**

	<u>Original Issue</u>	<u>Range of Interest Rates</u>	<u>Amount Outstanding</u>
<b>Business Type Activities</b>			
Water and Sewer Debt:			
State of Mississippi Pollution Control Loans, payable in monthly installments of \$2,015, maturing May 2011	\$ 194,961	4.0%	\$ 58,031
State of Mississippi Drinking water improvement notes, due in varying installments maturing 4/1/26	5,453,946	various	4,948,940
Mississippi Development Capital Loan, payable in monthly installments of \$2,773, maturing Mar 2021	500,000	4.95%	326,351
Capital Improvement Revolving Loan, payable in monthly installments of \$1,515, maturing Sept 2021	273,115	3.0%	170,669
Mississippi Development Capital Loan, payable in monthly installments of \$2,773, maturing Mar 2021	500,000	3.0%	295,746
State Revolving Loan, payable in monthly installments of \$7,501, maturing January 2018	1,100,100	4.5%	<u>604,939</u>
			6,404,676
Total business-type activities bonds and notes			<u>76,262</u>
Compensated absences			6,480,938
Total business-type activities debt			<u>(384,572)</u>
Less: Current Portion			
			\$ <u>6,096,366</u>
Total business-type long-term debt			

The annual requirements to pay principal and interest on the bonds, notes and loans outstanding at September 30, 2010 are as follows:

Year Ending	<u>Governmental Activities</u>			<u>Business Type Activities</u>		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 3,425,289	\$ 1,117,452	\$ 4,542,741	\$ 384,572	\$ 159,217	\$ 543,789
2012	615,950	709,233	1,325,183	395,922	149,005	544,927
2013	626,811	690,604	1,317,415	396,485	137,337	533,822
2014	600,673	667,720	1,268,393	394,750	125,987	520,737
2015	617,784	647,194	1,264,978	1,989,504	455,413	2,444,917
2016-2020	3,358,691	2,388,454	5,747,145	1,656,908	220,143	1,877,051
2021-2025	4,031,194	1,948,324	5,979,518	1,166,743	53,249	1,219,992
2026-2030	4,180,000	1,221,138	5,401,138	19,792	47	19,839
2031-2034	2,600,000	341,582	2,941,582	-	-	-
	<u>\$ 20,056,392</u>	<u>\$ 9,731,701</u>	<u>\$ 29,788,093</u>	<u>\$ 6,404,676</u>	<u>\$ 1,300,398</u>	<u>\$ 7,705,074</u>

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

The City's legal debt limit for general obligation debt is as follows:

Assessed valuations 2010 (inside the City):	
Real property	\$ 145,006,812
Personal property	9,428,066
Public utility	8,981,506
Autos, estimated	17,814,252
Total assessed valuations	<u>\$ 181,230,636</u>
Fifteen percent (15%) of total assessed valuation	\$ 27,184,595
Less outstanding general obligation debt at 9/30/10	<u>(7,420,242)</u>
Remaining legal debt margin	<u>\$ 19,764,353</u>

The Board of Aldermen annually adopts a resolution providing for the amount of property tax millage necessary to be levied and collected by the City in the next fiscal year for the payment during such year of principal and interest on all outstanding general obligation bonds of the City. The debt service millage rate for the year ended September 30, 2010, was 1.77 mills or \$1.77 per \$1,000 of assessed value.

The City has \$4.6 million of general obligation bonds outstanding, however repayment of the \$2,820,242 of Community Disaster Loan notes payable are also pledged by the good faith and credit of the City. It is hoped that these notes, which are deferred until 2011 will be converted into federal grants by way of hardship determination.

**I. Fund Balance Disclosures**

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

**Non-spendable** - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. The City currently only has prepaid insurance reported as non-spendable fund balance.

**Restricted** - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

**Committed** - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year end. The City has no committed fund balances at this time.

**Assigned** - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by management. The City has assigned a portion of remaining funds to be used for subsequent year appropriations to balance the 2011 budget.

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

**I. Fund Balance Disclosures (Continued)**

**Unassigned** – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The City uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

**J. Retirement Plans**

**PERS' Defined Benefit Pension Plan**

All full-time City employees hired after June 30, 1987, participate in the Public Employees' Retirement System of Mississippi (PERS). Other City employees hired prior to July 1, 1987 may elect to participate in the retirement system under an option offered by PERS.

**Plan Description:** The City of Ocean Springs 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 information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444 PERS.

**Funding Policy:** PERS' members are required to contribute 7.25% of their annual covered salary and City of Ocean Springs is required to contribute at an actuarially determined rate. The current rate is 12.00% of annual covered payroll. PERS increased the employer contribution rate from 11.85% to 12.00% effective July 1, 2010. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Ocean Springs's contributions to PERS for the years ending September 30, 2010, 2009, and 2008 were \$944,205, \$875,790 and \$828,638, respectively.

**Deferred Compensation Plan**

The City also offers employees voluntary participation in a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, Group Flexible Fund Retirement Contracts, administered by Nationwide Retirement Solutions, Inc., permits employees to defer a portion of their salary until future years. All plan assets are held in trust by Nationwide for the exclusive benefit of the participants and their beneficiaries and not subject to the claims of the City's general creditors.

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

**K. Community Development Block Grant Program**

**Status of Grants**

The City of Ocean Springs was awarded a grant in 2007 by the Department of Housing and Urban Development Community Block Grant Program for the purpose of adding code enforcement officials. The grant was expanded in fiscal year 2008.

	<u>Awarded</u>	<u>Current Expended</u>	<u>Cumulative Expended</u>
Round I Community Revitalization			
Planning Grant	\$ 545,000	\$ 79,396	\$ 493,261
Fort Maurepas Park	588,745	124,079	584,929
Downtown Streetscape	4,647,347	2,000,677	2,551,382
Mary C. O'Keefe Windows	100,000	-	100,000
Round III Community Revitalization			
Fire Station/ PSC	3,705,033	677,784	2,076,874
Front Beach Sidewalks	2,247,388	1,478,457	1,612,204
Mary C. O'Keefe Repairs	857,654	39,689	107,668
Total	<u>\$ 12,691,167</u>	<u>\$ 4,400,082</u>	<u>\$ 7,526,318</u>

**L. Related Party Commitments**

**Joint Venture**

The City of Ocean Springs is a member of the Jackson County Utility Authority (Authority) which was established by an act of the Mississippi Legislature and operates under MS Code 49-17-701 to provide for adequate wastewater treatment and solid waste disposal services to the citizens of Jackson County, Mississippi. The governing board is comprised of one member from each of the cities and two members from each of the counties who are members of the Authority. Through a fifty-year contract, the City of Ocean Springs is obligated to pay monthly, its pro-rata share of all operating, administrative, and capital costs of the Authority. Additionally, the City is jointly and severally liable for all of the liabilities of the Authority. The Authority is classified as a joint venture between the City of Ocean Springs and the other members. The following is a synopsis of the Authority's financial statements as of and for the year ended September 30, 2010, a complete copy of which is on file at the administrative offices of the Authority.

**Jackson County Utility Authority**  
**Statement of Net Assets**

<b>Assets</b>	
Current assets	\$ 12,805,325
Restricted assets	4,203,489
Noncurrent assets	<u>123,902,447</u>
Total assets	<u>140,911,851</u>

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

**L. Related Party Commitments (Continued)**

**Liabilities & Fund Equity**

**Liabilities**

Current liabilities	
Non-current liabilities	\$ 13,398,011
Total liabilities	<u>10,018,316</u>
	<u>23,416,327</u>

**Net assets**

Invested in capital assets, net of related debt	
Restricted	108,852,641
Unrestricted	4,203,489
	<u>4,439,394</u>
Total net assets	\$ <u>117,495,524</u>

**Statement of Revenues, Expenditures and Changes in Net Assets**

Operating revenues	\$ 8,219,617
Operating expenses	( 4,855,270)
Depreciation and amortization	( 4,101,036)
Non-operating revenues (expenses)	<u>53,186,515</u>
Changes in net assets	\$ <u>52,449,826</u>

The following financial information concerning transactions with the Authority has been included in the City of Ocean Springs's financial statements under the following captions:

**Sewer Enterprise Fund Group**

Statement of revenues, expenditures and changes in fund balance:

Operating expenses:

Contractual Services (wastewater treatment)	\$ <u>1,185,862</u>
---	---------------------

**Jointly Governed Organizations**

**Jackson George Regional Library System** – On November 2, 1970, the City entered into an agreement with the Cities of Moss Point, Pascagoula, Gautier, and Lucedale, and the Board of Supervisors of Jackson and George Counties, to mutually cooperate in securing a more economical public library system through combined resources, interests, materials and facilities to be known as the Jackson George Regional Library System. There are no specific monetary terms in the agreement and the City of Ocean Springs has no equity interest in the organization. However, a budget is approved every year by the County Library Board, which stipulates the amount of funds needed from the participating municipalities and various other funding sources.

**City of Ocean Springs, Mississippi**  
**Notes to the Financial Statements**  
For the Year Ended September 30, 2010

**Jointly Governed Organizations (Continued)**

The City of Ocean Springs contributed \$135,000 for the year ended September 30, 2010 through proceeds of a specific tax levy authorized by MS Code 39-3-13. The amount budgeted for the City of Ocean Springs for the fiscal year ended September 30, 2010 was \$135,000. This agreement is cancelable upon 90 days written notice prior to the end of the fiscal year and therefore, the City of Ocean Springs does not have an ongoing financial responsibility.

**M. Other Commitments**

**Capital Projects**

In connection with the Capital Projects Funds, the City budgeted certain commitments for engineering services, construction and other capital project costs. The projects are to be funded, in part, with State and Federal grants. The remainder of the required funds will be generated by local sources. The following is a summary of the budgeted commitment for future capital projects at September 30, 2010:

	Contract Amount	Expended to Date	Remaining Contract
Highway 57 Sports Complex	\$ 4,666,323	\$ 3,024,917	\$ 1,641,406
Downtown Streetscape	4,735,242	3,518,492	1,216,750
Front Beach	2,023,975	1,602,428	421,547
Tennis Courts	769,878	705,902	63,976
Mary O'Keefe Renovation	120,565	67,000	53,565
Sewer Expansion	1,990,600	1,976,140	14,460
Water Expansion	1,354,789	1,050,739	304,050
Water Tank Painting	422,777	341,527	81,250
	<u>\$ 16,084,149</u>	<u>\$ 12,287,145</u>	<u>\$ 3,797,004</u>

**N. Subsequent Events**

Events that occur after the statement of net assets date but before the financial statements were 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 require disclosure in the accompanying notes. Management of the City of Gulfport evaluated the activity of the district through June 17, 2011, and determined there were no subsequent events that require disclosure in the notes to the financial statements.

### **Required Supplementary Information**

**City of Ocean Springs, Mississippi**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - Budget Basis**  
**General Fund**  
For the Fiscal Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative)
<b>Revenues</b>				
Ad valorem taxes	\$ 3,421,085	\$ 3,421,085	\$ 3,574,347	\$ 153,262
Licenses and permits	220,000	220,000	157,868	(62,132)
Franchise Fees	905,000	905,000	894,763	(10,237)
Intergovernmental	5,902,336	5,902,336	5,661,680	(240,656)
Federal & state grants	2,456,868	2,556,868	599,375	(1,957,493)
Charges for services	467,500	471,500	482,046	10,546
Fines & Forfeitures	695,000	700,000	666,564	(33,436)
Other	94,650	80,000	60,390	(19,610)
Total revenues	<u>14,162,439</u>	<u>14,256,789</u>	<u>12,097,032</u>	<u>(2,159,757)</u>
<b>Expenditures</b>				
General Government				
Executive - Mayor				
Personnel services	325,698	300,698	296,360	4,338
Supplies	23,853	23,853	16,402	7,451
Other services & charges	238,125	299,659	315,166	(15,507)
Capital outlay	48,535	54,313	44,057	10,256
Total	<u>636,211</u>	<u>678,522</u>	<u>671,985</u>	<u>6,537</u>
Legislative -Board of Aldermen				
Personnel services	186,429	179,429	175,960	3,468
Supplies	250	710	711	(1)
Other services & charges	131,760	135,448	126,783	8,665
Capital outlay	150,590	149,591	118,911	30,680
Total	<u>469,029</u>	<u>465,178</u>	<u>422,365</u>	<u>42,812</u>
Finance				
Personnel services	385,751	399,148	397,009	2,139
Supplies	23,539	24,439	21,040	3,399
Other services & charges	188,690	213,930	199,885	14,045
Capital outlay	1,500	3,800	3,800	-
Total	<u>599,480</u>	<u>641,317</u>	<u>621,735</u>	<u>19,583</u>
Human Resources				
Personnel services	122,816	115,816	112,205	3,611
Supplies	4,595	4,595	3,061	1,534
Other services & charges	597,541	598,183	595,262	2,922
Capital outlay	2,113	1,113	(662)	1,775
Total	<u>727,065</u>	<u>719,707</u>	<u>709,866</u>	<u>9,841</u>
Total General Government	<u>2,431,785</u>	<u>2,504,724</u>	<u>2,425,951</u>	<u>78,774</u>

(Continued)

**City of Ocean Springs, Mississippi**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - Budget Basis**  
**General Fund**  
For the Fiscal Year Ended September 30, 2010

Expenditures (Continued)	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative)
Planning & Community Development				
Personnel services	686,261	669,261	596,837	72,424
Supplies	140,802	140,802	116,182	24,620
Other services & charges	287,426	318,976	278,933	40,043
Capital outlay	460,142	460,142	95,693	364,449
Total	<u>1,574,630</u>	<u>1,589,180</u>	<u>1,087,645</u>	<u>501,535</u>
Public Safety				
Personnel services	5,859,969	5,790,069	5,772,583	17,486
Supplies	366,483	341,982	381,216	(39,234)
Other services & charges	405,501	414,501	380,352	34,149
Capital outlay	463,635	463,635	384,266	79,369
Total	<u>7,095,588</u>	<u>7,010,187</u>	<u>6,918,418</u>	<u>91,770</u>
Public Works				
Personnel services	1,771,980	1,803,480	1,795,731	7,749
Supplies	365,643	370,642	347,167	23,476
Other services & charges	685,093	694,093	687,558	6,535
Capital outlay	1,899,280	2,395,136	1,207,195	1,187,941
Total	<u>4,721,996</u>	<u>5,263,351</u>	<u>4,037,651</u>	<u>1,225,700</u>
Culture & Recreation				
Personnel services	907,667	864,051	807,492	56,559
Supplies	238,552	237,252	218,761	18,492
Other services & charges	505,491	489,991	435,139	54,852
Capital outlay	331,187	368,096	184,160	183,936
Total	<u>1,982,898</u>	<u>1,959,390</u>	<u>1,645,551</u>	<u>313,839</u>
Total expenditures	<u>17,806,897</u>	<u>18,326,833</u>	<u>16,115,215</u>	<u>2,211,618</u>
Excess (deficiency) of revenues over expenditures	<u>(3,644,458)</u>	<u>(4,070,044)</u>	<u>(4,018,183)</u>	<u>51,861</u>
<b>Other financing sources (uses):</b>				
Note Proceeds	1,000,000	1,000,000	1,000,000	-
Interest Earned	40,000	40,000	353	(39,647)
Insurance Proceeds	25,000	66,000	65,882	(118)
Sale of Assets	15,000	45,000	44,697	(303)
Transfers in	810,225	810,225	810,225	-
Transfers out	(286,208)	(422,752)	(133,484)	289,268
Total other financing sources (uses)	<u>1,604,017</u>	<u>1,538,473</u>	<u>1,787,673</u>	<u>249,200</u>
Net change in fund balances	(2,040,440)	(2,531,571)	(2,230,510)	301,061
Fund balances, beginning of year	<u>3,385,842</u>	<u>3,385,842</u>	<u>3,385,842</u>	
Fund balances, end of year	<u>\$ 1,345,401</u>	<u>\$ 854,270</u>	<u>\$ 1,155,331</u>	<u>\$ 301,061</u>

*The Accompanying Notes are an Integral Part of the Financial Statements.*

**Combining Financial Statements**

**Governmental Funds**

City of Ocean Springs, Mississippi  
Combining Balance Sheet  
Non-Major Governmental Funds  
September 30, 2010

Assets	Special Revenue Funds						Total
	Tourism	Library	Special Paid Fines & Forfeitures	BP Oil Spill	Fire Protection	EMG Disaster Katrina	
Cash	\$ 18,261	\$ -	\$ -	\$ -	\$ 22,855	\$ -	\$ 41,116
Receivables:							
Taxes	4,735	1,840	-	-	-	-	6,575
Grants	-	-	-	885,237	-	1,260,891	2,146,128
Other	-	-	-	-	-	-	-
Due from other funds	-	92,867	108,242	-	59,440	-	260,549
Total assets	<u>22,996</u>	<u>94,707</u>	<u>108,242</u>	<u>885,237</u>	<u>82,295</u>	<u>1,260,891</u>	<u>2,454,368</u>
<b>Liabilities &amp; Fund Balance</b>							
Liabilities							
Accounts payable	3,478	11,305	-	624,688	-	-	639,471
Retainage payable	-	-	-	-	-	-	-
Due to other funds	-	-	-	260,549	-	1,260,891	1,521,440
Total liabilities	<u>3,478</u>	<u>11,305</u>	<u>-</u>	<u>885,237</u>	<u>-</u>	<u>1,260,891</u>	<u>2,160,911</u>
Fund balance							
Restricted for:							
Economic development	19,518	-	-	-	-	-	19,518
Library support	-	83,402	-	-	-	-	83,402
Public safety	-	-	108,242	-	82,295	-	190,537
Capital projects	-	-	-	-	-	-	-
Total fund balances	<u>19,518</u>	<u>83,402</u>	<u>108,242</u>	<u>-</u>	<u>82,295</u>	<u>-</u>	<u>293,457</u>
Total liabilities & fund balance	<u>\$ 22,996</u>	<u>\$ 94,707</u>	<u>\$ 108,242</u>	<u>\$ 885,237</u>	<u>\$ 82,295</u>	<u>\$ 1,260,891</u>	<u>\$ 2,454,368</u>

Continued

**City of Ocean Springs, Mississippi**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
September 30, 2010

Assets	Capital Projects Funds						Total	Non-Major Total All
	CDBG Mary O'Keefe	Ft Maurepas Park Construction	MEMA Hazard Mitigation	CDBG Front Beach	CDBG Fire Station Relocation	Downtown Revitalization Construction		
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,116
Receivables:								
Taxes	-	-	-	-	-	-	-	6,575
Grants	80,911	-	812,248	35,644	354,613	475,716	1,759,132	3,905,260
Other	-	-	60,000	-	-	-	60,000	60,000
Due from other funds	-	1,260,891	-	155,085	566,787	-	1,982,763	2,243,312
Total assets	<u>80,911</u>	<u>1,260,891</u>	<u>872,248</u>	<u>190,729</u>	<u>921,400</u>	<u>475,716</u>	<u>3,801,895</u>	<u>6,256,263</u>
<b>Liabilities &amp; Fund Balance</b>								
Liabilities								
Accounts payable	45,750	-	550	190,729	354,613	349,436	941,078	1,580,549
Retainage payable	-	-	-	-	49,734	29,441	79,175	79,175
Due to other funds	26,325	1,066,638	857,844	-	-	86,310	2,037,117	3,558,557
Total liabilities	<u>72,075</u>	<u>1,066,638</u>	<u>858,394</u>	<u>190,729</u>	<u>404,347</u>	<u>465,187</u>	<u>3,057,370</u>	<u>5,218,281</u>
Fund balance								
Restricted for:								
Economic development	-	-	-	-	-	-	-	19,518
Library support	-	-	-	-	-	-	-	83,402
Public safety	-	-	-	-	-	-	-	190,537
Capital projects	8,836	194,253	13,854	-	517,053	10,529	744,525	744,525
Total fund balances	<u>8,836</u>	<u>194,253</u>	<u>13,854</u>	<u>-</u>	<u>517,053</u>	<u>10,529</u>	<u>744,525</u>	<u>1,037,982</u>
Total liabilities & fund balance	<u>\$ 80,911</u>	<u>\$ 1,260,891</u>	<u>\$ 872,248</u>	<u>\$ 190,729</u>	<u>\$ 921,400</u>	<u>\$ 475,716</u>	<u>\$ 3,801,895</u>	<u>\$ 6,256,263</u>

*The Accompanying Notes are an Integral Part of the Financial Statements.*

**City of Ocean Springs, Mississippi**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
For the Year Ended September 30, 2010

	Special Revenue Funds						
	Tourism	Library	Special Paid Fines & Forfeitures	BP Oil Spill	Fire Protection	EMG Disaster Katrina	Total
<b>Revenues</b>							
Ad valorem taxes	\$ 26,340	\$ 174,932	\$ -	\$ -	\$ -	\$ -	\$ 201,272
Fines & Forfeitures	-	-	53,584	-	-	-	53,584
Intergovernmental	-	-	-	-	93,813	-	93,813
Grants	-	-	7,828	1,850,202	-	27,117	1,885,147
Interest income	92	464	773	-	195	-	1,524
Total revenues	26,432	175,396	62,185	1,850,202	94,008	27,117	2,235,340
<b>Expenditures</b>							
Current:							
Public Safety	-	-	223,163	-	1,158	-	224,321
Public Works	-	-	-	459,936	-	-	459,936
Health & Welfare	-	-	-	-	-	-	-
Economic Development	24,161	-	-	-	-	-	24,161
Culture & Recreation	-	137,886	-	-	-	-	137,886
Capital Outlay:							
Public safety	-	-	-	-	-	-	-
Public works	-	-	-	1,390,266	-	-	1,390,266
Health & welfare	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Culture & Recreation	-	-	-	-	-	-	-
Debt Service							
Principal	-	-	7,035	-	76,234	-	83,269
Interest	-	-	918	-	8,048	-	8,966
Total expenditures	24,161	137,886	231,116	1,850,202	85,440	-	2,328,805
Excess of revenues over expenditures	2,271	37,510	(168,931)	-	8,568	27,117	(93,465)
Other financing sources (uses):							
Debt proceeds	-	-	91,231	-	-	-	91,231
Transfers in	-	-	-	-	-	17,943	17,943
Transfers out	-	-	-	-	-	(147,245)	(147,245)
Total other financing sources (uses)	-	-	91,231	-	-	(129,302)	(38,071)
Excess (deficiency) of revenues and other sources over expenditures and other uses	2,271	37,510	(77,700)	-	8,568	(102,185)	(131,536)
Fund Balance, beginning	17,247	45,892	185,942	-	73,727	102,185	424,993
Fund balance, end of year	\$ 19,518	\$ 83,402	\$ 108,242	\$ -	\$ 82,295	\$ -	\$ 293,457

Continued

**City of Ocean Springs, Mississippi**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
For the Year Ended September 30, 2010

	Capital Projects Funds							Non-Major Total All
	CDBG Mary O'Keefe	Ft Maurepas Park Construction	MEMA Hazard Mitigation	CDBG Front Beach	CDBG Fire Station Relocation	Downtown Revitalization Construction	Total	
<b>Revenues</b>								
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 201,272
Fines & Forfeitures	-	-	-	-	-	-	-	53,584
Intergovernmental	-	-	-	-	-	-	-	93,813
Grants	94,275	247,511	886,102	1,499,785	996,290	2,588,307	6,312,270	8,197,417
Interest income	-	-	-	-	-	-	-	1,524
Total revenues	94,275	247,511	886,102	1,499,785	996,290	2,588,307	6,312,270	8,547,610
<b>Expenditures</b>								
Current:								
Public Safety	-	-	-	-	346,885	-	346,885	571,206
Public Works	-	-	-	-	-	-	-	459,936
Health & Welfare	-	-	7,205	-	-	-	7,205	7,205
Economic Development	-	-	-	-	-	34,112	34,112	58,273
Culture & Recreation	-	53,258	-	96,185	-	-	149,443	287,329
Capital Outlay:								
Public safety	-	-	-	-	734,948	-	734,948	734,948
Public works	-	-	-	-	-	-	-	1,390,266
Health & welfare	-	-	922,413	-	-	-	922,413	922,413
Economic development	-	-	-	-	-	2,543,666	2,543,666	2,543,666
Culture & Recreation	85,439	-	-	1,602,428	-	-	1,687,867	1,687,867
Debt Service								
Principal	-	-	-	-	-	-	-	83,269
Interest	-	-	-	-	-	-	-	8,966
Total expenditures	85,439	53,258	929,618	1,698,613	1,081,833	2,577,778	6,426,539	8,755,344
Excess of revenues over expenditures	8,836	194,253	(43,516)	(198,828)	(85,543)	10,529	(114,269)	(207,734)
Other financing sources (uses):								
Debt proceeds	-	-	-	-	602,596	-	602,596	693,827
Transfers in	-	-	57,370	198,828	-	-	256,198	274,141
Transfers out	-	-	-	-	-	-	-	(147,245)
Total other financing sources (uses)	-	-	57,370	198,828	602,596	-	858,794	820,723
Excess (deficiency) of revenues and other sources over expenditures and other uses	8,836	194,253	13,854	-	517,053	10,529	744,525	612,989
Fund Balance, beginning	-	-	-	-	-	-	-	424,993
Fund balance, end of year	\$ 8,836	\$ 194,253	\$ 13,854	\$ -	\$ 517,053	\$ 10,529	\$ 744,525	\$ 1,037,982

*The Accompanying Notes are an Integral Part of the Financial Statements.*

## **Supplemental Information**

**City of Ocean Springs, Mississippi**  
**Schedule of Long-Term Debt**  
September 30, 2010

	Date Issued	Original Issue	Balance October 1, 2009	New Issues	Retirements	September 30, 2010	Requirements Year Ended September 30, 2011	
							Principal	Interest
<b>General Obligation Bonds and Notes</b>								
MS Dev. Bank Spec. Obligation Bonds, Series 2009	05/06/09	\$ 10,710,000	\$ 10,710,000	\$ -	\$ 210,000	\$ 10,500,000	\$ 285,000	\$ 450,146
Refunding Promissory Note thru MS Develop Bonds	08/16/07	1,472,446	1,472,446	-	1,472,446	-	-	-
FEMA Community Disaster Loan	02/01/06	2,820,242	2,820,242	-	-	2,820,242	2,820,242	308,853
MS Develop Authority-Mary C. O'Keefe Center	06/01/03	500,000	371,489	-	22,173	349,316	23,111	10,165
MS Develop Authority-Mary C. O'Keefe Center	10/01/03	250,000	103,005	-	26,176	76,829	26,969	1,999
General Obligation Bonds, Series 2009	12/01/09	4,600,000	-	4,600,000	-	4,600,000	145,000	238,500
Total General Obligation Bonds and Notes			15,477,182	4,600,000	1,730,795	18,346,387	3,300,322	1,009,663
<b>Capital Leases</b>								
Hancock Bank - Dodge Magnum	02/15/07	24,997	4,848	-	4,848	-	-	-
Hancock Bank - Fire Truck	12/06/05	535,875	229,509	-	76,234	153,275	33,834	5,853
Baytree Leasing - Software	09/25/10	91,231	-	91,231	2,187	89,044	27,693	7,581
First Security Leasing - Musco Lighting	10/02/09	1,489,000	-	1,489,000	21,314	1,467,686	63,440	94,355
Total Capital Leases			234,357	1,580,231	104,583	1,710,005	124,967	107,789
Total General Long-Term Debt			15,711,539	6,180,231	1,835,378	20,056,392	3,425,289	1,117,452
<b>Proprietary Funds Debt</b>								
Civic Center - Halstead Water Tanks - MS Develop	10/01/01	273,115	183,210	-	12,541	170,669	13,221	4,955
MS Develop Cap Loan 9-282-CP-01	04/01/01	500,000	319,440	-	23,694	295,746	24,705	8,571
State Revolving Loan - Sewer SRF-C280752-01-3	06/14/98	1,100,100	672,739	-	67,800	604,939	70,914	26,010
Drinking Water Improve DWI-H280035-01-3	06/15/01	634,072	469,921	-	28,886	441,035	29,765	12,824
Drinking Water Improve DWI-H280035-02-3	08/10/02	1,054,818	930,762	-	42,259	888,503	43,651	30,402
Drinking Water Improve DWI-H280035-03-0	11/10/06	1,900,000	1,814,363	128,931	40,741	1,902,553	82,683	36,363
Drinking Water Improve DWI-H280035-04-2	11/18/08	1,029,345	993,438	-	43,852	949,586	44,721	17,239
Drinking Water Improve DWI-H280035-05-2	09/03/08	835,711	803,289	-	36,026	767,263	36,740	14,634
Water Pollution Control Emergency Loan	09/01/01	194,961	80,506	-	22,475	58,031	22,141	2,040
MS Develop Cap Loan 4-282-CP-01	12/20/07	500,000	328,752	-	2,401	326,351	16,031	6,179
Total Proprietary Funds Debt			6,596,420	128,931	320,675	6,404,676	384,572	159,217
Total All			\$ 22,307,959	\$ 6,309,162	\$ 2,156,053	\$ 26,461,068	\$ 3,809,861	\$ 1,276,669

See Independent Auditors' Report.

**City of Ocean Springs, Mississippi**  
**Schedule of Surety Bonds for Municipal Officials**  
**And Other Municipal Employees**

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Connie M. Moran	Mayor	C N A Surety	\$ 100,000
Joseph T. Ross	Alderman-at-Large	C N A Surety	100,000
John Gill	Alderman	C N A Surety	100,000
Matt McDonnell	Alderman	C N A Surety	100,000
Frederick Cody, Jr.	Alderman	C N A Surety	100,000
Greg Denyer	Alderman	C N A Surety	100,000
Jerry Dalgo	Alderman	C N A Surety	100,000
James R. Hagan	Alderman	C N A Surety	100,000
Shelly Ferguson	City Clerk	C N A Surety	100,000
Lionel Cauthern	Chief of Police	C N A Surety	100,000
Gina Bitgood	Accountant	C N A Surety	100,000
Kristy Jones	Court Clerk	C N A Surety	100,000
Karen Kennedy	Deputy City Clerk	C N A Surety	50,000
Patty Gaston	Deputy City Clerk	C N A Surety	50,000
Carolyn Martin	Grant Administrator	C N A Surety	50,000
Geri Straight	Parks & Leisure Director	C N A Surety	50,000

*See Independent Auditors' Report.*

**Section IV**  
**Compliance Section**

**City of Ocean Springs, Mississippi**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended September 30, 2010**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Transportation</b>			
Passed Through Mississippi Department of Transportation:			
Urban Youth Corp Grant	20.215	STP-9999-09(011)	\$ 12,802
Alcohol Traffic Safety - DUI	20.600	10-TA-316-1	45,784
FHWA - Front Beach Lighting	20.205	ER-0357-00	14,937
MS Transportation Enhancement Tree Planting	61.51		<u>8,722</u>
			<u>82,245</u>
<b>U.S. Dep of Housing and Urban Development</b>			
Passed Through Mississippi Development Authority:			
Community Development Block Grant - Fire Station	14.228	R109-282-02-KCR	677,784
Community Development Block Grant - Community Revitalization	14.228	R103-282-01-KCR	2,124,756
Community Development Block Grant - Building Inspector	14.228	R101-06-011-01	177,540
Community Development Block Grant - Front Beach Sidewalk	14.228	R109-282-03-KCR	1,478,457
Community Development Block Grant - Planning	14.228	R103-282-01-KP	79,396
Community Development Block Grant - MCOK	14.228	R109-282-04-KCR	<u>39,689</u>
			<u>4,577,622</u>
Passed Through Mississippi Department of Environmental Control:			
Community Development Block Grant - Water Expansion	14.228	R102-06-W21	231,461
Community Development Block Grant - Sewer Expansion	14.228	R102-06-S24	<u>1,170,855</u>
			<u>1,402,316</u>
<b>U.S. Department of Homeland Security</b>			
Passed Through Mississippi Emergency Management Agency:			
Hazard Mitigation Grant	97.039	DR-1604-MS-037	<u>811,364</u>
			<u>811,364</u>
<b>U.S. Environmental Protection Agency</b>			
Passed Through Mississippi Department of Health:			
Drinking Water State Revolving Funds	66.468	DWI-L300005-03	<u>85,637</u>
			<u>85,637</u>
Total Expenditures of Federal Awards			<u><u>\$ 6,959,184</u></u>

**City of Ocean Springs, Mississippi**  
**Schedule of Expenditures of Federal Awards**  
For the Year Ended September 30, 2010

**NOTE 1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Ocean Springs and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.

**NOTE 2. LOAN AGREEMENTS OUTSTANDING**

Proceeds of various State Revolving Funds were obtained and expended in prior years for sewer rehabilitation, capital improvements and drinking water system improvements. The State Revolving Funds are financed, at least in part, by the U.S. Environmental Protection Agency. The Community Disaster Loan is financed by the U.S. Department of Homeland Security. The principal balance outstanding on these loans as of September 30, 2010 was:

	<u>Current Year Federal Expenditures</u>	<u>Cumulative Federal Expenditures</u>
FEMA Community Disaster Loan	\$ -	\$ 2,820,242
State Revolving Loan # SRF-C280752-01	-	569,235
Drinking Water Systems Improvement		
Loan # DWI-H280035-01	-	520,393
Loan # DWI-H280035-02	-	744,826
Loan # DWI-H280035-03	85,637	1,207,342
Loan # DWI-H280035-04	-	349,784
Loan # DWI-H280035-05	-	500,911

**Independent Auditors' 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***

**Independent Auditors' Report On Compliance and on  
Internal Control Over Financial Reporting Based on an  
Audit of Financial Statements Performed in Accordance  
With *Government Auditing Standards***

To the Board of Aldermen  
City of Ocean Springs, 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 Ocean Springs, Mississippi, as of and for the year ended September 30, 2010, which collectively comprise the City of Ocean Springs, Mississippi's basic financial statements and have issued our report thereon dated June 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City of Ocean Springs, Mississippi's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Ocean Springs, Mississippi's financial statements that is more than inconsequential will not be prevented or detected by the City of Ocean Springs, Mississippi's internal control. We consider the deficiencies described in findings 2010-1, 2010-2, and 2010-3, located in the accompanying Schedule of Findings and Questioned Costs, to be significant deficiencies in internal control over financial reporting.

**Auditors' report on internal control with GAS**

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2010-1, 2010-2, and 2010-3 to be material weaknesses.

**Compliance and Other Matters**

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

We also noted certain matters that we reported to management of the City of Ocean Springs, Mississippi, in a separate letter dated June 17, 2011.

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

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

*Culumber, Fletcher, Harvey & Associates, P.A.*

Culumber, Fletcher, Harvey & Associates  
Certified Public Accountants

Gulfport, Mississippi  
June 17, 2011

**Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control  
Over Compliance in Accordance with OMB Circular A-133**

**Independent Auditors' Report on Compliance With Requirements  
Applicable to Each Major Program and on Internal Control  
Over Compliance in Accordance With OMB Circular A-133**

To the Board of Aldermen  
City of Ocean Springs, Mississippi

**Compliance**

We have audited the compliance of the City of Ocean Springs, Mississippi with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2010. The City of Ocean Springs, 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 of Ocean Springs, Mississippi's management. Our responsibility is to express an opinion on the City of Ocean Springs, Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Ocean Springs, 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 the City of Ocean Springs, Mississippi's compliance with those requirements.

In our opinion, the City of Ocean Springs, Mississippi complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2010.

**Internal Control Over Compliance**

The management of the City of Ocean Springs, 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 the City of Ocean Springs, Mississippi's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Ocean Springs, Mississippi's internal control over compliance.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

*Culumber, Fletcher, Harvey & Associates, P.A.*

Culumber, Fletcher, Harvey & Associates, P.A.  
Certified Public Accountants

Gulfport, Mississippi  
June 17, 2011

## Independent Auditors' Report on Compliance With Mississippi's State Laws and Regulations

To the Board of Aldermen  
City of Ocean Springs, Mississippi

We have audited the accompanying financial statements of the City of Ocean Springs, Mississippi as of and for the year ended September 30, 2010, and have issued the report dated June 17, 2011. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

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

### 1. FIXED ASSET CONTROL

#### Finding

During our audit of fixed assets, we noticed management has not reconciled its physical inventory of fixed assets to the general ledger, as required by the Mississippi Municipal Fixed Assets Management Manual, issued by the Mississippi Office of the State Auditor. This is a repeat finding from 2007.

#### Recommendation

We recommend management complete its physical inventory of fixed assets and general ledger reconciliation as soon as possible. Once completed, we recommend the City implement an annual inventory with the department heads to help monitor assets and maintain a detailed ledger of fixed assets, along with a listing of additions and deletions during the year. The Office of the State Auditor has prepared forms and checklists to assist municipalities perform this required inventory; they are available for download on the State Auditor's website. At least annually, the accounting department should reconcile the fixed asset inventory to the general ledger.

#### Management's Response:

Management has assigned one individual to enter and maintain fixed assets and inventory and reconcile them to the general ledger. In 2011, the City began a physical inventory of each department.

Auditors' report on compliance with state laws

2. COLLATERAL OF BANK DEPOSITS

Finding

During our audit of cash, we noticed the Mississippi Collateral Sufficiency Analysis was not being compared to the bank statements for accuracy. The State of Mississippi sends all public entities a Collateral Sufficiency Analysis each quarter requesting that the reported amounts be checked for accuracy to assist the State Treasurer's Office in ensuring the deposits are adequately collateralized (Sections 27-105-1 et seq. Miss. Code Ann. (1972)). As of September 30, 2010, when comparing actual bank balances with the State Treasurer's records, the City was under reported by the bank in an amount of \$12,738,162. This is a repeat finding beginning 2008.

Recommendation

We recommend management review the statements quarterly and notify the State Treasurer's Office when there are discrepancies to ensure adequate collateralization of public funds.

Management's Response:

Management has subsequently determined that the main local depository responsible for reporting to the State Treasurer's office was experiencing a computer glitch causing the under reporting. This problem has been addressed by the depository for future reporting. The depository is working with their computer programmer to resolve this issue.

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

This report is intended for the information of the City of Ocean Springs, Mississippi's management and the Office of the State Auditor 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.

*Culumber, Fletcher, Harvey & Associates, P.A.*

Culumber, Fletcher, Harvey & Associates, P.A.  
Certified Public Accountants

Gulfport, Mississippi  
June 17, 2011

**City of Ocean Springs, Mississippi**  
**Schedule of Findings and Questioned Costs**  
For the Year Ended September 30, 2010

**SECTION 1 – SUMMARY OF AUDITORS' RESULTS**

Financial Statements:

- |    |  |             |
|----|--|-------------|
| 1. | Type of auditor's report issued on the financial statements:                           | Unqualified |
| 2. | Material noncompliance related to the financial statements?                            | No          |
| 3. | 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:

- |     |  |               |
|-----|--|---------------|
| 4.  | Type of auditor's report issued on compliance for major federal Programs:  | Unqualified   |
| 5.  | Internal control over major programs:  |               |
| a.  | Material weakness identified?  | No            |
| b.  | Significant deficiency identified that is not considered to be material weaknesses?  | No            |
| 6.  | Any audit finding(s) reported as required by Section __.510(a) of Circular A-133?  | No            |
| 7.  | Federal programs identified as major programs:   | <u>CFDA #</u> |
| a.  | U.S. Department of Homeland Security – Hazard Mitigation Grant   | 97.039        |
| b.  | U.S. Department of Housing and Urban Development– Community Development Block Grants   | 14.228        |
| 8.  | The dollar threshold used to distinguish between type A and type B programs:   | \$300,000     |
| 9.  | Auditee qualified as a low-risk auditee?   | No            |
| 10. | Prior fiscal year audit finding(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315 (b) of OMB Circular A-133? | No            |

**City of Ocean Springs, Mississippi**  
**Schedule of Findings and Questioned Costs**  
For the Year Ended September 30, 2010

**SECTION 2 – FINANCIAL STATEMENT FINDINGS**

**Finding 2010-1: Cash Reconciliation**

**Condition:** During the audit of cash, auditor noticed that several bank accounts were not reconciled or had unreconciled differences. Management should be able to account for any differences within the bank statements and general ledger. In reviewing the bank reconciliations for the entire year for the collections and payroll accounts, it appears the accounts were not properly reconciled. We believe reconciling bank accounts each month is among the most basic of internal controls in any organization. Failure to perform this rudimentary procedure subjects the City to undue risk of failure to detect errors, omissions, misstatements, or misappropriations, some of which might be material to the financial statements. Errors were made to other general ledger accounts that also affected cash that further complicated the reconciliations of cash. This is a repeat finding from 2007.

**Recommendation:** Auditor recommends management to reconcile all bank accounts monthly. Any outstanding items or errors should be researched and cleared.

**Current Status:** Management recognizes the importance of this finding and will endeavor to resolve the issue as soon as possible. The September 30, 2009 balance was adjusted to the reconciled balance thru a prior period adjustment, however other errors made were not recognized or corrected by the end of the year. Additional assistance has been requested to develop procedures and check lists to help resolve the problem.

**Finding 2010-2: Fixed Assets**

**Condition:** During the audit of fixed assets, auditor noticed that management failed to reconcile its physical inventory of fixed assets to the general ledger. Management's detailed listing of fixed assets as of September 30, 2010 does not reconcile to the carrying amount in the general ledger. We believe this is a weakness in internal control and leaves the City susceptible to theft or misappropriation of assets. This is a repeat finding from 2007.

**Recommendation:** Auditor recommends management immediately appoint a Fixed Assets Control Clerk, who would have designated responsibility to maintain a fixed asset control system. The system should be implemented as soon as possible and should include an annual inventory of fixed assets. At the end of the fiscal year, the accounting department should reconcile the general ledger to the inventory control records.

**Current Status:** Management has assigned an individual to record and maintain the fixed assets and inventory system, reconciling it to the general ledger. In 2011, the City began a physical inventory of each department and will look into software issues to resolve this problem.

**City of Ocean Springs, Mississippi**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2010**

**SECTION 2 – FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2010-3: Utility Receivable**

**Condition:** During the audit of utility receivable accounts, management was unable to generate a utility receivable subsidiary ledger to support balances in the general ledger. Furthermore, we found management does not reconcile the utility receivable subsidiary ledger to the general ledger utility receivable account on a monthly basis. This is a repeat finding from 2007.

**Recommendation:** Auditor recommends management to reconcile the month-end receivable reports to the general ledger as a part of the month-end closing process.

**Current Status:** Management recognizes the importance of this finding and will endeavor to resolve the issue as soon as possible. A meeting with the software provider produced an aging receivable report; however the totals have not yet been reconciled to the general ledger.

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None