

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
ANNUAL FINANCIAL REPORT**

**Fiscal Year Ended September 30, 2013**

CITY OF BAY ST. LOUIS, MISSISSIPPI

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**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
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## **INTRODUCTORY SECTION**

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
LISTING OF CITY OFFICIALS  
SEPTEMBER 30, 2013**

**ELECTED OFFICIALS**

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Mayor	Les Fillingame
Councilman - Ward 1	Doug Seal, Jr.
Councilman - Ward 2	Wendy McDonald
Councilman - Ward 3	Jeffrey R. Reed
Councilman - Ward 4	Robert J. Compretta
Councilman - Ward 5	Joey Boudin
Councilman - Ward 6	Lonnie Falgout
Councilman - At Large	Mike Farve

**APPOINTED OFFICIALS**

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City Clerk	David Kolf
Police Chief	Mike DeNardo
Fire Chief	Pam San Fillipo
City Attorney	Don Rafferty

**INDEPENDENT AUDITORS' REPORT**

# WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

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

*Certified Public Accountants*

HANCOCK BANK BUILDING

2510 - 14TH STREET

P. O. BOX 129

GULFPORT, MISSISSIPPI 39502

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## INDEPENDENT AUDITORS' REPORT

July 9, 2014

To the City Council  
City of Bay St. Louis, Mississippi

### Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Bay St. Louis, Mississippi, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 from material misstatement. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### *Basis for Disclaimer of Opinion*

As discussed in Note 12 (D) of the financial statements, as of the date of this report, management has not developed any plans to mitigate the cash flows shortages in the General Fund and the Utility Fund in order to timely meet the obligations of the City as they come due. We were unable to satisfy ourselves by other auditing procedures concerning this issue. As a result of this matter, we were unable to determine whether any adjustments might have been found necessary in respect to these cash flow shortages in the financial statements.

### *Disclaimer of Opinion*

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

### *Emphasis of Matter*

As described in Note 2 to the financial statements, in 2013, the City adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources,*

and Net Position and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-12 and 45-48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

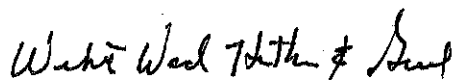
***Supplementary and Other Information***

We were engaged for the purpose of forming opinions on the financial statements that collectively comprise the City of Bay St. Louis, Mississippi's basic financial statements. The 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. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Because of the significance of the matters described previously, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

The Schedule of Surety Bonds for City Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2014, on our consideration of the City of Bay St. Louis, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Bay St. Louis, Mississippi's internal control over financial reporting and compliance.



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



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended September 30, 2013**

**Introduction**

The following Management's Discussion and Analysis of the City of Bay Saint Louis, ("the City") activities and financial performance provides an introduction to the financial statements of the City for the fiscal year ended September 30, 2013. The information contained in this Management's Discussion and Analysis has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section.

The components of the annual financial report include:

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

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

**Financial Highlights**

- The assets of the City exceeded its liabilities at September 30, 2013 by \$126,750,992. Of this amount, unrestricted net position is \$413,201.
- The total net position increased by \$8,693,833. Of this amount \$(2,156,550), was associated with governmental and \$10,850,383 with business-type activities, respectively. This increase is due mainly to the construction in progress of the Municipal Harbor.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$901,994, a decrease of \$1,716,307.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$624,677 or 7.2% 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.

There are two government-wide statements: the statement of net position and the statement of activities.

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended September 30, 2013**

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

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

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

The government-wide statements can be found on pages 13-14 of this report.

*Fund Financial Statements*

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

- **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. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended September 30, 2013**

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

In fiscal year 2013, the City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, Disaster Recovery fund, and the CDBG Grant fund, which are considered major funds and the other governmental funds for the purpose of consistency.

The basic governmental fund financial statements can be found on pages 15-18 of this report.

- **Proprietary Funds**

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

The proprietary fund financial statements can be found on pages 19-21 of this report.

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. Refer to Note 1 in the financial statements for more detailed information on the elements of the financial statements.

Other Information

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

**General Fund Budgetary Highlights**

During the fiscal year ended September 30, 2013, the City Council adopted amendments to the budget. As the impact of the sluggish economy continued, budgeted general fund revenues were decreased by \$805,022. The property tax budget was reduced \$362,506. Sales tax budgeted revenue was increased by \$53,147 due to larger than anticipated sales tax receipts. The budget for intergovernmental revenues was decreased \$476,539 due to accounting for these receipts in other funds. The budget for licenses and permits was increased by approximately \$88,191 due to an increase in building permit revenues. Gaming budgeted revenues were decreased by \$147,607 due to the decrease in projected gaming revenue. Miscellaneous revenue increased due to the increase in other revenue sources.

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended September 30, 2013**

To partially offset the decreased revenues, total budgeted expenditures were decreased by \$343,871 mainly by reducing expenditures in streets and public properties. Additionally, the budget for transfers in was increased by \$76,935 and transfers out was decreased by \$5,277.

**Government-wide Condensed Data Financial Analysis**

Table 1 below presents the City's condensed statement of net position as of September 30, 2013 derived from the government-wide Statement of Net Position.

**City of Bay St. Louis, Mississippi Net Position**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>
	2013	2012	2013	2012	2013
Current and other assets	\$ 4,968,934	\$ 5,049,803	\$ 787,082	\$ 878,024	\$ 5,756,016
Noncurrent assets	54,828,487	55,473,955	73,878,794	62,788,649	128,707,281
<b>Total assets</b>	<b>59,797,421</b>	<b>60,523,758</b>	<b>74,665,876</b>	<b>63,666,673</b>	<b>134,463,297</b>
Deferred outflows of resources	-	-	41,214	52,203	41,214
Current liabilities	4,177,304	2,752,931	1,348,683	872,120	5,525,987
Noncurrent liabilities	1,071,282	1,065,442	1,156,250	1,494,982	2,227,532
<b>Total liabilities</b>	<b>5,248,586</b>	<b>3,818,373</b>	<b>2,504,933</b>	<b>2,367,102</b>	<b>7,753,519</b>
Net position:					
Net investment in capital assets	53,846,823	54,057,713	72,435,008	60,956,341	126,281,831
Restricted	55,960	179,435	-	-	55,960
Unrestricted	646,052	2,468,237	(232,851)	395,433	413,201
<b>Total net position</b>	<b>\$ 54,548,835</b>	<b>\$ 56,705,385</b>	<b>\$ 72,202,157</b>	<b>\$ 61,351,774</b>	<b>\$ 126,750,992</b>

At September 30, 2013, the City's assets and deferred outflows of resources exceeded liabilities by \$126,750,992. By far the largest portion of the City's net position (99%) reflects its net investment in capital assets, less any related debt used to acquire or construct those assets. The unrestricted net position of \$413,201 can be used to finance government operations.

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

A portion of the net position is restricted for various purposes. Please refer to Note 9 on page 37 for more detail. The remaining portion of net position is unrestricted, which can be used to finance government operations.

Table 2 presents the City's condensed statement of activities for the fiscal year ended September 30, 2013, as derived from the government-wide Statement of Activities.

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended September 30, 2013**

**City of Bay St. Louis, Mississippi Changes in Net Position**

	<b>Governmental</b>		<b>Business-Type</b>		<b>Total</b>
	<b>Activities</b>		<b>Activities</b>		
	2013	2012	2013	2012	2013
<b>Revenues</b>					
Program revenues					
Charges for services	\$ 309,535	\$ 275,206	\$ 2,429,657	\$ 2,593,071	\$ 2,739,192
Operating grants	741,393	495,040	-	-	741,393
Capital grants	13,275,033	2,741,613	1,721,014	-	14,996,047
Total program revenues	<u>14,325,961</u>	<u>3,511,859</u>	<u>4,150,671</u>	<u>2,593,071</u>	<u>18,476,632</u>
General revenues					
Property taxes	1,768,265	1,951,555	-	-	1,768,265
Sales taxes	1,335,511	1,134,718	-	-	1,335,511
Franchise taxes	369,605	361,287	-	-	369,605
Gaming revenue	2,192,258	2,278,922	-	-	2,192,258
Interest earnings	1,664	4,591	412	652	2,076
Donations	3,700	350,150	-	-	3,700
Lease revenue	87,805	77,119	-	-	87,805
Other	171,723	368,432	-	-	171,723
Total general revenues	<u>5,930,531</u>	<u>6,526,774</u>	<u>412</u>	<u>652</u>	<u>5,930,943</u>
Total revenues	<u>20,256,492</u>	<u>10,038,633</u>	<u>4,151,083</u>	<u>2,593,723</u>	<u>24,407,575</u>
<b>Program expenses</b>					-
General government	2,519,180	2,656,852	-	-	2,519,180
Public safety	3,462,275	3,362,535	-	-	3,462,275
Public works	2,933,296	693,060	-	-	2,933,296
Culture and recreation	639,589	2,360,011	-	-	639,589
Interest	31,825	53,516	-	-	31,825
Water, sewer and gas	-	-	6,126,052	5,730,369	6,126,052
Harbor	-	-	1,525	1,087	1,525
Total program expenses	<u>9,586,165</u>	<u>9,125,974</u>	<u>6,127,577</u>	<u>5,731,456</u>	<u>15,713,742</u>
Change before transfers	10,670,327	912,659	(1,976,494)	(3,137,733)	8,693,833
Transfers	(12,826,877)	(1,225,962)	12,826,877	1,225,962	-
<b>Change in net position</b>	(2,156,550)	(313,303)	10,850,383	(1,911,771)	8,693,833
Beginning net position	56,705,385	57,018,688	61,351,774	63,263,545	118,057,159
<b>Ending net position</b>	<u>\$ 54,548,835</u>	<u>\$ 56,705,385</u>	<u>\$ 72,202,157</u>	<u>\$ 61,351,774</u>	<u>\$ 126,750,992</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended September 30, 2013**

**Financial Analysis of the Government's Funds**

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$901,994 a decrease of \$1,716,307 in comparison with the prior year. 11% percent or \$101,706 of this fund balance is nonspendable for prepaid expenditures. 69% percent or \$624,677 of this combined fund balance is unassigned, while the remainder is restricted for capital outlay and debt service. Approximately 1% or \$10,644 of this combined fund balance is committed for municipal reserves.

- General Fund

The General Fund is the chief operating fund of the City. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund balance expenditures. At the end of 2013, the General Fund unassigned fund balance represents 7.2% percent of total General Fund expenditures.

- Disaster Recovery Fund

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

- CDBG Grant Fund

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

Proprietary Funds

The Utility Fund had a decrease in total net position of \$3,026,887 at the end of the fiscal year in comparison with the prior year. This decrease is mostly due to depreciation of the utility system.

The Harbor Fund had an increase in total net position of \$13,877,270 at the end of the fiscal year in comparison with the prior year. This increase is in net investment of capital assets from the construction in progress of the Harbor.

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended September 30, 2013**

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

Capital Asset Activity

At September 30, 2013, the City reported \$54,828,487 in net capital assets for governmental activities and \$73,878,794 in capital assets for business-type activities. This represents a combined increase of \$10,495,700 in capital assets during the 2013 fiscal year. Additional information on the City of Bay St. Louis' capital assets can be found in Note 6: Capital Assets on pages 32-33.

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

	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>
	<b>Activities</b>		<b>Activities</b>		
	2013	2012	2013	2012	
Land	\$ 1,097,633	\$ 1,116,633	\$ -	\$ -	\$ 1,097,633
Buildings and improvements	23,432,516	23,937,510	42,979	43,980	23,475,495
Machinery and equipment	797,293	735,540	236,323	258,970	1,033,616
Infrastructure and utility systems	21,385,536	22,544,549	58,339,890	60,762,300	79,725,426
Vehicles	496,185	483,093	9,793	10,393	505,978
Construction in progress	7,619,324	6,650,118	15,249,809	1,668,495	22,869,133
Total	<u>\$ 54,828,487</u>	<u>\$ 55,467,443</u>	<u>\$ 73,878,794</u>	<u>\$ 62,744,138</u>	<u>\$ 128,707,281</u>

Long-Term Debt Activity

At the end of the current fiscal year, the City had \$2,745,222 in outstanding debt. Additional information on the City of Bay St. Louis' long-term debt can be found in Note 7: Long-Term Debt on pages 34-36 of this report.

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

	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>
	<b>Activities</b>		<b>Activities</b>		
	2013	2012	2013	2012	
Bonds payable	\$ 752,500	\$ 1,100,000	\$ -	\$ -	\$ 752,500
Revenue bonds payable	-	-	1,485,000	1,840,000	1,485,000
Capital leases payable	229,164	309,730	-	-	229,164
Compensated absences payable	283,521	280,260	36,250	43,795	319,771
Less deferred loss on bond refunding	-	-	(41,214)	(52,203)	(41,214)
Total	<u>\$ 1,265,185</u>	<u>\$ 1,689,990</u>	<u>\$ 1,480,036</u>	<u>\$ 1,831,592</u>	<u>\$ 2,745,221</u>



**CITY OF BAY ST. LOUIS, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended September 30, 2013**

**Economic Outlook**

The City of Bay St. Louis offers citizens a high level of municipal services and the second lowest property tax levy in the State of Mississippi. With no expected changes to revenue, a cash reserve cannot be generated and the current level of services cannot be maintained.

During fiscal year 2013 and continuing in fiscal year 2014, the Bay St. Louis utility system did not generate revenue to meet operating expenses and debt payments. Current base rates for water, sewer and gas service are lower than the rates set in 1987. Although utility rates were increased in October 2013, the increased revenues are not sufficient to ensure the operation, debt service and capital needs of the utility system.

**Contact the City's Financial Management**

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

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

**FINANCIAL SECTION**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2013**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 49,139	\$ 308,108	\$ 357,247
Receivables, net	587,219	528,222	1,115,441
Due from other governments	3,555,895	241,836	3,797,731
Internal balances	674,975	(674,975)	-
Inventory	-	35,826	35,826
Prepaid insurance	101,706	64,210	165,916
Restricted assets:			
Cash and cash equivalents	-	283,855	283,855
Total current assets	<u>4,968,934</u>	<u>787,082</u>	<u>5,756,016</u>
<b>Noncurrent Assets</b>			
Capital assets:			
Land and construction in progress	8,716,957	15,249,809	23,966,766
Other capital assets, net of accumulated depreciation	<u>46,111,530</u>	<u>58,628,985</u>	<u>104,740,515</u>
Total noncurrent assets	<u>54,828,487</u>	<u>73,878,794</u>	<u>128,707,281</u>
Total assets	<u>59,797,421</u>	<u>74,665,876</u>	<u>134,463,297</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amounts on bond refunding	-	41,214	41,214
Total deferred outflows of resources	<u>-</u>	<u>41,214</u>	<u>41,214</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	3,631,623	650,688	4,282,311
Wages payable	205,270	33,711	238,981
Rental deposits	12,059	-	12,059
Accrued interest	1,549	15,429	16,978
Unearned revenues	132,900	-	132,900
Bonds payable	107,500	365,000	472,500
Capital leases payable	86,403	-	86,403
Payable from restricted assets:			
Customer deposits	-	283,855	283,855
Total current liabilities	<u>4,177,304</u>	<u>1,348,683</u>	<u>5,525,987</u>
<b>Noncurrent Liabilities</b>			
Bonds payable	645,000	1,120,000	1,765,000
Capital leases payable	142,761	-	142,761
Compensated absences	<u>283,521</u>	<u>36,250</u>	<u>319,771</u>
Total long-term liabilities	<u>1,071,282</u>	<u>1,156,250</u>	<u>2,227,532</u>
Total liabilities	<u>5,248,586</u>	<u>2,504,933</u>	<u>7,753,519</u>
<b>NET POSITION</b>			
Net investment in capital assets	53,846,823	72,435,008	126,281,831
Restricted for:			
Debt service	55,960	-	55,960
Unrestricted	<u>646,052</u>	<u>(232,851)</u>	<u>413,201</u>
Total net position	<u>\$ 54,548,835</u>	<u>\$ 72,202,157</u>	<u>\$ 126,750,992</u>

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

CITY OF BAY ST. LOUIS, MISSISSIPPI  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>						
General government	\$ 2,519,180	\$ 17,740	\$ -	\$ (2,248,532)	\$ -	\$ (2,248,532)
Public safety	3,462,275	306,538	-	(3,099,110)	-	(3,099,110)
Streets and public properties	2,933,296	417,115	829,591	(1,686,590)	-	(1,686,590)
Culture and recreation	639,589	-	12,445,442	11,805,853	-	11,805,853
Interest	31,825	-	-	(31,825)	-	(31,825)
Total governmental activities	9,586,165	741,393	13,275,033	4,739,796	-	4,739,796
<b>Business-type activities:</b>						
Water, sewer and gas	6,126,052	-	196,625	(3,499,770)	(3,499,770)	(3,499,770)
Harbor	1,525	-	1,524,389	1,522,864	-	1,522,864
Total business - type activities	6,127,577	-	1,721,014	(1,976,906)	(1,976,906)	(1,976,906)
<b>Total</b>	<b>\$ 15,713,742</b>	<b>\$ 2,739,192</b>	<b>\$ 14,996,047</b>	<b>4,739,796</b>	<b>(1,976,906)</b>	<b>2,762,890</b>
<b>General revenues:</b>						
Property taxes				1,768,265	-	1,768,265
Sales taxes				1,335,511	-	1,335,511
Franchise taxes				369,605	-	369,605
Gaming revenue				2,192,258	-	2,192,258
Interest earnings				1,664	412	2,076
Donations				3,700	-	3,700
Lease revenues				87,805	-	87,805
Other revenue				171,723	-	171,723
Transfers				(12,826,877)	12,826,877	-
Total general revenues and transfers				(6,896,346)	12,827,289	5,930,943
Change in net position				(2,156,550)	10,850,383	8,693,833
Net position beginning of year				56,705,385	61,351,774	118,057,159
Net position end of year				\$ 54,548,835	\$ 72,202,157	\$ 126,750,992

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

**FUND LEVEL FINANCIAL STATEMENTS**

**GOVERNMENTAL FUNDS FINANCIAL STATEMENTS**

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2013**

	General Fund	Disaster Recovery Fund	CDBG Grant Fund	Other Governmental Funds	Total
<b>Assets</b>					
Cash and cash equivalents	\$ 34,423	\$ 4,021	\$ -	\$ 10,695	\$ 49,139
Receivables:					
Sales taxes	206,610	-	-	-	206,610
Franchise taxes	112,197	-	-	-	112,197
Gaming receivable	154,400	-	-	-	154,400
Property taxes	22,918	-	-	-	22,918
Court revenue	85,088	-	-	-	85,088
Other	6,006	-	-	-	6,006
Due from other governments	377,861	322,909	2,855,125	-	3,555,895
Due from other funds	617,517	15,503	-	57,458	690,478
Prepaid expenditures	101,706	-	-	-	101,706
Total assets	<u>\$ 1,718,726</u>	<u>\$ 342,433</u>	<u>\$ 2,855,125</u>	<u>\$ 68,153</u>	<u>\$ 4,984,437</u>
<b>Liabilities</b>					
Accounts payable	\$ 541,523	\$ 311,455	\$ 2,778,645	\$ -	\$ 3,631,623
Wages payable	205,270	-	-	-	205,270
Rental deposits	12,059	-	-	-	12,059
Due to other funds	15,503	-	-	-	15,503
Unearned revenues	217,988	-	-	-	217,988
Total liabilities	<u>992,343</u>	<u>311,455</u>	<u>2,778,645</u>	<u>-</u>	<u>4,082,443</u>
<b>Fund Balances</b>					
Nonspendable:					
Prepaid insurance	101,706	-	-	-	101,706
Restricted:					
Debt service	-	-	-	57,509	57,509
Capital outlay	-	30,978	76,480	-	107,458
Committed:					
Municipal reserves	-	-	-	10,644	10,644
Unassigned	624,677	-	-	-	624,677
Total fund balances	<u>726,383</u>	<u>30,978</u>	<u>76,480</u>	<u>68,153</u>	<u>901,994</u>
Total liabilities and fund balances	<u>\$ 1,718,726</u>	<u>\$ 342,433</u>	<u>\$ 2,855,125</u>	<u>\$ 68,153</u>	<u>\$ 4,984,437</u>

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



**CITY OF BAY ST. LOUIS, MISSISSIPPI  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2013**

<b>Total governmental funds balance (Exhibit C)</b>	<b>\$</b>	<b>901,994</b>
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>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.</p>		
Governmental capital assets		66,907,069
Less: accumulated depreciation		<u>12,078,582</u>
		54,828,487
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds as liabilities.		(981,664)
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds as liabilities.		(283,521)
Accrued interest not due and payable in the current period and therefore not reported in the funds as a liability.		(1,549)
Court receivables are other long-term assets that are not available in the current period to pay for expenditures and, therefore, are deferred in the funds.		<u>85,088</u>
<b>Net position of governmental activities (Exhibit A)</b>	<b>\$</b>	<b><u>54,548,835</u></b>

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

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	General Fund	Disaster Recovery Fund	CDBG Grant Fund	Other Governmental Funds	Total
<b>Revenues</b>					
Taxes:					
Property	\$ 1,768,265	\$ -	\$ -	\$ -	\$ 1,768,265
Sales	1,335,511	-	-	-	1,335,511
Franchise	369,605	-	-	-	369,605
Licenses and permits	252,908	-	-	-	252,908
Intergovernmental	1,572,636	1,371,232	11,072,561	-	14,016,429
Fines and forfeits	91,221	-	-	-	91,221
Interest	1,036	207	-	421	1,664
Lease revenue	87,805	-	-	-	87,805
Gaming revenue	2,192,258	-	-	-	2,192,258
Donations	3,700	-	-	-	3,700
Miscellaneous	20,567	-	-	-	20,567
Total revenues	<u>7,695,512</u>	<u>1,371,439</u>	<u>11,072,561</u>	<u>421</u>	<u>20,139,933</u>
<b>Expenditures</b>					
Current:					
General government	2,112,777	-	28	-	2,112,805
Public safety	3,196,325	-	-	-	3,196,325
Streets and public properties	2,919,228	-	85,779	-	3,005,007
Culture and recreation	401,082	-	-	-	401,082
Debt service:					
Principal	80,566	-	-	347,500	428,066
Interest	4,376	-	-	28,870	33,246
Total expenditures	<u>8,714,354</u>	<u>-</u>	<u>85,807</u>	<u>376,370</u>	<u>9,176,531</u>
Excess (deficiency) of revenues over expenditures	<u>(1,018,842)</u>	<u>1,371,439</u>	<u>10,986,754</u>	<u>(375,949)</u>	<u>10,963,402</u>
<b>Other financing sources (uses):</b>					
Sale of assets	38,177	-	-	-	38,177
Insurance proceeds	108,991	-	-	-	108,991
Transfers in	612,155	-	-	369,337	981,492
Transfers out	(369,337)	(2,213,900)	(10,983,011)	(242,121)	(13,808,369)
Total other financing sources (uses)	<u>389,986</u>	<u>(2,213,900)</u>	<u>(10,983,011)</u>	<u>127,216</u>	<u>(12,679,709)</u>
Net change in fund balance	<u>(628,856)</u>	<u>(842,461)</u>	<u>3,743</u>	<u>(248,733)</u>	<u>(1,716,307)</u>
Fund balance - October 1	<u>1,355,239</u>	<u>873,439</u>	<u>72,737</u>	<u>316,886</u>	<u>2,618,301</u>
Fund balance - September 30	<u>\$ 726,383</u>	<u>\$ 30,978</u>	<u>\$ 76,480</u>	<u>\$ 68,153</u>	<u>\$ 901,994</u>

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

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**Net change in fund balances - total governmental funds (Exhibit D)** **\$ (1,716,307)**

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

Governmental funds report outlays for capital assets as expenditures. In contrast, the statement of activities, the cost of those assets is allocated over the useful lives and reported as depreciation expense.

	Capital outlay	1,485,511	
	Depreciation	<u>(2,096,751)</u>	(611,240)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. However, the statement of activities reports only the gain or loss from the sale of the assets. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold.

(27,716)

The issuance of long-term debt provides current financial resources, while the repayment of principal on long-term debt consumes the current financial resources of governmental funds.

421,554

Fine revenue is recognized on the modified accrual basis in the funds since it is not available for current financial resources.

(24,097)

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

	Compensated absences		(200,165)
	Accrued interest		<u>1,421</u>

**Change in net position of governmental activities (Exhibit B)** **\$ (2,156,550)**

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

**PROPRIETARY FUNDS FINANCIAL STATEMENTS**

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2013**

	<u>Utility Fund</u>	<u>Harbor Fund</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 119,579	\$ 188,529	\$ 308,108
Accounts receivable, net	528,222	-	528,222
Due from other governments	18,795	223,041	241,836
Inventory	35,826	-	35,826
Prepaid expenses	64,210	-	64,210
Total unrestricted current assets	<u>766,632</u>	<u>411,570</u>	<u>1,178,202</u>
<b>Current Restricted Assets</b>			
Cash	283,855	-	283,855
Total restricted current assets	<u>283,855</u>	<u>-</u>	<u>283,855</u>
<b>Noncurrent Assets</b>			
Buildings	118,603	-	118,603
Machinery and equipment	622,276	-	622,276
Vehicles	97,951	-	97,951
Water and Sewer system	75,404,997	-	75,404,997
Construction in progress	196,626	15,053,183	15,249,809
Less: accumulated depreciation	<u>17,614,842</u>	<u>-</u>	<u>17,614,842</u>
Total noncurrent assets	<u>58,825,611</u>	<u>15,053,183</u>	<u>73,878,794</u>
Total assets	<u>59,876,098</u>	<u>15,464,753</u>	<u>75,340,851</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amounts on bond refunding	41,214	-	41,214
Total deferred outflows of resources	<u>41,214</u>	<u>-</u>	<u>41,214</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	489,694	160,994	650,688
Wages payable	33,711	-	33,711
Accrued interest	15,429	-	15,429
Due to other funds	674,975	-	674,975
Bonds payable	365,000	-	365,000
Customer deposits	283,855	-	283,855
Total current liabilities	<u>1,862,664</u>	<u>160,994</u>	<u>2,023,658</u>
<b>Noncurrent Liabilities</b>			
Bonds payable	1,120,000	-	1,120,000
Compensated absences	36,250	-	36,250
Total noncurrent liabilities	<u>1,156,250</u>	<u>-</u>	<u>1,156,250</u>
Total liabilities	<u>3,018,914</u>	<u>160,994</u>	<u>3,179,908</u>
<b>NET POSITION</b>			
Net investment in capital assets	57,381,825	15,053,183	72,435,008
Unrestricted	(483,427)	250,576	(232,851)
Total net position	<u>\$ 56,898,398</u>	<u>\$ 15,303,759</u>	<u>\$ 72,202,157</u>

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

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Utility Fund</u>	<u>Harbor Fund</u>	<u>Total</u>
<b>Operating Revenues</b>			
Charges for services	\$ 2,429,657	\$ -	\$ 2,429,657
Total operating revenues	<u>2,429,657</u>	<u>-</u>	<u>2,429,657</u>
<b>Operating Expenses</b>			
Salaries and related expenses	921,784	-	921,784
Natural gas purchase	303,553	-	303,553
Garbage	417,827	-	417,827
Wastewater treatment	801,929	-	801,929
Supplies	203,033	-	203,033
Repairs and maintenance	32,209	-	32,209
Other services and charges	359,402	1,525	360,927
Depreciation expense	<u>3,002,361</u>	<u>-</u>	<u>3,002,361</u>
Total operating expenses	<u>6,042,098</u>	<u>1,525</u>	<u>6,043,623</u>
<b>Operating (loss)</b>	<u>(3,612,441)</u>	<u>(1,525)</u>	<u>(3,613,966)</u>
<b>Non-Operating Revenues (Expenses)</b>			
Interest earnings	249	163	412
Grant revenues	196,625	1,524,389	1,721,014
Interest expense	(83,354)	-	(83,354)
Loss on asset disposal	<u>(600)</u>	<u>-</u>	<u>(600)</u>
Total non-operating revenue (expenses)	<u>112,920</u>	<u>1,524,552</u>	<u>1,637,472</u>
<b>Transfers in</b>	<u>472,634</u>	<u>12,354,243</u>	<u>12,826,877</u>
<b>Change in net position</b>	(3,026,887)	13,877,270	10,850,383
<b>Net position beginning of year</b>	<u>59,925,285</u>	<u>1,426,489</u>	<u>61,351,774</u>
<b>Net position end of year</b>	<u>\$ 56,898,398</u>	<u>\$ 15,303,759</u>	<u>\$ 72,202,157</u>

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

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	Utility Fund	Harbor Fund	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 2,244,208	\$ -	\$ 2,244,208
Payments to employees	(929,329)	-	(929,329)
Payments to suppliers	(203,033)	-	(203,033)
Payments for contractual services	(1,044,901)	-	(1,044,901)
Payments for other goods and services	(391,611)	159,469	(232,142)
Net cash (used) provided by operating activities	<u>(324,666)</u>	<u>159,469</u>	<u>(165,197)</u>
<b>Cash Flows From Financing Activities</b>			
Principal payments on debt	(355,000)	-	(355,000)
Grant revenues received	177,830	1,301,348	1,479,178
Interest expense	(75,914)	-	(75,914)
Transfers in	472,634	12,354,243	12,826,877
Net cash provided by financing activities	<u>219,550</u>	<u>13,655,591</u>	<u>13,875,141</u>
<b>Cash Flows From Investing Activities</b>			
Interest received	248	163	411
Acquisition of capital assets	(185,214)	(13,876,828)	(14,062,042)
Net cash used by investing activities	<u>(184,966)</u>	<u>(13,876,665)</u>	<u>(14,061,631)</u>
Net decrease in cash and cash equivalents	(290,082)	(61,605)	(351,687)
<b>Cash and cash equivalents:</b>			
Beginning of year	693,516	250,134	943,650
End of year	<u>\$ 403,434</u>	<u>\$ 188,529</u>	<u>\$ 591,963</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>			
Operating (loss)	\$ (3,612,441)	\$ (1,525)	\$ (3,613,966)
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>			
Depreciation expense	3,002,361	-	3,002,361
<b>(Increase) decrease in current assets:</b>			
Accounts receivable	(191,019)	-	(191,019)
Inventory	53,294	-	53,294
Prepaid expenses	(22,210)	-	(22,210)
<b>Increase (decrease) in current liabilities:</b>			
Accounts payable	272,587	160,994	433,581
Wages payable	33,711	-	33,711
Due to other funds	141,026	-	141,026
Compensated absences	(7,545)	-	(7,545)
Customer deposits	5,570	-	5,570
Net cash (used) provided by operating activities	<u>\$ (324,666)</u>	<u>\$ 159,469</u>	<u>\$ (165,197)</u>
<b>Reconciliation of cash and cash equivalents per statement of cash flows to the statement of net position</b>			
	Current Assets	Current Restricted Assets	Total
Cash and cash equivalents - October 1	\$ 665,366	\$ 278,284	\$ 943,650
Net increase/(decrease)	<u>(357,258)</u>	<u>5,571</u>	<u>(351,687)</u>
Cash and cash equivalents - September 30	<u>\$ 308,108</u>	<u>\$ 283,855</u>	<u>\$ 591,963</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**



**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2013**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Introduction

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

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2013.

B. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units of the City consist of oversight responsibility, special financing relationships and scope of public services. Oversight responsibility is determined by the extent of financial interdependency, control over the selection of the governing authority and management, ability to significantly influence operations, and accountability for fiscal matters. Based on these criteria, the City has no component units. However, see Note 10 for information describing related organizations not included in the City's reporting entity.

C. Basis of Presentation

*Government-wide Financial Statements*

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

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

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2013**

*Fund Financial Statements*

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

*Governmental Funds*

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

**General Fund**

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

**Disaster Recovery Fund**

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

**CDBG Grant Fund**

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

*Proprietary Funds – Business-type activities*

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

**Utility Fund**

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

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**Harbor Fund**

The Harbor Fund accounts for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing boat slips to the residents and visitors of the City of Bay St. Louis will be financed or recovered primarily through user charges in the form of rental receipts.

**D. Measurement Focus/Basis of Accounting**

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

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

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

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

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

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

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

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
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E. Use of Estimates

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

F. Cash and Cash Equivalents

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

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

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

G. Receivables and Payables

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

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

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

H. Inventory

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

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
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**I. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond September 30, 2013, are recorded as prepaid items.

**J. Restricted Assets**

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

**K. Capital Assets**

Capital assets, which include property, plant, equipment, and current infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), net of depreciation, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. However, infrastructure assets acquired or constructed prior to October 1, 2003 are not reported in the basic financial statements, as allowed by GASB Statement No. 34. The City generally capitalizes assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are reported at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

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

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

**L. Deferred Outflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of

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resources (expenditure) until then. The City has one deferred outflow of resources which is a deferred amount on bond refunding. See Note 7 for details.

**M. Noncurrent Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums**

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

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

**N. Compensated Absences**

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

The compensated absences liability is computed using the specific identification method whereby the actual number of vacation hours is multiplied by the employee's hourly rate at September 30, 2013. The resulting liability is then increased to include social security and retirement contributions that the City is required to pay upon liquidation of the liability.

**O. Fund Equity**

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

**P. Net Position**

Net Position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when

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there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

**Q. Intergovernmental Revenues in Governmental Funds**

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

**R. Post- Employment Health Care Benefits**

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

**NOTE 2: CHANGES IN ACCOUNTING STANDARDS**

For the fiscal year ended September 30, 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. It also identifies net position as the residual of all other elements presented in a statement of financial position, or the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. As implied above, the statement changes the previous classification of net assets to net position, and consequently the statement of net assets to the statement of net position.

For the fiscal year ended September 30, 2013, the City early implemented Governmental Accounting Standards Board (GASB) Statement No. 65 *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Statement also provides other financial reporting guidance related to the impact of the financial statement elements of deferred outflows of resources and deferred inflows of resources, such as the changes in the determination of major fund calculations and limiting the use of *deferred* in financial statement presentations.

The net effect of early implementation of this standard was immaterial in amount for the governmental activities and the business-type activities, respectively, and was charged against current year expenditures.

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
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**NOTE 3: CASH AND INVESTMENTS**

Cash – A summary of cash as of September 30, 2013, is as follows:

	Cash on Hand	Checking and Savings Accounts	Total
Governmental Activities			
General Fund	\$ 1,296	\$ 33,127	\$ 34,423
Disaster Recovery Fund	-	4,021	4,021
Other Governmental Funds	-	10,695	10,695
Business - type Activities			
Utility Fund	100	403,334	403,434
Harbor Fund	-	188,529	188,529
	<u>\$ 1,396</u>	<u>\$ 639,706</u>	<u>\$ 641,102</u>

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

Under this program, the City's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation. By using this multiple financial institution collateral pool, all of the City's deposits at September 30, 2013 are covered by FDIC insurance or by collateral. The City's deposits are not subject to custodial credit risk.

At September 30, 2013, deposits (including restricted deposits) are as follows:

	Bank Balance	Carrying Amount
Cash	\$ 870,835	\$ 641,102

The City maintained the following restricted cash as of September 30, 2013:

Business - type Activities	
Cash	
Restricted for customer utility deposits	\$ 283,855



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**NOTE 4: REVENUE AND RECEIVABLES**

Receivables at September 30, 2013 consist of the following:

	Governmental Activities	Business-type Activities	Total
Sales tax	\$ 206,610	\$ -	\$ 206,610
Franchise tax	112,197	-	112,197
Gaming	154,400	-	154,400
Property tax	22,918	-	22,918
Court revenue	340,354	-	340,354
Utility accounts	-	1,822,646	1,822,646
Other	6,006	9,473	15,479
Total receivables	842,485	1,832,119	2,674,604
Less: allowance for doubtful receivables	255,266	1,303,897	1,559,163
Total receivables, net	<u>\$ 587,219</u>	<u>\$ 528,222</u>	<u>\$ 1,115,441</u>

(A) Property Taxes

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

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

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

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

The rates are expressed in terms of mills (i.e., ten mills equal one cent). The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt and other purposes for the year ended September 30, 2013, was 17.75 mills or \$17.75 per \$1,000 of assessed valuation.

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
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A summary of the assessed valuations and tax levies of the City for the year ended September 30, 2013 are as follows:

Real property	\$	100,768,355
Personal property		5,641,117
Public utilities		4,117,793
Automobiles		10,813,861
Mobile homes		70,488
Total	\$	121,411,614

The tax levies for the City were 14.00 mills for the General Fund, 1.0 mill for the 2010 Bond, and 2.75 mills for the Library for a total of 17.75 mills for the year ending September 30, 2013.

**(B) Sales Taxes**

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City) back to the City monthly. Sales tax revenue reported in the general fund was \$1,335,511 a 17.7% increase from the prior year. Sales tax receivable consists of taxes collected in August and September 2013 but not received by the City until October and November 2013.

**(C) Gaming**

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

*Gross Revenue Gaming Tax and Gaming Device Tax*

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

The gaming device tax is similar to a personal property tax and is assessed on all gaming devices maintained by casinos within the City's corporate limits. The tax is also collected by the State. The amount of tax recognized as gaming revenue for September 30, 2013 is \$118,535 and the amount of gaming device tax is \$117,900, respectively. These revenues are included in gaming revenue on the Statement of Activities.

*Boarding Fees*

The City is permitted by law to collect a boarding fee from casinos within its corporate limits. Accordingly, the City has negotiated a contractual amount to be paid directly to the City on a monthly basis and is based on gross revenues. The City collected \$1,955,823 in boarding fees for the year ended September 30, 2013. This represents a decrease of 4.1% in comparison with the prior year and this amount is included in gaming revenue.

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
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**NOTE 5: DUE FROM OTHER GOVERNMENTS**

Due from other governments consist of the following as of September 30, 2013:

	Governmental Activities	Business - type Activities	Total
Due from the State of Mississippi	\$ 102,944	\$ 18,795	\$ 121,739
Due from Hancock County	34,067	-	34,067
Due from MDOT	240,850	-	240,850
Due from FEMA	322,909	-	322,909
Due from CDBG	2,855,125	-	2,855,125
Due from DMR	-	223,041	223,041
Total due from other governments	<u>\$ 3,555,895</u>	<u>\$ 241,836</u>	<u>\$ 3,797,731</u>

**NOTE 6: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2013 is as follows:

	Balance October 1	Additions	Sales/Transfers Adjustments	Balance September 30
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,116,633	\$ -	\$ (19,000)	\$ 1,097,633
Construction in progress	6,650,118	1,157,100	(187,894)	7,619,324
Total capital assets not being depreciated	<u>7,766,751</u>	<u>1,157,100</u>	<u>(206,894)</u>	<u>8,716,957</u>
Capital assets being depreciated:				
Buildings	25,097,549	-	-	25,097,549
Machinery and equipment	2,149,024	31,795	187,894	2,368,713
Improvements/ Infrastructure	27,969,619	121,688	-	28,091,307
Vehicles	2,544,787	174,928	(87,172)	2,632,543
Total capital assets being depreciated	<u>57,760,979</u>	<u>328,411</u>	<u>100,722</u>	<u>58,190,112</u>
Less accumulated depreciation:				
Buildings	(1,160,039)	(504,994)	-	(1,665,033)
Machinery and equipment	(1,413,484)	(157,936)	-	(1,571,420)
Improvements/ Infrastructure	(5,425,070)	(1,280,701)	-	(6,705,771)
Vehicles	(2,061,694)	(153,120)	78,456	(2,136,358)
Total accumulated depreciation	<u>(10,060,287)</u>	<u>(2,096,751)</u>	<u>78,456</u>	<u>(12,078,582)</u>
Total capital assets being depreciated, net	<u>47,700,692</u>	<u>(1,768,340)</u>	<u>179,178</u>	<u>46,111,530</u>
Governmental activities capital assets, net	<u>\$ 55,467,443</u>	<u>\$ (611,240)</u>	<u>\$ (27,716)</u>	<u>\$ 54,828,487</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
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	Balance October 1	Additions	Sales/Transfers Adjustments	Balance September 30
Business - type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 1,668,495	\$ 14,051,619	\$ (470,305)	\$ 15,249,809
Total capital assets not being depreciated	<u>1,668,495</u>	<u>14,051,619</u>	<u>(470,305)</u>	<u>15,249,809</u>
Capital assets being depreciated:				
Buildings	118,603	-	-	118,603
Machinery and equipment	622,276	-	-	622,276
Water, sewer and gas system	74,848,694	-	556,303	75,404,997
Vehicles	103,951	-	(6,000)	97,951
Total capital assets being depreciated	<u>75,693,524</u>	<u>-</u>	<u>550,303</u>	<u>76,243,827</u>
Less accumulated depreciation:				
Buildings	(74,623)	(1,001)	-	(75,624)
Machinery and equipment	(363,306)	(22,647)	-	(385,953)
Water, sewer and gas system	(14,086,394)	(2,978,713)	-	(17,065,107)
Vehicles	(93,558)	-	5,400	(88,158)
	<u>(14,617,881)</u>	<u>(3,002,361)</u>	<u>5,400</u>	<u>(17,614,842)</u>
Total capital assets being depreciated, net	61,075,643	(3,002,361)	555,703	58,628,985
Business - type activities capital assets, net	<u>\$ 62,744,138</u>	<u>\$ 11,049,258</u>	<u>\$ 85,398</u>	<u>\$ 73,878,794</u>

Depreciation expense was charged to functions/programs as follows:

**Governmental Activities:**

General government	\$ 362,505
Public safety	335,430
Streets and public properties	1,168,754
Culture and recreation	230,062
	<u>2,096,751</u>
Total governmental activities depreciation	<u>\$ 2,096,751</u>

**Business - type Activities:**

Water, sewer and gas	<u>\$ 3,002,361</u>
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**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
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**NOTE 7: LONG-TERM DEBT**

Changes in outstanding debt during the year ended September 30, 2013 are as follows:

	Payable at October 1	Additions	Principal Reductions	Payable at September 30	Principal Due in One Year
<u>Governmental Activities</u>					
Bonds payable	\$ 1,100,000	\$ -	\$ 347,500	\$ 752,500	\$ 107,500
Capital leases payable	309,730	-	80,566	229,164	86,403
Compensated absences payable	280,260	3,261	-	283,521	-
Total governmental activities	<u>1,689,990</u>	<u>3,261</u>	<u>428,066</u>	<u>1,265,185</u>	<u>193,903</u>
<u>Business-type Activities</u>					
Bonds payable	1,840,000	-	355,000	1,485,000	365,000
Compensated absences	43,795	-	7,545	36,250	-
	1,883,795	-	362,545	1,521,250	365,000
Less deferred loss on bond refinancing	(52,203)	-	10,989	(41,214)	-
Total business - type activities	<u>1,831,592</u>	<u>-</u>	<u>351,556</u>	<u>1,480,036</u>	<u>365,000</u>
Total government - wide	<u>\$ 3,521,582</u>	<u>\$ 3,261</u>	<u>\$ 779,622</u>	<u>\$ 2,745,221</u>	<u>\$ 558,903</u>

(A) Bonds Payable

At September 30, 2013, the City's outstanding bonds payable are described as follows:

	Date of Issue	Maturity Date	Rates	Original Issue	Balance September 30
<u>Governmental Activities:</u>					
GO Katrina Loan Refinancing					
Bond, Series 2010	7/20/2010	3/1/2020	2.47%	\$ 1,075,000	\$ 752,500
Total governmental activities				<u>\$ 1,075,000</u>	<u>\$ 752,500</u>
<u>Business-type Activities:</u>					
GO Water, Sewer, and Gas System					
Refunding Bonds, Series 2005	4/6/2005	7/1/2017	3.0% - 4.3%	\$ 4,290,000	\$ 1,485,000
Less deferred loss on bond refunding				(133,716)	(41,214)
Total business-type activities				<u>4,156,284</u>	<u>1,443,786</u>
Total bonds payable at year end				<u>\$ 5,231,284</u>	<u>\$ 2,196,286</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
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The annual bonded debt service requirements to maturity for the bonds are as follows:

Year Ending September 30,	Governmental Activities		Business-type Activities		Total Requirements
	Principal	Interest	Principal	Interest	
2014	\$ 107,500	\$ 17,259	\$ 365,000	\$ 61,715	\$ 551,474
2015	107,500	14,604	380,000	47,115	549,219
2016	107,500	11,949	380,000	31,440	530,889
2017	107,500	9,293	360,000	15,450	492,243
2018	107,500	6,638	-	-	114,138
2019-2020	215,000	5,311	-	-	220,311
Total	<u>\$ 752,500</u>	<u>\$ 65,054</u>	<u>\$ 1,485,000</u>	<u>\$ 155,720</u>	<u>\$ 2,458,274</u>

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

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

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

(B) Capital Leases Payable

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

The City entered into a lease agreement with First Capital Equipment Leasing Corporation on April 16, 2012 for the purchase of five police vehicles with package equipment installed in the amount of \$174,929.

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

	Governmental Activities
Equipment	\$ 211,441
Vehicles	174,929
Less accumulated depreciation	(127,184)
	<u>\$ 259,186</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2013**

Year ending September 30:

	2014	\$	90,866
	2015		92,664
	2016		<u>54,055</u>
Total minimum lease payments			237,585
Less amount representing interest			<u>(8,421)</u>
Present value of minimum lease payments		\$	<u><u>229,164</u></u>

(C) Legal Debt Margin

The City's legal debt limit for general obligation bonds is \$18,070,115 of which approximately \$16,970,000 is available to the City for further borrowing.

**NOTE 8: INTER-FUND TRANSACTIONS**

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

(A) Inter-fund Receivables and Payables

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

Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Inter-fund receivables and payables consisted of the following as of September 30, 2013:

Due To	Due From			Total
	General Fund	Disaster Fund	Other Governmental Funds	
General Fund	\$ -	\$ 15,503	\$ -	\$ 15,503
Utility Fund	617,517	-	57,458	674,975
Total	\$ 617,517	\$ 15,503	\$ 57,458	\$ 690,478

(B) Inter-fund Transfers

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis.

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2013**

Resources are accumulated in a fund to support and simplify the administrations of various projects or programs.

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

Only transfers between the two columns appear in this statement. Inter-fund transfers consisted of the following as of September 30, 2013:

	Transfers In				Total
	General Fund	Other Governmental Funds	Utility Fund	Harbor Fund	
<u>Transfers Out</u>					
General Fund	\$ -	\$ 369,337	\$ -	\$ -	\$ 369,337
Disaster Recovery Fund	370,034	-	472,634	1,371,232	2,213,900
CDBG Grant Fund	-	-	-	10,983,011	10,983,011
Other Governmental Funds	<u>242,121</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>242,121</u>
	<u>\$ 612,155</u>	<u>\$ 369,337</u>	<u>\$ 472,634</u>	<u>\$ 12,354,243</u>	<u>\$ 13,808,369</u>

The transfers from the General Fund into the Other Governmental Funds were for the payment of debt service principal and interest and the repayment of monies used out of the Municipal Reserve Fund. The transfers from the Disaster Recovery Fund into the General Fund were for reimbursements of expenditures previously paid from the General Fund. The transfers from the Disaster Recovery Fund and the CDBG Grant Fund into the Utility Fund and the Harbor Fund were for construction and other expenditures that were reimbursed through federal grants and accounted for in the Disaster Recovery Fund or CDBG Grant Fund but were actual expenses of the Utility Fund and Harbor Fund.

**NOTE 9: FUND BALANCES & RESTRICTED NET POSITION**

Fund balances are classified as follows:

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

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

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

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

**Unassigned** - All amounts not included in other spendable classifications.



**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2013**

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 15). As discussed in Note 1, restricted funds are used first, as appropriate. Assigned funds are reduced to the extent that expenditure authority has been budgeted by the Council or the assignment has been changed by the Mayor. Decreases to fund balance first reduce unassigned fund balance; in the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

**General Fund**

The General fund has an unassigned fund balance of 624,677 at September 30, 2013. Prepaid expenditures of \$101,706 are considered nonspendable fund balance.

**Other Funds**

The amounts restricted in the Disaster Recovery Fund and the CDBG Grant Fund is considered restricted fund balance for grantor funded disaster recovery and rebuilding efforts after Hurricane Katrina. The amount restricted in the Other Governmental Funds is for amounts that are restricted for debt service as reported in the Debt Service Fund.

The following non-major fund has a committed fund balance designated for specific purposes:

Municipal Reserve Fund	\$10,644
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The following summarizes restricted net position on the Statement of Net Position (page 13) at September 30, 2013:

Debt Service Fund	\$55,960
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**NOTE 10: JOINT VENTURES**

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

*Hancock County Solid Waste Authority*

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

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

During the year ended September 30, 2013, the City paid a total of \$417,827 for solid waste services, included in the business-type activities expenses in the statement of activities. The City pays \$8.60 per residential solid waste pickup. The City is jointly and severally liable for all of the liabilities of the Authority.

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2013**

The Authority is also classified as a joint venture between the City of Bay St. Louis and other members. The following is synopsis of the Authority's financial statements as of and for the year ended June 30, 2013:

**STATEMENT OF NET ASSETS**

ASSETS	
Current assets	\$ 384,211
LIABILITIES	
Current and other liabilities	199,484
NET ASSETS	
Unrestricted	<u>\$ 184,727</u>

**CHANGES IN NET ASSETS**

Operating revenues	\$ 1,643,072
Operating expenses	(2,378,276)
Non-operating revenues (expenses)	16,083
Increase in net assets	<u>\$ (719,121)</u>

Complete financial statements can be obtained from the Authority's Administrator by calling (228) 467-2770. These financial statements may not be in compliance with GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

*Hancock County Utility Authority*

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

The costs associated with the contract total \$801,929 for the year ended September 30, 2013, and have been included in the business-type activities expenses in the statement of activities. A fee has been added to rates charged by the utility billing system as an assessment for the District.

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

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

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2013**

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

The following is a synopsis of the Authority's financial statements as of and for the year ended September 30, 2013:

**STATEMENT OF NET POSITION**

<b>ASSETS</b>	
Current assets	\$ 1,626,617
Non-current assets	<u>154,217,607</u>
	<u>155,844,224</u>
<b>LIABILITIES</b>	
Current and other liabilities	1,326,354
Long-term debt outstanding	<u>13,094,527</u>
	<u>14,420,881</u>
<b>NET POSITION</b>	<u>\$ 141,423,343</u>

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION**

Operating revenues	\$ 2,156,390
Operating expenses	(3,137,990)
Non-operating revenues	<u>6,645,196</u>
Increase in net position	<u>\$ 5,663,596</u>

**NOTE 11: RETIREMENT PLANS**

**(A) Public Employees' Retirement System**

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

*Plan description and provisions*

Substantially all of the City's full-time employees participate in PERS. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publically available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2013**

System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005, or by calling (601) 359-3589 or 1-800-444-PERS.

*Description of Funding Policy*

PERS members are required to contribute 9.0% of their annual covered salary. The City is required to contribute an actuarially determined rate of annual payroll which is 15.75% as of September 30, 2013. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City's contributions to PERS for the years ended September 30, 2013, 2012 and 2011 were \$624,501, \$537,749, and \$540,441, respectively equal to the required contributions for the year.

**(B) Deferred Compensation Plan**

The City, through PERS, offers its employees a voluntary deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The assets of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. The requirements of Internal Revenue Code Section 457(g) prescribes that the City does not own the amounts deferred by employees, including the related income on those amounts. Additionally, the City does not have fiduciary accountability for the plan. Accordingly, the assets and liability for compensation deferred by plan participants, including earnings on plan assets, are not included in the City's financial statements.

**NOTE 12: COMMITMENTS AND CONTINGENCIES**

**(A) Litigation**

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

**(B) Grants and Awards**

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

**(C) Contract Commitments**

The City had the following contract commitments with respect to unfinished capital projects as of September 30, 2013, which will be paid from existing grants:

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2013**

<u>Governmental Activity</u>	<u>Project Budget</u>	<u>Money Spent to Date</u>	<u>Remaining Commitment</u>
CDBG Waterfront Improvements	\$ 9,515,650	\$ 6,410,975	\$ 3,104,675
Spanish Trail Sidewalk & Lights	892,514	81,384	811,130
Main Street Lighting	1,147,831	1,126,965	20,866
Total governmental activity	<u>11,555,995</u>	<u>7,619,324</u>	<u>3,936,671</u>
<u>Business - type Activity</u>			
<u>Utility Fund</u>			
Public Water Fluoridation Project	196,626	196,626	-
Total utility activity	<u>196,626</u>	<u>196,626</u>	<u>-</u>
<u>Harbor Fund</u>			
PW 0641 Jimmy Rutherford Pier	2,462,176	1,662,703	799,473
CDBG Pier & Harbor	16,673,594	11,828,955	4,844,639
DMR Pier & Harbor	2,510,764	1,561,525	949,239
Total harbor activity	<u>21,646,534</u>	<u>15,053,183</u>	<u>6,593,351</u>
Total business - type activity	<u>21,843,160</u>	<u>15,249,809</u>	<u>6,593,351</u>
Total government - wide	<u>\$ 33,399,155</u>	<u>\$ 22,869,133</u>	<u>\$ 10,530,022</u>

(D) Contingencies

As indicated in the proprietary statement of net position, as of September 30, 2013, the City has a deficit unrestricted net position in the Utility Fund in the amount of \$483,427. As of that date, the City's Utility Fund current liabilities exceeded its current assets by \$812,177. Operating expenses exceeded operating revenues by \$3,612,441 in the Utility Fund for the year ended September 30, 2013. The General Fund operating expenditures exceeded operating revenues by \$1,018,842 for the year ended September 30, 2013. Operating expenses continue to exceed operating income, creating losses and reducing cash reserves. These losses have prevented the City from timely paying vendors as invoices are due.

Subsequent to September 30, 2013, the City has obtained a note primarily for the payment of wastewater and solid waste expenditures of the Utility Fund that were payable as of September 30, 2013 in the amount of \$370,000 because it did not have enough cash on hand or available in the near future to cover these expenditures. Also, the City refunded its Utility bonds in order to defer principal and interest because they did not have the cash to pay the principal and interest of approximately \$400,000 which was due on July 1, 2014. These transactions are discussed in more detail in Note 14 of the financial statements.

These transactions, in addition to other transactions that occurred subsequent to September 30, 2013, create an uncertainty about the City's ability to timely meet its financial obligations. In addition, the City has not been able to create a cash reserve in the unforeseen event of an emergency. As of the date of this report, management of the City is discussing viable solutions to improving cash flow; however, management and those charged with governance have not determined what course of action will be implemented to mitigate this

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2013**

cash flow issue. The financial statements do not include any adjustments that reflect the nature of this contingency.

**NOTE 13: RISK MANAGEMENT**

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

(A) Self-Insurance – Workers Compensation Fund

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

(B) Self-Insurance Liability Fund

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

**NOTE 14: SUBSEQUENT EVENTS**

Events that occur after the statement of net position 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 position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net position date require disclosure in the accompanying notes. Management of the City of Bay St. Louis, Mississippi evaluated the activity of the City through July 9, 2014, (the date the financial statements were available to be issued), and determined that the following subsequent events have occurred that require disclosure in the notes to the financial statements:

In November 2013, the City obtained a revolving line of credit in the amount of \$500,000 from The First Bank to finance operating functions in anticipation of tax revenues. This debt was obtained in anticipation of ad valorem tax revenue in the amount of \$130,000 for governmental activities. The remaining amount of \$370,000 was used to pay solid waste and wastewater expenses from the Utility Fund. This debt bears interest at 2.14% and matures on November 25, 2014. In March 2014, the City repaid the governmental portion of this loan in the amount of \$130,000 with the remaining amount of \$370,000 due in November 2014.

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2013**

In January 2014, the City obtained capital lease financing for the purchase of five new police cars from First Bank in the amount of \$186,732. This debt bears interest at 3.04% and is for a period of forty-eight months and matures January 2018.

In February 2014, the City obtained capital lease financing from Suntrust Equipment and Finance and Leasing Corporation for the purchase of a ladder truck for the fire department. This debt bears interest at 2.823% and is for a ten year period with payments beginning November 1, 2014 in the amount of \$66,884.

In June 2014, the Council approved the issuance of the Bay St. Louis Water, Sewer and Gas System Refunding Bonds, Series 2014. These bonds are being issued to refund the General Obligation Water and Sewer Refunding Bonds, Series 2005. The principal amount of the new refunding bonds is \$1,700,000 with a five year maturity ending June 2019 and bearing interest at 2.67%. This refunding is a taxable transaction to the bondholders since it is the second time the original bonds issued was refunded.

In June 2014, the City transferred approximately \$97,000 from the Utility Meter Customer Deposit Cash account into the Utility operating account.

**REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL (with Budget to GAAP Differences)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Taxes:				
Property	\$ 2,129,862	\$ 1,767,356	\$ 1,767,356	\$ -
Sales	1,250,000	1,303,147	1,303,147	-
Franchise	381,000	355,291	355,291	-
Licenses and permits	160,500	248,691	248,691	-
Intergovernmental	2,482,102	2,005,563	2,005,563	-
Fines and forfeits	144,500	80,721	80,721	-
Interest	1,000	1,036	1,036	-
Lease revenue	104,000	81,455	81,455	-
Gaming revenues	2,345,000	2,197,393	2,197,393	-
Miscellaneous	58,000	210,289	210,289	-
Total revenues	<u>9,055,964</u>	<u>8,250,942</u>	<u>8,250,942</u>	<u>-</u>
<b>EXPENDITURES</b>				
General government	1,984,563	2,050,198	2,050,198	-
Public Safety	2,970,986	3,064,210	3,064,210	-
Streets and public properties	3,644,568	3,126,940	3,126,940	-
Culture and Recreation	389,736	404,634	404,634	-
Total general government	<u>8,989,853</u>	<u>8,645,982</u>	<u>8,645,982</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>66,111</u>	<u>(395,040)</u>	<u>(395,040)</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	250,000	326,935	326,935	-
Transfers out	(374,614)	(369,337)	(369,337)	-
Total other financing sources	<u>(124,614)</u>	<u>(42,402)</u>	<u>(42,402)</u>	<u>-</u>
Excess of revenues and other sources over expenditures	<u>(58,503)</u>	<u>(437,442)</u>	<u>(437,442)</u>	<u>\$ -</u>
Fund balance - beginning	<u>58,503</u>	<u>529,604</u>		
Fund balance - ending	<u>\$ -</u>	<u>\$ 92,162</u>		
Fund balance - October 1 - GAAP basis			1,355,239	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year				
Receivable/revenue adjustments			(123,042)	
Payable/expenditure adjustments			<u>(68,372)</u>	
Fund balance - September 30 - GAAP basis			<u>\$ 726,383</u>	

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL (with Budget to GAAP Differences)**  
**DISASTER RECOVERY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Intergovernmental	\$ 2,087,943	\$ 1,163,946	\$ 1,163,946	\$ -
Interest	-	207	207	-
Total revenues	<u>2,087,943</u>	<u>1,164,153</u>	<u>1,164,153</u>	-
<b>EXPENDITURES</b>				
Culture and Recreation	2,087,943	1,322,706	1,322,706	-
Total general government	<u>2,087,943</u>	<u>1,322,706</u>	<u>1,322,706</u>	-
Excess of revenues and other sources over expenditures	-	(158,553)	(158,553)	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in	-	112,000	112,000	-
Transfers out	-	(750,246)	(750,246)	-
Total other financing sources	-	<u>(638,246)</u>	<u>(638,246)</u>	-
Excess of revenues and other sources over expenditures	-	(796,799)	(796,799)	<u>\$ -</u>
Fund balance - beginning	-	796,799		
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>		
Fund balance - October 1 - GAAP basis			873,439	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year				
Receivable/revenue adjustments			95,286	
Payable/expenditure adjustments			<u>(140,948)</u>	
Fund balance - September 30 - GAAP basis			<u>\$ 30,978</u>	

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL (with Budget to GAAP Differences)**  
**CDBG GRANT FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Intergovernmental	\$ 18,078,015	\$ 8,217,438	\$ 8,217,438	\$ -
Total revenues	<u>18,078,015</u>	<u>8,217,438</u>	<u>8,217,438</u>	<u>-</u>
<b>EXPENDITURES</b>				
General government	-	28	28	-
Culture and Recreation	18,078,015	85,779	85,779	-
Total general government	<u>18,078,015</u>	<u>85,807</u>	<u>85,807</u>	<u>-</u>
Excess of revenues and other sources over expenditures	<u>-</u>	<u>8,131,631</u>	<u>8,131,631</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	(10,062,413)	(10,062,413)	-
Total other financing sources	<u>-</u>	<u>(10,062,413)</u>	<u>(10,062,413)</u>	<u>-</u>
Excess of revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ (1,930,782)</u>	<u>\$ (1,930,782)</u>	<u>\$ -</u>
Fund balance - beginning	-	1,930,782		
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>		
Fund balance - October 1 - GAAP basis			72,737	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year				
Receivable/revenue adjustments			2,855,124	
Payable/expenditure adjustments			<u>(920,599)</u>	
Fund balance - September 30 - GAAP basis			<u>\$ 76,480</u>	

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTES TO THE BUDGETARY COMPARISON SCHEDULES**  
**SEPTEMBER 30, 2013**

**NOTE A: BUDGETARY DATA**

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

1. The City Clerk's office prepares estimates of available revenue and the department directors submit proposed expenditure budgets to the City Clerk by June 1 of each year.
2. The Mayor and the department directors review expenditure budgets and necessary revisions are made.
3. Budgeted revenues and expenditures are balanced, and a summary budget is prepared and presented to the Mayor.
4. The Mayor submits the proposed budget to the Council by August 1 and public hearings are conducted to obtain taxpayer comments.
5. The final budget is approved by September 15 and is published in a local newspaper on or before September 30.
6. The budget is formally adopted at the first meeting in September each year. However, budget revisions are made throughout the year (prior to September), as reallocations of funds are necessary, a budget deficit is indicated, or circumstances change which dictate the need for budget amendment.
7. Formal budget integration is employed as a management control device during the fiscal year for the General Fund.
8. The General Fund budget, Disaster Recovery Fund budget and the CDBG Grant Fund are adopted on a cash basis as required by State statute. The appropriated budget is prepared by fund, function and department. The legal level of budgetary controls is at the department level. The City Clerk's office exercises budgetary monitoring throughout the fiscal year. An adopted budget may not exceed its appropriated level without Council approval. However, department heads may make transfers of appropriations within a department. Budgetary controls are implemented through the City Clerk's office through the use of budget to actual reports. Any purchase requisition that will cause a line item to exceed its budget will be disallowed by the City Clerk. The department head will then be required to make an inter-departmental budget transfer or request a budget amendment.

**NOTE B: EXCESS OF EXPENDITURES OVER BUDGET**

The General Fund budget to actual comparison schedule reflects an excess of expenditures over revenues for the year ended September 30, 2013.

The excess of expenditures over revenues in the Disaster Recovery Fund and the CDBG Grant Fund is due to capital outlay and the delay in receiving federal grant reimbursements.

**COMBINING FINANCIAL STATEMENTS**

**CITY OF BAY ST. LOUIS, MISSISSIPPI  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2013**

	<u>Municipal Reserve Fund</u>	<u>Debt - Service Fund</u>	<u>Total Other Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 10,644	\$ 51	\$ 10,695
Due from other funds	-	57,458	57,458
Total assets	<u>\$ 10,644</u>	<u>\$ 57,509</u>	<u>\$ 68,153</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Restricted, reported in non-major:			
Debt service	-	57,509	57,509
Committed, reported in non-major:			
Municipal Reserve	<u>10,644</u>	<u>-</u>	<u>10,644</u>
Total fund balances	<u>10,644</u>	<u>57,509</u>	<u>68,153</u>
Total liabilities and fund balances	<u>\$ 10,644</u>	<u>\$ 57,509</u>	<u>\$ 68,153</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Municipal Reserve Fund</u>	<u>Debt Service Fund</u>	<u>Total Other Governmental Funds</u>
<b>REVENUES</b>			
Interest	\$ 366	\$ 55	\$ 421
Total revenues	<u>366</u>	<u>55</u>	<u>421</u>
<b>EXPENDITURES</b>			
Current:			
Debt Service:			
Principal	-	347,500	347,500
Interest	-	28,870	28,870
Total expenditures	<u>-</u>	<u>376,370</u>	<u>376,370</u>
Excess (deficiency) of revenues over expenditures	<u>366</u>	<u>(376,315)</u>	<u>(375,949)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	369,337	369,337
Transfers out	<u>(242,121)</u>	<u>-</u>	<u>(242,121)</u>
Total other financing sources (uses)	<u>(242,121)</u>	<u>369,337</u>	<u>127,216</u>
Net change in fund balance	(241,755)	(6,978)	(248,733)
Fund balances - beginning	<u>252,399</u>	<u>64,487</u>	<u>316,886</u>
Fund balances - ending	<u>\$ 10,644</u>	<u>\$ 57,509</u>	<u>\$ 68,153</u>

**OTHER SUPPLEMENTARY INFORMATION**



**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**SCHEDULE OF SURETY BONDS FOR CITY OFFICIALS**  
**For the Year Ended September 30, 2013**

<b>Name</b>	<b>Position</b>	<b>Surety</b>	<b>Bond</b>
Les Fillingame	Mayor	Liberty Mutual	\$ 100,000
Phillip D. Seal, Jr.	Councilperson	RLI Surety	100,000
Wendy McDonald	Councilperson	RLI Surety	100,000
Jeffery Reed	Councilperson	RLI Surety	100,000
Lonnie Falgout	Councilperson	RLI Surety	100,000
Joey Boudin	Councilperson	CNA Surety	100,000
Robert J. Compretta	Councilperson	RLI Surety	100,000
Michael Favre	Councilperson	RLI Surety	100,000
David Kolf	City Clerk	Liberty Mutual	100,000
Katherine Smith	Comptroller	Liberty Mutual	100,000
Dana Feuerstein	Deputy City Clerk	RLI Surety	15,000
Mike DeNardo	Police Chief	RLI Surety	50,000
Christine DeBouchel	Deputy Chief	RLI Surety	50,000
Peggy Averhart	Court Clerk	RLI Surety	15,000
Clementine Sheppard	Deputy Court Clerk	RLI Surety	15,000
Mary Ann Bremer	Deputy Court Clerk	RLI Surety	15,000
Sandra Day	Notary Bond	RLI Surety	5,000
Liz Farve	Accounts Payable Clerk	RLI Surety	10,000
Wayne Moran, Jr.	Purchasing Clerk	RLI Surety	10,000
Laura Griffith	Deputy City Clerk	RLI Surety	10,000
Charlene Black	Notary Bond	Southgroup	5,000
Candee Breaux	Deputy City Clerk	RLI Surety	15,000
Cindy Elliot	Deputy City Clerk	RLI Surety	10,000
Charles Oliver	Building Supervisor	RLI Surety	10,000
Josh Hayes	Building Inspector	RLI Surety	10,000
Patricia Tice	Deputy City Clerk/ Notary Bond	RLI Surety	20,000
Mary Ann Bremer	Notary Bond	Southgroup	5,000
Paula Fairconnetue	Notary Bond	Southgroup	5,000
Police Department	Departmental	RLI Surety	50,000
Fire Department	Departmental	RLI Surety	50,000

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended September 30, 2013**

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Pass-through Grantors Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Passed through State of Mississippi Development Authority			
Community Development Block Grant - Entitlement Grant	14.218	R103-112-02-KCR	\$ 85,779
Community Development Block Grant - Entitlement Grant	14.218	R118-112-11-HCCR	<u>10,983,011</u>
Total U. S. Department of Housing and Urban Development			<u>11,068,790</u>
<u>U.S. Department of the Interior - Fish and Wildlife Service</u>			
Passed through Mississippi Department of Marine Resources			
Sportfishing and Boating Safety Act	15.622	F12AF00235 (MS Y-15-D)	<u>324,819</u>
Total U. S. Department of the Interior			<u>324,819</u>
<u>U.S. Department of Justice</u>			
Public Safety Partnership & Community Policing Grant	16.710	2010-WX-0176	<u>64,754</u>
Total U. S. Department of Justice			<u>64,754</u>
<u>U.S. Department of Transportation</u>			
Passed through State of Mississippi			
Highway Planning and Construction Grant	20.205	STP-7813-00(005)	829,590
Highway Planning and Construction Grant	20.205	ER-0030-00(028)	<u>66,864</u>
Total U.S. Department of Transportation			<u>896,454</u>
<u>U. S. Department of Health and Human Services</u>			
Centers for Disease Control and Prevention			
Preventative Health and Health Services Block Grant	93.991		<u>174,791</u>
Total U. S. Department of Health and Human Services			<u>174,791</u>
<u>Executive Office of the President</u>			
High Intensity Drug Trafficking Areas Program	95.001		<u>144,909</u>
Total Executive Office of the President			<u>144,909</u>
<u>U. S. Department of Homeland Security</u>			
Passed through State of Mississippi			
Diaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1604-DR-MS	1,371,231
Diaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1794-DR-MS	33,645
Passed through Mississippi Department of Public Safety - Office of Homeland Security			
Homeland Security Grant Program	97.067	10-LE-112	<u>5,635</u>
Total U. S. Department of Homeland Security			<u>1,410,511</u>
Total Federal Financial Assistance			<u>\$ 14,085,028</u>

**CITY OF BAY ST. LOUIS, MISSISSIPPI**  
**NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**September 30, 2013**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Bay St. Louis, Mississippi and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with 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 preparation of the basic financial statements.

**REPORTS ON INTERNAL CONTROL AND COMPLIANCE**

# WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

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## 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

July 9, 2014

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

We were engaged to audit, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Bay St. Louis, Mississippi, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Bay St. Louis, Mississippi's basic financial statements and have issued our report thereon dated July 9, 2014. Our auditor's report reflects a disclaimer of opinion on the financial statements as a whole, due to our inability to determine if the City will be able to meet its financial obligations as they come due because, as of the date of this report, management and those charged with governance have not developed any formal plan of action to mitigate these cash flow shortages.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Bay St. Louis, Mississippi's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Bay St. Louis, Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Bay St. Louis, Mississippi's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

questioned costs to be material weaknesses. 2013-1, 2013-2, 2013-3, 2013-4, 2013-5, 2013-6, 2013-7, 2013-8 and 2013-9.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We do not consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Bay St. Louis, Mississippi's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-1, 2013-3, 2013-6, 2013-7, 2013-8 and 2013-9.

### **City of Bay St. Louis, Mississippi's Response to Findings**

City of Bay St. Louis, Mississippi's response to the findings identified in our audit is described in the accompanying auditee corrective action plan. City of Bay St. Louis, Mississippi's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

July 9, 2014

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

### **Report on Compliance for Each Major Federal Program**

We have audited City of Bay St. Louis, Mississippi's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Bay St. Louis, Mississippi's major federal programs for the year ended September 30, 2013. City of Bay St. Louis, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of City of Bay St. Louis, Mississippi's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Bay St. Louis, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Bay St. Louis, Mississippi's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, City of Bay St. Louis, Mississippi, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-10 and 2013-11. Our opinion on each major federal program is not modified with respect to these matters.

City of Bay St. Louis, Mississippi's responses to the noncompliance findings identified in our audit are described in the accompanying auditee corrective action plan. City of Bay St. Louis, Mississippi's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

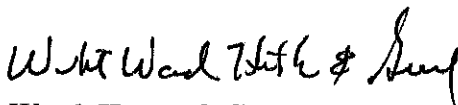
### **Report on Internal Control Over Compliance**

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



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



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

July 9, 2014

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

We were engaged to audit the accompanying financial statements of the City of Bay St. Louis, Mississippi as of and for the year ended September 30, 2013, 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*, and have issued our report dated July 9, 2014. Our auditor's report reflects a disclaimer of opinion on the financial statements as a whole, due to our inability to determine if the City will be able to meet its financial obligations as they come due because, as of the date of this report, management and those charged with governance have not developed any formal plan of action to mitigate these cash flow shortages.

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

The results of our procedures performed to test compliance with certain state laws and regulations and our audit of the financial statements disclosed instances of noncompliance described in Findings 2013-1, 2013-3, 2013-6, 2013-7 and 2013-9 in the Schedule of Findings and Questioned Costs and the following immaterial instances of noncompliance with other state laws and regulations. Our immaterial findings and recommendations and your responses are as follows:

1. Council Minutes

Finding

During our audit testing, we noted that the council minutes contained several discrepancies such as claims dockets were not approved by the Council or properly documented within the council minutes as approved. Transfers between funds were not documented as approved by the Council. One council meeting's minutes were not approved by the Council, and other meetings' minutes were not timely signed

by the Council documenting approval as required by state law. Some meetings' minutes were missing within the official minute book. In some instances, items reflected as attachments within the council minutes were not maintained for verification.

In November 2012, the Council approved a new utility rate ordinance, and the ordinance was not maintained within the ordinance book as required by MS Code 21-13-13. Upon review of the minutes, we noted several typographical errors in amounts approved by the Council and actual dates of meetings. Some Council meetings' minutes were merged with other meetings' minutes in error.

#### Recommendation

We recommend that all of the actions of the Council be properly reflected in a timely manner within the council minutes. All attachments, including claims dockets, to the council minutes should be properly marked as approved, maintained, and available at City Hall. The council minutes should be reviewed for accuracy and for typographical errors. We recommend that all City ordinances be properly approved by the Council, documented, and maintained within the ordinance book as required by state law.

#### Response

Management has not paid claims dockets without Council approval. The minutes of Council meetings may not reflect the actions taken and the Council is working to correct the presentation and compilation of minutes. Copies of minutes need to be provided to the Mayor prior to adoption.

### 2. Municipal Compliance Questionnaire

#### Finding

The Municipal Compliance Questionnaire was not timely approved by the Council in accordance with state law, and based on our audit testing; it appears that the compliance questionnaire was not accurately presented to the Council.

#### Recommendation

We recommend that the Municipal Compliance Questionnaire be accurately presented to the Council at the first meeting in October in accordance with state law.

#### Response

The Audit Compliance Questionnaire was presented, discussed and approved by the City Council on time. Because the council meeting minutes are incomplete, apparently no record of the Compliance Questionnaire presentation is available. Management will ensure the Compliance Questionnaire is attached to the minutes of the meeting.

### 3. Surety Bonds Issued for an Indefinite Period of Time

#### Finding

Section 25-1-15, Miss. Code Ann. (1972), states "...a new bond in the amount required by law shall be secured at the beginning of each new term of office or every four years, whichever is less."

During our testing of surety bonds, we noted that some of the bonds were issued for an indefinite period of time and were not concurrent with the four year term of office.

Recommendation

We recommend that the City comply with state code and secure new surety bonds every four years or less for all employees that are required to have a surety bond.

Response

Management is unsure of the detail of this finding, but will review each bond to make sure all required bonds are current and renewed for the correct term.

4. Use of State Fire Protection Funds

Finding

Fire protection funds shall be expended by the Council for specific purposes and any remaining unspent funds in a fiscal year are to be placed in a special fund with a written plan approved by the Commissioner of Insurance.

During our testing of state fire protection funds, we noted that the remaining amounts of unspent funds were not properly segregated into a separate special fund as required.

Recommendation

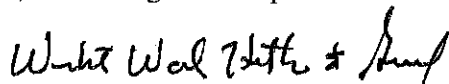
We recommend that management properly segregate any unspent state fire protection funds in the fiscal year and submit a written plan to the Commissioner of Insurance for the proposed use of those funds.

Response

The City has filed an amended report for FY 2013 and has obtained written authorization for the carryover of unused fire protection funds. Management will segregate these monies into a separate special revenue fund.

The instances of noncompliance of the prior year have been corrected by management, unless it is specifically stated otherwise in the findings and recommendations noted above.

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



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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF BAY ST. LOUIS, MISSISSIPPI  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended September 30, 2013

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

1	Type of Auditors’ Report Issued	Disclaimer
2	Internal Control over Financial Reporting:	
	a. Material weakness (es) identified	Yes
	b. Significant deficiency (ies) identified not considered to be material weaknesses?	None reported
3	Noncompliance material to financial statements noted?	Yes
	<b>Federal Awards</b>	
4	Internal control over major programs:	
	a. Material weakness (es) identified?	No
	b. Significant deficiency (ies) identified not considered to be material weaknesses?	None reported
5	Type of auditors’ report issued on compliance for major programs:	Unmodified
6	Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	Yes
7	Identification of major programs:	
	CFDA #14.218 - U. S. Department of Housing and Urban Development Community Development Block Grants – Entitlement Grants to Cities	
	CFDA # 15.622 - Department of the Interior - Fish and Wildlife Service Sportfishing and Boater Safety Act	
	CFDA # 20.205 - U. S. Department of Transportation Highway Planning and Construction	
8	Dollar threshold used to distinguish between Type A and Type B programs:	\$422,551
9	Auditee qualified as low risk auditee?	No
10	Prior year audit findings and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior? audit findings as discussed in Section_.315 (b) of OMB Circular A-133?	No

## SECTION II – FINANCIAL STATEMENT FINDINGS

### **2013-1: Purchasing and payment of claims**

### *Prior year finding*

*Criteria:* Proper internal controls over purchasing and accounts payable as well as state law require that payments to vendors should be made in a timely manner. Invoices are to be stamped with the date received and are to be paid in the order in which they are listed on the claims docket as presented to the Council. Once the Council has approved the claims docket, payment should be made within a reasonable time. If a claim is voided for any reason, it should be voided in the general ledger in a timely manner. Invoices should be cancelled once they are paid, by stamping “PAID” on the original invoice to prevent duplication of payment.

*Condition:* During our testing of purchasing, we noted several instances in which vendor invoices were paid in excess of 100 days after the invoice or service date.

In some cases, we determined that claims were not paid in the order received or listed on the claims docket as approved by the Council, and several claims were paid months after Council approval.

We noted one instance where an invoice was overpaid; however the vendor refunded the overpayment.

*Cause:* The City is experiencing cash flow shortages, and therefore, they are paying some bills in order of priority instead of order of receipt. It appears that checks were held after Council approved the claims and released at a later date. The accounts payable department paid vendors from copies of invoices, and claims or checks were not timely voided within the general ledger accounting system.

*Effect:* The City can incur unnecessary late fees and possibly have service suspended for late or nonpayment of goods and services. Late payment of invoices, as well as not paying invoices or “claims” in the order that they are received causes the City to be noncompliant with state laws. Vendors could be overpaid which could affect budgeted appropriations as well as the reimbursement of overpayment may not be recovered. Failure to properly void claims within the general ledger causes distorted financial statement reporting and inaccuracies in comparing budget to actual disbursements.

*Recommendation:* We recommend that a “Date Received” stamp is implemented for all vendor invoices and that vendor invoices are paid in a timely manner upon determination of being a valid claim against the City. All claims should be paid in the order placed upon the claims docket, and payment is timely remitted upon Council approval. We recommend that all payments should be made from original invoices and that all invoices are stamped as “PAID” to avoid duplicate payments. We recommend that management scrutinize each claims docket before presentation to the Council to avoid improper or duplicate vendor payments.

**2013-2: Building Permits**      *Prior year finding*

*Criteria:* The City's ordinance requires that all new building construction and remodels are to have a valid building permit, and if necessary, the permits may need to be renewed. Each file should contain documentation to support fees charged, inspections performed, and any other necessary documentation to ensure compliance with City ordinance.

*Condition:* We noted that some permit applications were incomplete and not signed by the applicant or a city official and that files were missing inspection and other necessary documents to ensure compliance with City ordinance.

*Cause:* In some cases, the permit department did not follow up on construction projects in progress, and once completed, they did not verify that previous issues had been addressed. In regards to some projects tested, the inspection log was incomplete or missing, and due to lack of documentation, we were unable to determine if final inspection had been performed.

*Effect:* Noncompliant applications and construction projects are in violation of the City's ordinance. In some cases, building projects may be non-compliant due to lack of follow-up, lack of final inspections, and lack of certificates of occupancy.

*Recommendation:* We recommend that all building projects have a completed and signed application on file with all applicable fees assessed and collected. The City should implement policies and procedures to ensure that all building projects are inspected throughout the building process and all projects should have a final inspection. Project files should contain all necessary documentation to reflect compliance with City ordinance.

**2013-3: Court Fines and Related Assessments**      *Prior year finding*

*Criteria:* Proper accounting for court fine revenue is required to accurately determine court assessments and court fines receivables for each court case. The City is required to submit monthly court assessments to various agencies within the City and the State to determine the amount of assessments due.

*Condition:* We noted instances where payments and adjustments were not reflected in individual case files, and some adjustments were made without proper documentation and approval. We also noted that bench warrants were inconsistently issued. Also, court assessments were overpaid because the collections were not accurately reconciled to the general ledger.

*Cause:* The City's court department is not following up on offender's payments, nor are they properly documenting payments and correspondence. The department is making modifications to some records, and they are not getting management approval. Management is not reconciling the court assessment reports to the general ledger to ensure accuracy.

*Effect:* Inadequate review of individual case files and failure to properly document items in the case files can result in noncompliance with court orders as well as untimely collections of court

revenues. Overpayment of court assessments decreases the amount of cash available for the City to utilize for legitimate expenditures.

*Recommendation:* We recommend that the court department review the active files monthly to ensure that each case is current with payments and that all correspondence is documented within the files and the court department should consistently issue warrants for non-payment. We also recommend that management ensure that proper procedures are in place for timely remittance of all court assessments. Court fine revenue should be reconciled monthly from the court software system to the general ledger accounting system and that any discrepancies are corrected immediately. We recommend that management implement procedures to improve collections of court fine revenue.

**2013-4: Rental of City Facilities**      *Prior year finding*

*Criteria:* Contracts entered into for the use of City facilities should be signed by the lessee prior to the date of the event. The City should implement policies and procedures to ensure that deposits are consistently collected in a timely manner for every lessee and determine before rental date that deposits paid by check have available funds. The City should adhere to the cancellation policy for all rental facilities, and if events are cancelled, that facility's availability should be updated in a timely manner.

*Condition:* We noted that deposits were not collected for all events, and in some cases, deposits and payments made to the City did not have time to clear the issuer's bank to ensure that the funds were available. There was inconsistent treatment for some required deposits on facility rentals. The cancellation policy is not enforced for all rental facilities.

In some instances, the Community Center is reserved or leased for an entire day or night and the lessee is only charged a minimum fee of \$150 which is a two hour fee.

The City's website was not updated to reflect a cancellation to indicate that the facility was available to be rebooked for another event.

During our testing of building rental fees, we noted that one lessee who rented a facility on a monthly basis did not remit rent to the City for over three months.

*Cause:* The City's facility manager inconsistently charges lessees a deposit fee. Deposit fees ensure proper clean up by the lessee and restitution for possible damages. Also, there were inconsistencies regarding hours charged for usage of the facilities to various lessees. Upon inquiry, we discovered that no one was reviewing the monthly rental payments to determine if rent is received from all renters in a timely manner.

*Effect:* If a deposit was not collected for a facility rental, the City could have no recourse in cases of improper cleaning or damages to the facilities. For lessees who were not charged based on actual hours of usage, the City had reduced revenue for not collecting the correct amount.



*Recommendation:* We recommend that the City review its policy and pricing of facility rentals to ensure adequate costs are recovered for usage of City facilities. We recommend that the City enforce the terms of the lease contracts for all facilities and have a contract established and signed prior to the event date. The City should charge lessees based on actual time used to include setup time.

#### **2013-5: Utility Billings and Collections**

*Criteria:* Utility billings should be reviewed for accuracy and completeness prior to mailing to utility customers. City ordinances should be followed and adhered to for collection and cut-off of utility services.

*Condition:* During our testing of utility billings and collections, we noted several instances in which utility bills were mailed to customers with significant errors in overstated bill amounts.

We also noted that several City employees were past due in excess of two months on their utility bill payments to the City, and cutoffs were not performed as stated in the City ordinance.

We noted in our testing that some customers were several months late in payments, and cutoff procedures were not performed, and in other cases, late fees were waived.

During our testing, we noted that one customer's utility bill was below the minimum bill amount, and it was determined that this individual was consuming several thousand gallons of water each month and was billed at zero gallons of usage.

*Cause:* It appears that no review of exceptions is performed prior to mailing of utility bills each month. The utility department is not following City ordinance regarding collections and cut-off procedures.

*Effect:* Failure to review utility bills for obvious errors prior to mailing creates overstated revenues and receivables in the financial statements as well as customer dissatisfaction. Failure to properly collect utility receivables and enforce City cut-off procedures causes receivable amounts to steadily increase as well as noncompliance with City policies.

*Recommendation:* We recommend that a thorough analysis and review is performed at each billing cycle so that exceptions can be corrected prior to the mail out of utility bills. The City ordinance regarding collection and cut-off for non-compliant utility customers should be strictly followed and enforced.

#### **2013-6: Payroll Recordkeeping and Reporting**

*Criteria:* Payroll time cards should be properly completed to record actual dates and times worked for all departments. Paid time-off should be approved and documented by department supervisors for all City departments. Personnel files should be updated with personnel changes such as rate of pay and department information. Amounts remitted to taxing authorities should

be remitted in a timely and accurate manner. Retirement contributions should only be paid for qualifying individuals.

*Condition:* During our testing of payroll, we noted that some time cards were not accurately completed to reflect days and times worked. In some cases, paid time off was not approved by department supervisors as required by City policy.

Some personnel files did not have updated pay or department information for employees. Some employment applications were not signed or completed prior to employment. Information regarding termination was not documented within some of the files tested.

State withholding was untimely paid and information obtained from City reports did not agree to what was reported for each period in the Mississippi Department of Revenue tax payment system.

*Cause:* Supervisors are not documenting their approval of employees' paid time-off and are also not enforcing accurate reporting of actual time worked on time cards.

Information is not adequately documented within employees' personnel files when pay rates or job functions change, and applicants are not required to submit complete employment applications.

Prior to submission, a thorough review of all amounts remitted to taxing authorities was not performed by a knowledgeable city employee or management.

*Effect:* By not ensuring that all time paid to employees was adequately and accurately documented, the City is noncompliant with Department of Labor laws and other City policies. If rate changes and other pertinent employee pay information are not updated within personnel files, employees could be incorrectly paid or improper deductions withheld from their paychecks.

The City is noncompliant with taxing authorities by untimely and incorrect submission of tax payments due.

*Recommendation:* We recommend that department supervisors ensure that all employee time worked or paid time-off is completely and accurately reflected on their time cards for each pay period and that the department supervisor has signed the time cards indicating their review.

All employee personnel files should be reviewed to ensure that all current and accurate information is reflected within the files and agrees to the payroll software. Management should implement policies and procedures to facilitate communication between various departments regarding employee changes.

All payments to taxing authorities should be made in a timely manner and reviewed prior to remittance by a knowledgeable individual.

## **2013-7: Fixed Assets Management**

*Criteria:* In accordance with the Mississippi Municipal Fixed Assets Management Manual, fixed assets should be maintained in a subsidiary ledger and updated when new fixed assets that meet capitalization thresholds are acquired or disposed of.

*Condition:* During our audit testing, we noted several fixed assets that had to be added or deleted from the fixed asset subsidiary ledgers. We also noted several items that were repairs and maintenance were improperly classified as fixed assets.

*Cause:* The fixed asset clerk was not updating the fixed asset subsidiary ledgers as required. Management improperly posted repairs and maintenance expenditures as fixed assets.

*Effect:* Improperly accounting for fixed asset acquisitions or disposals can materially distort the subsidiary ledgers that are used to generate financial reports, thereby materially misstating the City's financial statements. Improper posting of repairs and maintenance and failing to post acquisitions and disposals of fixed assets can also be in violation of guidance as prescribed by the Mississippi State Auditor's Office.

*Recommendation:* We recommend that management and the fixed asset clerk adhere to the guidelines set forth in the Mississippi Municipal Fixed Assets Management Manual and timely update the fixed assets subsidiary ledgers for acquisitions and disposals of fixed assets.

## **2013-8: Journal Entries**

*Criteria:* Journal entries posted to the general ledger accounting software should have adequate supporting documentation explaining the journal entry and should be authorized and approved by management.

*Condition:* During our testing, we noted that numerous journal entries were made to the general ledger. Most of these entries reclassified expenditures from one account to another. We were not able to obtain supporting detail to justify the reclassifications, and other journal entries did not have supporting documentation attached detailing the reason for the entry.

*Cause:* Journal entries were posted to the general ledger without supporting documentation explaining or justifying the entries.

*Effect:* Journal entries posted to the general ledger without adequate supporting documentation increases the risk of financial statement misrepresentation and can also distort budget to actual reporting.

*Recommendation:* We recommend that management implement a policy of approving all journal entries made to the general ledger system and that all journal entries have adequate supporting documentation justifying the entry.

### **2013-9: Restricted Debt Funds and Debt Covenants**

*Criteria:* Revenue that is restricted for debt service payments should be properly segregated and maintained in accordance with bonded debt covenants.

*Condition:* During our testing of bonded debt, we noted ad-valorem receipts that should be restricted for bond debt principal and interest payments were not adequately segregated or maintained as required by the bonded debt covenants.

*Cause:* The City did not properly segregate and maintain restricted debt monies from the City's operating depository account.

*Effect:* The City is noncompliant with bonded debt covenants for failure to segregate and hold ad-valorem receipts that are restricted for debt reserve.

*Recommendation:* To be in compliance with bonded debt covenants, we recommend that the City immediately transfer the ad-valorem revenue received for bonded debt into the appropriate restricted debt service account. We also recommend that management implement policies and procedures to ensure that all bonded debt covenants are adhered to, and revenue that is restricted for debt service is properly segregated within the appropriate accounts.

## **SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

### **2013-10: Cash Management**

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

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

*Condition:* During our testing of the grant noted above, in two instances, the monies that were received on cash requests were not paid out to the vendor within three days of receipt as required by the grant program.

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

*Cause:* It appears that City personnel did not adhere to the grant compliance requirement of disbursement of funds within three days of receipt.

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

*Recommendation:* We recommend that management adhere to the federal grant compliance requirement related to cash management and that they properly expend any cash receipts within three days unless the expenditures were paid prior to grant receipts received by the City.

## **2013-11: Reporting**

### CFDA # 15.622 – Department of the Interior – Fish and Wildlife Services – Sport Fishing and Boater Safety Act

*Criteria:* Grant compliance requires that grant project reports are to be periodically submitted to the oversight granting agency.

*Condition:* During our testing of the grant above, we noted that the quarterly reports were not submitted to the granting agency as required by the grant.

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

*Effect:* Because the City did not submit the reports as required, the City is non-compliant in regards to the reporting compliance requirement of the federal grant.

*Recommendation:* We recommend that management adhere to the federal grant compliance requirement related to reporting and that all reports are timely submitted.

**AUDITEE CORRECTIVE ACTION PLAN**



**Auditee Corrective Action Plan  
For the Year Ended September 30, 2013**

**Section 2: Financial Statement Findings**

**Finding 2013-1: Purchasing and payment of claims**

*Condition:* During our testing of purchasing, we noted several instances in which vendor invoices were paid in excess of 100 days after the invoice or service date.

In some cases, we determined that claims were not paid in the order received or listed on the claims docket as approved by the Council, and several claims were paid months after Council approval.

We noted one instance where an invoice was overpaid; however the vendor refunded the overpayment.

*Corrective Action:* Use of stamp for invoices is being done, including dates. We will continue to stamp invoices.

**2013-2: Building Permits**

*Condition:* We noted that some permit applications were incomplete and not signed by the applicant or a city official and that files were missing inspection and other necessary documents to ensure compliance with City ordinance.

*Corrective Action:* A monthly building permit report review has been initiated to follow up on the status of all open and closed permits each month. Renewal of expiring permits is also done during this review.

**2013-3: Court Fines and Related Assessments**

*Condition:* We noted instances where payments and adjustments were not reflected in individual case files, and some adjustments were made without proper documentation and approval. We also noted that bench warrants were inconsistently issued. Also, court assessments were overpaid because the collections were not accurately reconciled to the general ledger.

*Corrective Action:* Additional review and training with the Court staff will be done to resolve report issues. A warrant officer is being assigned to collect outstanding fines.

#### **2013-4: Rental of City Facilities**

*Condition:* We noted that deposits were not collected for all events, and in some cases, deposits and payments made to the City did not have time to clear the issuer's bank to ensure that the funds were available. There was inconsistent treatment for some required deposits on facility rentals. The cancellation policy is not enforced for all rental facilities.

In some instances, the Community Center is reserved or leased for an entire day or night and the lessee is only charged a minimum fee of \$150 which is a two hour fee.

The City's website was not updated to reflect a cancellation to indicate that the facility was available to be rebooked for another event.

During our testing of building rental fees, we noted that one lessee who rented a facility on a monthly basis did not remit rent to the City for over three months

*Corrective Action:* Rental of facilities should be available even if a last minute rental does not allow for payment to be deposited until the following day. There has not been problem with returned checks for facility rentals.

A severe leak resulted in the loss of use for a significant portion of an office rental. After completion of the roof repairs, all rent was paid by lessee.

#### **2013-5: Utility Billings and Collections**

*Condition:* During our testing of utility billings and collections, we noted several instances in which utility bills were mailed to customers with significant errors in overstated bill amounts.

We also noted that several City employees were past due in excess of two months on their utility bill payments to the City, and cutoffs were not performed as stated in the City ordinance.

We noted in our testing that some customers were several months late in payments, and cutoff procedures were not performed, and in other cases, late fees were waived.

During our testing, we noted that one customer's utility bill was below the minimum bill amount, and it was determined that this individual was consuming several thousand gallons of water each month and was billed at zero gallons of usage.

*Corrective Action:* Changes have been made to the monthly utility billing and cut-off process. The ordinance for collections and cut-offs is being followed and the aging report shows a clear improvement in collections.



## **2013-6: Payroll Recordkeeping and Reporting**

*Condition:* During our testing of payroll, we noted that some time cards were not accurately completed to reflect days and times worked. In some cases, paid time off was not approved by department supervisors as required by City policy.

Some personnel files did not have updated pay or department information for employees. Some employment applications were not signed or completed prior to employment. Information regarding termination was not documented within some of the files tested.

State withholding was untimely paid and information obtained from City reports did not agree to what was reported for each period in the Mississippi Department of Revenue tax payment system.

*Corrective Action:* Changes to the timekeeping system are being considered to allow for a computer based approval process for each employee. Adding the police and fire departments to the current time system will be a priority. Additional improvements and changes to the payroll process are being considered and implemented.

## **2013-7: Fixed Assets Management**

*Condition:* During our audit testing, we noted several fixed assets that had to be added or deleted from the fixed asset subsidiary ledgers. We also noted several items that were repairs and maintenance that were improperly classified as fixed assets.

*Corrective Action:* Additional training will be done with staff to outline capitalization procedures.

## **2013-8: Journal Entries**

*Condition:* During our testing, we noted that numerous journal entries were made to the general ledger. Most of these entries reclassified expenditures from one account to another. We were not able to obtain supporting detail to justify the reclassifications, and other journal entries did not have supporting documentation attached detailing the reason for the entry.

*Corrective Action:* Journal entries will be documented in the notes and reviewed and approved by both the Comptroller and City Clerk.

## **2013-9: Restricted Debt Funds and Debt Covenants**

*Condition:* During our testing of bonded debt, we noted ad-valorem receipts that should be restricted for bond debt principal and interest payments were not adequately segregated or maintained as required by the bonded debt covenants.

*Corrective Action:* On a monthly basis the City will move designated debt ad-valorem revenue to the debt service fund upon receipt.

### **Section III: Federal Award Findings and Questioned Costs**

#### **2013-10: Cash Management**

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

*Condition:* During our testing of the grant noted above, in a two instances, the monies that were received on cash requests were not paid out to the vendor within three days of receipt as required by the grant program.

*Corrective Action:* If there are only two instances of monies not being paid within the three day period, the City has done an excellent job handling grant funds. There has been no arbitrage of grant funds and no interest has been earned. Payment advances, invoicing issues and errors made on the funds received from the grantor may have resulted in a slowdown of the payment process.

#### **2013-11: Reporting**

CFDA # 15.622 – Department of the Interior – Fish and Wildlife Services – Sport Fishing and Boater Safety Act

*Condition:* During our testing of the grant above, we noted that the quarterly reports were not submitted to the granting agency as required by the grant.

*Corrective Action:* Management will follow through with the harbor grant reporting to ensure compliance and current reporting is submitted.

