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**CITY OF BAY SPRINGS, MISSISSIPPI**  
**AUDITED FINANCIAL STATEMENTS AND**  
**SPECIAL REPORTS**  
**For the Year Ended September 30, 2010**

**CITY OF BAY SPRINGS, MISSISSIPPI  
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SEPTEMBER 30, 2010**

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**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor, Members of the  
Board of Aldermen, and City Clerk  
City of Bay Springs, Mississippi

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bay Springs, Mississippi, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bay Springs's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated February 11, 2011, on my consideration of the City of Bay Springs, Mississippi's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The City of Bay Springs, Mississippi, has not presented Management's Discussion and Analysis that is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

The Budgetary Comparison Schedule and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bay Springs, Mississippi's basic financial statements. The schedules listed as supplemental information are presented for the purpose 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 basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Marcus J. Martin  
Certified Public Accountant  
February 11, 2011

**City of Bay Springs  
Statement of Net Assets  
September 30, 2010**

**EXHIBIT 1**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash, Cash Equivalents, and Investments	\$ 896,865	\$ 675,972	\$ 1,572,837
Restricted Assets - Cash and Investments	19,965	262	20,227
Property Tax Receivable	482,079		482,079
Receivables (net of uncollectibles):			
Accounts	70,104	161,768	231,872
Sales Tax	47,313		47,313
Other	39,144		39,144
Capital Assets (net of accumulated depreciation):			
Land	633,887	38,776	672,663
Buildings	1,953,039		1,953,039
Improvements Other Than Buildings	961,967	4,669	966,636
Mobile Equipment	179,202	60,930	240,132
Other Furniture and Equipment	77,289	39,184	116,473
Infrastructure	266,131		266,131
Utility Systems		3,586,161	3,586,161
Construction in Progress		642,689	642,689
<b>Total Assets</b>	<b>\$ 5,626,985</b>	<b>\$ 5,210,411</b>	<b>\$ 10,837,396</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities:</b>			
Accounts Payable	\$ 96,368	\$ 77,703	\$ 174,071
Accrued Salaries and Taxes	14,115		14,115
Accrued Vacation and Sick Pay	8,920	5,513	14,433
Customer Deposits		91,541	91,541
Deferred Revenue	482,079		482,079
Other Accrued Liabilities	24,458		24,458
Non-Current Liabilities:			
Due Within One Year	80,019	60,539	140,558
Due In More Than One Year	303,603	583,551	887,154
Long-term Compensated Absences	32,302	71,013	103,315
<b>Total Liabilities</b>	<b>1,041,864</b>	<b>889,860</b>	<b>1,931,724</b>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	3,687,893	3,728,319	7,416,212
Restricted	446,255		446,255
Unrestricted	450,973	592,232	1,043,205
<b>Total Net Assets</b>	<b>4,585,121</b>	<b>4,320,551</b>	<b>8,905,672</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 5,626,985</b>	<b>\$ 5,210,411</b>	<b>\$ 10,837,396</b>

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



**City of Bay Springs  
Balance Sheet  
Governmental Funds  
September 30, 2010**

**EXHIBIT 3**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Grant Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash, Cash Equivalents and Investments	\$ 613,094	\$ 283,711	\$ 60		\$ 896,865
Restricted Cash and Investments	15,416			4,549	19,965
Accounts Receivable - Net	70,104				70,104
Property Tax Receivable	385,663	96,416			482,079
Due from Other Governments	47,313				47,313
Other Receivable	39,144				39,144
<b>Total Assets</b>	<b>\$ 1,170,734</b>	<b>\$ 380,127</b>	<b>\$ 60</b>	<b>\$ 4,549</b>	<b>\$ 1,555,470</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts Payable	\$ 96,368				\$ 96,368
Accrued Payroll	14,115				14,115
Accrued Vacation and Sick Pay	8,920				8,920
Deferred Revenue	385,663	96,416			482,079
Other Accrued Liabilities	24,458				24,458
<b>Total Liabilities</b>	<b>529,524</b>	<b>96,416</b>	<b>-</b>	<b>-</b>	<b>625,940</b>
<b>Fund Balances:</b>					
<b>Reserved for:</b>					
Industrial Park	189,113				189,113
Other				4,549	4,549
Grants			60		60
Debt Service		283,711			283,711
<b>Unreserved:</b>					
Undesignated	452,097				452,097
<b>Total Fund Balances (Deficits)</b>	<b>641,210</b>	<b>283,711</b>	<b>60</b>	<b>4,549</b>	<b>929,530</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,170,734</b>	<b>\$ 380,127</b>	<b>\$ 60</b>	<b>\$ 4,549</b>	<b>\$ 1,555,470</b>

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

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

**EXHIBIT 3.1**

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**Fund Balances - Total Governmental Funds** **\$ 929,530**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

Governmental Capital Assets	\$ 6,505,603	
Less: Accumulated Depreciation	<u>(2,434,088)</u>	4,071,515

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Bonds Payable	(80,000)	
Notes Payable	(226,384)	
Capital Leases Payable	(77,238)	
Compensated Absences	<u>(32,302)</u>	<u>(415,924)</u>

**Net Assets of Governmental Activities** **\$ 4,585,121**

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

**City of Bay Springs**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**September 30, 2010**

**EXHIBIT 4**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Grant Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>					
Property Taxes	\$ 317,638	\$ 167,783			\$ 485,421
Licenses and Permits	222,692				222,692
Intergovernmental Revenue	676,835		718,843	21,560	1,417,238
Charges for Services	787,598				787,598
Fines and Forfeits	31,305				31,305
Other Revenue	187,329	1,043	6	1,166	189,544
<b>Total Revenues</b>	<b>2,223,397</b>	<b>168,826</b>	<b>718,849</b>	<b>22,726</b>	<b>3,133,798</b>
<b>EXPENDITURES</b>					
Current:					
General Government	466,259				466,259
Public Safety	443,851				443,851
Public Works	769,134				769,134
Culture and Recreation	151,755				151,755
Economic Development	400,487		184,096	24,202	608,785
Debt Service:					
Principal Retirement	35,151	57,638			92,789
Interest and Fiscal Charges	3,449	16,287			19,736
<b>Total Expenditures</b>	<b>2,270,086</b>	<b>73,925</b>	<b>184,096</b>	<b>24,202</b>	<b>2,552,309</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(46,689)</b>	<b>94,901</b>	<b>534,753</b>	<b>(1,476)</b>	<b>581,489</b>
<b>OTHER FINANCING SOURCES AND (USES)</b>					
Transfers In	344,737	12,363	55,200	2,100	414,400
Transfers Out	(393,321)		(592,089)		(985,410)
Proceeds from Sale of Assets	47,520				47,520
Proceeds from Borrowings	64,689				64,689
<b>Total Other Financing Sources and (Uses)</b>	<b>63,625</b>	<b>12,363</b>	<b>(536,889)</b>	<b>2,100</b>	<b>(458,801)</b>
<b>Net Change in Fund Balances</b>	<b>16,936</b>	<b>107,264</b>	<b>(2,136)</b>	<b>624</b>	<b>122,688</b>
<b>Fund Balances (Deficits) - Beginning</b>	<b>624,274</b>	<b>176,447</b>	<b>2,196</b>	<b>3,925</b>	<b>806,842</b>
<b>Fund Balances (Deficits) - Ending</b>	<b>\$ 641,210</b>	<b>\$ 283,711</b>	<b>\$ 60</b>	<b>\$ 4,549</b>	<b>\$ 929,530</b>

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

**City of Bay Springs**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**September 30, 2010**

**EXHIBIT 4.1**

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**Net Change in Fund Balances - Total Governmental Funds** **\$ 122,688**

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of these assets is depreciated over their estimated useful lives.

Expenditures for Capital Assets	\$ 97,449	
Less: Current Year Depreciation	<u>(195,745)</u>	(98,296)

In the Statement of Activities, only gains and losses from sale of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources and loss from the sale of capital assets decrease financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the loss and the proceeds from the sale in the current period.

Loss on Sale of Assets	(21,381)	
Proceeds on Sale of Assets	<u>(47,520)</u>	(68,901)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term debt in the Statement of Net Assets.

Principal Payments	92,789	
Loan Proceeds	<u>(64,689)</u>	28,100

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

Change in Long-term Compensated Absences		<u>(7,109)</u>
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**Change in Net Assets of Governmental Activities** **\$ (23,518)**

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

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

**EXHIBIT 5**

	Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Gas	
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ 42,215	\$ 21,040	\$ 583,231	\$ 646,486
Investments	29,486			29,486
Accounts Receivable	43,312	21,596	96,860	161,768
<b>Total Current Assets</b>	<b>115,013</b>	<b>42,636</b>	<b>680,091</b>	<b>837,740</b>
<b>Noncurrent Assets:</b>				
Restricted Asset - Cash and Cash Equivalents	262			262
Capital Assets:				
Land	258	38,518		38,776
Improvements	18,718			18,718
Systems	2,751,196	2,187,184	579,000	5,517,380
Mobile Equipment	64,681	34,771	122,695	222,147
Other Furniture and Equipment	60,258	89,901	128,683	278,842
Construction in Progress	12,155	630,534		642,689
Less Accumulated Depreciation	(830,193)	(999,005)	(516,945)	(2,346,143)
<b>Total Noncurrent Assets</b>	<b>2,077,335</b>	<b>1,981,903</b>	<b>313,433</b>	<b>4,372,671</b>
<b>Total Assets</b>	<b>2,192,348</b>	<b>2,024,539</b>	<b>993,524</b>	<b>5,210,411</b>
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts Payable	4,532		73,171	77,703
Accrued Vacation and Sick Pay	1,379	2,136	1,998	5,513
Customer Deposits	66,647		24,894	91,541
Current Portion of Long-term Debt	50,652	2,393	7,494	60,539
<b>Total Current Liabilities</b>	<b>123,210</b>	<b>4,529</b>	<b>107,557</b>	<b>235,296</b>
<b>Noncurrent Liabilities:</b>				
Compensated Absences Payable	19,424	30,176	21,413	71,013
Long-term Debt	564,045	821	18,685	583,551
<b>Total Liabilities</b>	<b>706,679</b>	<b>35,526</b>	<b>147,655</b>	<b>889,860</b>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	1,462,376	1,978,689	287,254	3,728,319
Unrestricted	23,293	10,324	558,615	592,232
<b>Total Net Assets</b>	<b>\$ 1,485,669</b>	<b>\$ 1,989,013</b>	<b>\$ 845,869</b>	<b>\$ 4,320,551</b>

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

**City of Bay Springs**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**September 30, 2010**

**EXHIBIT 6**

	<b>Enterprise Funds</b>			<b>Total Enterprise Funds</b>
	<b>Water</b>	<b>Sewer</b>	<b>Gas</b>	
<b>Operating Revenues:</b>				
Sales	\$ 371,435	\$ 165,584	\$ 550,791	\$ 1,087,810
Other Revenue	8,489	2,172	1,459	12,120
<b>Total Operating Revenues</b>	<b>379,924</b>	<b>167,756</b>	<b>552,250</b>	<b>1,099,930</b>
<b>Operating Expenses:</b>				
Personnel Services	117,299	116,046	164,560	397,905
Contractual Services, Materials, and Supplies	65,912	20,619	84,062	170,593
Utilities	93,299	11,971	3,596	108,866
Other Services and Charges	59,697	23,029	14,377	97,103
Depreciation	77,854	52,899	24,494	155,247
<b>Total Operating Expenses</b>	<b>414,061</b>	<b>224,564</b>	<b>291,089</b>	<b>929,714</b>
Operating Income (Loss)	(34,137)	(56,808)	261,161	170,216
<b>Nonoperating Revenues (Expenses):</b>				
Grant Revenues	15,308		384,312	399,620
Line Relocation Expenditures	(15,308)		(384,312)	(399,620)
Interest Expense	(15,815)	(278)	(884)	(16,977)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(15,815)</b>	<b>(278)</b>	<b>(884)</b>	<b>(16,977)</b>
Income (Loss) Before Capital Contributions and Transfers	(49,952)	(57,086)	260,277	153,239
Transfers In	17,655	582,855		600,510
Transfers Out	(20,000)		(9,500)	(29,500)
<b>Change in Net Assets</b>	<b>(52,297)</b>	<b>525,769</b>	<b>250,777</b>	<b>724,249</b>
<b>Total Net Assets - Beginning</b>	<b>1,537,966</b>	<b>1,463,244</b>	<b>595,092</b>	<b>3,596,302</b>
<b>Total Net Assets - Ending</b>	<b>\$ 1,485,669</b>	<b>\$ 1,989,013</b>	<b>\$ 845,869</b>	<b>\$ 4,320,551</b>

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

**City of Bay Springs**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**September 30, 2010**

**EXHIBIT 7**

	<b>Enterprise Funds</b>			<b>Total Enterprise Funds</b>
	<b>Water</b>	<b>Sewer</b>	<b>Gas</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers and users	\$ 404,182	\$ 187,513	\$ 560,021	\$ 1,151,716
Cash payments to suppliers and employees	(339,535)	(169,375)	(272,552)	(781,462)
Interest and miscellaneous revenue received	11,868	2,172	4,023	18,063
Net cash provided (used) by operating activities	<u>76,515</u>	<u>20,310</u>	<u>291,492</u>	<u>388,317</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Net interfund activity	(2,345)	582,855	(9,500)	571,010
Net cash provided (used) by noncapital financing activities	<u>(2,345)</u>	<u>582,855</u>	<u>(9,500)</u>	<u>571,010</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Debt proceeds			30,981	30,981
Grant proceeds	15,308		384,312	399,620
Expenditure of grant proceeds	(15,308)		(384,312)	(399,620)
Principal payments	(59,672)	(28,536)	(10,365)	(98,573)
Interest paid on debt	(15,815)	(1,376)	(884)	(18,075)
Net cash provided (used) by capital and related financing activities	<u>(75,487)</u>	<u>(29,912)</u>	<u>19,732</u>	<u>(85,667)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of capital assets	(12,155)	(579,934)	(30,981)	(623,070)
Net cash provided (used) by investing activities	<u>(12,155)</u>	<u>(579,934)</u>	<u>(30,981)</u>	<u>(623,070)</u>
Net increase (decrease) in cash and cash equivalents	(13,472)	(6,681)	270,743	250,590
Cash and cash equivalents, October 1	85,435	27,721	312,488	425,644
Cash and cash equivalents, September 30	<u>\$ 71,963</u>	<u>\$ 21,040</u>	<u>\$ 583,231</u>	<u>\$ 676,234</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>				
Operating income (loss)	\$ (34,137)	\$ (56,808)	\$ 261,161	\$ 170,216
<b>Adjustments not affecting cash:</b>				
Depreciation expense	77,854	52,899	24,494	155,247
Asset Basis	3,379		2,564	5,943
<b>Changes in assets and liabilities:</b>				
(Increase) decrease in accounts receivable	32,053	21,929	7,166	61,148
Increase (decrease) in accounts payable	(2,824)	(2,385)	(7,765)	(12,974)
Increase (decrease) in customer deposits	694		2,064	2,758
Increase (decrease) in payroll related liabilities	(504)	4,675	1,808	5,979
Total adjustments	<u>110,652</u>	<u>77,118</u>	<u>30,331</u>	<u>218,101</u>
Net cash provided (used) by operating activities	<u>\$ 76,515</u>	<u>\$ 20,310</u>	<u>\$ 291,492</u>	<u>\$ 388,317</u>
<b>Cash and cash equivalents reconciliation:</b>				
Cash in banks	\$ 42,215	\$ 21,040	\$ 583,231	\$ 646,486
Investments	29,486			29,486
Restricted asset - cash and cash equivalents	262			262
Cash and cash equivalents at September 30	<u>\$ 71,963</u>	<u>\$ 21,040</u>	<u>\$ 583,231</u>	<u>\$ 676,234</u>

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

**CITY OF BAY SPRINGS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010**

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

**A. Financial Reporting Entity**

The City of Bay Springs, Mississippi (the City) was incorporated in 1904. The City operates under a Mayor-Aldermen form of government and provides the following services as authorized by its character: Public Safety (Police and Volunteer Fire), Highways and Streets, Sanitation, Wastewater, Water, Natural Gas, Public Libraries, Parks, Public Improvements, Planning and Zoning, and General Administrative Services.

**B. Basis of Presentation**

The City's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities and fund financial statements, which provide a detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the City as a whole. The statements include all nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

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

Fund Financial Statements:

Fund financial statements of the City are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into governmental, proprietary and fiduciary. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

**C. Measurement Focus and Basis of Accounting**

The Government-wide, Proprietary Fund and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the City. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

The City's Proprietary Fund applies all applicable Governmental Accounting Standards Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

**CITY OF BAY SPRINGS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010**

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The revenues and expenses of Proprietary Funds are classified as operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund's primary operations. All other revenues and expenses are reported as nonoperating.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The City reports the following major Governmental Funds:

- The *General Fund* is the primary operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund
- The *Debt Service Fund* is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs
- The *Grant Fund* is used to account for the grant proceeds and matching funds and expenditures of those funds

The other Governmental Funds of the City account for grants and other resources whose use is restricted to a particular purpose.

The City reports the following major Proprietary Fund:

- The *Water Fund* is used to account for the revenues generated from the charges for distribution of water to the residential and commercial users in the City.
- The *Sewer Fund* is used to account for the revenues generated from the charges for sanitary sewer services provided to the residential and commercial users in the City.
- The *Gas Fund* is used to account for the revenues generated from the charges for providing natural gas service to the residential and commercial users in the City.

**D. Capital Assets**

Property and equipment purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. 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.

Pursuant to GASB 34, small governmental entities (less than \$10 million in annual revenue) are not required to retroactively state the values of infrastructure purchased or constructed in prior years. Therefore, infrastructure acquired prior to October 1, 2002 has not been recorded, unless the value was already included in the City's inventory of capital assets. GASB 34 requires the reporting and depreciation of new infrastructure expenditures effective with the beginning of the implementation year (October, 1, 2002).

**CITY OF BAY SPRINGS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010**

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Depreciation has been provided using the straight-line method over the following estimated useful lives:

Buildings	40 Years
Improvements Other Than Buildings	20 Years
Machinery & Equipment	5-10 Years
Other Furniture & Equipment	5-7 Years
Infrastructure	20-30 Years
Water, Sewer & Gas Lines & Facilities	20-40 Years

**E. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**F. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration.

**G. Receivables**

No allowance account is used by the City of Bay Springs as of September 30, 2010. Allowance for doubtful utility accounts receivable was considered immaterial at September 30, 2010. All accounts receivable balances reflect amounts due from customers.

**H. Surety Bonds**

Surety bond coverage meets the legal requirements for the year ended September 30, 2010.

**I. Construction in Progress**

Construction in progress represents costs accumulated for various construction and improvement and expansion projects that were not completed at year end.

**J. Compensated Absences**

The City maintains a personnel policy that permits employees to accumulate earned but unused vacation or sick pay benefits. The City records the vested portion of accumulated unused compensated absences at year-end based on each employee's accumulated unused hours and rate of pay, including the City's share of Social Security and Medicare taxes. All compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. Governmental funds record as an expenditure the amount accrued during the year that would normally be liquidated with available expendable resources.

**K. Cash and Cash Equivalents**

For the purpose of cash flows, the City considers all cash, certificates of deposit and restricted cash to be cash and cash equivalents.

**L. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water, sewer, and natural gas utility services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund.

**CITY OF BAY SPRINGS, MISSISSIPPI**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010**

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**M. Equity Classifications.**

Government-wide Financial Statements:

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

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

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

Unrestricted net assets - All other net assets not meeting the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements:

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

Unreserved fund balance represents the amount available for budgeting future operations. Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose.

**NOTE 2 – CASH AND INVESTMENTS**

The City deposits funds in financial institutions selected by the Board of Aldermen in accordance with state statutes. Various restrictions on deposits are imposed by statutes.

Code Sec. 21-33-323 Miss. Code Ann. (1972) allows municipalities to invest their surplus funds. The City may only invest in direct obligations of the United States, or the State of Mississippi, or certain local Mississippi governments. They may also invest in certificates of deposit from municipal depositories or State of Mississippi depositories located within the municipality. There is no authority to invest in mutual funds or brokerage firm accounts. All investments of the City throughout the year and at year-end were interest bearing time certificates of deposit which are recorded at cost plus interest earned at September 30, 2010. The market value equals the carrying amount of these investments.

The collateral for public entities’ deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the 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.

The City’s deposits, which includes all cash accounts and certificates of deposits, with a carrying value of \$1,593,064 and a bank balance of \$1,628,684 at September 30, 2010, are covered by federal depository insurance and by deposits held in banks that are members of the State of Mississippi’s Collateral Pool.

**CITY OF BAY SPRINGS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010**

**NOTE 3 – CAPITAL ASSETS**

The following is a summary of changes in capital assets during the year ended September 30, 2010:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 633,887			\$ 633,887
Total capital assets not being depreciated	633,887	-	-	633,887
<i>Capital assets being depreciated:</i>				
Buildings	3,063,648			3,063,648
Improvements other than buildings	1,351,058			1,351,058
Mobile equipment	803,609	84,689	(123,407)	764,891
Other furniture and equipment	407,122	12,760	(53,816)	366,066
Infrastructure	326,053			326,053
Total capital assets being depreciated	5,951,490	97,449	(177,223)	5,871,716
<i>Less accumulated depreciation for:</i>				
Buildings	(1,049,336)	(61,273)		(1,110,609)
Improvements other than buildings	(333,029)	(56,062)		(389,091)
Mobile equipment	(626,813)	(45,192)	86,316	(585,689)
Other furniture and equipment	(286,977)	(23,806)	22,006	(288,777)
Infrastructure	(50,510)	(9,412)		(59,922)
Total accumulated depreciation	(2,346,665)	(195,745)	108,322	(2,434,088)
Total capital assets being depreciated, net	3,604,825	(98,296)	(68,901)	3,437,628
<b>Governmental activities capital assets, net</b>	<b>\$ 4,238,712</b>	<b>\$ (98,296)</b>	<b>\$ (68,901)</b>	<b>\$ 4,071,515</b>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 64,600
Public Safety	33,485
Public Works	36,205
Culture and Recreation	5,145
Economic Development	56,310
Total Depreciation Expense	<u>\$ 195,745</u>

**CITY OF BAY SPRINGS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Business-type Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 38,776			\$ 38,776
Construction in progress	50,600	592,089		642,689
Total capital assets not being depreciated	89,376	592,089	-	681,465
<i>Capital assets being depreciated:</i>				
Utility systems	5,517,380			5,517,380
Improvements other than buildings	18,718			18,718
Machinery and equipment	225,538	30,981	(34,372)	222,147
Other furniture and equipment	303,176		(24,334)	278,842
Total capital assets being depreciated	6,064,812	30,981	(58,706)	6,037,087
<i>Less accumulated depreciation for:</i>				
Utility systems	(1,810,764)	(120,455)		(1,931,219)
Improvements other than buildings	(13,956)	(93)		(14,049)
Machinery and equipment	(177,218)	(14,934)	30,935	(161,217)
Other furniture and equipment	(241,721)	(19,765)	21,828	(239,658)
Total accumulated depreciation	(2,243,659)	(155,247)	52,763	(2,346,143)
Total capital assets being depreciated, net	3,821,153	(124,266)	(5,943)	3,690,944
<b>Business-type activities capital assets, net</b>	<b>\$ 3,910,529</b>	<b>\$ 467,823</b>	<b>\$ (5,943)</b>	<b>\$ 4,372,409</b>

**NOTE 4 – LONG-TERM DEBT**

Bonds payable at September 30, 2010 are comprised of the following issues:

General Obligation Bonds

<u>Purpose</u>	<u>Series</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
Livestock Facility Expansion	1999	\$ 235,000	2014	4.8%	\$ <u>80,000</u>

Revenue Bonds

<u>Purpose</u>	<u>Series</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
Water Revenue Bonds	1998	\$ 80,000	2013	5.8%	\$ <u>21,000</u>

**CITY OF BAY SPRINGS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010**

The following is a summary of changes in long-term debt for the year ended September 30, 2010:

DEFINITION AND PURPOSE	BALANCE	TRANSACTIONS		BALANCE
	OUTSTANDING OCT 1, 2009	DURING FISCAL YEAR		OUTSTANDING SEPT 30, 2010
		ISSUED	REDEEMED	
<b>Governmental Activities:</b>				
Livestock Expansion Bonds	\$ 100,000	\$ 20,000	\$ 20,000	\$ 80,000
CAP Loan – Industrial Park Expansion	45,627	17,663		27,964
Maintenance and Storage Facility	212,652	14,232		198,420
Caterpillar Generator	12,168		12,168	
2007 Chevy Impala	1,588		1,588	
2 2007 Ford Crown Vics	3,912		3,912	
Police Cameras	30,270		9,650	20,620
2009 Chevrolet Truck	5,505		2,291	3,214
2010 International Dump Truck		64,689	11,285	53,404
Total Governmental Activities	<u>411,722</u>	<u>64,689</u>	<u>92,789</u>	<u>383,622</u>
<b>Business-type Activities:</b>				
Water/Sewage Construction Bonds	20,495		20,495	
Water Revenue Bonds	27,000		6,000	21,000
Cap Loan – Water Well Repairs	35,243		5,711	29,532
Cap Loan – Water Improvements	50,371		6,353	44,018
Cap Loan – Water Improvements	66,096		6,015	60,081
Cap Loan – Water Well	476,500		23,076	453,424
2005 Underground Trailer	5,749		5,749	
Generator	13,654		10,226	3,428
2007 Dodge Ram 3500	5,563		5,563	
2009 Chevrolet Truck	5,505		2,291	3,214
2009 Chevrolet Truck	5,506		2,292	3,214
2010 Ford F-550 Truck		30,981	4,802	26,179
Total Business-type Activities	<u>711,682</u>	<u>30,981</u>	<u>98,573</u>	<u>644,090</u>
Total Government-wide Long-term Debt	<u>\$ 1,123,404</u>	<u>\$ 95,670</u>	<u>\$ 191,362</u>	<u>\$ 1,027,712</u>

Legal Debt Margin – The amount of debt, excluding specific exempted debt, that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a City issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2010, the amount of outstanding debt was equal to 1.27% of the latest property assessments.

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Assets are as follows:

Year	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 80,019	\$ 16,761	\$ 60,539	\$ 14,297
2012	74,617	13,247	56,174	12,517
2013	53,560	10,337	55,770	10,853
2014	41,736	8,042	45,366	9,442
2015	18,237	6,192	42,563	8,451
2016-2020	105,683	16,465	163,646	30,152
2021-2025	9,770	170	135,395	15,793
2026-2030			84,637	2,739
	<u>\$ 383,622</u>	<u>\$ 71,214</u>	<u>\$ 644,090</u>	<u>\$ 104,244</u>

**CITY OF BAY SPRINGS, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010**

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**NOTE 5 – RISK MANAGEMENT**

The City has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenditures/expenses. Insurance settlements have not exceeded insurance coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

**NOTE 6 – DEFINED BENEFIT PENSION PLAN**

Plan Description. The City of Bay Springs, Mississippi contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Funding Policy. At September 30, 2010, PERS members were required to contribute 9% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The rate at September 30, 2010 was 12% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City's contributions (employer share only) to PERS for the years ending September 30, 2010, 2009, and 2008 were \$99,905, \$97,790, and \$98,924, respectively, equal to the required contributions for each year.

**NOTE 7 – PROPERTY TAXES**

Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied before September 26 and are due before February 1. The City's property taxes are billed and collected by Jasper County and remitted to the City monthly. Jasper County also remits to the City automobile taxes and a pro-rata share of road and bridge taxes collected by them.

**NOTE 8 – JOINT VENTURE**

In November 1996 the City of Bay Springs and Jasper County entered into a joint venture to purchase and improve the Livestock Exhibition Building with each party holding one-half interest in the building. To date, all major renovations and improvements to the building have been completed. All repairs and expenditures related to this property are shared equally by the two parties.

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Bay Springs**  
**Budgetary Comparison Schedule -**  
**Budget and Actual (Non-GAAP Basis)**  
**General Fund (and each major special revenue fund)**  
**For the Year Ended September 30, 2010**

	<b>General Fund</b>			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 354,029	\$ 354,029	\$ 317,638	\$ (36,391)
Licenses, commissions and other revenue	216,900	216,900	222,509	5,609
Fines and forfeitures	30,000	30,000	31,305	1,305
Intergovernmental revenues	612,506	612,506	662,706	50,200
Charges for services	696,450	696,450	802,916	106,466
Miscellaneous revenues	147,450	147,450	240,485	93,035
<b>Total Revenues</b>	<u>2,057,335</u>	<u>2,057,335</u>	<u>2,277,559</u>	<u>220,224</u>
<b>EXPENDITURES</b>				
Current:				
General government	445,495	445,495	467,503	(22,008)
Public safety	478,435	478,435	464,854	13,581
Public works	722,607	722,607	633,685	88,922
Culture and recreation	133,357	133,357	151,691	(18,334)
Economic development and assistance	472,850	472,850	424,116	48,734
Debt service principal, interest, and fees	30,284	30,284	31,595	(1,311)
<b>Total Expenditures</b>	<u>2,283,028</u>	<u>2,283,028</u>	<u>2,173,444</u>	<u>109,584</u>
Excess of Revenues over (under) Expenditures	<u>(225,693)</u>	<u>(225,693)</u>	<u>104,115</u>	<u>329,808</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Other financing sources	400,159	400,159	430,853	30,694
Other financing uses	(174,466)	(174,466)	(464,153)	(289,687)
<b>Total Other Financing Sources and Uses</b>	<u>225,693</u>	<u>225,693</u>	<u>(33,300)</u>	<u>(258,993)</u>
Net Change in Fund Balance	-	-	70,815	70,815
Fund Balances - Beginning	624,274	624,274	624,274	-
<b>Fund Balances - Ending</b>	<u>\$ 624,274</u>	<u>\$ 624,274</u>	<u>\$ 695,089</u>	<u>\$ 70,815</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

**City of Bay Springs, Mississippi**  
**Notes to the Required Supplementary Information**  
**For the Year Ended September 30, 2010**

**A. Budgetary Information.**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

Prior to September 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following October. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted at the City Hall to obtain taxpayer comments. Prior to October 1, the budget is legally enacted through passage of an ordinance. All budget amendments are approved by the board and are in compliance with the municipal law as determined by the Mississippi Code.

The Board of Aldermen has not taken any official action to authorize anyone to transfer budgeted amounts between departments within any fund. Formal budgetary integration is employed as a management control device during the year for the all funds. Mississippi law requires that municipalities budget Governmental Funds on a modified-cash basis. Claims that have been incurred prior to the end of the year and that are paid within 30 days are recorded under the accrual basis. Prior year claims that are paid after 30 days revert to the cash basis. All revenue is accounted for under the cash basis. The required budgetary basis is therefore not considered a generally accepted accounting principle.

**B. Basis of Presentation.**

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (non GAAP) basis and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major special revenue fund.

**C. Budget/GAAP Reconciliation.**

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and each major special revenue fund:

		Governmental Fund Types
		General Fund
Budget (Cash Basis)	\$	70,815
Increase (Decrease)		
Net adjustments for revenue accruals		(103,039)
Net adjustments for expenditure accruals		15,288
GAAP Basis	\$	(16,936)

**D. Unbudgeted Funds.**

A budget was not prepared for the Grants Fund, a major special revenue fund. However, this fund accounts only for grant revenue and expenditures, which generally are equal.

**SUPPLEMENTAL INFORMATION**

**CITY OF BAY SPRINGS**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended September 30, 2010**

<b>Federal Grantor/ Pass-through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<u>U.S. Department of Housing and Urban Development</u>			
Office of Community Planning and Development			
Passed-through the Mississippi Development Authority			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii *	14.228	R-103-113-01-KED	\$ 579,935
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii *	14.228	R-110-113-01-GZ	126,743
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii *	14.228	1126-09-113-PF-01	<u>12,155</u>
Subtotal			<u>718,833</u>
Home Investment Partnerships Program	14.239	1220-M08-SG-280-947	<u>21,560</u>
Total U.S. Department of Housing and Urban Development			<u>740,393</u>
<u>U.S. Department of Transportation</u>			
Federal Highway Administration			
Passed-through the Mississippi Department of Transportation			
Highway Planning and Construction *	20.205	NCPD-0022-01(058)	<u>319,696</u>
Total Expenditures of Federal Awards			<u>\$ 1,060,089</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A – Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.

\* Denotes major federal award program.

**CITY OF BAY SPRINGS, MISSISSIPPI  
SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS  
SEPTEMBER 30, 2010**

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<u>NAME</u>	<u>POSITION</u>	<u>COMPANY</u>	<u>BOND</u>
J. E. Smith	Mayor	RLI Surety	\$50,000
Steve Breland	Alderman	RLI Surety	50,000
Mike Lucus	Alderman	RLI Surety	50,000
James L. Nix	Alderman	RLI Surety	50,000
Donny Jones	Alderman	RLI Surety	50,000
Bob Cook	Alderman	RLI Surety	50,000
James Herrington	Police Chief	RLI Surety	50,000
Cindy Hendry	City Clerk	RLI Surety	60,000
Rhonda Dyess	Deputy Clerk	RLI Surety	50,000
Cynthia Johnson	Deputy Clerk	RLI Surety	50,000
Additional Deputy Clerks (2)		RLI Surety	50,000 each
All Police Officers (7)		RLI Surety	50,000 each

**SPECIAL REPORTS**

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

Honorable Mayor, Members of the Board of  
Aldermen, and City Clerk  
City of Bay Springs, Mississippi

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bay Springs, Mississippi, as of and for the year ended September 30, 2010, and have issued my report thereon dated February 11, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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


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 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.

My consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the City of Bay Springs, Mississippi's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



Marcus J. Martin  
Certified Public Accountant  
February 11, 2011

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

Honorable Mayor, Members of the Board of  
Aldermen, and City Clerk  
City of Bay Springs, Mississippi

Compliance

I have audited the compliance of City of Bay Springs, Mississippi, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. City of Bay Springs, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Bay Springs, Mississippi's management. My responsibility is to express an opinion on City of Bay Springs, Mississippi's compliance based on my audit.

I conducted my 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 I 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 Springs, Mississippi's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on City of Bay Springs, Mississippi's compliance with those requirements.

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

Internal Control Over Compliance

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

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

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

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



Marcus J. Martin  
Certified Public Accountant  
February 11, 2011

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

Honorable Mayor, Members of the Board of  
Aldermen, and City Clerk  
City of Bay Springs, Mississippi

I have audited the basic financial statements of the City of Bay Springs, Mississippi, as of and for the year ended September 30, 2010, and have issued my reported dated February 11, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, I 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 my audit and, accordingly, I do not express such an opinion.

The procedures cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, my consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of those procedures and my audit of the general purpose financial statements disclosed no material instances of noncompliance with state laws and regulations.

This report is intended solely for the information and use of management, the Board of Aldermen, and others within the entity and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Marcus J. Martin*

Marcus J. Martin  
Certified Public Accountant  
February 11, 2011

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**CITY OF BAY SPRINGS**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2010**

**Section 1: Summary of Auditor's Results**

***Financial Statements:***

- |  |             |
|--|-------------|
| 1. Type of auditor's report issued on financial statements:                            | Unqualified |
| 2. Internal control over financial reporting:  |             |
| a. Material weakness identified?   | No          |
| b. Significant deficiency identified that is not considered to be a material weakness? | No          |
| 3. Noncompliance material to the financial statements noted?                           | No          |

***Federal Awards:***

- |   |             |
|---|-------------|
| 4. Internal control over major programs:  |             |
| a. Material weakness identified?  | No          |
| b. Significant deficiency identified that is not considered to be a material weakness?  | No          |
| 5. Type of auditor's report issued on compliance for major federal programs:  | Unqualified |
| 6. Any audit finding(s) reported as required by Section ____ .510(a) of Circular A-133?   | No          |
| 7. Federal programs identified as major programs:   |             |
| a. Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, CFDA# 14.228  |             |
| b. Highway Planning and Construction, CFDA# 20.205  |             |
| 8. The dollar threshold used to distinguish between type A and type B programs:   | \$300,000   |
| 9. Auditee qualified as a low-risk auditee?   | No          |
| 10. Prior fiscal year audit findings and questioned cost 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 2: Financial Statement Findings**

The results of my tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

**Section 3: Federal Award Findings and Questioned Costs**

The results of my tests did not disclose any findings and questioned costs related to federal awards.