

**CITY OF WAVELAND, MISSISSIPPI
ANNUAL FINANCIAL REPORT**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

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INTRODUCTORY SECTION

CITY OF WAVELAND, MISSISSIPPI
Listing of City Officials
September 30, 2012

ELECTED OFFICIALS

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

APPOINTED OFFICIALS

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

INDEPENDENT AUDITORS' REPORT

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

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

Certified Public Accountants

HANCOCK BANK BUILDING

2510 - 14TH STREET

P. O. BOX 129

GULFPORT, MISSISSIPPI 39502

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INDEPENDENT AUDITOR'S REPORT

December 20, 2013

Honorable Mayor and Board of Aldermen
City of Waveland, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waveland, Mississippi, as of and for the year ended September 30, 2012 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The City has not implemented adequate policies and procedures over court fine revenue, related receivables and assessments. A review of aged court fines is not performed or evaluated for collectability in the General Fund. In addition, the City has not properly accounted for all federal expenditures and related revenue in the Disaster Relief Fund and the CDBG Grant Fund as further discussed in Note 11 of the financial statements. The City also has not documented or enforced policies and procedures over utility billings and collections and a thorough review of aged utility receivables is not performed timely for collectability in the Water, Sewer and Gas Fund. The amount by which these departures from GAAP would affect the assets, net assets, and expenses of the City's activities is not reasonably determinable.

In our opinion, except for the effects of the issues described in the preceding paragraph for the major governmental funds as well as the governmental and the business-type activities, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and major governmental funds of the City of Waveland, Mississippi, as of September 30, 2012, and the respective changes in financial position thereof for the

year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the aggregate remaining fund information of the City of Waveland, Mississippi, as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the City adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, on our consideration of the City of Waveland, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 12 and 48 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effect on the supplementary information of the issues noted in the third paragraph, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Wright Ward Hatten & Guel

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

CITY OF WAVELAND, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

Introduction

The following Management's Discussion and Analysis of the City of Waveland ("the City") activities and financial performance provides an introduction to the financial statements of the City for the fiscal year ended September 30, 2012. 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, 2012 by \$126,354,032. Of this amount unrestricted net assets of \$8,729,893 may be used to meet the City's ongoing obligations to citizens and creditors.
- The total net assets increased by \$5,849,802 which consists of a current year change in net assets of \$6,230,588 and a prior period adjustment of (\$380,786). Of this amount \$6,747,719 was associated with governmental activities and (\$897,917) with business-type activities, respectively. This increase is primarily due to the furlough of employees for part of the fiscal year and tighter budgetary controls over operating expenditures.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,263,211 an increase of \$3,556,746 which consists of a change in fund balance of \$3,734,351 and a prior period adjustment of (\$177,605).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,311,605 or 125% 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.

**CITY OF WAVELAND, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012**

Overview of the Financial Statements (continued)

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

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

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

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

The government-wide statements can be found on pages 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 three categories:

- Governmental funds

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

CITY OF WAVELAND, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

Overview of the Financial Statements (continued)

In fiscal year 2012, the City maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Disaster Relief Fund, and the CDBG Grant Fund, which are considered major funds and the other governmental funds for the purpose of consistency.

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

- Proprietary Fund

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

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

- Fiduciary Funds

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

The fiduciary fund financial statement can be found on page 22 of this report.

Notes to the Financial Statements

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

Other Information

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

CITY OF WAVELAND, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

Government-wide Financial Analysis

Table 1 below presents the City's condensed statement of net assets as of September 30, 2012 derived from the government-wide Statement of Net Assets.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 10,112,061	\$ 8,303,777	\$ 1,999,703	\$ 1,424,192	\$ 12,111,764	\$ 9,727,969
Non-current assets	41,544,870	39,019,026	81,842,394	83,517,070	123,387,264	122,536,096
Total assets	<u>51,656,931</u>	<u>47,322,803</u>	<u>83,842,097</u>	<u>84,941,262</u>	<u>135,499,028</u>	<u>132,264,065</u>
Other liabilities	3,073,193	5,110,063	661,261	722,519	3,734,454	5,832,582
Long-term liabilities	3,377,433	3,754,154	2,033,109	2,173,099	5,410,542	5,927,253
Total liabilities	<u>6,450,626</u>	<u>8,864,217</u>	<u>2,694,370</u>	<u>2,895,618</u>	<u>9,144,996</u>	<u>11,759,835</u>
Net assets:						
Invested in capital assets, net of related debt	37,847,511	34,748,936	79,681,736	81,169,139	117,529,247	115,918,075
Restricted	-	-	94,892	59,747	94,892	59,747
Unrestricted	<u>7,358,794</u>	<u>3,709,650</u>	<u>1,371,099</u>	<u>816,758</u>	<u>8,729,893</u>	<u>4,526,408</u>
Total net assets	<u>\$ 45,206,305</u>	<u>\$ 38,458,586</u>	<u>\$ 81,147,727</u>	<u>\$ 82,045,644</u>	<u>\$ 126,354,032</u>	<u>\$ 120,504,230</u>

At September 30, 2012, the City's assets exceeded liabilities by \$126,354,032. By far the largest portion of the City's net assets (93%) reflects its investment in capital assets, less any related debt used to acquire or construct those assets. The unrestricted net assets of \$8,729,893 can be used to finance government operations.

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

A portion of the net assets is restricted for various purposes. Please refer to *Note 1: Summary of Significant Accounting Policies* on page 28 for more detail.

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

CITY OF WAVELAND, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

Government-wide Financial Analysis (continued)

Table 2 presents the City's condensed statement of activities for the fiscal year ended September 30, 2012, as derived from the government-wide Statement of Activities.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Charges for services	\$ 337,539	\$ 536,759	\$ 2,456,594	\$ 1,887,904	\$ 2,794,133	\$ 2,424,663
Operating grants	1,017,182	314,460	-	-	1,017,182	314,460
Capital grants	6,806,680	13,282,080	-	-	6,806,680	13,282,080
Total program revenues	<u>8,161,401</u>	<u>14,133,299</u>	<u>2,456,594</u>	<u>1,887,904</u>	<u>10,617,995</u>	<u>16,021,203</u>
General revenues						
Property taxes	2,139,497	1,720,888	-	-	2,139,497	1,720,888
Sales taxes	2,104,700	2,071,925	-	-	2,104,700	2,071,925
Franchise taxes	220,706	258,250	-	-	220,706	258,250
Interest earnings	7,500	22,203	2,904	2,624	10,404	24,827
Donations	17,266	60,868	-	-	17,266	60,868
Other	71,933	78,892	-	55,916	71,933	134,808
Total general revenues	<u>4,561,602</u>	<u>4,213,026</u>	<u>2,904</u>	<u>58,540</u>	<u>4,564,506</u>	<u>4,271,566</u>
Total revenues	<u>12,723,003</u>	<u>18,346,325</u>	<u>2,459,498</u>	<u>1,946,444</u>	<u>15,182,501</u>	<u>20,292,769</u>
Program expenses						
General government	1,370,112	1,213,206	-	-	1,370,112	1,213,206
Public safety	1,568,533	2,936,549	-	-	1,568,533	2,936,549
Public works	1,148,636	1,303,920	-	-	1,148,636	1,303,920
Health and welfare	70,118	187,666	-	-	70,118	187,666
Culture and recreation	648,623	1,391,638	-	-	648,623	1,391,638
Interest	197,355	212,807	-	-	197,355	212,807
Water, sewer and gas	-	-	3,948,536	3,864,091	3,948,536	3,864,091
Total program expenses	<u>5,003,377</u>	<u>7,245,786</u>	<u>3,948,536</u>	<u>3,864,091</u>	<u>8,951,913</u>	<u>11,109,877</u>
Change before transfers	<u>7,719,626</u>	<u>11,100,539</u>	<u>(1,489,038)</u>	<u>(1,917,647)</u>	<u>6,230,588</u>	<u>9,182,892</u>
Transfers	<u>(842,304)</u>	<u>(5,841,379)</u>	<u>842,304</u>	<u>5,841,379</u>	<u>-</u>	<u>-</u>
<i>Special item</i> - Forgiveness of SCDL loan	<u>-</u>	<u>2,923,348</u>	<u>-</u>	<u>1,002,543</u>	<u>-</u>	<u>3,925,891</u>
Change in net assets	<u>6,877,322</u>	<u>8,182,508</u>	<u>(646,734)</u>	<u>4,926,275</u>	<u>6,230,588</u>	<u>13,108,783</u>
Beginning net assets, restated	<u>38,328,983</u>	<u>30,276,078</u>	<u>81,794,461</u>	<u>77,119,369</u>	<u>120,123,444</u>	<u>107,395,447</u>
Ending net assets	<u>\$ 45,206,305</u>	<u>\$ 38,458,586</u>	<u>\$ 81,147,727</u>	<u>\$ 82,045,644</u>	<u>\$ 126,354,032</u>	<u>\$ 120,504,230</u>

**CITY OF WAVELAND, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012**

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 \$7,263,211 a net increase of \$3,566,746 in comparison with the prior year. Of this combined fund balance, 46% percent or \$3,311,605 is unassigned. \$18,241 of this combined fund balance is nonspendable for prepaid items. \$1,272,842 is restricted for public safety, culture and recreation, public works and debt service. The remainder amount of \$2,660,523 is committed to rebuilding efforts.

- General Fund

The general fund is the chief operating fund of the City. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund balance expenditures. At the end of 2012, the general fund unassigned fund balance represents 125% percent of total general fund expenditures.

- Disaster Relief Fund

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

- CDBG Grant Fund

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

Proprietary Fund

The Water, Sewer and Gas Fund had a decrease in total net assets of \$897,917 at the end of the fiscal year in comparison with prior year which consists of a change in net assets of (\$646,737) and a prior period adjustment of (\$251,183). This decrease is primarily in capital assets, net of related debt from the non-cash depreciation expense on the capital assets of the utility system.

**CITY OF WAVELAND, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012**

Financial Analysis of the Government's Funds (continued)

Budget Variances in the General Fund

Amendments to the original budget decreased total revenues by \$310,878 which primarily consisted of a slight increase in property taxes in the amount of \$64,702; an increase in sales tax revenues in the amount of \$40,000; and a decrease in intergovernmental revenue in the amount of \$367,220. Actual expenditures were still under budget by \$343,434 at year end, as a result of a conservative fiscal management plan. Refer to the budgetary comparison schedule for the General Fund on page 48 in the RSI section of the annual report.

Capital Asset and Long-Term Debt Activity

Capital Asset Activity

At September 30, 2012, the City reported \$41,544,870 in net capital assets for governmental activities and \$81,842,394 in capital assets for business-type activities. This represents a combined increase of \$1,001,595 in capital assets during the 2012 fiscal year. Additional information of the City's capital assets can be found in *Note 7: Capital Assets* on pages 36-37 of this report.

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 2,527,663	\$ 2,527,663	\$ 76,182	\$ 76,182	\$ 2,603,845	\$ 2,603,845
Buildings & Improvements	24,215,738	10,006,637	-	-	24,215,738	10,006,637
Machinery & Equipment	1,139,038	1,167,357	1,555	3,553	1,140,593	1,170,910
Furniture & Office equipment	187,331	74,610	-	-	187,331	74,610
Infrastructure & Systems	8,720,339	4,529,851	75,321,120	66,690,980	84,041,459	71,220,831
Vehicles	258,617	426,513	-	-	258,617	426,513
Construction in progress	4,496,144	20,184,104	6,443,537	16,698,219	10,939,681	36,882,323
Total	<u>\$ 41,544,870</u>	<u>\$ 38,916,735</u>	<u>\$ 81,842,394</u>	<u>\$ 83,468,934</u>	<u>\$ 123,387,264</u>	<u>\$ 122,385,669</u>

Long-Term Debt Activity

At the end of the current fiscal year, the City had \$3,697,359 in outstanding debt, excluding compensated absences. Additional information on the City of Waveland's long-term debt can be found in *Note 8: Long-Term Debt* on pages 38-42 of this report.

CITY OF WAVELAND, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

Capital Asset and Long-Term Debt Activity (continued)

	City of Waveland's Outstanding Debt					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Bonds payable, net	\$ 829,285	\$ 2,873,071	\$ 1,255,833	\$ 1,374,303	\$ 2,085,118	\$ 4,247,374
Revenue bonds	1,839,362	110,000	904,825	965,395	2,744,187	1,075,395
Notes payable	584,660	639,063	-	905,343	584,660	1,544,406
Capital leases payable	444,052	555,790	-	-	444,052	555,790
Compensated absences	43,598	125,227	9,078	13,739	52,676	138,966
Total	<u>\$ 3,740,957</u>	<u>\$ 4,303,151</u>	<u>\$ 2,169,736</u>	<u>\$ 3,258,780</u>	<u>\$ 5,910,693</u>	<u>\$ 7,561,931</u>

Economic Outlook and Relevant Decisions

As a result of Hurricane Katrina in August 2005, the City of Waveland continues to experience an unprecedented capital rebuilding process paid from federal funding sources. The significant increase in net assets during the 2012 fiscal year is due to tighter budgetary controls over operations and employee furloughs for part of the year. At September 30, 2012, the City has overcome significant financial challenges from the prior year. The City is currently operating with greater financial efficiency and accountability because management has implemented a proactive approach to budgetary control and has increased millage rates and utility rates.

Contact the City's Financial Management

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

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

FINANCIAL SECTION

CITY OF WAVELAND, MISSISSIPPI
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 5,525,711	\$ 1,033,495	\$ 6,559,206
Investments	-	113,440	113,440
Receivables, net	622,178	314,346	936,524
Internal balances	(14,819)	14,819	-
Due from other governments	3,960,750	-	3,960,750
Inventory	-	30,711	30,711
Prepaid insurance	18,241	1,522	19,763
Restricted assets:			
Cash and cash equivalents	-	491,370	491,370
Total current assets	<u>10,112,061</u>	<u>1,999,703</u>	<u>12,111,764</u>
Noncurrent Assets			
Capital assets:			
Land and construction in progress	7,023,807	6,519,719	13,543,526
Other capital assets, net of accumulated depreciation	<u>34,521,063</u>	<u>75,322,675</u>	<u>109,843,738</u>
Total noncurrent assets	<u>41,544,870</u>	<u>81,842,394</u>	<u>123,387,264</u>
Total assets	<u>51,656,931</u>	<u>83,842,097</u>	<u>135,499,028</u>
LIABILITIES			
Current Liabilities			
Accounts payable	2,429,083	87,382	2,516,465
Accrued wages and compensated absences	74,649	14,379	89,028
Retainage payable	30,876	-	30,876
Due to other governments	108,261	-	108,261
Accrued interest	66,800	26,395	93,195
Bonds payable	197,200	136,627	333,827
Notes payable	58,905	-	58,905
Leases payable	107,419	-	107,419
Payable from restricted assets:			
Customer deposits	-	396,478	396,478
Total current liabilities	<u>3,073,193</u>	<u>661,261</u>	<u>3,734,454</u>
Noncurrent Liabilities			
Bonds payable, net	2,471,447	2,024,031	4,495,478
Notes payable	525,755	-	525,755
Leases payable	336,633	-	336,633
Compensated absences	<u>43,598</u>	<u>9,078</u>	<u>52,676</u>
Total long-term liabilities	<u>3,377,433</u>	<u>2,033,109</u>	<u>5,410,542</u>
Total liabilities	<u>6,450,626</u>	<u>2,694,370</u>	<u>9,144,996</u>
NET ASSETS			
Invested in capital assets, net of related debt	37,847,511	79,681,736	117,529,247
Restricted net assets	-	94,892	94,892
Unrestricted net assets	<u>7,358,794</u>	<u>1,371,099</u>	<u>8,729,893</u>
Total net assets	<u>\$ 45,206,305</u>	<u>\$ 81,147,727</u>	<u>\$ 126,354,032</u>

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

CITY OF WAVELAND, MISSISSIPPI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General government	\$ 1,370,112	\$ 368,508	\$ 1,173,307	\$ 278,088	\$ -	\$ 278,088
Public safety	1,568,533	212,992	2,093,083	890,282	-	890,282
Public works	1,148,636	388,111	3,034,676	2,274,151	-	2,274,151
Health and welfare	70,118	47,571	-	55,867	-	55,867
Culture and recreation	648,623	-	505,614	(143,009)	-	(143,009)
Interest	197,355	-	-	(197,355)	-	(197,355)
Total governmental activities	5,003,377	1,017,182	6,806,680	3,158,024	-	3,158,024
Business-type activities:						
Water, sewer and gas	3,948,536	-	-	-	(1,491,942)	(1,491,942)
Total business - type activities	3,948,536	-	-	-	(1,491,942)	(1,491,942)
Total	8,951,913	1,017,182	6,806,680	3,158,024	(1,491,942)	1,666,082
General revenues:						
Property taxes - for general purposes				1,423,901	-	1,423,901
Property taxes - for special purposes				715,596	-	715,596
Sales taxes				2,104,700	-	2,104,700
Franchise taxes				220,706	-	220,706
Interest earnings				7,500	2,904	10,404
Donations				17,266	-	17,266
Miscellaneous income				71,933	-	71,933
Transfers				(842,304)	842,304	-
Total general revenues and transfers				3,719,298	845,208	4,564,506
Change in net assets				6,877,322	(646,734)	6,230,588
Net assets - beginning of year				38,458,586	82,045,644	120,504,230
Prior period adjustment				(129,603)	(251,183)	(380,786)
Net assets - beginning of year, restated				38,328,983	81,794,461	120,123,444
Net assets - end of year				45,206,305	81,147,727	126,354,032

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

**CITY OF WAVELAND, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

	<u>General Fund</u>	<u>Disaster Relief Fund</u>	<u>CDBG Grant Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 3,255,431	\$ 866,617	\$ 173,161	\$ 1,230,502	\$ 5,525,711
Taxes receivable, net	411,394	-	-	4,803	416,197
Court fine receivable	205,981	-	-	-	205,981
Due from other funds	199,513	-	16,605	-	216,118
Receivable from other governments	36,317	2,707,746	550,644	666,043	3,960,750
Prepaid expenses	17,409	-	-	832	18,241
Total assets	<u>\$ 4,126,045</u>	<u>\$ 3,574,363</u>	<u>\$ 740,410</u>	<u>\$ 1,902,180</u>	<u>\$ 10,342,998</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 414,280	\$ 913,840	\$ 709,534	\$ 391,429	\$ 2,429,083
Accrued wages & compensated absences	58,810	-	-	15,839	74,649
Retainage payable	-	-	30,876	-	30,876
Due to other funds	53,258	-	-	221,238	274,496
Payable to other governments	64,702	-	-	-	64,702
Deferred revenue	205,981	-	-	-	205,981
Total liabilities	<u>797,031</u>	<u>913,840</u>	<u>740,410</u>	<u>628,506</u>	<u>3,079,787</u>
Fund balances:					
Nonspendable	17,409	-	-	832	18,241
Restricted for:					
Public safety	-	-	-	321,047	321,047
Culture and recreation	-	-	-	299,856	299,856
Public works	-	-	-	196,711	196,711
Debt service	-	-	-	455,228	455,228
Committed	-	2,660,523	-	-	2,660,523
Unassigned	3,311,605	-	-	-	3,311,605
Total fund balances	<u>3,329,014</u>	<u>2,660,523</u>	<u>-</u>	<u>1,273,674</u>	<u>7,263,211</u>
Total liabilities and fund balances	<u>\$ 4,126,045</u>	<u>\$ 3,574,363</u>	<u>\$ 740,410</u>	<u>\$ 1,902,180</u>	<u>\$ 10,342,998</u>

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

**CITY OF WAVELAND, MISSISSIPPI
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

Total governmental funds balance (Exhibit C)	\$	7,263,211
Amounts reported for governmental activities in the statement of net assets are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Governmental capital assets	46,358,248	
Less: accumulated depreciation	<u>(4,813,378)</u>	41,544,870
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		205,981
Long-term liabilities are not due and payable in the current period expenditures and therefore are not reported in the governmental funds.		(3,898,312)
Compensated absences are not due and payable in the current period expenditures, therefore,		(43,598)
Accrued interest not due and payable in the current period expenditures and, therefore, not reported in the funds.		(66,800)
Governmental funds report the effect of discounts, premiums, and amounts deferred on refunding when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Bond premium	(87,172)	
Deferred gain on bond refunding	<u>288,125</u>	<u>200,953</u>
Net assets of governmental activities (Exhibit A)	\$	<u>45,206,305</u>

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

CITY OF WAVELAND, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Fund	Disaster Relief Fund	CDBG Grant Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 3,528,601	\$ -	\$ -	\$ 715,596	\$ 4,244,197
Licenses and permits	106,060	-	-	-	106,060
Franchise fees	220,706	-	-	-	220,706
Charges for service	85,797	-	-	-	85,797
Intergovernmental	831,045	2,800,917	2,825,969	1,411,712	7,869,643
Fines and forfeits	144,034	-	-	1,053	145,087
Donations	2,888	14,378	-	-	17,266
Interest	5,286	12	-	2,202	7,500
Miscellaneous	68,078	-	-	3,855	71,933
Total revenues	<u>4,992,495</u>	<u>2,815,307</u>	<u>2,825,969</u>	<u>2,134,418</u>	<u>12,768,189</u>
EXPENDITURES					
Current:					
General government	910,371	1,184,759	647,765	17,629	2,760,524
Public safety	860,826	191,864	1,589,056	395,799	3,037,545
Public works	400,878	49,223	100,232	294,327	844,660
Health and welfare	69,287	-	-	-	69,287
Culture and recreation	177,330	-	-	287,392	464,722
Debt Service:					
Principal	166,141	-	-	2,642,600	2,808,741
Interest and other charges	63,428	-	-	386,427	449,855
Total Expenditures	<u>2,648,261</u>	<u>1,425,846</u>	<u>2,337,053</u>	<u>4,024,174</u>	<u>10,435,334</u>
Excess (deficiency) of revenues over expenditures	<u>2,344,234</u>	<u>1,389,461</u>	<u>488,916</u>	<u>(1,889,756)</u>	<u>2,332,855</u>
OTHER FINANCING SOURCES (USES)					
Proceeds of refunding bonds	-	-	-	2,097,800	2,097,800
Tax anticipation note	-	-	-	496,000	496,000
Litigation Settlement	(350,000)	-	-	-	(350,000)
Transfers in	944,216	-	16,605	261,371	1,222,192
Transfers out	(271,758)	(417,683)	(505,521)	(869,534)	(2,064,496)
Total other financing sources and uses	<u>322,458</u>	<u>(417,683)</u>	<u>(488,916)</u>	<u>1,985,637</u>	<u>1,401,496</u>
Change in Fund Balance	<u>2,666,692</u>	<u>971,778</u>	<u>-</u>	<u>95,881</u>	<u>3,734,351</u>
Fund balances - beginning	902,828	1,688,745	-	1,114,892	3,706,465
Prior period adjustment	(240,506)	-	-	62,901	(177,605)
Fund balances - beginning, restated	<u>662,322</u>	<u>1,688,745</u>	<u>-</u>	<u>1,177,793</u>	<u>3,528,860</u>
Fund balances - ending	<u>\$ 3,329,014</u>	<u>\$ 2,660,523</u>	<u>\$ -</u>	<u>\$ 1,273,674</u>	<u>\$ 7,263,211</u>

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

CITY OF WAVELAND, MISSISSIPPI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Net change in fund balances - total governmental funds (Exhibit D)	\$ 3,734,351
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report outlays for capital assets as expenditures. In contrast, the statement of activities, the cost of those assets is allocated over the useful lives and reported as depreciation expense. This is the amount by which capital outlays \$4,857,594 exceed depreciation of \$1,408,684.	3,448,910
Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(730,026)
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.	214,941
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full accrual basis of accounting.	(45,186)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore not reported as expenditures in governmental funds.	
Compensated absences	1,832
Accrued interest	(13,124)
Bond amortization	265,624
<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Change in net assets of governmental activities (Exhibit B)	\$ <u>6,877,322</u>

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

EXHIBIT E

CITY OF WAVELAND, MISSISSIPPI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2012

	<u>Water/Sewer & Gas Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,033,495
Investments	113,440
Accounts Receivable, net	314,346
Due from other funds	20,358
Inventories	30,711
Prepaid expenses	1,522
Total current assets	<u>1,513,872</u>
Restricted assets:	
Restricted cash	<u>491,370</u>
Total restricted assets	<u>491,370</u>
Non-current assets:	
Capital Assets:	
Land	76,182
Construction in Progress	6,443,537
Infrastructure	86,388,974
Equipment	15,552
Less Accumulated depreciation	<u>(11,081,851)</u>
Capital assets, net	<u>81,842,394</u>
Total assets	<u>83,847,636</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	87,382
Accrued wages	14,379
Accrued interest payable	26,395
Customer deposits	396,478
Due to other funds	5,539
Long term liabilities-due within one year:	
Bonds payable	<u>136,627</u>
Total	<u>666,800</u>
Long term liabilities-due beyond one year:	
Bonds payable, plus deferred gain on bond premium	2,024,031
Compensated absences	<u>9,078</u>
Total	<u>2,033,109</u>
Total liabilities	<u>2,699,909</u>
NET ASSETS	
Invested in capital assets, net of related debt	79,681,736
Restricted	94,892
Unrestricted	<u>1,371,099</u>
Total net assets	<u>\$ 81,147,727</u>

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

EXHIBIT F

**CITY OF WAVELAND, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Water/Sewer & Gas Fund
REVENUES	
Charges for services	\$ 2,436,597
Miscellaneous operating revenue	19,997
Total operating revenues	2,456,594
OPERATING EXPENSES	
Personnel services	287,688
Contractual services	625,615
Materials and supplies	69,918
Repairs and maintenance	204,085
Other services and charges	159,749
Gas purchases	45,158
Depreciation	2,420,887
Total Operating Expenses	3,813,100
Operating income (loss)	(1,356,506)
NON-OPERATING REVENUES (EXPENSES)	
Interest and investment revenue	2,904
Interest expense	(135,436)
Transfers in	842,304
Total non-operating revenue (expenses)	709,772
Change in net assets	(646,734)
Total net assets - beginning	82,045,644
Prior period adjustment	(251,183)
Total net assets - beginning, restated	81,794,461
Total net assets - ending	\$ 81,147,727

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

EXHIBIT G

CITY OF WAYELAND, MISSISSIPPI
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Water/Sewer & Gas Fund</u>		
Cash Flows from Operating Activities			
Receipts from customers	\$ 2,231,239		
Payments to employees	(298,411)		
Payments to suppliers	(103,052)		
Payments for contractual services	(711,829)		
Payments for other services and charges	(159,742)		
Payments for repairs and maintenance	(204,085)		
Net cash used by operating activities	<u>754,120</u>		
Cash Flows From Financing Activities			
Principal payments on debt	(139,137)		
Interest expense	(133,709)		
Transfers in	842,304		
Net cash provided by financing activities	<u>569,458</u>		
Cash Flows From Investing Activities			
Interest received	2,848		
Acquisition of capital assets	(781,207)		
Net cash used by investing activities	<u>(778,359)</u>		
Net increase in cash and cash equivalents	545,219		
Cash and cash equivalents:			
Beginning of year	<u>979,646</u>		
End of year	<u>\$ 1,524,865</u>		
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income (loss)	\$ (1,356,506)		
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	2,420,887		
(Increase) decrease in current assets:			
Accounts receivable	(244,150)		
Due from other funds	(19,844)		
Prepaid expenses	7		
Inventory	12,024		
Increase (decrease) in current liabilities:			
Accounts payable	(71,909)		
Accrued wages	4,888		
Compensated absences	(15,611)		
Due to other funds	5,539		
Customer deposits	18,795		
Net cash used by operating activities	<u>\$ 754,120</u>		
Reconciliation of cash and cash equivalents per statement of cash flows to the statement of net assets			
	<u>Current assets</u>	<u>Restricted assets</u>	<u>Total</u>
Cash and cash equivalents - October 1	\$ 542,216	\$ 437,430	\$ 979,646
Net increase/(decrease)	<u>491,279</u>	<u>53,940</u>	<u>545,219</u>
Cash and cash equivalents - September 30	<u>\$ 1,033,495</u>	<u>\$ 491,370</u>	<u>\$ 1,524,865</u>

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

CITY OF WAVELAND, MISSISSIPPI
STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUNDS
SEPTEMBER 30, 2012

	Agency Funds		
	Unemployment Compensation Fund	Payroll Clearing Fund	Total
ASSETS			
Cash and cash equivalents	\$ 23,025	\$ 142,516	\$ 165,541
Investments	7,270	-	7,270
Due from other funds	-	43,559	43,559
Total assets	<u>\$ 30,295</u>	<u>\$ 186,075</u>	<u>\$ 216,370</u>
LIABILITIES			
Assets held in trust	\$ 30,295	\$ 129	\$ 30,424
Other payables	-	185,946	185,946
Total liabilities	<u>\$ 30,295</u>	<u>\$ 186,075</u>	<u>\$ 216,370</u>

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 1: Summary of Significant Accounting Policies

I. Introduction

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

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

II. Basis of Presentation

A. Financial Reporting Entity

The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships). Component units are reported as either "blended" or "discretely disclosed." Blended component units, although legally separate entities are, in substance, part of a City's operations and so data from these units are combined with data of the primary government. Based upon application of these criteria, it is determined that the City does not have any component units that are included in the financial statements as of September 30, 2012.

Joint Ventures

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Generally, the purpose of a joint venture is to pool resources and share costs, risks and rewards of providing goods or services to the venture participants directly, or for the benefit of the general public or specific service recipients. See Note 13 for additional information describing related organizations not included in the City's reporting entity.

B. Basis of Accounting and Measurement Focus

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

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 1: Summary of Significant Accounting Policies (continued)

Government-wide Financial Statements:

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

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

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

Fund Financial Statements:

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

The City reports the following major governmental funds:

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

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 1: Summary of Significant Accounting Policies (continued)

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

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

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of pages 15 and 17, and shown in the combining statements on pages 52 and 53.

Additionally, the City reports the following governmental fund types:

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

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

Proprietary Fund:

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

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

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

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

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 1: Summary of Significant Accounting Policies (continued)

Fiduciary Funds:

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

C. Cash and Cash Equivalents

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

D. Investments

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

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

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

E. Prepaid Items

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

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 1: Summary of Significant Accounting Policies (continued)

F. Inventory

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

G. Capital Assets

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

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

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

H. Long-term liabilities

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. See Note 8 for more details.

I. Interfund Transactions and Balances

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

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

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 1: Summary of Significant Accounting Policies (continued)

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

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

See Note 6 for details for interfund transactions, including receivables and payables at year-end.

J. Restricted Assets

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

K. Deferred Revenue

Imposed nonexchange revenues, such as court fines and penalties, are recorded as deferred revenue in the fund financial statements because they are not available to pay current period expenditures.

L. Compensated Absences

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

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

M. Equity Classifications

Government-wide Financial Statements:

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

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 1: Summary of Significant Accounting Policies (continued)

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

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

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

Governmental Fund Financial Statements:

Fund balances are classified as follows:

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

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

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

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

Unassigned—All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 15). As discussed in Note 1(J), restricted funds are used first as appropriate. Assigned funds are reduced to the extent that expenditure authority has been budgeted by the Aldermen or the assignment has been changed by management.

Decreases to fund balance first reduce unassigned fund balance; in the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

General Fund

The General Fund has a nonspendable balance of \$17,409 for prepaid insurance and an unassigned fund balance of \$3,311,605 at September 30, 2012.

Disaster Relief Fund

The Disaster Relief Fund has a committed balance of \$2,660,523 for rebuilding and recovery efforts as of September 30, 2012.

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 1: Summary of Significant Accounting Policies (continued)

Other Funds

The Library Fund has a nonspendable fund balance for prepaid insurance in the amount of \$832. The following non-major funds have a restricted fund balance designated for specific purposes:

Restricted Donation Fund	\$	100,082
Library Fund		57,702
Tidelands Grant Fund		142,072
NTF Police Seizure Fund		128,465
Fire Purposes Fund		202,564
ARRA JAG Grant Fund		(9,982)
Hazard Mitigation Grant Fund		212,264
Hurricane Isaac Grant Fund		(15,553)
Debt service fund		455,228
		\$ 1,272,842

N. Budgetary Data

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

- (a) Prior to August 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
- (b) Public hearings are conducted to obtain taxpayer comments.
- (c) No later than September 15, the budget is legally enacted through passage of a resolution.
- (d) Formal budgetary integration is employed as a management control device during the year for all governmental fund types and the enterprise funds.
- (e) Budgets for the governmental fund types and the enterprise funds are adopted on a cash basis except for expenditures which include those paid within 30 days of the fiscal year end as required by state statute.
- (f) The budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the Board of Aldermen. The legal level of budgetary control is the department level.

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 2: Changes in Accounting Standards

For the fiscal year ended September 30, 2012, the City 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 deferred 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

Note 3: Prior Period Adjustments

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities - Governmental Activities

To implement GASB 65 Retroactively	\$ (102,291)
To correct prior years errors in construction in progress	(90,749)
To correct prior years outstanding debt	(10,124)
To correct prior years expenditures	<u>73,561</u>
	<u>\$ (129,603)</u>

Exhibit D - Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds

To correct prior years deferred revenues	\$ (251,166)
To correct prior years expenditures	<u>73,561</u>
	<u>\$ (177,605)</u>

Exhibit F - Statement of Revenues, Expenses and Changes
in Net Assets Proprietary Fund and Exhibit B -
Statement of Activities - Business-Type Activities

To implement GASB 65 Retroactively	\$ (48,136)
To correct prior years accounts receivable	<u>(203,047)</u>
	<u>\$ (251,183)</u>

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 4: Cash and Cash Equivalents and Investments

(A) Cash and Cash Equivalents

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

	Pooled Cash	Non-pooled Cash	Restricted Cash	Cash on Hand	Total
Governmental Activities					
General Fund	\$ 3,029,780	\$ 224,961	\$ -	\$ 690	\$ 3,255,431
Disaster Recovery Fund	866,617	-	-	-	866,617
CDBG Grant Fund	173,161	-	-	-	173,161
Other governmental funds	1,101,043	129,459	-	-	1,230,502
Total governmental activities	<u>5,170,601</u>	<u>354,420</u>	<u>-</u>	<u>690</u>	<u>5,525,711</u>
Fiduciary Funds	<u>23,025</u>	<u>142,516</u>	<u>-</u>	<u>-</u>	<u>165,541</u>
Business-type Activities					
Utility Fund	59,000	973,645	491,370	850	1,524,865
Total cash and cash equivalents	<u>\$ 5,252,626</u>	<u>\$ 1,470,581</u>	<u>\$ 491,370</u>	<u>\$ 1,540</u>	<u>\$ 7,216,117</u>

The carrying amount of the City's deposits with financial institutions was \$7,214,577 and the bank balance was \$7,414,496.

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

However, the Mississippi State Treasurer manages that risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the City. As of September 30, 2012, none of the City's bank balance was exposed to credit risk.

(B) Investments

At September 30, 2012, the City had investments in certificate of deposits in the amount of \$113,440 and \$7,270 in the Water, Sewer and Gas Fund and in the Unemployment Compensation Fund, respectively.

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

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 5: Revenues

(A) Property Taxes

The City levies a tax on real and personal property based on the assessed value of property as compiled by the Hancock County tax assessor from information extracted from the County assessment tax rolls. The taxes on real property attach as an enforceable lien on the property as of January 1. Taxes on real and personal property are levied by the Board of Aldermen at the first regular meeting in September. The City's tax assessment roll is then approved by the Board after a series of public hearings to receive citizens' objections. Such taxes are billed and collected by the County.

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

The rates are expressed in terms of mills (i.e., ten mills equal one cent). The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt but exclusive of school bond and interest for the year ended September 30, 2012 was 32 mills or \$32.00 per \$1,000 of assessed valuation.

The assessed valuations of the City for the year ended September 30, 2012 are as follows:

Real property	\$	56,110,418
Personal property		4,770,885
Public utilities		849,776
Automobiles		6,745,523
Mobile homes		83,634
Total assessment		68,560,236
Special exemption homestead		(3,828,037)
Net assessment	\$	64,732,199

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

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

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 5: Revenues (continued)

(B) Sales Taxes

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City of Waveland) back to the City monthly. Revenues reported in the general fund include \$2,104,700 of sale tax revenue which increased approximately 2% in comparison to the prior fiscal year.

(C) Grant Revenues

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

(D) Utility Revenues

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

Utility customer receivables consist of the following at September 30, 2012:

Water and sewer utility charges billed but uncollected	\$ 574,395
Water and sewer utility charges accrued but unbilled at year-end	62,383
Less: Allowance for uncollectible accounts	<u>(322,432)</u>
Utility accounts receivable	<u>\$ 314,346</u>

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 6: Interfund Transactions and Balances

The following is a summary of interfund transactions and balances:

A. Due To/From:

	Due to Other Funds	Due from Other Funds
	<u> </u>	<u> </u>
Governmental activities:		
General Fund	\$ 53,258	\$ 199,513
CDBG Grant Fund	-	16,605
Other Governmental Funds	<u>221,238</u>	<u>-</u>
Total governmental activities	274,496	216,118
Water Sewer and Gas Fund	5,539	20,358
Fiduciary Fund	<u>-</u>	<u>43,559</u>
	<u>\$ 280,035</u>	<u>\$ 280,035</u>

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

B. Transfers In/Out:

	Transfers to Other Funds	Transfers from Other Funds
	<u> </u>	<u> </u>
Governmental activities:		
General Fund	\$ 271,758	\$ 944,216
Disaster Relief Fund	417,683	-
CDBG Grant Fund	505,521	16,605
Other governmental funds	869,534	261,371
Water, Sewer and Gas Fund	<u>-</u>	<u>842,304</u>
	<u>\$ 2,064,496</u>	<u>\$ 2,064,496</u>

The transfers from the General Fund, Disaster Relief Fund and the CDBG Grant Fund into the Utility Fund were for construction and other expenditures that were reimbursed through the Federal Emergency and Management Agency and the CDBG grant program and accounted for in the Disaster Relief Fund or CDBG Grant Fund but were actual expenses of the Water, Sewer and Gas Fund. The transfers into the General Fund were from the consolidation of the Recreation Fund and the reimbursement of other expenditures that were paid by the General Fund.

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 7: Capital Assets

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

	<u>Balance October 1,</u>	<u>Additions</u>	<u>Sales/Transfers Adjustments</u>	<u>Balance September 30,</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,527,663	\$ -	\$ -	\$ 2,527,663
Construction in progress	<u>20,093,355</u>	<u>4,549,410</u>	<u>(20,146,621)</u>	<u>4,496,144</u>
Total capital assets not being depreciated	<u>22,621,018</u>	<u>4,549,410</u>	<u>(20,146,621)</u>	<u>7,023,807</u>
Capital assets being depreciated:				
Buildings	3,021,068	-	14,500,573	17,521,641
Machinery and equipment	2,296,224	196,000	-	2,492,224
Furniture and office equipment	313,806	102,734	76,674	493,214
Improvements other than Buildings	7,591,420	-	398,124	7,989,544
Infrastructure	4,919,974	-	4,459,507	9,379,481
Vehicles	<u>1,631,713</u>	<u>9,450</u>	<u>(182,826)</u>	<u>1,458,337</u>
Total capital assets being depreciated	<u>19,774,205</u>	<u>308,184</u>	<u>19,252,052</u>	<u>39,334,441</u>
Less accumulated depreciation:				
Buildings	120,844	350,433	-	471,277
Machinery and equipment	1,128,867	224,319	-	1,353,186
Furniture/Computers/Electronics	239,196	66,687	-	305,883
Improvements other than Buildings	485,007	339,163	-	824,170
Infrastructure	390,123	269,019	-	659,142
Vehicles	<u>1,205,200</u>	<u>159,063</u>	<u>(164,543)</u>	<u>1,199,720</u>
Total accumulated depreciation	<u>3,569,237</u>	<u>1,408,684</u>	<u>(164,543)</u>	<u>4,813,378</u>
Total capital assets being depreciated, net	<u>16,204,968</u>	<u>(1,100,500)</u>	<u>19,416,595</u>	<u>34,521,063</u>
Governmental activities capital assets, net	<u>\$ 38,825,986</u>	<u>\$ 3,448,910</u>	<u>\$ (730,026)</u>	<u>\$ 41,544,870</u>

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

General government	\$ 215,289
Public Safety	401,339
Public Works	439,180
Culture & recreation	<u>352,876</u>
	<u>\$ 1,408,684</u>

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 7: Capital Assets (continued)

During the year, the City determined that there was sufficient evidence of impairment to write down the reported value of the pier due to damage sustained from Hurricane Isaac. The recorded impairment loss was \$711,744 and is reflected in the Statement of Activities as a program expense of culture and recreation. This impairment was not deemed by management to be unusual in nature or infrequent in occurrence and; therefore, not classified as an extraordinary item.

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

	<u>Balance October 1,</u>	<u>Additions</u>	<u>Sales/Transfers Adjustments</u>	<u>Balance September 30,</u>
Business - type activities:				
Capital assets not being depreciated:				
Land	\$ 76,182	\$ -	\$ -	\$ 76,182
Construction in progress	<u>16,698,219</u>	<u>794,347</u>	<u>(11,049,029)</u>	<u>6,443,537</u>
Total capital assets not being depreciated	<u>16,774,401</u>	<u>794,347</u>	<u>(11,049,029)</u>	<u>6,519,719</u>
Capital assets being depreciated:				
Machinery and equipment	15,552	-	-	15,552
Infrastructure	<u>75,339,945</u>	<u>-</u>	<u>11,049,029</u>	<u>86,388,974</u>
Total capital assets being depreciated	<u>75,355,497</u>	<u>-</u>	<u>11,049,029</u>	<u>86,404,526</u>
Less accumulated depreciation:				
Machinery and equipment	11,999	1,998	-	13,997
Infrastructure	<u>8,648,965</u>	<u>2,418,889</u>	<u>-</u>	<u>11,067,854</u>
Total accumulated depreciation	<u>8,660,964</u>	<u>2,420,887</u>	<u>-</u>	<u>11,081,851</u>
Total capital assets being depreciated, net	<u>66,694,533</u>	<u>(2,420,887)</u>	<u>11,049,029</u>	<u>75,322,675</u>
Business - type activities capital assets, net	<u>\$ 83,468,934</u>	<u>\$ (1,626,540)</u>	<u>\$ -</u>	<u>\$ 81,842,394</u>

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

Business – type activities:	
Water Sewer and Gas	\$ 2,420,887

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 8: Long Term Debt

A. Governmental Activities

Transactions for the year ended September 30, 2012 are summarized as follows:

	<u>Payable at 10/1/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Payable at 9/30/12</u>	<u>Due in one year</u>
Governmental activities:					
General obligation bonds	\$ 110,000	\$ 2,097,800	\$ 110,000	\$ 2,097,800	\$ -
Special obligation bonds	2,808,400	-	2,036,600	771,800	197,200
Notes payable	639,063	496,000	550,403	584,660	58,905
Capital leases payable	555,790	-	111,738	444,052	107,419
Compensated absences	125,227	-	81,629	43,598	-
	<u>4,238,480</u>	<u>2,593,800</u>	<u>2,890,370</u>	<u>3,941,910</u>	<u>363,524</u>
Plus: bond premium	64,671	33,398	10,897	87,172	-
Less: deferred gain on bond refunding	-	324,141	36,016	288,125	-
Total governmental activities	<u>\$ 4,303,151</u>	<u>\$ 2,303,057</u>	<u>\$ 2,865,251</u>	<u>\$ 3,740,957</u>	<u>\$ 363,524</u>

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

In August of 2012, the City issued General Obligation Refunding Bonds; Series 2012 to advance refund a portion of the Special obligation bonds that were issued in 2004. The proceeds of this bond issue were split between the various funds with \$2,097,800 allocated to the governmental-type activities and \$987,200 allocated to business-type activities. The City refunded the Special obligation bonds to reduce its total debt service payments over the next nine years by almost \$101,201 and to obtain an economic gain (difference between the present value of the debt service payments on the old debt and new debt) of \$100,970.

General obligation bonds currently outstanding are as follows:

<u>General obligation bonds</u>	<u>Original Amount</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Outstanding Amount</u>	<u>Due in 1 Year</u>
Refunding Series 2012	\$ 2,097,800	8/28/2012	1.0-1.25%	\$ 2,097,800	\$ -
Plus: Bond premium	33,398			29,687	-
Less: Deferred amount on refunding	324,141			288,125	-
	<u>\$ 1,807,057</u>			<u>\$ 1,839,362</u>	<u>\$ -</u>

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 8: Long Term Debt (continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -	\$ 27,996	\$ 27,996
2014	30,600	41,323	71,923
2015	51,000	40,915	91,915
2016	353,600	37,124	390,724
2017	357,000	30,018	387,018
2018-2022	1,305,600	50,204	1,355,804
Total	\$ 2,097,800	\$ 227,580	\$ 2,325,380

Special Obligation Bonds – The City issued special obligation bonds with the Mississippi Development Bank in 2004 for public improvements. The proceeds of this bond issue were split between the various funds with \$3,604,000 being allocated to the governmental-type activities and \$1,696,000 to the business-type activities. The City partially refunded these bonds in August 2012.

Special obligation bonds outstanding as of September 30, 2012 are as follows:

<u>Special obligation bonds</u>	<u>Original Amount</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Outstanding Amount</u>	<u>Due in 1 Year</u>
MDA, Series 2004	\$ 3,604,000	11/1/2004	1.9-5.0%	\$ 771,800	\$ 197,200
Plus: Bond premium	99,489			57,485	-
	<u>\$ 3,703,489</u>			<u>\$ 829,285</u>	<u>\$ 197,200</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 197,200	\$ 92,310	\$ 289,510
2014	282,200	15,606	297,806
2015	292,400	5,263	297,663
Total	\$ 771,800	\$ 113,179	\$ 884,979

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

Notes Payable

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

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 8: Long Term Debt (continued)

In October 2010, the City settled a lawsuit with a former employee in a civil service case in the amount of \$15,000. The City has agreed to pay \$375 per month until paid in full.

In October 2011, the City obtained a tax anticipation note payable in the amount of \$496,000 with an interest rate of .75%. This note was paid in full in March 2012.

The following is a schedule of the principal and interest payments due for notes payable as of September 30, 2012:

	Principal	Interest	Total
2013	\$ 58,905	\$ 42,850	\$ 101,755
2014	525,755	-	525,755
Total	\$ 584,660	\$ 42,850	\$ 627,510

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

The following lease obligations are currently outstanding:

Description/Security	Issue Date	Interest Rate	Present Amount
Hancock Bank/ Vehicles	6/20/2006	4.16%	\$ 246,509
Hancock Bank/ Vehicles	11/2/2006	3.87%	197,543
			<u>\$ 444,052</u>

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

Year ended September 30	Total
2013	\$ 123,489
2014	123,489
2015	123,489
2016	105,712
2017	5,013
Total minimum lease payments	481,192
Less: amount representing interest	(37,140)
Present value of future minimum lease payments	<u>\$ 444,052</u>

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 8: Long Term Debt (continued)

B. Business-Type Activities

Transactions for the year ended September 30, 2012 are summarized as follows:

	Payable at 10/1/11	Additions	Reductions	Payable at 9/30/12	Due in one year
Business-type activities:					
Revenue bonds	\$ 929,256	\$ -	\$ 41,516	\$ 887,740	\$ 43,827
Special obligation bonds	1,321,600	987,200	958,400	1,350,400	92,800
Compensated absences	24,689	-	15,611	9,078	-
	<u>2,275,545</u>	<u>987,200</u>	<u>1,015,527</u>	<u>2,247,218</u>	<u>136,627</u>
Plus: Bond premium	48,939	15,717	6,550	58,106	-
Less: Deferred amount on refunding	-	152,537	16,949	135,588	-
Total business-type activities	<u>\$ 2,324,484</u>	<u>\$ 850,380</u>	<u>\$ 1,005,128</u>	<u>\$ 2,169,736</u>	<u>\$ 136,627</u>

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

Revenue bonds	Original Amount	Issue Date	Interest Rate	Outstanding Amount	Due in 1 year
1992 United States Department of Agriculture (USDA) - Rural Development Combined Water, Gas and Sewer System Revenue Bonds	\$ 1,350,200	12/17/1992	5.50%	\$ 887,740	\$ 43,827
Plus: Bond premium	28,469			17,085	-
	<u>\$ 1,378,669</u>			<u>\$ 904,825</u>	<u>\$ 43,827</u>

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

	Principal	Interest	Total
2013	\$ 43,827	\$ 45,727	\$ 89,554
2014	46,202	43,352	89,554
2015	48,706	40,848	89,554
2016	51,346	38,208	89,554
2017	54,128	35,426	89,554
2018-2022	317,959	129,811	447,770
2023-2026	325,572	35,997	361,569
Total	<u>\$ 887,740</u>	<u>\$ 369,369</u>	<u>\$ 1,257,109</u>

Special Obligation Bonds - The City issued special obligation bonds with the Mississippi Development Bank in 2004 for capital projects. The proceeds of this bond issue were split between the various funds with \$3,604,000 being allocated to the governmental-type activities and \$1,696,000 to the business-type activities. The City partially refunded these bonds in August 2012.

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 8: Long Term Debt (continued)

Special obligation bonds outstanding as of September 30, 2012 are as follows:

Special obligation bond	Original Amount	Issue Date	Interest Rate	Outstanding Amount	Due in 1 year
MDA, Series 2004	\$ 1,696,000	11/1/2004	1.9-5.0%	\$ 363,200	\$ 92,800
Plus: Bond premium	46,818			27,050	-
	<u>\$ 1,742,818</u>			<u>\$ 390,250</u>	<u>\$ 92,800</u>

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

	Principal	Interest	Total
2013	\$ 92,800	\$ 11,405	\$ 104,205
2014	132,800	7,344	140,144
2015	137,600	2,477	140,077
Total	<u>\$ 363,200</u>	<u>\$ 21,226</u>	<u>\$ 384,426</u>

General Obligation Refunding Bonds - In August of 2012, the City issued General Obligation Refunding Bonds, Series 2012 to advance refund a portion of the special obligation bonds that were issued in 2004. The proceeds of this bond issue were split between the various funds with \$2,097,800 allocated to the governmental-type activities and \$987,200 allocated to business-type activities. General obligation bonds currently outstanding as reported in the Water, Sewer and Gas Fund are as follows:

General obligation bonds	Original Amount	Issue Date	Interest Rate	Outstanding Amount	Due in 1 Year
Refunding Series 2012	\$ 987,200	8/28/2012	1.0-1.25%	\$ 987,200	\$ -
Plus: Bond premium	15,717			13,971	-
Less: Deferred amount on bond refunding	152,537			135,588	-
	<u>\$ 850,380</u>			<u>\$ 865,583</u>	<u>\$ -</u>

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

	Principal	Interest	Total
2013	\$ -	\$ 13,175	\$ 13,175
2014	14,400	19,446	33,846
2015	24,000	19,254	43,254
2016	166,400	17,470	183,870
2017	168,000	14,126	182,126
2018-2022	614,400	13,625	628,025
Total	<u>\$ 987,200</u>	<u>\$ 97,096</u>	<u>\$ 1,084,296</u>

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 9: Unemployment Compensation Fund

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

Note 10: Defined Benefit Pension Plan

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

Funding Policy: PERS members are required to contribute 9.0% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer rate is 14.26% of annual covered payroll as of September 30, 2012. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature.

The City's contributions to PERS for the years ended September 30, 2012, 2011, and 2010 were \$170,332, \$354,447 and \$437,056 respectively equal to the required contributions for the year.

Note 11: Commitment and Contingencies

(A) Litigation and Contingencies

The City was involved in a lawsuit with a local contractor regarding the award of a construction contract. This matter was resolved and the City agreed to pay the contractor \$350,000 by July 2013 for a full release and dismissal of claims. This settlement is reported as a liability and other expenditure on the financial statements as of September 30, 2012.

As of the date of this report, the City has ceased construction work on the police department due to construction deficiencies by the contractor. This particular construction project is funded with multiple federal grant money. As of September 30, 2012, the City has received three pay applications with a total cost of over \$500,000 from the contractor on work performed that has not been paid by the City due to the construction deficiencies noted on this project. These federal expenditures and related grant receivables have not been recorded on the financial statements due to the uncertainty of the outcome of any settlement or corrective action taken. Accordingly, these federal expenditures have also been omitted from the Schedule of Expenditures of Federal Awards.

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

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 11: Commitment and Contingencies (continued)

(B) Grants and Awards

The City has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowed expenses, including amounts already collected, might constitute a liability of the applicable funds of the City.

(C) Construction Contracts

As of September 30, 2012, the City had entered into various construction contracts that were not completed. The following schedule reflects the amounts spent as of year-end and the remaining amounts due:

	Amount spent as of 9/30/12	Remaining commitment
Fire Station Coleman Avenue	\$ 1,488,479	\$ 528,881
Police Station	2,732,132	3,271,753
Drainage Improvements	275,533	6,704,567
Water System Extension	6,443,537	254,345
	\$ 10,939,681	\$ 10,759,546

Note 12: Risk Management

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

(A) Self Insurance – Worker’s Compensation Fund

The City is one of the members of the Mississippi Municipal Worker’s Compensation Group, Inc. This non-profit corporation is a self-insurance worker’s compensation fund organized under the non-profit laws of the State of Mississippi. The group is self-insured under statutory worker’s compensation protection. Members are jointly and severally liable for the obligation of the group. The possibility of additional liability exists, but that amount, if any, cannot be determined.

(B) Self Insurance – Liability Fund

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

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 12: Risk Management (continued)

The plan is totally self-insured with claims and expenses paid out of the premiums and the members are jointly and severally liable for any claims and expenditures beyond the premium base. The possibility of additional liability exists, but that amount, if any, cannot be determined.

Note 13: Joint Ventures

(A) Hancock County Utility Authority

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

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

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

Future minimum lease payments are as follows:

	<u>Amount</u>
2013	\$ 14,472
2014	14,472
2015	14,472
2016	14,472
2017	14,472
thereafter	<u>115,778</u>
	<u>\$ 188,138</u>

The City's obligation to pay operational costs of the Utility Authority is joint and several with the obligations of all other public agencies similarly contracting with the Utility Authority. Whenever any public agency shall default in the payment to the Utility Authority of its respective payment, the Utility Authority may adjust the contract sums of the remaining public agencies, which are not in default so as to increase their contract sums by a proportional amount. Accordingly, the City is jointly and severally liable for all the liabilities of the Utility Authority.

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 13: Joint Ventures (continued)

The following is a synopsis of the Utility Authority's financial statements as of and for the year ended September 30, 2012:

STATEMENT OF NET ASSETS

Current and other assets	\$	1,682,077
Non-current assets		148,862,115
		150,544,192
 LIABILITIES		
Current and other liabilities		2,497,720
Long-term debt outstanding		13,298,016
		15,795,736
 NET ASSETS		
Invested in capital assets		
net of related debt		130,507,005
Restricted		2,819,441
Unrestricted		1,422,010
	\$	134,748,456

CHANGES IN NET ASSETS

Operating Revenues	\$	2,006,075
Operating Expenses		(2,839,586)
Non-operating revenues (expenses)		19,934,572
		19,101,061
Increase in net assets	\$	19,101,061

(B) Hancock County Solid Waste Authority

The City provides for pickup and disposal of garbage and trash through a contract with the Hancock County Solid Waste Authority (Authority), formerly Hancock County Solid Waste Management District. The Authority was formed as an inter-local joint venture with the City of Bay St. Louis, Mississippi, the City of Waveland, Mississippi and Hancock County, Mississippi, late in the fiscal year 1974.

The Authority was officially incorporated in March 1998 pursuant to an incorporation agreement entered into in December 1997. During the year ended September 30, 2012, the City paid \$188,859 for solid waste services, included in the business-type activities as contractual services. The City is jointly and severally liable for all of the liabilities of the Authority.

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

CITY OF WAVELAND, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2012

Note 13: Joint Ventures (continued)

The following is a synopsis of the Authority's financial statements as of and for the year ended September 30, 2012.

STATEMENT OF NET ASSETS

ASSETS	
Current and other assets	<u>\$ 1,071,737</u>
LIABILITIES	
Current and other liabilities	<u>167,889</u>
NET ASSETS	
Unrestricted	<u>\$ 903,848</u>

CHANGES IN NET ASSETS

Operating revenues	\$ 1,550,829
Operating expenses	(2,017,650)
Non-operating revenues (expenses)	<u>13,001</u>
Increase in net assets	<u>\$ (453,820)</u>

Note 14: Subsequent Events

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

Management of the City of Waveland, Mississippi evaluated the activity of the City through December 15, 2013 (the date the financial statements were available to be issued), and determined that the following subsequent events have occurred and require disclosure in the notes to the financial statements.

Subsequent to September 30, 2012, the City issued the following debt obligations:

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WAVELAND, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (with Budget to GAAP Differences)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 1,315,715	\$ 1,380,417	\$ 1,422,427	\$ 42,010
Sales tax	2,060,000	2,100,000	2,169,078	69,078
Franchise tax	237,500	213,696	229,530	15,834
Licenses and permits	83,250	117,300	103,470	(13,830)
Intergovernmental	515,219	147,999	185,898	37,899
Charges for services	54,250	4,750	9,345	4,595
Fines and forfeits	78,000	170,700	171,368	668
Interest	3,250	1,920	7,560	5,640
Miscellaneous	197,375	96,899	300,429	203,530
Total revenues	<u>4,544,559</u>	<u>4,233,681</u>	<u>4,599,105</u>	<u>365,424</u>
EXPENDITURES				
General government	1,349,241	1,077,683	1,055,655	22,028
Public safety	1,924,058	2,272,901	1,973,081	299,820
Public works	705,448	614,997	567,766	47,231
Health and welfare	107,226	38,947	39,591	(644)
Culture and recreation	308,098	214,336	243,328	(28,992)
Debt Service:				
Principal	-	111,980	108,639	3,341
Interest and other charges	-	16,080	15,430	650
Total expenditures	<u>4,394,071</u>	<u>4,346,924</u>	<u>4,003,490</u>	<u>343,434</u>
Excess (deficiency) of revenues over expenditures	<u>150,488</u>	<u>(113,243)</u>	<u>595,615</u>	<u>708,858</u>
OTHER FINANCING SOURCES (USES)				
Sale of assets	1,250	2,500	201	(2,299)
Litigation Settlement	-	(350,000)	(350,000)	-
Transfers in	1,459,650	359,696	359,696	-
Transfers out	-	-	(600,000)	(600,000)
Total other financing sources and uses	<u>1,460,900</u>	<u>12,196</u>	<u>(590,103)</u>	<u>(602,299)</u>
Change in Fund Balance	<u>\$ 1,611,388</u>	<u>\$ (101,047)</u>	5,512	<u>\$ 106,559</u>
Fund balance - October 1 - GAAP basis, restated			662,322	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balances at beginning of year				
Changes in revenue and receivables			393,189	
Change in expenditures and accrued expenses			1,355,229	
Transfers in			584,520	
Transfers out			<u>328,242</u>	
Fund balance - September 30 - GAAP basis			<u>\$ 3,329,014</u>	

CITY OF WAVELAND, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (with Budget to GAAP Differences)
DISASTER RELIEF FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 10,477,750	\$ 5,471,537	\$ 2,681,859	\$ (2,789,678)
Total revenues	10,477,750	5,471,537	2,681,859	(2,789,678)
EXPENDITURES				
General government	1,614,859	33,757	50,693	(16,936)
Public safety	4,310,000	1,536,231	73,116	1,463,115
Public works	2,824,075	2,039,144	1,228,711	810,433
Total general government	8,748,934	3,609,132	1,352,520	2,256,612
Excess (deficiency) of revenues over expenditures	1,728,816	1,862,405	1,329,339	(533,066)
OTHER FINANCING SOURCES (USES)				
Transfers out	(750,000)	(200,000)	(200,000)	-
Total other financing sources and uses	(750,000)	(200,000)	(200,000)	-
Change in Fund Balance	\$ 978,816	\$ 1,662,405	1,129,339	\$ (533,066)
Fund balance - October 1 - GAAP basis, restated			1,688,745	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year				
Change in revenue and receivables			133,448	
Change in expenditures and accrued expenses			(73,326)	
Transfer out			(217,683)	
Fund balance - September 30 - GAAP basis			\$ 2,660,523	

CITY OF WAVELAND, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (with Budget to GAAP Differences)
CDBG GRANT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Intergovernmental	\$ 6,725,000	\$ 2,838,000	\$ 586,185	\$ (2,251,815)
Total revenues	<u>6,725,000</u>	<u>2,838,000</u>	<u>586,185</u>	<u>(2,251,815)</u>
EXPENDITURES				
General government	275,000	100,000	94,795	5,205
Public safety	-	2,438,000	276,280	2,161,720
Public works	6,165,500	300,000	136,775	163,225
Culture and recreation	-	-	97,584	(97,584)
Total general government	<u>6,440,500</u>	<u>2,838,000</u>	<u>605,434</u>	<u>2,232,566</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 284,500</u>	<u>\$ -</u>	(19,249)	<u>\$ (19,249)</u>
Fund balance - October 1 - GAAP basis, restated			-	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of year				
Change in revenues and receivables			2,239,784	
Change in expenditures and payables			(1,731,619)	
Transfer in			16,605	
Transfer out			<u>(505,521)</u>	
Fund balance - September 30 - GAAP basis			<u>\$ -</u>	

CITY OF WAVELAND
Notes to the Budgetary Schedules
For the year ended September 30, 2012

Note 1: Budgetary Presentation:

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

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

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

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

Note 2: Deficit Fund Balances of Individual Funds

The following funds reported deficits in fund balances at September 30, 2012:

Fund	Deficit Amount
ARRA Recovery JAG Grant Fund	\$ 9,982
Hurricane Isaac Grant Fund	15,553

These deficit balances are mainly the result of cost matching and disbursement of loans to other funds.

SUPPLEMENTAL INFORMATION

CITY OF WAYLAND, MISSISSIPPI
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	Recreation Fund	Restricted Donation Fund	Library Fund	Tidelands Grant Fund	NTF Police Seizure Fund	Fire Purposes Fund	ARRA Recovery JAG Grant Fund	Hazard Mitigation Grant Fund	Hurricane Isaac Grant Fund	Debt Service Fund	Total Other Governmental Funds
ASSETS											
Cash and cash equivalents	\$ -	\$ 100,082	\$ 57,848	\$ 142,072	\$ 128,465	\$ 202,564	\$ -	\$ 128,947	\$ -	\$ 471,424	\$ 1,230,502
Taxes receivable, net	-	-	1,154	-	-	-	-	-	-	3,649	4,803
Intergovernmental receivables	-	-	-	69,823	-	-	145,374	397,159	53,687	-	666,043
Due from other funds	-	-	-	-	-	-	-	-	-	-	-
Prepaid expenses	-	-	832	-	-	-	-	-	-	-	-
Total assets	\$ -	\$ 100,082	\$ 59,834	\$ 211,895	\$ 128,465	\$ 202,564	\$ 145,374	\$ 525,206	\$ 53,687	\$ 475,073	\$ 1,902,180
LIABILITIES AND FUND BALANCES											
Liabilities:											
Accounts payable	\$ -	\$ -	\$ -	69,823	\$ -	\$ -	\$ -	\$ 312,942	\$ 8,664	\$ -	\$ 391,429
Due to other funds	-	-	1,300	-	-	-	146,406	-	53,687	19,845	221,238
Accrued wages & compensated absences	-	-	-	-	-	-	8,950	-	6,889	-	15,839
Total liabilities	-	-	1,300	69,823	-	-	155,356	312,942	69,240	19,845	628,506
Fund balances:											
Nonspendable	-	-	832	-	-	-	-	-	-	-	832
Restricted, reported in non-major:											
Culture and recreation	-	100,082	57,702	142,072	-	202,564	(9,982)	-	-	-	299,856
Public safety	-	-	-	-	128,465	-	-	212,264	(15,553)	-	321,047
Public works	-	-	-	-	-	-	-	-	-	-	196,711
Debt service fund	-	-	-	-	-	-	-	-	-	455,228	455,228
Total fund balances	-	100,082	58,534	142,072	128,465	202,564	(9,982)	212,264	(15,553)	455,228	1,273,674
Total liabilities and fund balances	\$ -	\$ 100,082	\$ 59,834	\$ 211,895	\$ 128,465	\$ 202,564	\$ 145,374	\$ 525,206	\$ 53,687	\$ 475,073	\$ 1,902,180

CITY OF WAVELAND, MISSISSIPPI
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Recreation Fund	Restricted Donation Fund	Library Fund	Tidelands Grant Fund	NTP Police Seizure Fund	Fire Purposes Fund	ARRA Recovery JAG Grant Fund	Hazard Mitigation Grant Fund	Hurricane Isaac Grant Fund	Debt Service Fund	Total Other Governmental Funds
REVENUES											
Taxes	\$ -	\$ -	\$ 178,786	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 536,810	\$ 715,596
Intergovernmental	-	-	-	438,977	-	46,834	181,506	690,708	53,687	-	1,411,712
Fines and forfeitures	-	-	-	-	1,053	-	-	-	-	-	1,053
Interest	-	145	175	-	238	-	-	-	-	1,644	2,202
Miscellaneous	-	500	-	-	3,355	-	-	-	-	-	3,855
Total revenues	-	645	178,961	438,977	4,646	46,834	181,506	690,708	53,687	538,454	2,134,418
EXPENDITURES											
Current:											
General government	-	5,700	-	-	-	-	-	8,359	3,570	-	17,629
Public safety	-	-	-	-	3,531	239	181,937	192,594	17,498	-	395,799
Public works	-	-	-	-	-	-	9,551	277,756	7,020	-	294,327
Culture and recreation	-	-	167,722	114,731	-	-	-	-	4,939	-	287,392
Debt Service:											
Principal	-	-	-	-	-	-	-	-	-	2,642,600	2,642,600
Interest	-	-	-	-	-	-	-	-	-	125,874	125,874
Other debt related expenditures	-	-	-	-	-	-	-	-	-	260,553	260,553
Total Expenditures	-	5,700	167,722	114,731	3,531	239	191,488	478,709	33,027	3,029,027	4,024,174
Excess (deficiency) of revenues over expenditures	-	(5,055)	11,239	324,246	1,115	46,595	(9,982)	211,999	20,660	(2,490,573)	(1,889,756)
OTHER FINANCING SOURCES (USES)											
Refunding bond proceeds	-	-	-	-	-	-	-	-	-	2,097,800	2,097,800
Tax anticipation note	-	-	-	-	-	-	-	-	-	496,000	496,000
Transfers in	-	105,137	-	-	-	155,969	-	265	-	-	261,371
Transfers out	(651,147)	-	-	(182,174)	-	-	-	-	(36,213)	-	(869,534)
Total other financing sources (uses)	(651,147)	105,137	-	(182,174)	-	155,969	-	265	(36,213)	2,593,800	1,985,637
Change in Fund Balance	(651,147)	100,082	11,239	142,072	1,115	202,564	(9,982)	212,264	(15,533)	103,227	95,881
Fund balances - beginning	651,147	-	47,295	-	127,350	-	-	-	-	289,100	1,114,892
Prior period adjustment	-	-	-	-	-	-	-	-	-	62,901	62,901
Fund balances - beginning, restated	651,147	-	47,295	-	127,350	-	-	-	-	352,001	1,177,793
Fund balances - ending	-	\$ 100,082	\$ 58,534	\$ 142,072	\$ 128,465	\$ 202,564	\$ (9,982)	\$ 212,264	\$ (15,533)	\$ 455,228	\$ 1,273,674

CITY OF WAVELAND, MISSISSIPPI

Schedule of Surety Bonds

September 30, 2012

<u>Position</u>	<u>Employee</u>	<u>Amount</u>
Mayor	David Garcia	\$ 100,000
Alderman Ward 1	Lillian Stahler	100,000
Alderman Ward 2	Richard Geoffrey	100,000
Alderman Ward 3	Shane LaFontaine	100,000
Alderman Ward 4	Mark Kidd	100,000
City Clerk	Lisa Planchard	60,000
Comptroller	Janet Dudding	50,000
Deputy City Clerk	Tammy Fayard	50,000
Court Clerk	Paula Fayard	50,000
Deputy Court Clerk	Vacant	50,000
Building Dept. Manager	Christine Gallagher	50,000
Permits Clerk	Sherry Blackenship	50,000
Public Works Admin.	Vacant	50,000
Utility Billing Clerk	Vacant	50,000
Utility Billing Clerk	Marilyn Smith	50,000
Parks and Recreation Director	Willie Moody	50,000
Director of Human Resources	Shirley Fugar	50,000
Purchasing Agent	Karen Cerami	50,000
Police Chief	Kenny Hurt	50,000
Police Department - Other		25,000
All Non-Statutory Employees		10,000

CITY OF WAVELAND, MISSISSIPPI
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Pass-through Grantors Number	Federal Expenditures
<u>U.S. Department of Commerce</u>			
Passed through the University of Southern Mississippi			
National Oceanic and Atmospheric Administration	11.417	USM-GR03091-R/MG/CSP-18	\$ 2,845
Total U.S. Department of Commerce			<u>2,845</u>
<u>U.S. Department of Defense, Office of the Chief Engineers</u>			
ARRA - Mississippi Environmental Infrastructure (Section 529)	12.124	023124204/W807PM00883542	31,379
Total U. S. Department of Defense			<u>31,379</u>
<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	103-379-01-KCR	329,270
Community Development Block Grant - Entitlement Grant	14.218	103-379-02-KCR	522,581
Community Development Block Grant - Entitlement Grant	14.218	109-379-03-KCR	12,521
Community Development Block Grant - Entitlement Grant	14.218	109-379-04-KCR	125,184
Community Development Block Grant - Entitlement Grant	14.218	118-379-01-HCCR	1,243,071
Community Development Block Grant - Entitlement Grant	14.218	118-379-03-HCCR	94,274
Community Development Block Grant - Entitlement Grant	14.218	118-379-06-HCCR	394,747
Community Development Block Grant - Entitlement Grant	14.218	118-379-07-HCCR	87,712
Total U.S. Department of Housing and Urban Development			<u>2,809,360</u>
<u>U.S. Department of Justice - Office of Justice Programs/</u>			
Passed-through the Mississippi Department of Public Safety			
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.804	2009-SU-B9-0035	180,905
State and Local Equitable Sharing	16.922	N/A	57,910
Total U.S. Department of Justice			<u>238,815</u>
<u>Corporation for National and Community Service</u>			
Passed through Hancock County, Mississippi			
Retired and Senior Volunteer Program	94.002	N/A	47,018
Total Corporation for National and Community Service			<u>47,018</u>
<u>U.S. Department of Homeland Security</u>			
Passed through State of Mississippi Emergency Disaster Agency			
Public Assistance Disaster Grants - Hurricane Katrina	97.036	FEMA-1604-DR-MS	1,665,853
Public Assistance Disaster Grants - Hurricane Isaac	97.036	FEMA-4081-DR-MS	53,687
Hazard Mitigation Grant	97.039	1604-MS-0366	83,900
Hazard Mitigation Grant	97.039	1604-MS-0357	35,196
Hazard Mitigation Grant	97.039	1604-MS-0368	60,805
Hazard Mitigation Grant	97.039	1604-MS-0420	275,533
Total U.S. Department of Homeland Security			<u>2,174,974</u>
Total Expenditures of Federal Awards			<u>\$ 5,304,391</u>

Note A - Significant Accounting Policies

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

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

WRIGHT, WARD, HATTEN & GUEL

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

December 20, 2013

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Waveland, Mississippi, as of and for the year ended September 30, 2012, which collectively comprise City of Waveland, Mississippi's basic financial statements and have issued our report thereon dated December 20, 2013. The report on the governmental activities and the General Fund were qualified due to improper accounting and financial reporting of court revenues and related receivables. The report on the Disaster Relief Fund and the CDBG Grant Fund were qualified due to inadequate accounting of grant related expenditures and receivables. The report on the business-type activities was qualified due to failure to properly account for utility billings, collections and cash postings in the Water, Sewer and Gas Fund. Except as discussed in the preceding sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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. 2012-1, 2012-2, 2012-3, 2012-4, 2012-5 and 2012-6.

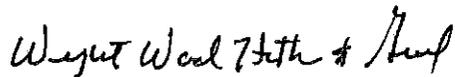
A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Waveland, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2012-2, 2012-3, 2012-4, 2012-5 and 2012-6.

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

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



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Gulfport, Mississippi

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

December 20, 2013

Honorable Mayor and Board of Aldermen
City of Waveland, Mississippi

Compliance

We have audited City of Waveland, Mississippi's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of City of Waveland, Mississippi's major federal programs for the year ended September 30, 2012. City of Waveland, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Waveland, Mississippi's management. Our responsibility is to express an opinion on City of Waveland, Mississippi's compliance based on our audit.

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

As described in item 2012-8 in the accompanying schedule of findings and questioned costs, City of Waveland, Mississippi, did not comply with requirements regarding allowable cost and reporting that are applicable to its Community Development Block Grant, Public Assistance Disaster Grant and Hazard Mitigation Grant programs. Compliance with such requirements is necessary, in our opinion, for City of Waveland, Mississippi, to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, City of Waveland, Mississippi, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-7.

Internal Control Over Compliance

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

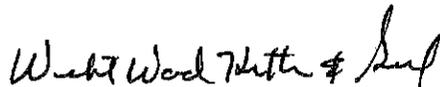
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-8 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-7 to be significant deficiencies.

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

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



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

December 20, 2013

Honorable Mayor and Board of Aldermen
City of Waveland, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Waveland, Mississippi as of and for the year ended September 30, 2012. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

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

Capital Asset Management

The Office of the State Auditor requires municipalities to have adequate procedures for all capital assets and other inventoriable items and to follow their guidelines for financial accounting of asset acquisitions and disposals.

Finding: During our audit test work, we noted that the City did not have a formal policy for the purchase or disposal of capital assets. The City also does not have a formal capitalization policy for new asset acquisitions. We also noted that the City does not maintain a detailed listing of all city assets describing the asset, department, date acquired, cost and identifying number. There were several pieces of equipment or vehicles that were donated to the City in prior years that have a material financial value but were not properly recorded in the general ledger system. Capital assets were not properly tagged with a separate identifying number and an annual inventory has not been performed.

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

Response: At the February 16, 2011 City of Waveland Board Meeting, the Board adopted the Mississippi Municipal Audit and Accounting Guide as Waveland's accounting policies and procedures and on February 1, 2011, the City of Waveland Board adopted the Mississippi Municipal Fixed Assets Management Manual as a guide for fixed assets management. Compliance with policies and procedures will be performed on a periodic basis. In addition, personnel involved with capital asset management will be trained on the policies and procedures. Capital asset ledgers will be maintained, updated and reviewed on a regular basis.

Procurement Policy and Payment of Invoices

The City is required to follow state guidelines regarding procurement of various goods and services of the City.

Finding: During our testing of the expenditures, we noted that certain expenditures were paid from copies of invoices instead of the original invoice, and expenditures were improperly coded in the general ledger. Payments were made from the vendor statements and invoices resulting in duplicate payments. During our audit testing, we had difficulty locating various invoices on capital construction projects due to inconsistent filing of paid invoices and other documentation. Many vendor files were missing several months of invoices. Liability insurance was not paid timely, and after several notices of cancellation, the City's insurance was cancelled for non-payment. The City paid late charges for untimely payment to vendors.

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

Response: On February 1, 2011, the City of Waveland Board adopted as their accounting and policies, the Office of the State Auditor (Mississippi) - Purchase Law Summary. The current purchasing personnel have been instructed in the purchasing requirements of the State and have copies of the State purchasing laws for reference. These policies will be test for compliance on a periodic basis. Greater care has been taken to ensure all claims are properly reported on the claims docket for board approval prior to payment. In addition, a review of invoices and payments has been performed to ensure all vendors are timely and accurately paid and invoices are subsequently filed.

Performance Bonds

Finding: The City is required to follow state guidelines regarding performance bonds for construction contracts exceeding \$25,000. A performance bond and other contractor certifications shall be fully executed and properly maintained. During our testing of expenditures, we noted performance and payment bonds were not dated and another instance where the certificate of liability for a contractor could not be located.

Recommendation: We recommend that the individuals in charge of construction ensure that all construction contracts have a performance bond in the amount of the total contract; that the bond is complete with all required information and that all bid and construction contracts with supporting documentation are securely maintained.

Response: The City will ensure that all construction contracts have a performance bond in the amount of the total contract and that the bond is complete with all required supporting documentation.

Court Fines, Related Assessments and Court Fines Receivables

The City is required to follow state guidelines regarding the collection of court fines, maintaining a subsidiary of court fines receivables and remitting fine assessments to the various agencies monthly.

Finding: During our testing of court fine revenue and related receivables we noted that the court fine receivable report was not timely generated or reviewed on a periodic basis. The City is not actively pursuing the collection of aged outstanding fines. We also noted that related court fine assessments were not remitted to the various agencies in a timely manner.

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

Response: Management will more closely monitor and review timely remittance of all court assessments and ensure court fine revenue is reconciled monthly to the accounting records. Substantial improvements have been made since audit has been performed, all past adjustments have been made, reports are timely filed and regular reviewing and collection efforts are performed on past due court fines. In addition, the court system has now been integrated to the accounting software so that postings of revenue are done directly to the accounting system.

Privilege Licenses

Section 27-17-5 of the Miss. Code Ann. states that “the governing body of each municipality shall levy, assess and collect all taxes upon the privilege of doing business shall be mandatory”.

Finding: During our testing of business licenses we found instances in which some businesses were operating within the City without a valid privilege license.

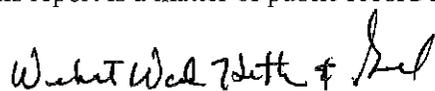
Recommendation: We recommend that the management implement policies and procedures to ensure that all businesses within city limits are operating with a current privilege license and occupancy permit.

Response: The privilege license personnel will be attending training in December, 2013 to enhance their knowledge of the privilege license requirements. As an additional measure, the Fire Department has also begun auditing privilege license holders when doing annual fire inspections. Management will develop written policies and procedures to be followed and reviewed. Currently, an examination of businesses within Waveland to current privilege/occupancy licenses has begun, resulting in several businesses becoming compliant.

These instances of noncompliance, with the exception of privilege licenses, have been reported in prior years and have not been corrected by management as of September 30, 2012.

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

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



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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF WAVELAND, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012

Section 1: Summary of Auditors' Results

Governmental activities	Qualified
General Fund	Qualified
Disaster Relief Fund	Qualified
CDBG Grant Fund	Qualified
Other governmental funds	Unqualified
Business-type activities	Qualified
 Material noncompliance related to the financial statements?	 Yes
 Internal control over financial reporting:	
a. Material weaknesses identified?	Yes
b. Significant deficiencies identified that are not considered to be material weaknesses?	No
 <u>Federal Awards:</u>	
Type of auditors' report issued on compliance for major federal programs:	Qualified
 Internal control over major programs:	
a. Material weaknesses identified?	Yes
b. Significant deficiencies identified that are not considered to be material weaknesses?	Yes
 Any audit findings reported as required by Section 510(a) of Circular A-133?	Yes
 Federal programs identified as major programs:	
14.218 U. S. Department of Housing and Urban Development - Office of Community Planning and Development - Community Development Block Grant	
16.804 U. S. Department of Justice - Office of Justice Programs ARRA Edward Byrne Memorial Justice Assistance Grant	
97.036 U. S. Department of Homeland Security - Public Assistance Disaster Grant	
97.039 U. S. Department of Homeland Security - Hazard Mitigation Grant	
 The dollar threshold used to distinguish between type A and type B programs:	 \$ 300,000
 Auditee qualify as a low-risk auditee?	 No
 Prior fiscal year audit finding(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section 315(b) of OMB Circular A-133?	 Yes

Section 2 – Financial Statements Findings

2012-1 Cash Posting and Bank Reconciliations

Material weakness

Criteria

Bank reconciliations should be performed in a timely manner and reconciling items should agree to deposits or outstanding checks in subsequent months. Daily deposits should be properly posted to the correct accounts upon collection.

Condition

During our audit, we noted that there were reconciling items on the bank reconciliation that could not be explained by management with supporting detail. There were also items that had cleared the bank but were not properly reflected in the general ledger accounting system. We noted that cash deposits in the utility operating account were not posted in the general ledger accounting system on a daily basis as deposits were made. A “reconciling entry” was made at month end based on the bank statement and a monthly transaction report.

Cause

Adequate accounting procedures were not followed for timely bank reconciliations nor were unexplained reconciling items investigated. Daily utility deposits were not adequately posted in the general ledger utility accounts receivable account.

Effect

Failure to properly and timely reconcile the various cash accounts can distort financial reporting to management and those charged with governance. Improper posting of utility deposits into the general ledger can distort the accounts receivable balance in the financial reports in comparison with the accounts receivable subsidiary ledger.

Recommendation

We recommend that all bank reconciliations are performed and completed in a timely manner and that any reconciling items have adequate supporting detail. We also recommend that the daily cash deposits are correctly reflected in the proper general ledger accounts so that the general ledger will reconcile to the subsidiary ledgers.

2012-2 Utility Billings and Receivables

Material weakness

Criteria *Prior year finding*

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

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

Condition

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

Customer payments were not deposited timely into the City's bank account. In some cases, City employees and their relatives had delinquent accounts. Due to the lack of monitoring of the utility department's accounts receivable balance and the lack of adherence of City policy, the utility accounts receivable balance had greatly increased.

Cause

Procedures were not documented or enforced for billing, collection, cutoffs and remittance of sales tax. A thorough review of utility accounts receivable was not performed, and collection or cutoff policies were not enforced for all City utility customers.

Effect

Failure to enforce utility collections and cutoff procedures violates the City's utility ordinance. The issues noted above create errors in sales tax reported and paid, an overstatement of utility accounts receivable, improper revenue recognition, and errors in financial statement reporting.

Recommendation

We recommend that management implement written policies regarding the billing and collection of water, sewer and gas utilities. Billings of utility services should be performed on a timely basis to ensure a comparable number of days in each billing cycle. Those in charge of collecting utility receivables, as well as management, should periodically review outstanding receivables to determine cut off procedures and collection possibilities. If an account is deemed uncollectible, the account should be properly adjusted so that utility accounts receivable is correctly stated for financial reporting purposes. Sales tax payable should be reconciled to the sales tax report. Once paid, the liability should be cancelled in the general ledger.

Criteria *Prior year finding*

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

Condition

During our testing of the expenditures, we noted that certain expenditures were paid from copies of invoices instead of the original invoice, and expenditures were improperly coded in the general ledger. Payments were made from the vendor statements and invoices resulting in duplicate payments. During our audit testing, we had difficulty locating various invoices on capital construction projects due to inconsistent filing of paid invoices and other documentation. Many vendor files were missing several months of invoices. Liability insurance was not paid timely, and after several notices of cancellation, the City's insurance was cancelled for non-payment. The City paid late charges for untimely payment to vendors.

Cause

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

Effect

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

Recommendation

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

Criteria *Prior year finding*

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

Condition

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

There were several pieces of equipment or vehicles that were donated to the City in prior years that have a material financial value but were not properly recorded in the general ledger system. Capital assets were not properly tagged with a separate identifying number and an annual inventory has not been performed.

Cause

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

Effect

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

Recommendation

We recommend that management adopt a formal written policy regarding the acquisition (purchase or donation), capitalization, disposal, tagging, inventory, and use of all capital assets by City employees that reflects the requirements of the Office of the State Auditor. We recommend that all employees are made aware of the adopted policies and procedures and that the policies are enforced. We also recommend that capital asset subsidiary ledgers are created, updated and reviewed periodically for proper financial reporting.

Criteria *Prior year finding*

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

Condition

During our testing of business licenses we found instances in which some businesses were operating within the City without a valid privilege license.

Cause

Due to personnel turnover, business license renewals were mailed out several months late. There is no penalty for late payment or follow up for compliance to ensure that businesses renew their privilege license. The City has no policies and procedures in place to ensure that all businesses within the City have current privilege licenses and occupancy permits.

Effect

There are businesses operating within the City that do not have a valid business license; therefore, they are operating unlawfully.

Recommendation

We recommend that the management implement policies and procedures to ensure that all businesses within city limits are operating with a current privilege license and occupancy permit.

Criteria *Prior year finding*

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

Condition

During our testing of court fine revenue and related receivables, we noted that the court fines receivables report was not generated timely at the end of the fiscal period. The City is not actively pursuing the collection of aged outstanding court fines. We were informed by court personnel that there are an extraordinary amount of adjustments that need to be posted to the court software system on individual cases. To date, these adjustments have not been posted to each individual court case.

We also noted that the related court fine assessments were not timely submitted to the various agencies, and we were unable to determine if the court fine assessments were paid for three months. We also noted that the court fine revenue report generated within the court department did not agree to the court fine revenue posted to the general ledger.

Cause

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

Effect

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

Recommendation

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

Section 3 – Federal Award Findings and Questioned Costs

2012-7 Allowable Costs and Cash Management *Significant deficiency*

CFDA #14.228 HUD Community Development Block Grant

Criteria *Prior year finding*

Allowable costs should be properly approved and adequately documented for grant expenditures in accordance with federal and state guidelines. Grant funds should be deposited and paid to vendors in a timely manner to ensure cash management compliance with granting agencies.

Condition

During our audit, we noted that some of the invoices for the federal grant could not be located. In one instance, the lowest bidder was not awarded the contract and the justification for selection was not adequately documented in the board minutes. In another instance, a payment was issued prior to board approval. We also noted that grant monies were not deposited or paid to vendors within three days of receipt.

Cause

City personnel did not properly file vendor invoices and ensure that adequate approval and documentation requirements were followed prior to invoice payment. Federal grant money was not deposited or paid in a timely manner.

Questioned Costs

There are no questioned costs associated with this finding.

Effect

Not adhering to grant compliance requirements and other regulations could cause the City to lose future grant funding or cause repayment of previously paid federal funds.

Recommendation

We recommend that management implement policies and procedures for oversight of federal grant programs to ensure that federal grant compliance requirements are met.

City employees who are responsible for grant program management should be familiar with all federal grant compliance requirements as well as OMB A-87 cost principles. They should also be held accountable for gross failures in compliance with all provisions of the contract exclusive to federal guidelines, City policies, and State disclosure and publication requirements.

2012-8 Allowable Costs and Reporting *Material weakness*

CFDA #14.228 HUD Community Development Block Grant #97.036 Public Assistance Disaster Grant #97.039 Hazard Mitigation Grant

Criteria

Allowable costs should be properly approved and adequately documented for grant expenditures in accordance with federal and state guidelines.

Condition

During our audit, we noted that three contractor invoices on a capital construction project reimbursed with federal funds were not recorded in the general ledger accounting system. This particular project is multi-funded with three federal funding sources. We were unable to determine the breakdown of federal expenditure and correlating revenue by funding source to ensure proper reporting on the financial statements and the schedule of expenditures of federal awards.

Cause

City personnel did not properly reflect these expenditures and offsetting federal revenues in the general ledger accounting system due to the scope of work not performed in accordance with contract specifications.

Questioned Costs

There are no questioned costs associated with this finding.

Effect

Failure to properly record federal expenditures and correlating grant revenues in accordance with generally accepted accounting principles and in accordance with federal and state guidelines distorts financial reporting.

Recommendation

We recommend that management implement policies and procedures for oversight of federal grant programs to ensure that federal grant expenditures and correlating revenues are properly accounted for and reported in the financial statements.

SUMMARY OF PRIOR YEAR AUDIT FINDINGS



David A. Garcia, Mayor, CFM

**CITY OF WAVELAND, MISSISSIPPI
Summary of Prior Year Findings
For the Year Ended September 30, 2012**

Finding Number Prior Audit Finding

2011-3 Procurement Policies and Payment of Invoices

Condition

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

Recommendation

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

Current Status

This has been corrected as of the date of this audit report.

2011-4 Fixed Asset Management *Material weakness*

Condition

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

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

received on cash requests and these monies were not paid out to the various vendors within three days of receipt.

Recommendation

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

Current Status

This has been corrected as of the date of this audit report.

AUDITEE CORRECTIVE ACTION PLAN



David A. Garcia, Mayor, CFM

**CITY OF WAVELAND, MISSISSIPPI
Corrective Action Plan
For the Year Ended September 30, 2012**

Section 2 – Financial Statements Findings

2012-1 Cash Posting and Bank Reconciliations *Material weakness*

Condition

During our audit, we noted that there were reconciling items on the bank reconciliation that could not be explained by management with supporting detail. There were also items that had cleared the bank but were not properly reflected in the general ledger accounting system. We noted that cash deposits in the utility operating account were not posted in the general ledger accounting system on a daily basis as deposits were made. A “reconciling entry” was made at month end based on the bank statement and a monthly transaction report.

Recommendation

We recommend that all bank reconciliations are performed and completed in a timely manner and that any reconciling items have adequate supporting detail. We also recommend that the daily cash deposits are correctly reflected in the proper general ledger accounts so that the general ledger will reconcile to the subsidiary ledgers.

Response

Bank statement reconciliations will be performed on a timely basis with proper supporting detail maintained. In addition, daily cash deposits will be posted to the correct ledger and reconciliations from the subsidiary to general ledger performed on a regular basis.

2012-2 Utility Billings and Receivables *Material weakness*

Condition

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

Customer payments were not deposited timely into the City's bank account. In some cases, City employees and their relatives had delinquent accounts. Due to the lack of monitoring of the utility department's accounts receivable balance and the lack of adherence of City policy, the utility accounts receivable balance had greatly increased.

Recommendation

We recommend that management implement written policies regarding the billing and collection of water, sewer and gas utilities. Billings of utility services should be performed on a timely basis to ensure a comparable number of days in each billing cycle. Those in charge of collecting utility receivables, as well as management, should periodically review outstanding receivables to determine cut off procedures and collection possibilities. If an account is deemed uncollectible, the account should be properly adjusted so that utility accounts receivable is correctly stated for financial reporting purposes. Sales tax payable should be reconciled to the sales tax report. Once paid, the liability should be cancelled in the general ledger.

Response

At the February 16, 2011 City of Waveland Board Meeting, the Board adopted the Mississippi Municipal Audit and Accounting Guide as Waveland's accounting policies and procedures. The City will include periodic testing of compliance to policies and procedures. Billings of utility services is currently completed on a timely basis. A review of the outstanding receivables is done by the department head and City Clerk on a continual basis. At appropriate times, periodic review of uncollectible accounts is performed and adjusted. All general ledger accounts relating to the utilities department will be reconciled to the subsidiary accounts in addition to other reports such as sales tax payable returns on a regular and timely basis.

2012-3 Procurement Policies and Payment of Invoices

Material weakness

Condition

During our testing of the expenditures, we noted that certain expenditures were paid from copies of invoices instead of the original invoice, and expenditures were improperly coded in the general ledger. Payments were made from the vendor statements and invoices resulting in duplicate payments. During our audit testing, we had difficulty locating various invoices on capital construction projects due to inconsistent filing of paid invoices and other documentation. Many vendor files were missing several months of invoices. Liability insurance was not paid timely, and after several notices of cancellation, the City's insurance was cancelled for non-payment. The City paid late charges for untimely payment to vendors.

Recommendation

We recommend that the City ensure that those responsible for procurement of goods and services for the City are aware of the State purchasing laws, that they have written policies and procedures in place for following those requirements, and that they maintain sufficient documentation in a central location to ensure that compliance was met. We also recommend that all invoices are paid

from the original invoice and properly cancelled upon payment. All claims should be properly reported on the claims docket for board approval prior to payment.

Response

On February 1, 2011, the City of Waveland Board adopted as their accounting and policies, the Office of the State Auditor (Mississippi) - Purchase Law Summary. The current purchasing personnel have been instructed in the purchasing requirements of the State and has copies of the State purchasing laws for reference. These policies will be test for compliance on a periodic basis. Greater care has been taken to ensure all claims are properly reported on the claims docket for board approval prior to payment. In addition, a review of invoices and payments has been performed to ensure all vendors are timely and accurately paid and invoices are subsequently filed.

2012-4 Capital Asset Management *Material weakness*

Condition

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

There were several pieces of equipment or vehicles that were donated to the City in prior years that have a material financial value but were not properly recorded in the general ledger system. Capital assets were not properly tagged with a separate identifying number and an annual inventory has not been performed.

Recommendation

We recommend that management adopt a formal written policy regarding the acquisition (purchase or donation), capitalization, disposal, tagging, inventory, and use of all capital assets by City employees that reflects the requirements of the Office of the State Auditor. We recommend that all employees are made aware of the adopted policies and procedures and that the policies are enforced. We also recommend that capital asset subsidiary ledgers are created, updated and reviewed periodically for proper financial reporting.

Response

At the February 16, 2011 City of Waveland Board Meeting, the Board adopted the Mississippi Municipal Audit and Accounting Guide as Waveland's accounting policies and procedures and on February 1, 2011, the City of Waveland Board adopted the Mississippi Municipal Fixed Assets Management Manual as a guide for fixed assets management. Compliance with policies and procedures will be performed on a periodic basis. In addition, personnel involved with capital asset management will be trained on the policies and procedures. Capital asset ledgers will be maintained, updated and reviewed on a regular basis.

Condition

During our testing of business licenses we found instances in which some businesses were operating within the City without a valid privilege license.

Recommendation

We recommend that the management implement policies and procedures to ensure that all businesses within city limits are operating with a current privilege license and occupancy permit.

Response

The privilege license personnel will be attending training in December, 2013 to enhance their knowledge of the privilege license requirements. As an additional measure, the Fire Department has also begun auditing privilege license holders when doing annual fire inspections. Management will develop written policies and procedures to be followed and reviewed. Currently, an examination of businesses within Waveland to current privilege/occupancy licenses has begun, resulting in several businesses becoming compliant.

Condition

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

Recommendation

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

Response

Management will more closely monitor and review timely remittance of all court assessments and ensure court fine revenue is reconciled monthly to the accounting

records. Substantial improvements have been made since audit has been performed, all past adjustments have been made, reports are timely filed and regular reviewing and collection efforts are performed on past due court fines. In addition, the court system has now been integrated to the accounting software so that postings of revenue are done directly to the accounting system.

Section 3 – Federal Award Findings and Questioned Costs

2012-7 Allowable Costs and Cash Management *Significant deficiency*
CFDA #14.228 HUD Community Development Block Grant

Condition

During our audit, we noted that some of the invoices for the federal grant could not be located. In one instance, the lowest bidder was not awarded the contract and the justification for selection was not adequately documented in the board minutes. In another instance, a payment was issued prior to board approval. We also noted that grant monies were not deposited or paid to vendors within three days of receipt.

Recommendation

We recommend that management implement policies and procedures for oversight of federal grant programs to ensure that federal grant compliance requirements are met.

City employees who are responsible for grant program management should be familiar with all federal grant compliance requirements as well as OMB A-87 cost principles. They should also be held accountable for gross failures in compliance with all provisions of the contract exclusive to federal guidelines, City policies, and State disclosure and publication requirements.

Response

Policies and procedures for federal grant compliance will be written and compliance reviewed on a regular basis. In addition, city employees responsible for grant program management will continue to be required to be familiar and responsible for all compliance requirements and regulations for both state and federal grant programs under their prevue.

2012-8 Allowable Costs and Reporting *Material weakness*

CFDA #14.228 HUD Community Development Block Grant #97.036 Public Assistance Disaster Grant #97.039 Hazard Mitigation Grant

Condition

During our audit, we noted that three contractor invoices on a capital construction project reimbursed with federal funds were not recorded in the general ledger accounting system. This particular project is multi-funded with three federal funding sources. We were unable to determine the breakdown of federal expenditure and correlating revenue by funding source to

ensure proper reporting on the financial statements and the schedule of expenditures of federal awards.

Recommendation

We recommend that management implement policies and procedures for oversight of federal grant programs to ensure that federal grant expenditures and correlating revenues are properly accounted for and reported in the financial statements.

Response

The City maintains policies and procedures for oversight of all federal grant programs ensuring grant expenditures and correlating revenues are properly accounted and reported in the financial statements. This particular instance was a "one time" incident which involved numerous parties (including insurance and bonding companies) and varying amounts of cooperation. The City will ensure in the future that all federal grant programs are properly reported in the financial statements.