

CITY OF BAYOU LA BATRE, ALABAMA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

CITY OF BAYOU LA BATRE, ALABAMA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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**CITY OF BAYOU LA BATRE, ALABAMA
GOVERNING BODY
September 30, 2010**

Name	Title
Stan Wright	Mayor
Edgar Burt	Council Member
Ida Mae Coleman	Council Member
Louis Hard	Council Member
Matthew Nelson	Council Member
George Ramires	Council Member

GILBERT F. DUKES, JR.
G. TIMOTHY GASTON
J. WILBERT JORDAN, JR.
KERRY L. WEATHERFORD
JOHN M. SIRMON
E. LAMAR REEVES
KEVIN M. RITTELMAYER
APRIL B. BOUDREAUX
MARK R. CHAPMAN
TIMOTHY B. SMITH

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the
City Council of the City of Bayou La Batre, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bayou La Batre, Alabama, as of September 30, 2010, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bayou La Batre, Alabama's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bayou La Batre, Alabama, as of September 30, 2010, 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.

The City has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison information on page 26 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2011 on our consideration of the City of Bayou La Batre, Alabama'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 read in conjunction with this report in considering the results of our audit.

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

Smith, Duke & Buckalew, L.L.P.

Mobile, Alabama
June 30, 2011

FINANCIAL STATEMENTS

CITY OF BAYOU LA BATRE, ALABAMA

**STATEMENT OF NET ASSETS
September 30, 2010**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash	\$ 353,189	\$ 19,566	\$ 372,755	\$ 293,082
Restricted cash	625,668	334,183	959,851	1,097,658
Receivables	2,768,917	2,640	2,771,557	678,909
Unamortized bond expense				171,999
Other	2,844	-	2,844	82,650
Non-depreciable capital assets	18,706,007	2,330,774	21,036,781	538,945
Depreciable capital assets, net	6,441,913	11,714,368	18,156,281	5,073,025
Total assets	\$ 28,898,538	\$ 14,401,531	\$ 43,300,069	\$ 7,936,268
LIABILITIES				
Accounts payable	\$ 2,456,889	\$ 71,956	\$ 2,528,845	\$ 54,616
Accrued liabilities	124,129	-	124,129	59,481
Claims payable - contingent liability	-	-	-	50,000
Deferred income	524,983	262,822	787,805	-
Long-term liabilities:				
Due within one year				
Bonds and warrants payable	145,000	-	145,000	175,712
Due in more than one year				
Bonds and warrants payable	845,000	-	845,000	3,056,000
Deposits	-	-	-	151,875
Compensated absences	312,852	-	312,852	85,669
Total liabilities	4,408,853	334,778	4,743,631	3,633,353
NET ASSETS				
Invested in capital assets, net of related debt	24,157,920	14,045,142	38,203,062	2,379,697
Restricted	350,607		350,607	1,166,048
Unrestricted	(18,842)	21,611	2,769	757,170
Total net assets	24,489,685	14,066,753	38,556,438	4,302,915
Total liabilities and net assets	\$ 28,898,538	\$ 14,401,531	\$ 43,300,069	\$ 7,936,268

See Notes to Financial Statements.

CITY OF BAYOU LA BATRE, ALABAMA

**STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2010**

	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 813,176	\$ 678,908	\$ 3,004	\$ -
Public safety	1,900,599	235,464	77,604	186,492
Public works	710,441	142,501	-	-
Public assistance	866,756	60,000	805,537	15,632,321
Culture, recreation, and health	470,557	-	26,494	-
Oil spill	8,224,618	-	-	8,250,078
Interest on long-term debt	61,257	-	-	-
Total governmental activities	<u>13,047,404</u>	<u>1,116,873</u>	<u>912,639</u>	<u>24,068,891</u>
Business-type activities:				
City docks	4,691	138,240	-	-
Alternative housing pilot program	1,106,664	-	678,836	250,584
Total business-type activities	<u>1,111,355</u>	<u>138,240</u>	<u>678,836</u>	<u>250,584</u>
Total primary government	<u>\$ 14,158,759</u>	<u>\$ 1,255,113</u>	<u>\$ 1,591,475</u>	<u>\$ 24,319,475</u>
Component Units				
Utilities Board	1,936,893	1,651,752	-	2,500
Water Supply Board	84,342	109,606	-	-
Housing Authority	306,060	202,229	192,277	-
Total component units	<u>2,327,295</u>	<u>1,963,587</u>	<u>192,277</u>	<u>2,500</u>

General revenues:

Taxes
Interest
Miscellaneous
Gain on sale of fixed assets
Transfers
Capital transfer
Total general revenues, special items, and transfers
Change in net assets
Net assets - beginning
Net assets - ending

See Notes to Financial Statements.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activities	Total	Component Units
\$ (131,264)		\$ (131,264)	
(1,401,039)		(1,401,039)	
(567,940)		(567,940)	
15,631,102		15,631,102	
(444,063)		(444,063)	
25,460		25,460	
(61,257)		(61,257)	
<u>13,050,999</u>		<u>13,050,999</u>	
	133,549	133,549	
	(177,244)	(177,244)	
	<u>(43,695)</u>	<u>(43,695)</u>	
<u>\$ 13,050,999</u>	<u>\$ (43,695)</u>	<u>\$ 13,007,304</u>	
			(282,641)
			25,264
			88,446
			<u>(168,931)</u>
2,488,486	-	2,488,486	-
1,029	-	1,029	9,673
59,951	-	59,951	15,427
7,639	-	7,639	(11,561)
124,894	(124,894)	-	-
(407,509)	-	(407,509)	407,509
<u>2,274,490</u>	<u>(124,894)</u>	<u>2,149,596</u>	<u>421,048</u>
15,325,489	(168,589)	15,156,900	252,117
9,164,196	14,235,342	23,399,538	4,050,798
<u>\$ 24,489,685</u>	<u>\$ 14,066,753</u>	<u>\$ 38,556,438</u>	<u>\$ 4,302,915</u>

CITY OF BAYOU LA BATRE, ALABAMA

**BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2010**

	<u>General Fund</u>	<u>Grant Fund</u>	<u>Deepwater Horizon Oil Spill Fund</u>
ASSETS			
Cash	\$ 325,704	\$ -	\$ -
Restricted cash	385,221	29	240,418
Taxes receivable	289,078		
Receivable from other governments	12,344	2,405,235	
Other receivables	6,676		50,000
Due from other funds	40,000		
Inventories	2,844		
Total assets	<u>\$ 1,061,867</u>	<u>\$ 2,405,264</u>	<u>\$ 290,418</u>
LIABILITIES			
Accounts payable	\$ 49,670	\$ 2,405,235	\$ -
Accrued liabilities	119,591		
Due to other funds	-		40,000
Deferred revenue	352,954		249,922
Total liabilities	<u>522,215</u>	<u>2,405,235</u>	<u>289,922</u>
FUND BALANCES			
Total fund balances	<u>539,652</u>	<u>29</u>	<u>496</u>
Total liabilities and fund balances	<u>\$ 1,061,867</u>	<u>\$ 2,405,264</u>	<u>\$ 290,418</u>

See Notes to Financial Statements.

Other Governmental Funds	Total Governmental Funds
\$ 27,485	\$ 353,189
	625,668
5,584	294,662
	2,417,579
	56,676
	40,000
	2,844
<u>\$ 33,069</u>	<u>\$ 3,790,618</u>

\$ 1,984	\$ 2,456,889
	119,591
	40,000
	602,876
<u>1,984</u>	<u>3,219,356</u>

<u>31,085</u>	<u>571,262</u>
<u>\$ 33,069</u>	<u>\$ 3,790,618</u>

CITY OF BAYOU LA BATRE, ALABAMA

**RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

September 30, 2010

Total fund balance, governmental funds \$ 571,262

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the statement of net assets.

Governmental capital assets	27,529,549	
Less accumulated depreciation	<u>(2,381,629)</u>	25,147,920

Long-term liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the statement of net assets.

Accrued interest	(4,538)	
Bonds and warrants payable	(990,000)	
Compensated absences	<u>(312,852)</u>	(1,307,390)

Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the statement of net assets.

77,893

Net assets of governmental activities in the statement of net assets

\$ 24,489,685

See Notes to Financial Statements.

CITY OF BAYOU LA BATRE, ALABAMA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2010**

	General Fund	Grant Fund	Deepwater Horizon Oil Spill Fund
Revenues			
Taxes	\$ 2,408,433	\$ -	\$ -
Licenses and permits	476,110		
Fines and forfeitures	235,464		
Federal and state assistance	195,706	16,437,858	
Rentals	126,188		
Charges for services	142,501	60,000	
Other grants and contributions	71,394		8,250,078
Investment earnings	530		496
Other	136,561		
Total revenues	3,792,887	16,497,858	8,250,574
Expenditures			
Current:			
General government	649,026		
Public safety	1,706,358		
Public works	614,781		
Public assistance		866,756	
Culture, recreation and health	397,424		
Oil spill			8,224,618
Capital expenditures	139,359	15,632,321	25,460
Debt Service:			
Principal	135,000		
Interest and other charges	61,875		
Total expenditures	3,703,823	16,499,077	8,250,078
Excess revenues over (under) expenditures	89,064	(1,219)	496
Other financing sources (uses):			
Operating transfers in (out)	133,894		
Proceeds from sale of assets	37,271		
Total other financing sources (uses)	171,165	-	-
Net change in fund balances	260,229	(1,219)	496
Fund balances - beginning	279,423	1,248	-
Fund balances - ending	\$ 539,652	\$ 29	\$ 496

See Notes to Financial Statements.

Other Governmental Funds	Total Governmental Funds
\$ 74,865	\$ 2,483,298
	476,110
	235,464
26,494	16,660,058
	126,188
	202,501
	8,321,472
3	1,029
	136,561
<u>101,362</u>	<u>28,642,681</u>
	649,026
	1,706,358
48,745	663,526
	866,756
27,865	425,289
	8,224,618
	15,797,140
	135,000
	61,875
<u>76,610</u>	<u>28,529,588</u>
<u>24,752</u>	<u>113,093</u>
(9,000)	124,894
	37,271
<u>(9,000)</u>	<u>162,165</u>
15,752	275,258
15,333	296,004
<u>\$ 31,085</u>	<u>\$ 571,262</u>

CITY OF BAYOU LA BATRE, ALABAMA

**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, 2010**

Net change in fund balances - total governmental funds: \$ 275,258

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

Expenditures for capital assets	\$ 15,797,140	
Less current year depreciation	(436,819)	15,360,321

Governmental funds report the entire proceeds from sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports on the gain or loss on the sale or disposal of the assets.

Proceeds from sale of asset	(37,271)	
Gain on disposal of assets	7,639	(29,632)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned. 5,188

Governmental funds report long-term debt as current financial resources. In contrast, the statement of activities treats such issuance of debt as a liability. Governmental funds report repayment of principal as an expenditure. In contrast, the statement of activities treats such repayments as a reduction in long-term liabilities.

Principal payments - bonds and warrants payable		135,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Change in accrued interest	618	
Change in compensated absences	(13,755)	(13,137)

Transfer of equipment to Utilities Board		(407,509)
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Change in net assets of governmental activities		\$ 15,325,489
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See Notes to Financial Statements.

CITY OF BAYOU LA BATRE, ALABAMA

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2010**

	<u>City Docks</u>	<u>Alternative Housing Pilot Program</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash	\$ 19,566	\$ -	\$ 19,566
Accounts receivable	2,640	-	2,640
Total current assets	<u>22,206</u>	<u>-</u>	<u>22,206</u>
Non-current assets:			
Restricted cash	-	334,183	334,183
Capital assets:			
Land	400,752	1,000,638	1,401,390
Buildings	1,144,430	12,388,511	13,532,941
Construction in progress	867,000	62,384	929,384
Less accumulated depreciation	<u>(1,144,430)</u>	<u>(674,143)</u>	<u>(1,818,573)</u>
Total non-current assets	<u>1,267,752</u>	<u>13,111,573</u>	<u>14,379,325</u>
Total assets	<u><u>\$ 1,289,958</u></u>	<u><u>\$ 13,111,573</u></u>	<u><u>\$ 14,401,531</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 595	\$ 71,361	\$ 71,956
Deferred revenue		262,822	262,822
Total current liabilities	<u>595</u>	<u>334,183</u>	<u>334,778</u>
Total liabilities	<u><u>595</u></u>	<u><u>334,183</u></u>	<u><u>334,778</u></u>
NET ASSETS			
Invested in capital assets, net of related debt	1,267,752	12,777,390	14,045,142
Restricted	-	-	-
Unrestricted	<u>21,611</u>	<u>-</u>	<u>21,611</u>
Total net assets	<u>1,289,363</u>	<u>12,777,390</u>	<u>14,066,753</u>
Total liabilities and net assets	<u><u>\$ 1,289,958</u></u>	<u><u>\$ 13,111,573</u></u>	<u><u>\$ 14,401,531</u></u>

See Notes to Financial Statements.

CITY OF BAYOU LA BATRE, ALABAMA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS**

For the Year Ended September 30, 2010

	<u>City Docks</u>	<u>Alternative Housing Pilot Program</u>	<u>Total</u>
Operating revenues:			
Rentals	\$ 138,240	\$ -	\$ 138,240
Total operating revenues	<u>138,240</u>	<u>-</u>	<u>138,240</u>
Operating expenses:			
Professional fees	-	23,500	23,500
Depreciation	-	407,722	407,722
Grant administration	-	330,000	330,000
Insurance	-	140,371	140,371
Legal fees	-	2,847	2,847
Bayou La Batre Housing Authority	-	192,277	192,277
Pest control	-	9,423	9,423
Repairs and maintenance	882	-	882
Supplies and equipment	-	524	524
Utilities	3,809	-	3,809
Total operating expenses	<u>4,691</u>	<u>1,106,664</u>	<u>1,111,355</u>
Operating income (loss)	<u>133,549</u>	<u>(1,106,664)</u>	<u>(973,115)</u>
Non-operating revenues (expenses):			
Federal assistance	-	929,420	929,420
Transfers to (from) other funds	(145,000)	20,106	(124,894)
Total non-operating revenues (expenses)	<u>(145,000)</u>	<u>949,526</u>	<u>804,526</u>
Change in net assets	(11,451)	(157,138)	(168,589)
Total net assets - beginning	<u>1,300,814</u>	<u>12,934,528</u>	<u>14,235,342</u>
Total net assets - ending	<u>\$ 1,289,363</u>	<u>\$ 12,777,390</u>	<u>\$ 14,066,753</u>

See Notes to Financial Statements.

CITY OF BAYOU LA BATRE, ALABAMA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2010**

	City Docks	Alternative Housing Pilot Program
Cash flows from operating activities:		
Cash received from customers	\$ 156,600	\$ -
Cash paid to suppliers and vendors	(4,096)	(700,244)
Net cash provided by (used in) operating activities	152,504	(700,244)
 Cash flows from noncapital financing activities:		
Transfers (to) from other funds	(145,000)	20,106
 Cash from capital and related financing activities:		
Acquisition and construction of capital assets	-	(497,372)
Cash received from other governments	-	1,300,000
Net cash provided by capital and related financing activities	-	802,628
Net increase in cash	7,504	122,490
Cash at beginning of year	12,062	211,693
Cash at end of year	\$ 19,566	\$ 334,183
 Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 133,549	\$ (1,106,664)
Adjustment to reconcile operating income to net cash provided by (used in) operating activities		
Depreciation expense	-	407,722
Decrease in accounts receivable	18,360	-
Decrease in accounts payable	595	(1,302)
Net cash provided by (used in) operating activities	\$ 152,504	\$ (700,244)

See Notes to Financial Statements

CITY OF BAYOU LA BATRE, ALABAMA

**STATEMENT OF NET ASSETS
COMPONENT UNITS**

September 30, 2010

	Business-type Activities			Totals
	Utilities Board	Water Supply Board	Housing Authority	
ASSETS				
Current assets:				
Cash	\$ 73,781	\$ 297	\$ 219,004	\$ 293,082
Receivables - net	215,135	-	16,053	231,188
Inventories	48,339	-	-	48,339
Other	34,311	-	-	34,311
Total current assets	371,566	297	235,057	606,920
Noncurrent assets:				
Cash - restricted	676,818	420,840	-	1,097,658
Accounts receivable	447,721	-	-	447,721
Unamortized bond expense	171,999	-	-	171,999
Non-depreciable capital assets	525,745	13,200	-	538,945
Depreciable capital assets, net	4,579,905	493,120	-	5,073,025
Total noncurrent assets	6,402,188	927,160	-	7,329,348
Total assets	<u>\$ 6,773,754</u>	<u>\$ 927,457</u>	<u>\$ 235,057</u>	<u>\$ 7,936,268</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 38,563	\$ -	\$ 16,053	\$ 54,616
Accrued liabilities	36,543	21,038	1,900	59,481
Claims payable - contingent liability	50,000	-	-	50,000
Current portion of bonds and notes payable	135,712	40,000	-	175,712
Total current liabilities	260,818	61,038	17,953	339,809
Noncurrent liabilities:				
Bonds and notes payable	2,535,000	521,000	-	3,056,000
Deposits	151,875	-	-	151,875
Compensated absences	85,669	-	-	85,669
Total noncurrent liabilities	2,772,544	521,000	-	3,293,544
Total liabilities	3,033,362	582,038	17,953	3,633,353
NET ASSETS				
Invested in capital assets, net of related debt	2,455,415	(75,718)	-	2,379,697
Restricted	745,208	420,840	-	1,166,048
Unrestricted	539,769	297	217,104	757,170
Total net assets	3,740,392	345,419	217,104	4,302,915
Total liabilities and net assets	<u>\$ 6,773,754</u>	<u>\$ 927,457</u>	<u>\$ 235,057</u>	<u>\$ 7,936,268</u>

See Notes to Financial Statements.

CITY OF BAYOU LA BATRE, ALABAMA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
COMPONENT UNITS**

For the Year Ended September 30, 2010

	Utilities Board	Water Supply Board	Housing Authority	Totals
Operating revenues:				
Charges for sales and services	\$ 1,651,752	\$ 109,606	\$ -	\$ 1,761,358
Dwelling rent			202,229	202,229
Intergovernmental			192,277	192,277
Other income	10,000	-	-	10,000
Total operating revenues	<u>1,661,752</u>	<u>109,606</u>	<u>\$ 394,506</u>	<u>2,165,864</u>
Operating expenses:				
Personal services	544,310	-	-	544,310
Contractual services	197,622	-	214,430	412,052
Utilities	159,666	30,042	9,340	199,048
Repairs and maintenance	155,477	-	82,152	237,629
Other supplies and expenses	190,661	7	138	190,806
Insurance	220,271	2,284	-	222,555
Depreciation	291,176	23,484	-	314,660
Total operating expenses	<u>1,759,183</u>	<u>55,817</u>	<u>306,060</u>	<u>2,121,060</u>
Operating income (loss)	<u>(97,431)</u>	<u>53,789</u>	<u>88,446</u>	<u>44,804</u>
Nonoperating revenues (expenses):				
Investment earnings	8,472	729	472	9,673
Grant revenue and capital contribution	410,009	-		410,009
Miscellaneous	5,427	-	-	5,427
Gain (loss) on sale of fixed assets	(11,561)	-	-	(11,561)
Interest expense	(141,627)	(28,525)	-	(170,152)
Claims expense	-	-	-	-
Amortization of bond discount and expense	(18,413)	-	-	(18,413)
Bad debts	(17,670)	-	-	(17,670)
Net non-operating revenues (expenses)	<u>234,637</u>	<u>(27,796)</u>	<u>472</u>	<u>207,313</u>
Change in net assets	137,206	25,993	88,918	252,117
Total net assets at beginning of year	<u>3,603,186</u>	<u>319,426</u>	<u>128,186</u>	<u>4,050,798</u>
Total net assets at end of year	<u><u>\$3,740,392</u></u>	<u><u>\$ 345,419</u></u>	<u><u>\$ 217,104</u></u>	<u><u>\$4,302,915</u></u>

See Notes to Financial Statements.

CITY OF BAYOU LA BATRE, ALABAMA

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2010

NOTE 1 – ORGANIZATION AND REPORTING ENTITY

Organization

The City of Bayou La Batre, Alabama (the City) was incorporated on July 17, 1955 under the provisions of Title 37 of Alabama Code 1940. The City operates under a mayor-council form of government. The City engages in a comprehensive range of municipal services, including public safety, street and drainage, culture, recreation and health, public improvements, planning and zoning, and general administrative services.

Reporting Entity

The financial statements of the City have been prepared in conformity with the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board (GASB). In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement, known as the “Reporting Model” statement, affects the way the City prepares and presents financial information. The Statement was developed to make annual reports easier to understand and more useful to the people who use government financial information to make decisions.

As required by the accounting principles in the United States, these financial statements present the primary government (the City) and its discretely presented component units, entities for which the government is considered financially accountable. These units are proprietary fund type component units and are reported in a separate column in the government-wide statements to emphasize that they are legally separate from the primary government. Each discretely presented component unit has a September 30 fiscal year-end.

Component Units

- **The Utilities Board of the City of Bayou La Batre** – This component unit has its own governing body which is appointed by the City Council. Two members of the City Council are also board members of the Utilities Board.
- **The Water Supply Board of the City of Bayou La Batre** – This component unit has its own governing body which is appointed by the Utilities Board.
- **Bayou La Batre Housing Authority** – This component unit has its own governing body which is appointed by the Mayor.

Complete financial statements of the individual component units can be obtained directly from their administrative offices as provided below.

The Utilities Board of the
City of Bayou La Batre
13321 N. Wintzell Avenue
Bayou La Batre, Alabama 36509

The Water Supply Board of the
City of Bayou La Batre
13321 N. Wintzell Avenue
Bayou La Batre, Alabama 36509

Bayou La Batre Housing Authority
8871 Highway 188
Irvington, AL 36544

CITY OF BAYOU LA BATRE, ALABAMA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2010

NOTE 1 – ORGANIZATION AND REPORTING ENTITY (CONTINUED)

Related Organizations

The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations do not extend beyond making the appointment. The City's related organizations are as follows:

1. City of Bayou La Batre Public Library Board
2. Medical Clinic Board (Mostellar Clinic)
3. Industrial Development Board
4. Port Authority

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant of the City's accounting policies are described below.

Basis of Presentation – Government-wide and Fund Accounting

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous reporting model emphasized fund types, in the new model the focus is on either the City as a whole, or major individual funds. Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public works, public safety, etc.) which are otherwise being supported by general government revenues (taxes, licenses and permits, etc.). The Statement of Activities reduces gross expenses, including depreciation, by related program revenues (charges for services, operating and capital grants, and contributions). The program revenues must be directly associated with a function or a business-type activity. The City does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The governmental funds financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the governmental fund statements to the government-wide statements' governmental column.

CITY OF BAYOU LA BATRE, ALABAMA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The focus of the revised model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

In the fund financial statements, the City's accounting records are organized and operated on a fund basis. A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on the specific activities or attaining certain objectives, in accordance with special regulations, restrictions or limitations.

The types of funds used in accounting for the financial operations of the City and their nature and purpose are as follows:

Governmental Funds – Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is based upon determination of changes in financial position, rather than upon net income determination. The following are the City's governmental funds:

General Fund – The General Fund is the general operating fund of the City and is considered a major fund. All general tax revenue and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. The general operating expenditures, fixed charges and capital improvement costs that are not paid through other funds, are paid from the General Fund.

Special Revenue Funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special revenue funds used by the City are considered non-major (other than the Grant Fund) and are as follows:

- Four-cent Gasoline Tax – This fund accounts for tax revenues to be used to pay for street resurfacing.
- Five-cent Gasoline Tax – This fund accounts for tax revenues to be used to pay the cost of construction, improvement, maintenance and supervision of highways, bridges and streets, including the retirement of bonds for the payment of which such revenues have been or may hereafter be pledged.
- Seven-cent Gasoline Tax – This fund accounts for tax revenues to be used to pay the cost of electricity for street lights and the cost of operating the concrete and storm sewer maintenance, street sweeping, street repair, ditch cleaning, pipe-laying and heavy equipment departments.
- Senior Citizens – This fund accounts for a grant program funded annually by the South Alabama Regional Planning Commission.
- Grant Fund – This fund is used to administer federal financial assistance.
- Deepwater Horizon Oil Spill Fund – This fund is used to administer BP Oil funds provided to mitigate the effects of the Deepwater Horizon oil spill.

CITY OF BAYOU LA BATRE, ALABAMA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Funds – The proprietary funds are used to account for the City’s ongoing activities which are similar to those often found in the private sector. The measurement focus is based upon determination of net income. Revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred. Operating revenues shown for proprietary operations generally result from producing or providing goods and services. Operating expenses for these operations include all costs related to providing the service or product. All other revenue and expenses not meeting these definitions are reported as non-operating revenues and expenses. The City’s proprietary funds are considered a major fund and are as follows:

City Docks – This fund is used to account for the operations of the rentals of City owned property including land and buildings.

Alternative Housing Pilot Program – This fund is used for the operations of the FEMA Alternative Housing Pilot Program. This program provides housing assistance to low-income families in the form of subsidized rentals and lease-purchase arrangements.

Basis of Accounting – Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-wide Financial Statements

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Fund Financial Statements

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become both “measurable and available” to finance current expenditures. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities (the City considers revenue available if it is collected within 60 days after year end). Gross receipts and selective sales and use taxes are considered available and measurable when the underlying exchange has occurred (i.e. September gross receipts taxes are recorded as revenue in September even though the taxpayers remit the taxes in October) and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Property taxes are recognized as revenue when the enforceable legal claim has occurred. Grant revenues are recognized when all eligibility requirements have been met.

Other revenues, including licenses and permits, certain charges for services, fines and forfeitures, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

CITY OF BAYOU LA BATRE, ALABAMA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Funds (continued)

Expenditures (including capital outlay) are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on general long-term debt are exceptions to this rule and are recognized when due. Also, expenditures related to insurance claims, employee pension liability, compensated absences and the sinking fund are recognized when payable from expendable available financial resources in future years.

Proprietary Funds

The proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred. The fund applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Budgets and Budgetary Accounting – The City follows these procedures in establishing the budgetary data presented in the accompanying financial statements:

- Prior to September 30, the Mayor submits to the City Council a proposed current revenue and expenditure budget for the general operations of the City government for the fiscal year beginning October 1, which constitutes the General Fund Budget.
- The budget is adopted by a majority vote of the City Council, and any required revenue measures are legally enacted through passage of an ordinance.

Cash and Investments – The City's policy is to limit the investment of its excess funds to time deposits, money market funds, certificates of deposit, and repurchase agreements.

Revenue Recognition – The property tax calendar for the City is simple. The levy date, the assessment date, and the lien date are all the same date- October 1. On October 1, the assessed value of all property is multiplied by the applicable rates to levy the property tax. On that date, the City has a lien (a legal claim) against the property. The property tax is not due until October 1 the following year. The property tax is paid in arrears between October 1 and December 31. After December 31, it is delinquent.

Other material revenue which is susceptible to accrual includes gross receipts, interest income and state-shared revenue. Revenue which is not both available and measurable and is thus not susceptible to accrual includes property and franchise taxes, licenses and permits, and fines and forfeitures.

Government-wide Financial Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable. Donated fixed assets are valued at their estimated fair market value on the date donated.

Prior to October 1, 2003, governmental funds' infrastructure assets were not capitalized. In accordance with GASB Statement No. 34, infrastructure assets acquired on or after October 1, 2003 will be capitalized.

CITY OF BAYOU LA BATRE, ALABAMA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	40 years
Infrastructure (drainage, streets, bridges, sidewalks and docking)	25-50 years
Machinery and equipment	5-10 years
Vehicles	5 years
Office furniture and equipment	5 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

Bond Discounts, Premiums and Issuance Costs - In the governmental funds, bond discounts, premiums and issuance costs are treated as period costs in the year of issue.

In the government-wide financial statements, bond discounts, premiums and issuance costs are deferred and amortized over the term of the bonds using the bonds outstanding method which approximates the effective interest method. Bond discounts/premiums are presented as a reduction/addition to the face amount of the bonds payable whereas issuance costs are recorded as other assets.

Compensated Absences – The City follows Governmental Accounting Standards Board Statement No. 16, *Accounting For Compensated Absences*, which requires that accrued liabilities for future vacations and sick leaves be recorded to the extent the future leaves (1) relate to rights attributable to employee services already rendered, (2) relate to rights that vest or accumulate, (3) where payment is probable and (4) where amounts can be reasonably estimated. The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, amounts that would normally be paid with expendable available financial resources are recorded in the General Fund. Amounts paid or payable within 60 days are deemed to be payable from expendable financial resources.

Equity Classifications

Government-wide Financial Statements

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

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, 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) the City's own laws through its enabling legislation and other provisions of its laws and regulations.
- Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

CITY OF BAYOU LA BATRE, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2010**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

The fund equity of the governmental fund financial statements is classified as fund balance. Fund balance is further classified as reserved and unreserved. The fund equity of the proprietary fund financial statements is classified in the same manner as the government-wide financial statements.

Statement of Cash Flows – For the purposes of the Statement of Cash Flows, the proprietary funds consider cash and all highly liquid investments with an original maturity of three months or less to be cash equivalents.

NOTE 3 – CASH, DEPOSITS AND INVESTMENTS

Deposits

The City’s primary government deposits were fully insured or collateralized at September 30, 2010. At year-end, the carrying amount of the City’s deposits was \$1,332,606 and the bank balance was \$1,451,131. Each of the banks holding the City’s deposits as well as those of the Component Units is a certified participant in the SAFE program. Through the SAFE program, all public funds are protected through a collateral pool administered by the Alabama State Treasury. Under this program, 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 financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged failed to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

The City’s deposits consist of the following at September 30, 2010:

<u>Depository Account</u>	<u>Bank Balance</u>
Insured by Federal Depository Insurance Program	\$ 500,000
State of Alabama Safe Program	832,606
Total deposits	<u>\$ 1,332,606</u>

NOTE 4 – RECEIVABLES

Receivables at September 30, 2010 consist of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Receivables				
Taxes	\$ 294,662	\$ -	\$ 294,662	\$ -
Customers and others	56,676	2,640	59,316	524,217
Other governmental units	2,417,579	-	2,417,579	447,721
Gross receivables	<u>2,768,917</u>	<u>2,640</u>	<u>2,771,557</u>	<u>971,938</u>
Less: Allowance for uncollectibles	-	-	-	(293,029)
Net receivables	<u>\$ 2,768,917</u>	<u>\$ 2,640</u>	<u>\$ 2,771,557</u>	<u>\$ 678,909</u>

Substantially all receivables are due in 2010.

CITY OF BAYOU LA BATRE, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2010**

NOTE 5 – CAPITAL ASSETS

Governmental Activities

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

	Balance October 1, 2009	Additions	Deductions	Balance September 30, 2010
Land	\$ 300,851	\$ -	\$ -	\$ 300,851
Buildings	2,479,697	-	-	2,479,697
Infrastructure	4,386,683	-	407,509	3,979,174
Construction in progress	2,772,835	15,632,321	-	18,405,156
Leasehold improvements	77,450	-	-	77,450
Machinery and equipment	1,595,488	18,073	27,872	1,585,689
Office furniture and equipment	130,270	40,160	33,730	136,700
Vehicles	504,672	106,586	46,426	564,832
	<u>12,247,946</u>	<u>15,797,140</u>	<u>515,537</u>	<u>27,529,549</u>
Less: accumulated depreciation				
Buildings	913,020	61,585	-	974,605
Infrastructure	173,271	159,167	-	332,438
Leasehold improvements	8,603	5,163	-	13,766
Machinery and equipment	421,048	156,089	26,191	550,946
Office furniture and equipment	82,825	19,836	33,534	69,127
Vehicles	424,439	34,979	18,671	440,747
Total accumulated depreciation	<u>2,023,206</u>	<u>436,819</u>	<u>78,396</u>	<u>2,381,629</u>
Net capital assets	<u>\$ 10,224,740</u>	<u>\$ 15,360,321</u>	<u>\$ 437,141</u>	<u>\$ 25,147,920</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 161,381
Public safety	185,318
Public works	44,981
Culture, recreation and health	45,139
	<u>\$ 436,819</u>

CITY OF BAYOU LA BATRE, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2010**

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Business-type Activities:

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

	Balance October 1, 2009	Additions	Deductions	Balance September 30, 2010
Land	\$ 1,401,390	\$ -	\$ -	\$ 1,401,390
Buildings	13,344,741	188,200	-	13,532,941
Construction in progress	867,000	62,384		929,384
	<u>15,613,131</u>	<u>250,584</u>	<u>-</u>	<u>15,863,715</u>
Less: accumulated depreciation				
Buildings	1,410,851	407,722	-	1,818,573
Net capital assets	<u>\$ 14,202,280</u>	<u>\$ (157,138)</u>	<u>\$ -</u>	<u>\$ 14,045,142</u>

NOTE 6 – LONG-TERM DEBT

The general obligation of the City includes the following at September 30, 2010:

\$2,355,000; 1997 General Obligation Refunding Warrants, due annually with interest payable semi-annually at rates ranging from 3.6% to 5.5% per annum; maturing September 1, 2016

\$ 990,000

The principal maturities and related interest requirements for the next five fiscal years and hereafter are as follows:

Fiscal Year Ending September 30	Principal	Interest	Total
2011	\$ 145,000	\$ 54,450	\$ 199,450
2012	150,000	46,475	196,475
2013	160,000	38,225	198,225
2014	170,000	29,425	199,425
2015	175,000	20,075	195,075
Thereafter	190,000	10,450	200,450
	<u>\$ 990,000</u>	<u>\$ 199,100</u>	<u>\$ 1,189,100</u>

CITY OF BAYOU LA BATRE, ALABAMA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2010

NOTE 6 – LONG-TERM DEBT (CONTINUED)

The following is a summary of the changes in liabilities reported in the governmental activities section of the Statement of Net Assets for the year ended September 30, 2010:

	Balance October 1, 2009	Additions	Deductions	Balance September 30, 2010
Bond/warrants payable	\$ 1,125,000	\$ -	\$ 135,000	\$ 990,000
Compensated absences	299,097	13,755	-	312,852
	<u>\$ 1,424,097</u>	<u>\$ 13,755</u>	<u>\$ 135,000</u>	<u>\$ 1,302,852</u>

Under State law, the City’s legal debt may not exceed 20% of the total assessed value of real and personal property within the City. At September 30, 2010, the permissible debt limit exceeded actual debt by approximately \$3,449,272.

NOTE 7 – RESTRICTED NET ASSETS

The following is a summary of the restricted net assets at September 30, 2010:

Activity	Restricted by	Amount
Restricted Cash	Grant Agreements	\$ 350,607

NOTE 8 – RETIREMENT PLAN

Employees’ Retirement System of Alabama (ERSA) – All of the City’s employees participate in ERSA, an agent multiple-employer, defined benefit pension plan. ERSA provides retirement and other benefits for state employees, state police, and on an elective basis, to employees of all cities, counties, towns and quasi-public organizations.

The ERSA issues a stand-alone financial report which may be obtained by contacting The Retirement Systems of Alabama at 135 South Union Street, Montgomery, AL 36130-2150.

The plan provides retirement benefits as well as death and disability benefits. Members vest after 10 years of service. Employees attaining the earlier of age 60 or completing 25 or more creditable years of service are entitled to an annual retirement benefit, payable monthly for life. Service retirement benefits are calculated by three methods with the members receiving payments under the method which yields the highest monthly benefit: (1) minimum guaranteed, (2) money purchase, or (3) formula. Under the formula method, members are allowed 2.0125% of their final average salary (best 3 of the last 10 years) for each year of service. The plan permits early retirement at the age of 60 and completion of 10 years of creditable service. Active employees who become disabled receive disability benefits which are calculated in the same manner as those used for service retirement benefits. These benefits are paid until the earlier of death or recovery from disability. If an active employee dies, his/her designated beneficiary receives payments, not to exceed the balance of his/her vested contributions plus the member’s annual earnings from the previous fiscal year at date of death. The beneficiary has the option of receiving an initial lump sum or to receive monthly payments until the designated amount is paid in full.

CITY OF BAYOU LA BATRE, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2010**

NOTE 8 – RETIREMENT PLAN (CONTINUED)

If a member’s employment is terminated before the member is eligible for any other benefits under the Employees’ Retirement System of Alabama, the member shall receive a refund of his/her member contribution plus interest credited at 4% per year compounded annually, based upon the following years of service:

<u>Service</u>	<u>Interest Credited</u>
Less than 3 years	None
3 – 15 years	50% of interest earned
16 – 20 years	60% of interest earned
21 – 25 years	70% of interest earned

Employees (except those in the police department) participating in the plan are required to contribute 5% of their earnings to the plan. Police department employees are required to contribute 6% of their earnings to the plan. Employer contributions during fiscal 2010 were based on 6.1% of salaries. Employer contributions required to support the benefits of the system are determined using a level funding approach and consist of a normal contribution, determined using the “entry age normal” method, and an unfunded accrued liability determined by subtracting the present value of prospective employer normal contributions and member contributions together with the current assets held from the present value of total expected benefits to be paid from the system.

Total contributions to the pension plan in fiscal 2010 amounted to \$163,218, of which \$79,939 and \$83,279 were made by the City and its employees respectively. The contributed amounts were actuarially determined as described above and were based on an actuarial valuation as of October 1, 2009.

The authority to establish or amend the plan’s funding policy is granted under Provisions of Act 515, *Acts of Alabama 1945*, for the purpose of providing retirement allowances and other specified benefits for state employees, state police, and, on an elective basis, all cities, counties, towns and quasi-public organizations. The responsibility for the general administration and operation of the employee retirement system is vested in the Board of Control. Benefit provisions are established by the *Code of Alabama 1975*, Sections 36-27-1 through 36-27-103, as amended, sections 36-27-120 through 36-27-139, as amended, and sections 36-27B-1 through 36-27B-6.

The annual pension cost and total contributions made for plan years 2008/09 and 2007/08 were as follows:

	<u>Plan Year 2008/09</u>	<u>Plan Year 2007/08</u>
Annual Pension Cost	<u>\$ 80,956</u>	<u>\$ 80,394</u>
Contributions Made	<u>\$ 80,956</u>	<u>\$ 80,394</u>

CITY OF BAYOU LA BATRE, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2010**

NOTE 8 – RETIREMENT PLAN (CONTINUED)

Significant actuarial assumptions used in determining the annual required contribution at September 30, 2009 include: (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually and (b) projected salary increases depending on age of employee ranging from 4.61 percent to 7.75 percent per year. Of the salary increases assumption, approximately 4.50 percent of the salary increases is attributable to inflation while the remainder is attributable to merit or seniority. The actuarial value of assets was determined using market value. The unfunded actuarial accrued liability is being amortized as a level percentage of protected payroll on an open basis. The remaining amortization period at October 1, 2009 was 30 years.

Trend information for the plan:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2007	\$ 56,100	100 %	\$ -
September 30, 2008	\$ 80,394	100 %	\$ -
September 30, 2009	\$ 80,956	100 %	\$ -

The schedule of funding progress at September 30, 2009 (only years available) is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/2004 ²	\$2,432,281	\$2,407,357	(\$24,924)	101.0%	\$849,074	-2.9%
9/30/2005	\$2,516,794	\$2,562,835	\$46,041	98.2%	\$1,026,445	4.5%
9/30/2006 ³	\$2,598,405	\$2,640,224	\$41,819	98.4%	\$1,085,941	3.9%
9/30/2007	\$2,790,162	\$2,888,770	\$98,608	96.6%	\$1,323,085	7.5%
9/30/2008	\$2,878,292	\$3,289,770	\$411,478	87.5%	\$1,525,388	27.0%
9/30/2009	\$2,889,565	\$3,497,354	\$607,789	82.6%	\$1,545,255	39.3%

² Reflects effect of DROP if unit elected to enroll prior to August 4, 2005.

³ Reflects changes in actuarial assumptions.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BAYOU LA BATRE, ALABAMA

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the Year Ended September 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenues	\$ 3,079,014	\$ 3,079,014	\$ 3,792,887	\$ 713,873
Expenditures:				
General government	817,000	817,000	649,026	167,974
Public safety	1,568,000	1,568,000	1,706,358	(138,358)
Public works	493,000	493,000	614,781	(121,781)
Culture, recreation and health	244,000	244,000	397,424	(153,424)
Capital expenditures	-		139,359	(139,359)
Debt service:				
Principal	135,000	135,000	135,000	-
Interest	29,814	29,814	61,875	(32,061)
Total expenditures	<u>3,286,814</u>	<u>3,286,814</u>	<u>3,703,823</u>	<u>(417,009)</u>
Excess expenditures over revenues	(207,800)	(207,800)	89,064	296,864
Other financing sources (uses)				
Operating transfers in	211,000	211,000	133,894	(77,106)
Operating transfers out	(3,200)	(3,200)	-	3,200
Proceeds from sale of assets	-	-	37,271	37,271
Total other financing sources (uses)	<u>207,800</u>	<u>207,800</u>	<u>171,165</u>	<u>(36,635)</u>
Net change in fund balance	-	-	260,229	260,229
Fund balance:				
Beginning of year	<u>279,423</u>	<u>279,423</u>	<u>279,423</u>	
End of year	<u><u>\$ 279,423</u></u>	<u><u>\$ 279,423</u></u>	<u><u>\$ 539,652</u></u>	

CITY OF BAYOU LA BATRE, ALABAMA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2010**

<u>Federal Grantor/Pass through Grantor/Program Title</u>	<u>Contract / Grant Number</u>	<u>Federal CFDA Number</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through Alabama Department of Economic and Community Affairs:			
Community Development Block Grants / State's Program	DR 06 005	14.228	\$ 16,329,831
Community Development Block Grants / State's Program	DR 06S 003	14.228	<u>108,027</u>
Total U.S. Department of Housing and Urban Development			16,437,858
<u>U.S. Department of Homeland Security</u>			
Alternative Housing Pilot Program	2007 CA 0597	97.087	932,419
Passed through Alabama Emergency Management Agency:			
Public Assistance Grants		97.036	<u>3,004</u>
Total U.S. Department of Homeland Security			935,423
<u>U.S. Department of Justice</u>			
Public Safety Partnerships and Community Policing Grants	RKWX0020	16.710	<u>14,697</u>
Total Federal Awards			<u><u>\$ 17,387,978</u></u>

CITY OF BAYOU LA BATRE, ALABAMA

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2010**

Note 1 Basis of Presentation

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

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G. TIMOTHY GASTON
J. WILBERT JORDAN, JR.
KERRY L. WEATHERFORD
JOHN M. SIRMON
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CAROL E. CROWE

**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**

The Honorable Mayor and Members
of the City Council of the
City of Bayou La Batre, Alabama

We have audited the general purpose financial statements of the City of Bayou La Batre, Alabama, (the City) as of and for the year ended September 30, 2010, and have issued our report thereon dated June 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 would not necessarily 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 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 (Items 2010-01 and 2010-02) described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

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

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

This report is intended solely for the information of the Mayor and City Council, management, and is not intended to be and should not be used by anyone other than these specified parties.

Smith, Duke & Buckalew, L.L.P.

Mobile, Alabama
June 30, 2011

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CAROL E. CROWE

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

City of Bayou La Batre, Alabama
Mobile, Alabama

Compliance

We have audited the compliance of the City of Bayou La Batre, Alabama (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

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

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 the City's internal control over compliance.

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

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

This report is intended solely for the information of the Mayor and City Council, management and federal, state and local awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Smith, Duke & Bucklew, L.L.P.

Mobile, Alabama
June 30, 2011

CITY OF BAYOU LA BATRE

**Schedule of Findings and Questioned Costs
September 30, 2010**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
Material weakness (es) identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal Control over major programs:	
Material weakness (es) identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None Reported
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants

Dollar threshold used to distinguish between Type A and Type B programs:	\$521,639
Auditee qualified as low-risk auditee?	No

CITY OF BAYOU LA BATRE, ALABAMA

**Schedule of Findings and Questioned Costs (Continued)
September 30, 2010**

Section II – Findings - Financial Statement Audit

2010-1

Condition: The City employees do a very effective job in recording transactions and preparing internal reports. However, the application of more complex accounting standards and the preparation of financial statements and footnotes in accordance with generally accepted accounting principles requires a more comprehensive knowledge of the accounting standards. In conjunction with our audit, we assisted the City in assessing and applying complex accounting standards. We maintained the fixed asset listing and depreciation schedules and prepared a draft of the City's financial statements and related footnotes from records provided from the City's management. These steps are considered to be a part of the City's internal control system.

Criteria: A properly designed internal control system provides for the preparation of financial statements (including footnotes). In accordance with accounting principles generally accepted in the United States, an auditor cannot function as part of your internal control system over financial reporting.

Effect: Because of the lack of financial statement preparation knowledge, material errors could occur in the financial statements of the City and go undetected by management and the outside auditors.

Cause: The reason is due to the limited size of the accounting staff and the budgetary constraints of the City.

Recommendation: We recommend that the City consider outsourcing the financial statement preparation or hire additional staff. However, if this is not possible, relying on us to prepare a draft of the City's financial statements and guide the City through the complex world of accounting standards is perfectly acceptable and remains a cost effective way of dealing with the issue. However, a representative of the City must evaluate the adequacy and results of the services we perform and accept responsibility for our services.

*View of responsible
Officials and*

corrective actions: Due to a limited budget, additional staff members or other outsourcing is not possible. A representative of the City will evaluate the adequacy and results of the services and accept responsibility for them.

2010-2

Condition: During the year ended September 30, 2010, the City contracted with an independent third-party grant administrator for project management of a non-governmental grant (Deepwater Horizon oil spill). The grant administrator inadvertently over-billed the City by \$50,000 during the project and was subsequently paid by the City for the services. During our audit fieldwork in December of 2010, we became aware of the over-billing and over-payment and the grant administrator immediately refunded the City \$50,000.

Criteria: Although the grant administrator was responsible for all phases of the project, the City maintains the responsibility for oversight and monitoring of all cash disbursements.

Effect: Because of the lack of oversight and monitoring, the City overpaid the grant administrator.

Cause: During the aftermath of the oil spill, the City was in a crisis situation with a great amount of uncertainty concerning the short and long-term effects to the City. During this period, all of the normal processes and procedures were not followed.

Recommendation: We recommend that the City closely monitor all cash disbursements, including those items related to professional management contracts and other third-party administrators, even during emergency situations.

*View of responsible
Officials and*

corrective actions: The City has established policies and procedures that will decrease the risk of any unauthorized or unapproved cash disbursements in the future.

Section III – Findings and Questioned Costs – Major Federal Award Programs Audit

No matters were reported.