

CITY OF BAYOU LA BATRE, ALABAMA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

CITY OF BAYOU LA BATRE, ALABAMA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012

TABLE OF CONTENTS

	PAGES
I. INTRODUCTORY SECTION	
Governing Body	i
II. FINANCIAL SECTION	
Independent Auditors' Report	1 and 2
A. BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	5
Reconciliation of the Balance Sheet Governmental Funds to the Statement of Net Assets	6
Statement of Revenues, Expenditures and Changes in Fund Balances	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Proprietary Fund Financial Statements	
Statement of Net Assets	9
Statement of Revenues, Expenses and Changes in Net Assets	10
Statement of Cash Flows	11
Component Units Financial Statements	
Statement of Net Assets	12
Statement of Revenues, Expenses and Changes in Net Assets	13
Notes to Financial Statements	14 – 27
B. REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	28

TABLE OF CONTENTS (CONTINUED)

III. SINGLE AUDIT

Schedule of Expenditures of Federal Awards	29
Notes to Schedule of Expenditures of Federal Awards	30
Summary Schedule of Prior Audit Findings	31
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	32 and 33
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	34 and 35
Schedule of Findings and Questioned Costs	36 – 38

**CITY OF BAYOU LA BATRE, ALABAMA
GOVERNING BODY
September 30, 2012**

Name	Title
Kimberlyn Barbour	Council Member
Ida Mae Coleman	Council Member
Annette Johnson	Council Member
Jennifer Stork	Council Member
George Ramires	Council Member



INDEPENDENT AUDITORS' REPORT

To the 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, 2012, 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 opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, 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, 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 (GAAP).

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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 28 be presented to supplement the basic financial statements. Such information, although not 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 evidence sufficient 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 Bayou La Batre, Alabama's 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 financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the 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, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

Mobile, Alabama
September 30, 2013

FINANCIAL STATEMENTS

CITY OF BAYOU LA BATRE, ALABAMA

**STATEMENT OF NET ASSETS
September 30, 2012**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash	\$ 598,591	\$ 13,349	\$ 611,940	\$ 120,749
Restricted cash	1,083,361	-	1,083,361	962,563
Receivables	425,073	5,310	430,383	398,008
Unamortized bond expense	-	-	-	136,391
Other	5,766	-	5,766	118,272
Non-depreciable capital assets	26,535,115	2,268,390	28,803,505	1,810,000
Depreciable capital assets, net	6,241,301	11,013,469	17,254,770	4,980,231
Total assets	\$ 34,889,207	\$ 13,300,518	\$ 48,189,725	\$ 8,526,214
LIABILITIES				
Accounts payable	\$ 252,951	\$ -	\$ 252,951	\$ 262,105
Accrued liabilities	84,816	-	84,816	48,429
Claims payable - contingent liability	-	-	-	75,000
Deferred income	855,897	-	855,897	-
Long-term liabilities:				
Due within one year				
Capital lease obligations	28,189	-	28,189	-
Bonds and warrants payable	160,000	-	160,000	206,802
Due in more than one year				
Bonds and warrants payable	535,000	-	535,000	3,509,346
Deposits	-	-	-	181,382
Capital lease obligations	21,998	-	21,998	-
Compensated absences	297,451	-	297,451	72,171
Total liabilities	2,236,302	-	2,236,302	4,355,235
NET ASSETS				
Invested in capital assets, net of related debt	32,031,229	13,281,859	45,313,088	3,108,922
Restricted	227,464	-	227,464	781,181
Unrestricted	394,212	18,659	412,871	280,876
Total net assets	32,652,905	13,300,518	45,953,423	4,170,979
Total liabilities and net assets	\$ 34,889,207	\$ 13,300,518	\$ 48,189,725	\$ 8,526,214

See Notes to Financial Statements.

CITY OF BAYOU LA BATRE, ALABAMA

**STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2012**

	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 908,860	\$ 505,242	\$ 864,417	\$ -
Public safety	2,049,950	207,249	23,146	33,317
Public works	768,683	138,058	-	-
Public assistance	63,498	-	63,498	1,812,485
Culture, recreation, and health	449,593	-	27,238	90,750
Oil spill recovery	12,000	-	97,342	-
Interest on long-term debt	48,446	-	-	-
Total governmental activities	<u>4,301,030</u>	<u>850,549</u>	<u>1,075,641</u>	<u>1,936,552</u>
Business-type activities:				
City docks	5,983	42,607	-	-
Alternative housing pilot program	422,097	-	-	-
Total business-type activities	<u>428,080</u>	<u>42,607</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 4,729,110</u>	<u>\$ 893,156</u>	<u>\$ 1,075,641</u>	<u>\$ 1,936,552</u>
Component Units				
Utilities Board	\$ 1,994,783	\$ 1,883,136	\$ -	\$ -
Water Supply Board	87,468	93,570	-	-
Total component units	<u>\$ 2,082,251</u>	<u>\$ 1,976,706</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes
Interest
Miscellaneous
Gain on sale of fixed assets
Transfers
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
\$ 460,799		\$ 460,799	
(1,786,238)		(1,786,238)	
(630,625)		(630,625)	
1,812,485		1,812,485	
(331,605)		(331,605)	
85,342		85,342	
(48,446)		(48,446)	
<u>(438,288)</u>		<u>(438,288)</u>	
	36,624	36,624	
	(422,097)	(422,097)	
	<u>(385,473)</u>	<u>(385,473)</u>	
<u>\$ (438,288)</u>	<u>\$ (385,473)</u>	<u>\$ (823,761)</u>	
			\$ (111,647)
			6,102
			<u>\$ (105,545)</u>
2,447,175	-	2,447,175	-
270	-	270	2,951
44,531	-	44,531	15,820
-	-	-	(3,513)
26,500	(26,500)	-	-
<u>2,518,476</u>	<u>(26,500)</u>	<u>2,491,976</u>	<u>15,258</u>
2,080,188	(411,973)	1,668,215	(90,287)
30,572,717	13,712,491	44,285,208	4,261,266
<u>\$ 32,652,905</u>	<u>\$ 13,300,518</u>	<u>\$ 45,953,423</u>	<u>\$ 4,170,979</u>

CITY OF BAYOU LA BATRE, ALABAMA

**BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2012**

	General Fund	Grant Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 577,783	\$ -	\$ 20,808	\$ 598,591
Restricted cash	274,193	800,664	8,504	1,083,361
Taxes receivable	315,415	-	10,833	326,248
Receivable from other governments	12,928	58,897	-	71,825
Other receivables	27,000	-	-	27,000
Inventories	5,766	-	-	5,766
Total assets	<u>\$ 1,213,085</u>	<u>\$ 859,561</u>	<u>\$ 40,145</u>	<u>\$ 2,112,791</u>
LIABILITIES				
Accounts payable	\$ 152,484	\$ 100,467	\$ -	\$ 252,951
Accrued liabilities	81,631	-	-	81,631
Deferred revenue	171,162	758,986	8,504	938,652
Total liabilities	<u>405,277</u>	<u>859,453</u>	<u>8,504</u>	<u>1,273,234</u>
FUND BALANCES				
Restricted for:				
General government	40	-	-	40
Public safety	152,999	-	-	152,999
Public works	-	-	31,121	31,121
Culture and recreation	587	-	520	1,107
Public assistance	-	108	-	108
Unassigned	654,182	-	-	654,182
Total fund balances	<u>807,808</u>	<u>108</u>	<u>31,641</u>	<u>839,557</u>
Total liabilities and fund balances	<u>\$ 1,213,085</u>	<u>\$ 859,561</u>	<u>\$ 40,145</u>	<u>\$ 2,112,791</u>

See Notes to Financial Statements.

CITY OF BAYOU LA BATRE, ALABAMA

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

September 30, 2012

Total fund balance, governmental funds \$ 839,557

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	35,966,782	
Less accumulated depreciation	<u>(3,190,366)</u>	32,776,416

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	(3,185)	
Capital lease obligations	(50,187)	
Bonds and warrants payable	(695,000)	
Compensated absences	<u>(297,451)</u>	(1,045,823)

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.

82,755

Net assets of governmental activities in the statement of net assets

\$ 32,652,905

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, 2012

	General Fund	Grant Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 2,375,162	\$ -	\$ 72,423	\$ 2,447,585
Licenses and permits	443,011	-	-	443,011
Fines and forfeitures	207,249	-	-	207,249
Federal and state assistance	913,063	1,875,983	27,238	2,816,284
Rentals	9,608	-	-	9,608
Charges for services	138,058	-	-	138,058
Other grants and contributions	98,567	-	97,342	195,909
Investment earnings	255	-	15	270
Other	97,154	-	-	97,154
Total revenues	<u>4,282,127</u>	<u>1,875,983</u>	<u>197,018</u>	<u>6,355,128</u>
Expenditures				
Current:				
General government	749,856	-	-	749,856
Public safety	1,879,514	-	-	1,879,514
Public works	672,855	-	57,188	730,043
Public assistance	-	63,498	-	63,498
Culture, recreation and health	358,977	-	29,731	388,708
Oil spill	-	-	12,000	12,000
Capital expenditures	101,019	1,812,486	-	1,913,505
Debt service:				
Principal	174,739	-	-	174,739
Interest and other charges	49,134	-	-	49,134
Total expenditures	<u>3,986,094</u>	<u>1,875,984</u>	<u>98,919</u>	<u>5,960,997</u>
Excess revenues over (under) expenditures	<u>296,033</u>	<u>(1)</u>	<u>98,099</u>	<u>394,131</u>
Other financing sources (uses):				
Operating transfers in (out)	126,857	-	(100,357)	26,500
Total other financing sources (uses)	<u>126,857</u>	<u>-</u>	<u>(100,357)</u>	<u>26,500</u>
Net change in fund balances	422,890	(1)	(2,258)	420,631
Fund balances - beginning	384,918	109	33,899	418,926
Fund balances - ending	<u>\$ 807,808</u>	<u>\$ 108</u>	<u>\$ 31,641</u>	<u>\$ 839,557</u>

See Notes to Financial Statements.

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, 2012**

Net change in fund balances - total governmental funds: \$ 420,631

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	\$ 1,913,505	
Less current year depreciation	(459,367)	1,454,138

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	-	
Gain on disposal of assets	-	-

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. (412)

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		150,000
Principal payments - capital lease obligations		24,739

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	688	
Change in compensated absences	30,404	31,092

Change in net assets of governmental activities	\$ 2,080,188	
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See Notes to Financial Statements.

CITY OF BAYOU LA BATRE, ALABAMA

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2012**

	<u>City Docks</u>	<u>Alternative Housing Pilot Program</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash	\$ 13,349	\$ -	\$ 13,349
Accounts receivable	5,310	-	5,310
Total current assets	<u>18,659</u>	<u>-</u>	<u>18,659</u>
Non-current assets:			
Restricted cash	-	-	-
Capital assets:			
Land	400,752	1,000,638	1,401,390
Buildings	1,144,430	12,388,511	13,532,941
Playground equipment	-	137,197	137,197
Construction in progress	867,000	-	867,000
Less accumulated depreciation	<u>(1,144,430)</u>	<u>(1,512,239)</u>	<u>(2,656,669)</u>
Total non-current assets	<u>1,267,752</u>	<u>12,014,107</u>	<u>13,281,859</u>
Total assets	<u>\$ 1,286,411</u>	<u>\$ 12,014,107</u>	<u>\$ 13,300,518</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Total current liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,267,752	12,014,107	13,281,859
Restricted	-	-	-
Unrestricted	18,659	-	18,659
Total net assets	<u>1,286,411</u>	<u>12,014,107</u>	<u>13,300,518</u>
Total liabilities and net assets	<u>\$ 1,286,411</u>	<u>\$ 12,014,107</u>	<u>\$ 13,300,518</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, 2012

	City Docks	Alternative Housing Pilot Program	Total
Operating revenues:			
Rentals	\$ 42,607	\$ -	\$ 42,607
Total operating revenues	<u>42,607</u>	<u>-</u>	<u>42,607</u>
Operating expenses:			
Depreciation	-	422,097	422,097
Repairs and maintenance	2,326	-	2,326
Utilities	3,657	-	3,657
Total operating expenses	<u>5,983</u>	<u>422,097</u>	<u>428,080</u>
Operating income (loss)	<u>36,624</u>	<u>(422,097)</u>	<u>(385,473)</u>
Non-operating revenues (expenses):			
Transfers to (from) other funds	<u>(26,500)</u>	<u>-</u>	<u>(26,500)</u>
Total non-operating revenues (expenses)	<u>(26,500)</u>	<u>-</u>	<u>(26,500)</u>
Change in net assets	10,124	(422,097)	(411,973)
Total net assets - beginning	<u>1,276,287</u>	<u>12,436,204</u>	<u>13,712,491</u>
Total net assets - ending	<u>\$ 1,286,411</u>	<u>\$ 12,014,107</u>	<u>\$ 13,300,518</u>

See Notes to Financial Statements.

CITY OF BAYOU LA BATRE, ALABAMA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2012**

	City Docks	Alternative Housing Pilot Program
Cash flows from operating activities:		
Cash received from customers	\$ 37,297	\$ -
Cash paid to suppliers and vendors	(5,983)	-
Net cash provided by operating activities	31,314	-
Cash flows from noncapital financing activities:		
Transfers (to) other funds	(26,500)	-
Cash from capital and related financing activities:		
Acquisition and construction of capital assets	-	-
Cash received from other governments	-	-
Net cash provided by capital and related financing activities	-	-
Net increase in cash	4,814	-
Cash at beginning of year	8,535	-
Cash at end of year	\$ 13,349	\$ -
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 36,624	\$ (422,097)
Adjustment to reconcile operating income to net cash provided by operating activities		
Depreciation expense	-	422,097
Increase in accounts receivable	(5,310)	-
Decrease in accounts payable	-	-
Net cash provided by operating activities	\$ 31,314	\$ -

See Notes to Financial Statements.

CITY OF BAYOU LA BATRE, ALABAMA

**STATEMENT OF NET ASSETS
COMPONENT UNITS
September 30, 2012**

	Business-type Activities		
	Utilities Board	Water Supply Board	Totals
ASSETS			
Current assets:			
Cash	\$ 120,452	\$ 297	\$ 120,749
Receivables - net	275,287	-	275,287
Inventories	54,638	-	54,638
Other	63,634	-	63,634
Total current assets	<u>514,011</u>	<u>297</u>	<u>514,308</u>
Noncurrent assets:			
Cash - restricted	709,049	253,514	962,563
Accounts receivable	122,721	-	122,721
Unamortized bond expense	136,391	-	136,391
Non-depreciable capital assets	1,796,800	13,200	1,810,000
Depreciable capital assets, net	4,534,077	446,154	4,980,231
Total noncurrent assets	<u>7,299,038</u>	<u>712,868</u>	<u>8,011,906</u>
Total assets	<u>\$ 7,813,049</u>	<u>\$ 713,165</u>	<u>\$ 8,526,214</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 262,105	\$ -	\$ 262,105
Accrued liabilities	30,466	17,963	48,429
Claims payable - contingent liability	75,000	-	75,000
Current portion of bonds and notes payable	162,802	44,000	206,802
Total current liabilities	<u>530,373</u>	<u>61,963</u>	<u>592,336</u>
Noncurrent liabilities:			
Bonds and notes payable	3,074,346	435,000	3,509,346
Deposits	181,382	-	181,382
Compensated absences	72,171	-	72,171
Total noncurrent liabilities	<u>3,327,899</u>	<u>435,000</u>	<u>3,762,899</u>
Total liabilities	<u>3,858,272</u>	<u>496,963</u>	<u>4,355,235</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,146,531	(37,609)	3,108,922
Restricted	527,667	253,514	781,181
Unrestricted	280,579	297	280,876
Total net assets	<u>3,954,777</u>	<u>216,202</u>	<u>4,170,979</u>
Total liabilities and net assets	<u>\$ 7,813,049</u>	<u>\$ 713,165</u>	<u>\$ 8,526,214</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, 2012

	Utilities Board	Water Supply Board	Totals
Operating revenues:			
Charges for sales and services	\$ 1,883,136	\$ 93,570	\$ 1,976,706
Other income	15,820	-	15,820
Total operating revenues	<u>1,898,956</u>	<u>93,570</u>	<u>1,992,526</u>
Operating expenses:			
Personal services	518,477	-	518,477
Contractual services	112,862	-	112,862
Utilities	201,664	37,309	238,973
Repairs and maintenance	192,044	-	192,044
Other supplies and expenses	232,939	-	232,939
Insurance	269,031	2,201	271,232
Depreciation	310,655	23,483	334,138
Total operating expenses	<u>1,837,672</u>	<u>62,993</u>	<u>1,900,665</u>
Operating income (loss)	<u>61,284</u>	<u>30,577</u>	<u>91,861</u>
Non-operating revenues (expenses):			
Loss on sale of fixed assets	(3,513)	-	(3,513)
Investment earnings	2,775	176	2,951
Transfers	163,000	(163,000)	-
Interest expense	(135,150)	(24,475)	(159,625)
Amortization of bond discount and expense	(17,601)	-	(17,601)
Bad debts	(4,360)	-	(4,360)
Net non-operating revenues (expenses)	<u>5,151</u>	<u>(187,299)</u>	<u>(182,148)</u>
Change in net assets	66,435	(156,722)	(90,287)
Total net assets at beginning of year	<u>3,888,342</u>	<u>372,924</u>	<u>4,261,266</u>
Total net assets at end of year	<u><u>\$ 3,954,777</u></u>	<u><u>\$ 216,202</u></u>	<u><u>\$ 4,170,979</u></u>

See Notes to Financial Statements.

CITY OF BAYOU LA BATRE, ALABAMA

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2012

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. At the time of issuance, the financial statements of the Housing Authority were not available for inclusion in the City’s financial statements. The financial statements of the Housing Authority are not considered to be material to the financial statements of the City.

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, 2012

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, 2012

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, 2012

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, 2012

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, 2012

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, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

Beginning in fiscal year 2011, the City implemented GASB 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints place on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which the resources can be used:

- Nonspendable fund balance - amounts that cannot be spent because they are either (a) not in any spendable form or (b) are legally or contractually required to be maintained intact. The City did not have any items classified as nonspendable as of September 30, 2012.
- Restricted fund balance – amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has several classifications of restricted resources as of September 30, 2012 as listed in the accompanying fund balance sheet.
- Committed fund balance – amounts that can be used on for specific purposes pursuant to constraints imposed by formal action of the City Council members. These amounts cannot be used for any other purpose unless the City Council members remove or change the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned fund balance – amounts that are constrained by the City Council's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility the Mayor during the budgetary process. This classification also includes the remaining positive fund balance for all government funds except for the General Fund. The City has assigned funds for grants and contributions.
- Unassigned fund balance – this classification includes the residual fund balance for the General Fund that is available for any purpose and the unassigned classification al includes negative residual fund balances for any governmental fund that cannot be eliminated by offsetting the Assigned fund balance amounts.

The City Council establishes (and modifies and rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through the adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for specific purposes (such as the purchase of fixed assets, construction, debt service or other purposes).

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Interfund Transfers

During the course of normal operations the City has transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements reflect such transactions as transfers.

NOTE 3 – CASH, DEPOSITS AND INVESTMENTS

Deposits

The City’s primary government deposits were fully insured or collateralized at September 30, 2012. At year-end, the carrying amount of the City’s deposits was \$1,695,301 and the bank balance was \$1,758,000. 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, 2012:

<u>Depository Account</u>	<u>Bank Balance</u>
Insured by Federal Depository Insurance Program	\$ 622,248
State of Alabama Safe Program	<u>1,135,752</u>
Total deposits	<u>\$ 1,758,000</u>

NOTE 4 – RECEIVABLES

Receivables at September 30, 2012 consist of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Receivables				
Taxes	\$ 326,248	\$ -	\$ 326,248	\$ -
Customers and others	27,000	5,310	32,310	582,190
Other governmental units	<u>71,825</u>	<u>-</u>	<u>71,825</u>	<u>122,721</u>
Gross receivables	425,073	5,310	430,383	704,911
Less: Allowance for uncollectibles	-	-	-	(306,903)
Net receivables	<u>\$ 425,073</u>	<u>\$ 5,310</u>	<u>\$ 430,383</u>	<u>\$ 398,008</u>

Substantially all receivables are due in 2012.

CITY OF BAYOU LA BATRE, ALABAMA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE 5 – CAPITAL ASSETS

Governmental Activities

The following is a summary of changes in capital assets for the year ended September 30, 2012:

	Balance October 1, 2011	Additions	Deductions	Balance September 30, 2012
Land	\$ 300,851	\$ -	\$ -	\$ 300,851
Buildings	2,768,334	-	-	2,768,334
Infrastructure	3,979,174	106,025	-	4,085,199
Construction in progress	24,500,803	1,733,461	-	26,234,264
Leasehold improvements	150,636	64,270	-	214,906
Machinery and equipment	1,665,902	5,083	650	1,670,335
Office furniture and equipment	136,892	4,666	-	141,558
Vehicles	551,335	-	-	551,335
	<u>34,053,927</u>	<u>1,913,505</u>	<u>650</u>	<u>35,966,782</u>
Less: accumulated depreciation				
Buildings	1,037,996	68,743	-	1,106,739
Infrastructure	491,605	160,934	-	652,539
Leasehold improvements	21,368	13,613	-	34,981
Machinery and equipment	656,023	159,140	650	814,513
Office furniture and equipment	92,241	15,281	-	107,522
Vehicles	432,416	41,656	-	474,072
Total accumulated depreciation	<u>2,731,649</u>	<u>459,367</u>	<u>650</u>	<u>3,190,366</u>
Net capital assets	<u>\$ 31,322,278</u>	<u>\$ 1,454,138</u>	<u>\$ -</u>	<u>\$ 32,776,416</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 165,817
Public safety	189,232
Public works	43,160
Culture, recreation and health	61,158
	<u>\$ 459,367</u>

CITY OF BAYOU LA BATRE, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012**

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Business-type Activities:

The following is a summary of changes in capital assets for the year ended September 30, 2012:

	Balance October 1, 2011	Additions	Deductions	Balance September 30, 2012
Land	\$ 1,401,390	\$ -	\$ -	\$ 1,401,390
Buildings	13,532,941	-	-	13,532,941
Playground equipment	137,197	-	-	137,197
Construction in progress	867,000	-	-	867,000
	<u>15,938,528</u>	<u>-</u>	<u>-</u>	<u>15,938,528</u>
Less: accumulated depreciation				
Buildings	<u>2,234,572</u>	<u>422,097</u>	<u>-</u>	<u>2,656,669</u>
Net capital assets	<u>\$ 13,703,956</u>	<u>\$ (422,097)</u>	<u>\$ -</u>	<u>\$ 13,281,859</u>

NOTE 6 – LONG-TERM DEBT

CAPITAL LEASES

The City has one capital lease obligation with a monthly payment of \$2,491 for two pieces of heavy equipment. Future debt service payments under the capital lease obligation are as follows:

Fiscal Year Ending September 30	Principal	Interest	Total
2013	\$ 28,189	\$ 1,701	\$ 29,890
2014	21,998	419	22,417
2015	-	-	-
2016	-	-	-
	<u>\$ 50,187</u>	<u>\$ 2,120</u>	<u>\$ 52,307</u>

The following is an analysis of the leased property under capital leases by major classes:

	<u>Governmental Activities</u>
Machinery and equipment	\$ 83,670
Less: accumulated amortization	<u>(11,156)</u>
	<u>\$ 72,514</u>

CITY OF BAYOU LA BATRE, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012**

NOTE 6 – LONG-TERM DEBT (CONTINUED)

The general obligation of the City includes the following at September 30, 2012:

\$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 \$ 695,000

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
2013	\$ 160,000	\$ 38,225	\$ 198,225
2014	170,000	29,425	199,425
2015	175,000	20,075	195,075
2016	190,000	10,450	200,450
	<u>\$ 695,000</u>	<u>\$ 98,175</u>	<u>\$ 793,175</u>

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, 2012:

	October 1, 2011	Additions	Deductions	September 30, 2012
Bond/warrants payable	\$ 845,000	\$ -	\$ 150,000	\$ 695,000
Capital lease obligations	74,926	-	24,739	50,187
Compensated absences	327,855	-	30,404	297,451
	<u>\$ 1,247,781</u>	<u>\$ -</u>	<u>\$ 205,143</u>	<u>\$ 1,042,638</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, 2012, the permissible debt limit exceeded actual debt by approximately \$3,951,257.

NOTE 7 – RESTRICTED NET ASSETS

The following is a summary of the restricted net assets at September 30, 2012:

Activity	Restricted by	Amount
Restricted Cash	Grant Agreements	\$ 227,464

CITY OF BAYOU LA BATRE, ALABAMA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

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.

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 2012 were based on 6.41% 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 2012 amounted to \$163,979, of which \$88,128 and \$75,851 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, 2011.

CITY OF BAYOU LA BATRE, ALABAMA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE 8 – RETIREMENT PLAN (CONTINUED)

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 2010/11 and 2009/10 were as follows:

	Plan Year 2010/11	Plan Year 2009/10
Annual Pension Cost	<u>\$ 91,667</u>	<u>\$ 79,949</u>
Contributions Made	<u>\$ 91,667</u>	<u>\$ 79,949</u>

Significant actuarial assumptions used in determining the annual required contribution at September 30, 2011 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 3.75 percent to 7.25 percent per year. Of the salary increases assumption, approximately 3.00 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, 2011 was 30 years.

Trend information for the plan:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2009	\$ 80,956	100 %	\$ -
September 30, 2010	\$ 79,949	100 %	\$ -
September 30, 2011	\$ 91,667	100 %	\$ -

CITY OF BAYOU LA BATRE, ALABAMA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012**

NOTE 8 – RETIREMENT PLAN (CONTINUED)

The schedule of funding progress at September 30, 2011 (only years available) is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age (a)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/2006 ²	\$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%
9/30/2010 ³	\$2,895,388	\$3,608,418	\$713,030	80.2%	\$1,588,423	44.9%
9/30/2010 ^{3,4}	\$2,895,388	\$3,626,190	\$730,802	79.8%	\$1,588,423	46.0%
9/30/2011 ⁵	\$2,879,202	\$3,528,170	\$648,968	81.6%	\$1,439,286	45.1%
9/30/2011 ^{4,5}	\$2,879,202	\$3,543,072	\$663,870	81.3%	\$1,439,286	46.1%

² Reflects changes in actuarial assumptions

³ Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.

⁴ Reflects the impact of Act 2011-27, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.

⁵ Reflects changes in actuarial assumptions.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 30, 2013, the date at which the financial statements were available to be issued.

NOTE 10 – CONTINGENCIES

The City is a defendant in several legal proceedings claiming damages. Such proceedings are not uncommon to an entity the size of the City. Outside counsel for the City has advised that at this stage they cannot offer an opinion as to the probable outcomes. In the opinion of management, the ultimate liability, if any, will not be material or will be covered by insurance.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BAYOU LA BATRE, ALABAMA

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended September 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenues	\$ 3,612,567	\$ 3,612,567	\$ 4,282,127	\$ 669,560
Expenditures:				
General government	966,568	966,568	749,856	216,712
Public safety	1,805,570	1,805,570	1,879,514	(73,944)
Public works	514,600	514,600	672,855	(158,255)
Culture, recreation and health	253,385	253,385	358,977	(105,592)
Capital expenditures	-	-	101,019	(101,019)
Debt service:				
Principal	150,000	150,000	174,739	(24,739)
Interest	49,500	49,500	49,134	366
Total expenditures	<u>3,739,623</u>	<u>3,739,623</u>	<u>3,986,094</u>	<u>(246,471)</u>
Excess expenditures over revenues	(127,056)	(127,056)	296,033	423,089
Other financing sources (uses):				
Operating transfers in	131,006	131,006	126,857	(4,149)
Operating transfers out	<u>(3,950)</u>	<u>(3,950)</u>	<u>-</u>	<u>3,950</u>
Total other financing sources (uses)	<u>127,056</u>	<u>127,056</u>	<u>126,857</u>	<u>(199)</u>
Net change in fund balance	-	-	422,890	422,890
Fund balance:				
Beginning of year	<u>384,918</u>	<u>384,918</u>	<u>384,918</u>	
End of year	<u><u>\$ 384,918</u></u>	<u><u>\$ 384,918</u></u>	<u><u>\$ 807,808</u></u>	

CITY OF BAYOU LA BATRE, ALABAMA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2012**

<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	\$ 465,446
Community Development Block Grants / State's Program	DR 06S 003	14.228	<u>169,523</u>
			634,969
Passed through Mobile County Commission:			
Community Development Block Grants / State's Program	BLB PF 11 001	14.228	<u>27,000</u>
Total U.S. Department of Housing and Urban Development			661,969
<u>U.S. Department of Justice</u>			
Public Safety Partnerships and Community Policing Grants	RKWX0020	16.710	21,646
<u>U.S. Department of Interior</u>			
Passed through Alabama Department of Environmental Management:			
GoMESA	PCG0145	15.435	<u>1,241,014</u>
Total Federal Awards			<u><u>\$ 1,924,629</u></u>

CITY OF BAYOU LA BATRE, ALABAMA

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2012**

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.

CITY OF BAYOU LA BATRE, ALABAMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2012

Department of Homeland Security:

2011-2

Condition: During the year ended September 30, 2011, the City contracted with an independent third-party grant administrator for project management of the Alternative Housing Pilot Plan federal grant. 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, we became aware of the over-billing and over-payment and the grant administrator immediately refunded the City \$50,000.

Recommendation: We recommended 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.

Current Status: The City has established and continues to adhere to its policies and procedures intended to decrease the risk of any unauthorized or unapproved cash disbursements in the future.



**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 Members of the City Council
of the City of Bayou La Batre, Alabama

We have audited the basic financial statements of the City of Bayou La Batre, Alabama, (the City) as of and for the year ended September 30, 2012, and have issued our report thereon dated September 30, 2013. 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 the City of Bayou La Batre, Alabama is responsible for establishing and maintaining effective 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 2012-01 and 2012-02) 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 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 responses to the findings identified in our audit are 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, others within the entity, 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
September 30, 2013



**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**

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 Circular *Compliance Supplement* that could have a direct and material effect on each of the its major federal programs for the year ended September 30, 2012. 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and 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 could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

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 requirements that could have a direct and material effect on a major federal program as basis for designing 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 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 and was not designed to 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 & Buckalew, L.L.P.

Mobile, Alabama
September 30, 2013

CITY OF BAYOU LA BATRE

**Schedule of Findings and Questioned Costs
September 30, 2012**

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
15.435	GoMESA

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

CITY OF BAYOU LA BATRE, ALABAMA

**Schedule of Findings and Questioned Costs (Continued)
September 30, 2012**

Section II – Findings - Financial Statement Audit

2012-1

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: Since the City's internal control system does not provide for the preparation of the financial statements and footnotes in accordance with generally accepted accounting principles, material errors could occur in the financial statements 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.

CITY OF BAYOU LA BATRE, ALABAMA

**Schedule of Findings and Questioned Costs (Continued)
September 30, 2012**

2012-2

Condition: During the audit it was noted that the City's monthly bank reconciliations were not completed, reviewed or approved in a timely manner. The bank reconciliations were not accurately completed and did not agree to the account balances in the general ledger.

Criteria: Bank reconciliations should be completed, reviewed, and approved on a timely basis.

Effect: The City's monthly bank and accounting records were not reconciled within a timely manner. Failure to timely reconcile the bank accounts to accounting records could result in undetected discrepancies, material errors, or could fail to indicate that funds are being misappropriated.

Cause: The primary cause of this conditions in poorly designed procedures as well as a lack of adequate training on how to properly reconcile bank balances to general ledger balances.

Recommendation: We recommend that all bank accounts be reconciled each month. Any differences during the reconciliation process should be immediately examined and cleared. All reconciliations should also be reviewed and approved by the City Clerk.

*View of responsible
Officials and*

corrective actions: The City will ensure that individuals responsible for the preparation of bank reconciliations are properly trained and that bank accounts are reconciled on a timely basis and reviewed and approved by the City Clerk.