NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting.

Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

E. Financial Statement Amounts

Cash and Cash Equivalents:

The City has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agents. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

Capital Assets:

Capital assets purchased or acquired with an original cost of $5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized.

Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings 20-50 years Water and sewer system 30-35 years Machinery and equipment 7-10 years Improvements 30-35 years Other infrastructures 10-60 years Vehicles 5 years GASB Statement No. 34 required the City to report and depreciate new infrastructure assets beginning in 2004. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure was subject to an extended implementation period and was first effective for fiscal years ended in 2006. As of the year ending September 30, 2012, the City has not implemented retroactive infrastructure reporting. The City implemented the general provisions of GASB No. 34 during 2004.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues:

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB Statement No. 33. In applying GASB Statement No. 33 to grant revenues, the provider recognizes liabilities and expenses, and the recipient recognizes receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

Expenditures:

Expenditures are recognized when the related fund liability is incurred.

Compensated Absences:

The City's policy allows employees to accumulate unused sick leave on an unlimited basis and vacation leave up to two years generally. Upon termination, pursuant to State Law, the City may pay up to 30 days of accumulated vacation ; the balance is credited to the employee's public retirement (PERS) account.

Sick leave is not paid upon termination. The City accrues accumulated unpaid vacation leave at the end of the fiscal year. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Interfund Activity:

Interfund activity consists of loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental and proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Fund Accounting Requirements

The City complies with all state and local laws and regulations requiring the use of separate funds. The legally-required funds used by the City include the following:

Fund:	Required By:
CDBG Fund	Grant Agreement
Water & Sewer Fund	Trust Indenture
Solid Waste Fund	State Law

B. Deposits and Investments - Laws and Regulations

State law requires that all deposits in excess of Federal Depository Insurance Corporation (FDIC) insurance limits be 105% collateralized by U.S. Government obligations or by state municipal obligations that have a fair value of not less than the principal amount of the deposits. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the FDIC. The City's deposits were fully insured or collateralized as required by statute at September 30, 2012. At year-end, the respective bank balances totaled $7,002,772. There were no certificates of deposit outstanding at September 30, 2012.

C, Revenue Restrictions

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

Revenue Source:	Legal Restrictions in Use:
Sales Tax	Sewer Rehabilitation Notes
Gasoline Excise & Commercial Vehicle Tax	Street and Road Purposes
Water and Sewer Revenue	Debt Service and Utility Operations
Grant Program Expenditures	Grant Agreements
Ad Valorem Tax	Debt Service

For the year ended September 30, 2012 the City complied, in all material respects, with these revenue restrictions.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

D. Debt Restrictions and Covenants

General obligation debt represents direct obligations issued on a pledge of the general taxing power of the City for the payment of its debt obligations.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

A. Cash and Investments

The City deposits funds in financial institutions selected by the City's Councilmen in accordance with Mississippi statutes. Allocation of the resulting balance is accomplished with inter-bank transfers. Approved city depositories for the calendar years 2011-2012 were as follows:

	Allocation Percentage
Hancock Bank	50%
Merchant and Marine Bank	25%
Peoples Bank	25%
	100%

By using this multiple financial institution collateral pool, all of the City's deposits at September 30, 2012, fall into the credit risk category of "Insured or collateralized with securities held by the entity or its agent in the entity's name."

Deposits at September 30, 2012, (including restricted deposits) were as follows:

	Bank Balances
Pooled deposits:	
Cash and cash equivalents	$ 3,105,421
Non-pooled deposits:	
Cash and cash equivalents:	
Capital Improvement Bond Fund	2,566,037
Debt Service Fund	846,561
Contingency Fund	484,258
MS Development Loan	3,495
	$ 7,005,772

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

B. Restricted Cash

The amounts reported as restricted assets are cash and accrued interest held by the trustee bank on behalf of the various public trusts (authorities) related to their required note payable accounts and amounts held in trust for customer utility meter deposits.

The restricted assets as of September 30, 2012, were as follows:

Types of Restricted Assets	Cash Including Time Deposits
Capital Improvement Bond Fund	$ 2,566,037
Bond Contingency Fund	484,258
Series 2012 Utility System Refunding Bond	846,561
2008 MS Development Loan	3,495
	$ 3,900,951

C. Accounts Receivable

Accounts receivable at September 30, 2012, consisted of the following:

	Accounts Receivable	Allowance for Uncollectible Accounts	Net Accounts Receivable
Governmental activities:			
General Fund:			
Ad valorem taxes	$ 61,516	-	61,516
Municipal court	5,869,066	5,843,414	25,652
Sales tax	288,508	-	288,508
		-	
Total General Fund	6,219,090	5,843,414	375,676
Business-type activities:			
Enterprise Fund:			
Water and sewer collections	2,009,746	1,469,325	540,421
Total business-type activities	2,009,746	1,469,325	540,421
Total government-wide activities	$ 8,228,836	7,312,739	916,097

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

D. Capital Assets

Capital assets have not been audited.
Capital assset activity for the year ended September 30, 2012, was as follows:

	Primary Government			
	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	743,862	54,242		798,104
Construction in Progress	572,774	2,449,158		3,021,932
Total capital assets not being depreciated	1,316,636	2,503,400	0	3,820,036
Capital assets being depreciated:				
Buildings & Improvements	2,784,484	56,769		2,841,253
Machinery & Equipment	7,122,227	128,523		7,250,750
Infrastructure	3,004,871	1,313,717		4,318,588
Total capital assets being depreciated	12,911,582	1,499,009	0	14,410,591
Less accumulated depreciation for:				
Buildings & improvements	(418,387)	(81,179)		(499,566)
Machinery & Equipment	(3,006,319)	(725,075)		(3,731,394)
Infrastructure	(27,972)	(86,372)		(114,344)
Total accumulated depreciation	(3,452,678)	(892,626)	0	(4,345,304)
Total Capital assets being depreciated, net	9,458,904	606,383	0	10,065,287
Total governmental activities capital assets, net	10,775,540	3,109,783	0	13,885,323
Business-type Activities:				
Capital Assets not being Depreciated:				
Land & Easements	1,188,570			1,188,570
Construction in Progress	0			0
Total capital assets not being depreciated	1,188,570	0	0	1,188,570
Capital assets being depreciated:				
Buildings & improvements	2,223,960			2,223,960
Machinery & Equipment	1,627,426	269,911		1,897,337
Infrastructure	42,123,637			42,123,637
Total capital assets being depreciated	45,975,023	269,911	0	46,244,934
Less accumulated depreciation for:				
Buildings & improvements	(375,470)	(55,599)		(431,069)
Machinery & Equipment	(1,352,019)	(237,167)		(1,589,186)
Utility System	(13,382,220)	(361,495)		(13,743,715)
Total accumulated depreciation	(15,109,709)	(654,261)	0	(15,763,970)
Total Capital assets being depreciated, net	30,865,314	(384,350)	0	30,480,964
Total business-type activities capital assets, net	32,053,884	(384,350)	0	31,669,534
Primary Government				
Total capital assets, net	42,829,424	2,725,433	0	45,554,857

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

A summary of general fixed assets transactions for the year ended September 30, 2012, follows:

	Expended through September 30, 2012	Remaining Commitment
Business-type activities (in progress at 09-30-10):		
Allen Road Water and Sewer Expansion	$ 451,377	–
Lift Station Upgrade	2,503,100	--
Water Improvements - Old Spanish Trail	1,534,115	--
Highway 90/57 Sewer System Expansion	6,361,715	--
Total	$10,362,379	--
Transferred to infrastructure	(7,430,148)	
Transferred to land & easements	(801,974)	
Adjustment to construction estimate	(306,030)	
Total transferred and added to fixed assets	(10,362,379)	
Business-type Activities - other		
Infrastructure addition	269,911	
Government Activities		
Construction in Progress at 09-30-12	3,021,932	2,551,502
Land Purchased	54,242	
Machinery & equipment purchased	128,523	
Infrastructure added	1,313,717	
Building Improvement	56,769	
Total	1,553,251	

Depreciation expense was charged to functions/programs for the year ended September 30, 2012, as follows:

Governmental activities:	
General government	$ 892,626
Business-type activities:	
Water and Sewer Fund	$ 653,337
Solid Waste Fund	924
Total business-type activities depreciation expense	$ 654,261

E. Accounts Payable

Payables are composed of amounts due to vendors within 60 days of year end and accrued salaries and benefits.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

F. Long-Term Debt

The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. Long-term liability activity for the year ended September 30, 2012, is shown below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Bonds and notes payable	$ 9,020,536		836,695	8,183,841	1,045,499
Compensated absences	231,709		446	231,163	77,847
Total governmental activities long-term liabilities	$ 9,252,245		837,141	8,415,104	1,123,346
Business-type activities:					
Water and sewer debt	$15,334,809	474,000	1,785,960	14,022,849	1,716,338
Compensated absences	24,201		242	23,959	10,399
Total business-type activities long-term liabilities	$15,359,010	474,000	1,786,202	15,359,010	1,726,737

Description of Debt

At September 30, 2012, notes payable consisted of the following individual issues:

	General Long-Term Debt
Governmental activities:	
General obligation bonds and notes:	
General Obligation Katrina Refunding Bond Series 2010; bearing interest at 3.45%, maturing March 2020	$ 1,950,000
General Obligation Bond Series 2010; Capital Improvements; Maturing August, 2030; bearing interest at 3.13%	6,515,000
Police Court package Loan; 2.60% interest; maturing, May, 2015; annual payments Of $ 73,040 until paid	207,812
Police Court Package Loan; 2.920% interest; maturing December, 2013; annual payments Of $ $ 123,243 until paid	234,723
Unsecured community disaster loan, bearing interest at 2.80%, maturing March 2011	321,806
Total general obligation bonds and notes	9,229,341
Compensated absences	309,109
Less current portion of long-term debt	(1,123,346)
Total governmental activities long-term debt	$ 8,415,104

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

Business-type activities:	
Revenue Refunding Bond:	
Series 2012 Refunding Bond, payable in semiannual installments, bearing interest at a variable rate, currently 4.25%, maturing September 2019, secured by utility system revenues	$ 9,185,000
Revenue Bonds:	
State Revolving Fund Loan, payable in monthly installments of $9,019, beginning October 2006, bearing interest at 3.56%, maturing January 2026, secured by utility system revenues	1,151,837
State Revolving Fund Loan, payable in monthly installments of $10,949, beginning September 2006, bearing interest at 1.75%, maturing January 2026, secured by utility system revenues	1,561,411
State Revolving Fund Loan, payable in monthly installments of $7,877, beginning April 2006, bearing interest at 1.75%, maturing April 2025, secured by utility system revenues	1,066,939
State Revolving Fund Loan, payable in monthly installments of $3,765, beginning November, 2009; bearing interest at 1.95%, secured by utility system revenues	648,013
State Revolving Fund Loan, payable in monthly installments of $ 2,149, beginning October, 2009; bearing interest at 1.95%, secured by utility system revenues	343,283
State Revolving Fund Loan, payable in monthly installments of $ 9,665, beginning December, 2009, bearing interest at 2.75%, secured by utility system revenues	1,561,552
Total general obligation bonds and notes	15,518,035
SCADA Loan, Hancock Bank, $48,551 per year, bearing interest at 3.15 %	47,153
Vacuum Truck Loan, M & M Bank, $27,794 per year, Bearing Interest at 2.830%	174,000
Compensated absences	34,358
Less current portion of long-term debt	(1,726,737)
Total business-type activities long-term debt	$14,046,808

Revenue Refunding Bond

Utility System Revenue Refunding Bonds, Series 2012, were issued for the purpose of providing for the refunding of all maturities of the outstanding Combined Utility System Revenue Bonds, Series 2001, issued originally in the principal amount of $15,680,000,000 (balance of $9,185,000 as of the Series 2012 Refunding issue date), and an additional $ 300,000 to provide for payment of Series 2012 issue costs, all in order to accomplish debt service savings for the City. The bond is payable solely from net revenues from water and sewer system operation.