

CITY OF GAUTIER, MISSISSIPPI

Audited Financial Statements and Special Reports

For the Year Ended September 30, 2016

CITY OF GAUTIER, MISSISSIPPI
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INTRODUCTORY SECTION

ELECTED OFFICIALS
As of September 30, 2016



Gordon Gollott
Mayor



Mary Martin
Councilwoman At-Large



Johnny Jones
Councilman, Ward 1



Hurley Ray Guillotte
Councilman, Ward 2



Casey Vaughan
Councilman, Ward 3

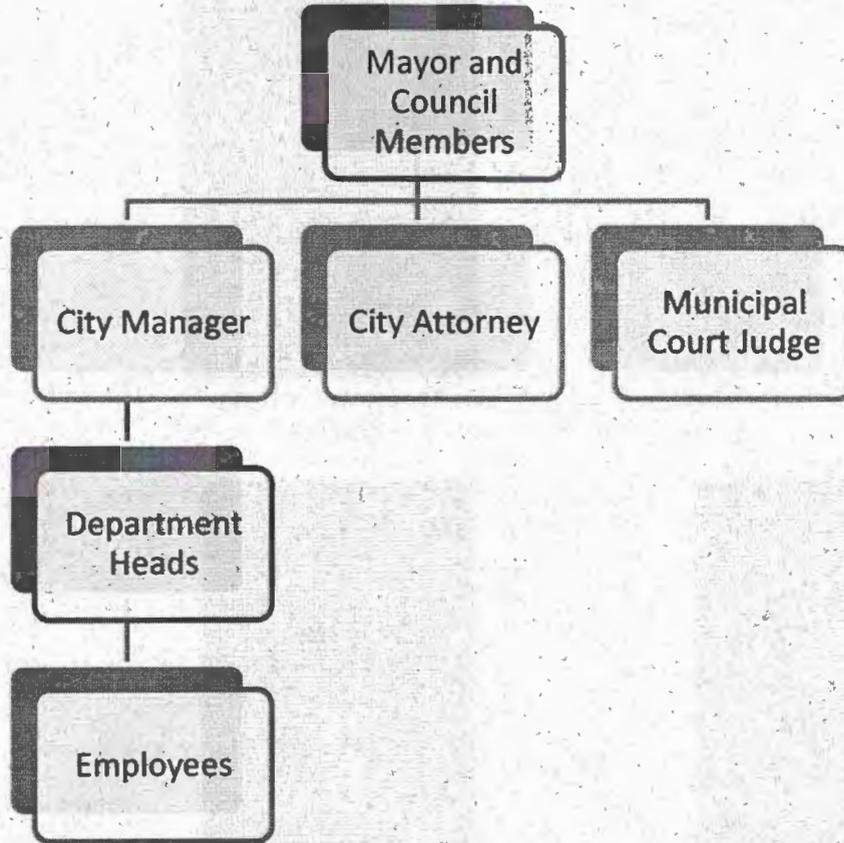


Charles "Rusty" Anderson
Councilman, Ward 4



Adam Colledge
Councilman, Ward 5

ORGANIZATION CHART
As of September 30, 2016



FINANCIAL SECTION

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

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

MICHAEL E. GUEL, CPA, CVA, PFS, CFP®, CFE
SANDE W. HENTGES, CPA, CFE

CHRIS TAYLOR, CPA
CHARLENE KERKOW, CPA

Certified Public Accountants

HANCOCK BANK BUILDING

2510 - 14TH STREET

P.O. BOX 128

GULFPORT, MISSISSIPPI 39502

MEMBERS
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INDEPENDENT AUDITORS' REPORT

July 18, 2017

Honorable Mayor and
City Council of
City of Gautier, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Gautier, Mississippi, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion on Governmental and Business-type Activities

As discussed in Note 1(I) to the financial statements, management has not recorded certain capital assets in accordance with *Governmental Auditing Standards* and the Municipal Auditing and Accounting Guide issued by the State Auditor's office. As a result, material adjustments were made to the governmental and business-type activities to be in accordance with *Governmental Auditing Standards* and the requirements in the Municipal Auditing and Accounting Guide.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Governmental and Business-Type Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental and Business-Type Activities of the City of Gautier, as of September 30, 2016, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of City of Gautier, Mississippi, as of September 30, 2016, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1(I), in an effort to comply with *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Municipal Audit and Accounting Guide*, issued by the Mississippi Office of the State Auditor, the City has changed its accounting principle in determining the useful lives and salvage values of capital assets. The City feels that adopting a more uniform policy in regards to capital assets that the accumulation of historical assets can be recorded more efficiently. As a result of this change in accounting principle, significant prior period adjustments have been made to net position in both the governmental and business-type activities.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule and corresponding notes, the Schedule of the City's Proportionate Share of the Net Pension Liability, and the Schedule of the City's Contributions, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Gautier, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements taken as a whole.

The Schedule of Surety Bonds for City Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2017, on our consideration of City of Gautier, Mississippi's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Gautier, Mississippi's internal control over financial reporting and compliance.

Other Reporting Required by *State of Mississippi*

In accordance with the State of Mississippi, we have also issued our report dated July 18, 2017, on our consideration of the City of Gautier's compliance with state laws and regulations. The purpose of that report is to describe the scope of our testing of internal controls over compliance with state laws and regulations and the result of that testing, and not to provide an opinion on internal controls or compliance. That report is an integral part of an audit performed in accordance with state guidelines in considering the City of Gautier's internal control over financial reporting and compliance.

Wendy Woodworth * Lemp

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Gautier, Mississippi's (the City) Annual Financial Report presents a narrative overview and comparative analysis of the financial activities of the City for the fiscal year ended September 30, 2016 and 2015. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements that immediately follow.

City of Gautier is located on the Mississippi Gulf Coast. According to the United States Census Bureau, the estimated population of City of Gautier as of July 1, 2016, is 18,471. The median household income is \$44,675 with over 88.4% of persons 25 years or older holding a high school degree or higher.

Government-wide Financial Highlights

- Total net position decreased \$87,111 or less than 1% from 2015.
- General revenues amounted to of \$8,556,327 or 46% of total revenues. This amount increased \$689,157 from 2015. Program revenues amounted to \$10,154,724 or 54% of total revenues, which decreased \$155,838 from 2015. This decrease was mostly due to the federal revenues received has declined as projects have been completed.
- Capital assets, net of accumulated depreciation, increased by \$1,207,836 in the governmental activities and increased \$8,692,692 in the business-type activities during 2016. The increase in governmental capital assets is primarily as a result of the City removing old obsolete equipment from the financial statements and changing its accounting method for determining useful life and depreciable base of assets.
- Long-term debt decreased by \$543,413 in the governmental activities, which includes a \$64,812 increase in compensated absences. Long-term debt decreased by \$2,042,297 in the business-type activities. The City's total debt outstanding at September 30, 2016 is \$21,903,993 of which the liability for compensated absences is \$352,187.

Fund Highlights

- *General Fund* – This fund is used for the general operations of the City. The General Fund had \$8,306,784 in revenues, which shows a decrease of \$1,692,881 from 2015 and \$8,714,351 in expenditures, an increase of \$607,924 from 2015, in the current year. The General Fund's fund balance decreased by \$1,386,442 primarily due to transfers to other funds for debt service payments and grant matching funds for infrastructure improvements.
- *\$7M Capital Improvement Bond* – This fund is used to account for bond proceeds received for construction and repair of the City's infrastructure. The fund balance of \$243,423 represents monies still available for construction and repair.

CITY OF GAUTIER, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2016

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Gautier as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

Reporting the City of Gautier as a Whole

Statement of Net Position and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The Statement of Net Position and the Statement of Activities answer this question.

These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector companies. These bases of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net position and the changes in those assets. This change in assets is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

In the Statement of Net Position and the Statement of Activities, the City's activities are reported as governmental and business-type activities, which include all of the City's services including general government, police, fire, public works, culture and recreations, community services, water and sewer and solid waste. The City of Gautier has no component units.

Table 1 and Table 2 provide a summary of the City's net position and changes in net position for 2016 compared to 2015.

CITY OF GAUTIER, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2016

TABLE 1
Condensed Statement of Net Position
September 30, 2016 and 2015

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current assets	\$ 8,716,966	\$ 7,255,704	3,901,478	1,612,197	12,618,444	8,867,901
Capital assets	18,082,479	16,874,643	42,975,727	36,461,800	61,058,206	53,336,443
Total Assets	26,799,445	24,130,347	46,877,205	38,073,997	73,676,650	62,204,344
Deferred Outflows	1,891,971	1,004,960	-	-	1,891,971	1,004,960
Liabilities						
Current liabilities	802,497	938,516	1,075,463	3,032,731	1,877,960	3,971,247
Non-current liabilities	18,868,883	17,834,073	15,002,983	14,609,864	33,871,866	32,443,937
Total Liabilities	19,671,380	18,772,589	16,078,446	17,642,595	35,749,826	36,415,184
Deferred Inflows	4,302,637	223,239	-	-	4,302,637	223,239
Net Position						
Investment in capital assets, net of related debt	11,533,656	9,717,595	32,095,604	16,110,699	43,629,260	25,828,294
Restricted net assets	1,034,850	1,745,541	1,550,346	3,001,216	2,585,196	4,746,757
Unrestricted	(7,851,107)	(5,323,657)	(2,847,191)	1,319,487	(10,698,298)	(4,004,170)
Total Net Position	\$ 4,717,399	6,139,479	30,798,759	20,431,402	35,516,158	26,570,881

TABLE 2
Condensed Statement of Activities
September 30, 2016 and 2015

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues	\$ 1,849,457	3,029,091	8,305,267	7,281,471	10,154,724	10,310,562
General revenues	8,048,470	7,859,998	507,857	7,172	8,556,327	7,867,170
Total revenues	9,897,927	10,889,089	8,813,124	7,288,643	18,711,051	18,177,732
Expenses:						
General government	2,730,130	2,709,833	-	-	2,730,130	2,709,833
Public safety	6,025,392	6,440,293	-	-	6,025,392	6,440,293
Public works	1,190,246	719,119	-	-	1,190,246	719,119
Culture and recreation	209,575	329,562	-	-	209,575	329,562
Interest on long-term debt	238,804	108,640	-	-	238,804	108,640
Water and sewer	-	-	7,329,372	6,809,973	7,329,372	6,809,973
Solid waste	-	-	1,074,643	983,684	1,074,643	983,684
Total expenses	10,394,147	10,307,447	8,404,015	7,793,657	18,798,162	18,101,104
Transfers	(100,000)	518,506	100,000	(518,506)	-	-
Increase (Decrease) in net assets	(596,220)	1,100,148	509,109	(1,023,520)	(87,111)	76,628
Net Position - beginning, restated	5,313,619	5,039,331	30,289,650	21,454,922	35,603,269	26,494,253
Net Position - ending	\$ 4,717,399	6,139,479	30,798,759	20,431,402	35,516,158	26,570,881

CITY OF GAUTIER, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2016

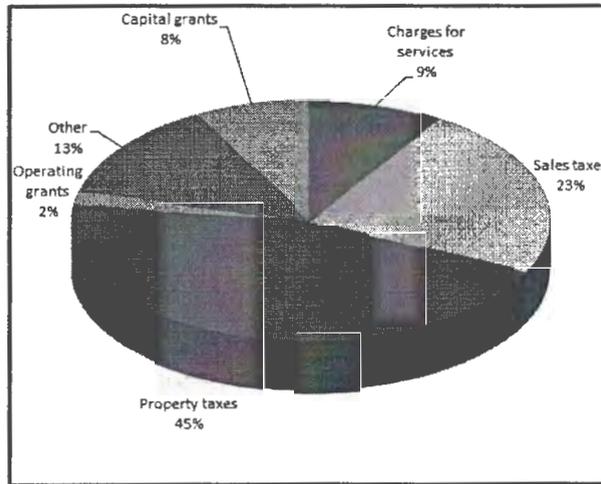
Governmental Activities

Total net position decreased \$596,220 as a result primarily due to capital outlay.

Under the accrual basis of accounting, general revenues amounted to of \$8,048,470 or 81% of total revenues. This amount increased \$188,472 from 2015. Program revenues amounted to \$1,849,457 or 19% of total revenues, which decreased \$1,179,634 from 2015.

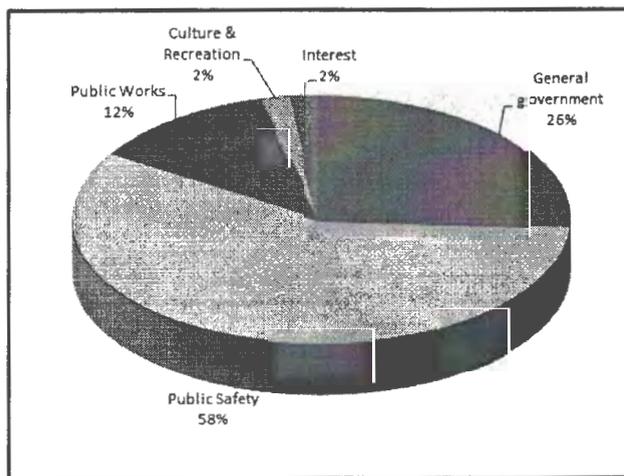
Several revenue sources fund our governmental activities. The following chart shows the City's total general revenues and program income that is used to offset governmental expenses.

Chart 1 – Governmental Revenue Sources



Major governmental expense activities are shown in the following chart.

Chart 2 – Governmental Activities



CITY OF GAUTIER, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2016

Business-type activities

Net position for the business-type activities was \$30,798,759, an increase of \$509,109. Charges for services increased approximately \$958,716 due primarily to an increase in collections.

Reporting the City of Gautier's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds, which account for the multitude of services provided to the City's residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Gautier, the City's major funds are the General and \$7M Capital Improvement Bond funds.

Governmental Funds

The City's governmental funds focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to the City's residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds

The City's proprietary funds focus on business-type activities conducted by the City. These funds are reported using the accrual method of account, which uses an "economic resources" measurement focus. Under the accrual basis of accounting revenues are recognized in the period in which they are earned regardless of when cash flows occur. Expenses are recorded when the recognized when the service is performed or the goods are received regardless of when the invoice is paid. Proprietary Fund information helps you to determine whether business-type activities are self-maintaining or if they are being subsidized by general government revenues. The proprietary funds show operating revenues and expenses that support the primary operations of the fund.

Fiduciary Funds

Fiduciary Funds show amounts held by the City for the benefit of others and clearing accounts used by the city to track payroll expenditures and property tax receipts and disbursements.

CITY OF GAUTIER, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2016

The City's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable and nonspendable resources. Such information may be useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use at the end of the fiscal year. These funds are accounted for by using the modified accrual basis of accounting. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

General Fund Budgeting Highlights

The City's budget is prepared according to Mississippi law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. Governmental auditing standard require that cities present budgetary comparison schedules as required supplementary information to the financial statements. The most significant budgeted fund is the General Fund.

During the course of 2016, the City amended its general fund budget. All recommendations for a budget change come from the City Clerk to the Board of Alderman for approval. State law does not allow budget changes that modify functional levels of budget amounts within a department without board approval. With the General Fund supporting many of our major activities, such as our police and fire departments, as well as most legislative and executive activities, the General Fund is monitored closely looking for possible revenue shortfalls or over spending by individual departments.

Capital Assets

Table 3 shows the Changes in Capital Assets for the years ended September 30, 2016 and 2015.

TABLE 3
Schedule of Capital Assets (Net of Accumulated Depreciation)
September 30, 2016 and 2015

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 3,382,460	1,798,104	1,190,870	1,190,870	4,573,330	2,988,974
Construction in progress	1,126,979	463,698	-	-	1,126,979	463,698
Buildings	2,385,747	2,128,734	-	1,613,570	2,385,747	3,742,304
Infrastructure	10,648,807	10,632,082	38,123,928	31,378,595	48,772,735	42,010,677
Mobile equipment	402,049	1,852,025	586,864	100,000	988,913	1,952,025
Leased equipment	136,437	-	3,074,065	-	3,210,502	-
Total	\$ 18,082,479	16,874,643	42,975,727	34,283,035	61,058,206	51,157,678

The primary increase in capital assets occurred in construction in progress and completed infrastructure.

CITY OF GAUTIER, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2016

General Long-term Obligations

At September 30, 2016, the City had \$21,903,993 outstanding debt obligations, which included \$352,187 of compensated absences payable.

TABLE 4
Schedule of Long-term Debt
September 30, 2016 and 2015

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds	\$ 6,425,000	6,970,000	-	-	6,425,000	6,970,000
Revenue Refunding Bonds	-	-	4,075,000	5,385,000	4,075,000	5,385,000
Special Obligation Bonds	-	-	3,090,000	3,220,000	3,090,000	3,220,000
Revolving Loans	-	-	4,773,768	5,177,141	4,773,768	5,177,141
Capital Leases	123,823	187,048	3,016,355	3,199,326	3,140,178	3,386,374
Add: Bond Premium*	-	-	47,860	63,813	47,860	63,813
Compensated Absences	352,187	287,375	-	-	352,187	287,375
Total	\$ 6,901,010	7,444,423	15,002,983	17,045,280	21,903,993	24,489,703

The compensated absences liability identified above refers to the current balance of what has been earned as a termination benefit that will be paid over time as people leave or retire. This liability refers to vacation pay for employees of the city. See Note 1 for more details.

Contact the City's Financial Management

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

Paula Yancy, City Manager
City of Gautier, Mississippi
3330 Highway 90
Gautier, MS 39553
(228) 497-8000

FINANCIAL STATEMENTS

City of Gautier, Mississippi
Statement of Net Position
September 30, 2016

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Assets			
Current assets			
Cash	\$ 2,900,666	1,001,662	3,902,328
Property tax receivables	4,205,499	-	4,205,499
Customer accounts receivable (net of allowance)	-	731,022	731,022
Fines receivable (net of allowance)	441,502	-	441,502
Intergovernmental receivables	818,962	-	818,962
Premium receivable	47,489	-	47,489
Intra-agency receivables	295,425	259	295,684
Prepaid insurance	7,423	-	7,423
Restricted current assets - cash	-	2,168,535	2,168,535
Total Current Assets	<u>8,716,966</u>	<u>3,901,478</u>	<u>12,618,444</u>
Capital assets			
Land and construction in progress	4,509,439	1,190,870	5,700,309
Other capital assets (net of accumulated depreciation):			
Buildings	2,385,747	-	2,385,747
Infrastructure	10,648,807	38,123,928	48,772,735
Mobile equipment	402,049	586,864	988,913
Equipment under capital leases	136,437	3,074,065	3,210,502
Total Capital Assets	<u>18,082,479</u>	<u>42,975,727</u>	<u>61,058,206</u>
Total Assets	<u>\$ 26,799,445</u>	<u>46,877,205</u>	<u>73,676,650</u>
Deferred Outflow of Resources			
Deferred amounts on pension	\$ 1,891,971	-	1,891,971
Total Deferred Outflow of Resources	<u>\$ 1,891,971</u>	<u>-</u>	<u>1,891,971</u>
Liabilities			
Current liabilities:			
Claims and wages payable	\$ 679,162	417,905	1,097,067
Accrued interest payable	33,976	39,369	73,345
Claims and judgements payable	89,359	-	89,359
Payable from restricted assets - Customer deposits	-	618,189	618,189
Noncurrent Liabilities:			
Net pension liability	11,967,873	-	11,967,873
Due within one year			
Capital debt	655,077	736,878	1,391,955
Noncapital debt	31,169	1,345,953	1,377,122
Due in more than one year			
Capital debt	5,893,746	10,143,245	16,036,991
Noncapital debt	321,018	2,776,907	3,097,925
Total Liabilities	<u>\$ 19,671,380</u>	<u>16,878,446</u>	<u>35,749,826</u>
Deferred Inflows of Resources			
Property tax for future reporting period	\$ 4,091,088	-	4,091,088
Deferred amount on pension	211,549	-	211,549
Total Deferred Inflows of Resources	<u>\$ 4,302,637</u>	<u>-</u>	<u>4,302,637</u>
Net Position			
Investment in capital assets, net of related debt	\$ 11,533,656	32,095,604	43,629,260
Restricted Net Position:			
Non-expendable	5,582	-	5,582
Expendable:			
Restricted for debt service	247,063	1,540,313	1,787,376
Restricted for grant purposes	66,789	10,033	76,822
Restricted for public safety	715,416	-	715,416
Unrestricted	(7,851,107)	(2,847,191)	(10,698,298)
Total Net Position	<u>\$ 4,717,399</u>	<u>30,798,753</u>	<u>35,516,158</u>

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

City of Gautier, Mississippi
Statement of Activities
For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities					\$		
General government	\$ 2,730,130	135,127	3,110	-	(2,591,893)		(2,591,893)
Public safety	6,025,392	633,137	145,796	12,895	(5,233,564)		(5,233,564)
Public works	1,190,246	-	15,493	527,181	(647,572)		(647,572)
Culture, recreation and community services	209,575	109,224	35,000	232,494	167,143		167,143
Interest on long-term debt	238,804	-	-	-	(238,804)		(238,804)
Total governmental activities	<u>10,394,147</u>	<u>877,488</u>	<u>199,399</u>	<u>772,570</u>	<u>(8,544,690)</u>		<u>(8,544,690)</u>
Business-type activities:							
Water and sewer	7,329,372	6,907,460	-	65,080		(356,832)	(356,832)
Solid waste	1,074,643	1,332,727	-	-		258,084	258,084
Total business-type activities	<u>8,404,015</u>	<u>8,240,187</u>	<u>-</u>	<u>65,080</u>		<u>(98,748)</u>	<u>(98,748)</u>
Total government	<u>\$ 18,798,162</u>	<u>9,117,675</u>	<u>199,399</u>	<u>837,650</u>		<u>(98,748)</u>	<u>(8,643,438)</u>
General Revenues:							
Taxes:							
Property taxes, general					3,153,065	-	3,153,065
Property taxes, debt service					876,246	-	876,246
Property taxes, community support					108,183	-	108,183
Property taxes in lieu - federal government					353,176	-	353,176
General sales taxes					2,254,625	-	2,254,625
Road and bridge privilege taxes					608,034	-	608,034
Franchise taxes					161,151	-	161,151
Grants and contributions not restricted to a special purpose					120,524	-	120,524
Unrestricted investment earnings					6,127	3,630	9,757
Miscellaneous					407,339	504,227	911,566
Transfers					(100,000)	100,000	-
Total general revenues and transfers					<u>7,948,470</u>	<u>607,857</u>	<u>8,556,327</u>
Changes in net position					<u>(596,220)</u>	<u>509,109</u>	<u>(87,111)</u>
Net position - beginning, as previously reported					6,139,479	20,431,402	26,570,881
Prior period adjustments					<u>(825,860)</u>	<u>9,858,248</u>	<u>9,032,388</u>
Net position - beginning, restated					<u>5,313,619</u>	<u>30,289,650</u>	<u>35,603,269</u>
Net position - ending					<u>\$ 4,717,399</u>	<u>30,798,759</u>	<u>35,516,158</u>

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

City of Gautier, Mississippi
Balance Sheet - Governmental Funds
September 30, 2016

	Major Funds			Total Governmental Funds
	General Fund	\$7M Capital Improvement Bond Fund	Other Governmental Funds	
ASSETS				
Cash	\$ 1,959,612	211,677	214,452	2,385,741
Receivables:				
Property tax	4,202,378	-	3,121	4,205,499
Sales tax	362,880	-	-	362,880
Franchise taxes	38,290	-	-	38,290
Intergovernmental	40,279	-	377,513	417,792
Court fines & fees	441,502	-	-	441,502
Due from other funds	293,166	32,890	2,259	328,315
Total Assets	<u>\$ 7,338,107</u>	<u>244,567</u>	<u>597,345</u>	<u>8,180,019</u>
LIABILITIES				
Liabilities:				
Claims payable	\$ 87,638	1,144	433,569	522,351
Wages payable	155,728	-	1,084	156,812
Due to other fund	32,890	-	-	32,890
Compensated absences, current	31,169	-	-	31,169
Total Liabilities	<u>307,425</u>	<u>1,144</u>	<u>434,653</u>	<u>743,222</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes for future reporting period	4,091,088	-	-	4,091,088
Unavailable revenue - fines	441,501	-	-	441,501
Total Deferred Inflows of Resources	<u>4,532,589</u>	<u>-</u>	<u>-</u>	<u>4,532,589</u>
FUND BALANCES				
Non-spendable				
Unemployment compensation	4,839	-	-	4,839
Restricted:				
Debt service	-	243,423	-	243,423
Grant purposes	40,279	-	26,510	66,789
Public safety	-	-	715,416	715,416
Committed:				
Capital projects	-	-	708,159	708,159
Assigned:				
Capital projects	-	-	232,013	232,013
Unassigned	2,452,975	-	(1,519,406)	933,569
Total Fund Balances	<u>2,498,093</u>	<u>243,423</u>	<u>162,692</u>	<u>2,904,208</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 7,338,107</u>	<u>244,567</u>	<u>597,345</u>	<u>8,180,019</u>

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

City of Gautier, Mississippi
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position
September 30, 2016

Total governmental funds balance **\$ 2,904,208**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Governmental capital assets	20,880,871	
Less: accumulated depreciation	<u>(2,798,392)</u>	18,082,479

Long-term liabilities are not due and payable in the current period expenditures and therefore are not reported in the governmental funds.

Bonds payable	(6,425,000)	
Capital leases payable	(123,823)	
Compensated absences	<u>(321,018)</u>	(6,869,841)

Other long term assets are not available to pay or current period expenditures and therefore are deferred in the funds.

Prepaid insurance	7,423	
Court fines receivable	<u>441,502</u>	448,925

Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds.

Net pension liability		(11,967,873)
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources related to pensions	1,891,971	
Deferred inflows of resources related to pensions	<u>(211,549)</u>	1,680,422

Internal Service Funds are used by management to charge the costs of various internal operations to individual funds. The assets and liabilities of Internal Service Funds are included in governmental activities in the Statement of Net Position as follows:

Current assets	562,414	
Estimated claims payable	<u>(89,359)</u>	473,055

Accrued interest not due and payable in the current period expenditures and, therefore, not reported in the funds.

		<u>(33,976)</u>
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Net position of governmental activities

		<u><u>\$ 4,717,399</u></u>
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The notes to these financial statements are an integral part of this statement.

City of Gautier, Mississippi
Statement of Revenues, Expenditures and
Changes in Fund Balance – Governmental Funds
For the Fiscal Year Ended September 30, 2016

	Major Funds			Total Governmental Funds
	General Fund	\$7M Capital Improvement Bond Fund	Other Governmental Funds	
Revenues:				
Property taxes	\$ 4,382,487	-	108,183	4,490,670
General sales taxes	2,254,625	-	-	2,254,625
Franchise fees	161,151	-	-	161,151
Licenses and permit fees	114,342	-	-	114,342
Intergovernmental	781,073	93,710	846,529	1,721,312
Charges for services	27,980	-	92,213	120,193
Fines and forfeitures	504,166	-	-	504,166
Investment earnings	3,862	2,265	-	6,127
Miscellaneous	77,098	-	328,105	405,203
Total Revenues	8,306,784	95,975	1,375,030	9,777,789
Expenditures:				
General government	2,369,496	-	198,179	2,567,675
Public safety	5,415,762	-	123,113	5,538,875
Public works	473,984	1,595,893	1,243,441	3,313,318
Culture & recreation	378,992	-	353,833	732,825
Debt service:				
Principal	73,070	305,000	256,840	634,910
Interest and other fiscal charges	3,047	197,269	42,128	242,444
Total Expenditures	8,714,351	2,098,162	2,217,534	13,030,047
Excess (Deficiency) of Revenues Over Expenditures	(407,567)	(2,002,187)	(842,504)	(3,252,258)
Other Financing Sources (Uses):				
Lease proceeds	26,685	-	-	26,685
Proceeds from sale of assets	2,136	-	-	2,136
Transfers in	100,000	500,069	407,627	1,007,696
Transfers out	(1,107,696)	-	-	(1,107,696)
Total Other Financing Sources (Uses)	(978,875)	500,069	407,627	(71,179)
Net change in fund balances	(1,386,442)	(1,502,118)	(434,877)	(3,323,437)
Fund balances - beginning	3,943,695	1,745,541	577,714	6,266,950
Prior period adjusting entry	67,082	-	19,855	86,937
Fund balance reclassification	(126,242)	-	-	(126,242)
Fund balances - beginning, as restated	<u>3,884,535</u>	<u>1,745,541</u>	<u>597,569</u>	<u>6,227,645</u>
Fund balances - ending	<u>\$ 2,498,093</u>	<u>243,423</u>	<u>162,692</u>	<u>2,904,208</u>

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

City of Gautier, Mississippi
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities
For the Fiscal Year Ended September 30, 2016

Net Change in Fund Balances - total governmental funds **(3,323,437)**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	3,264,873	
Depreciation	<u>(521,727)</u>	2,743,146

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

Debt retirement	634,910	
Debt issuance	<u>(26,685)</u>	608,225

Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full accrual basis of accounting. 118,002

Pension expense and other related activity do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.

Pension expense		(496,325)
Contributions after the measurement date		(183,199)

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

Accrued interest payable		3,640
Compensated absences		(83,880)
Prepaid expenses		7,423

Internal service funds are used by management to charge the cost of certain activities, such as insurance costs and risk management, to individual funds. 10,185

Change in net position of governmental activities **\$ (596,220)**

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

City of Gautier, Mississippi
Statement of Net Position
Proprietary Funds
September 30, 2016

	Business-type Activities			Governmental
	Water and Sewer Fund	Solid Waste Fund	Total Business-type Activities	Self Insurance Fund
Assets				
Current assets				
Cash	\$ 922,082	79,580	1,001,662	514,925
Customer accounts receivable (net of uncollectible of \$3,017,811)	731,022	-	731,022	-
Premiums receivable	-	-	-	47,489
Internal balances	(110,719)	110,719	-	-
Due from other funds	259	-	259	-
Restricted current assets				
Cash	2,168,535	-	2,168,535	-
Total Current Assets	<u>3,711,179</u>	<u>190,299</u>	<u>3,901,478</u>	<u>562,414</u>
Capital assets, net				
Land	1,190,870	-	1,190,870	-
Infrastructure	41,197,993	-	41,197,993	-
Mobile equipment	574,328	12,536	586,864	-
Total Capital Assets	<u>42,963,191</u>	<u>12,536</u>	<u>42,975,727</u>	-
Total Assets	<u>\$ 46,674,370</u>	<u>202,835</u>	<u>46,877,205</u>	<u>562,414</u>
Liabilities				
Current liabilities:				
Claims payable	\$ 335,960	81,945	417,905	-
Accrued interest payable	39,369	-	39,369	-
Claims and judgements payable	-	-	-	89,359
Payable from restricted assets:				
Customer deposits	618,189	-	618,189	-
Noncurrent Liabilities:				
Due within one year				
Capital debt	736,878	-	736,878	-
Noncapital debt	1,345,953	-	1,345,953	-
Due in more than one year				
Capital debt	10,143,245	-	10,143,245	-
Noncapital debt	2,776,907	-	2,776,907	-
Total Liabilities	<u>\$ 15,996,501</u>	<u>81,945</u>	<u>16,078,446</u>	<u>89,359</u>
Net Position				
Net investment in capital assets	\$ 32,083,068	12,536	32,095,604	-
Restricted Net Position				
Expendable:				
Restricted for debt service	1,540,313	-	1,540,313	-
Restricted for grant purposes	10,033	-	10,033	-
Unrestricted	(2,955,545)	108,354	(2,847,191)	473,055
Total Net Position	<u>\$ 30,677,869</u>	<u>120,890</u>	<u>30,798,759</u>	<u>473,055</u>

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

City of Gautier, Mississippi
Statement of Revenues, Expenses and
Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended September 30, 2016

	Business-type Activities			Governmental
	Water and Sewer Fund	Solid Waste Fund	Total Business-type Activities	Self Insurance Fund
Revenues:				
Charges for services	\$ 6,907,460	1,332,727	8,240,187	-
Employer contributions	-	-	-	11,929
Employee contributions	-	-	-	934,426
Insurance claim reimbursements	-	-	-	19,749
Miscellaneous operating revenues	504,227	-	504,227	144
Total Operating Revenues	7,411,687	1,332,727	8,744,414	966,248
Operating Expenses:				
Wastewater treatment	2,132,125	-	2,132,125	-
Privatization costs	2,663,034	-	2,663,034	-
Waste collection and disposal	-	1,071,317	1,071,317	-
Supplies	291,810	-	291,810	-
Maintenance and repairs	85,253	-	85,253	-
Other contractual services and charges	420,687	-	420,687	23,235
Claims and estimate changes	-	-	-	933,495
Depreciation	1,257,577	3,326	1,260,903	-
Total Operating Expenses	6,850,486	1,074,643	7,925,129	956,730
Operating income (loss)	561,201	258,084	819,285	9,518
Non-Operating Revenues (Expenses)				
Interest and investment revenue	3,630	-	3,630	667
Interest Expense	(478,886)	-	(478,886)	-
Federal grants for capital expenditures	65,080	-	65,080	-
Transfers in	448,009	-	448,009	-
Transfers out	-	(348,009)	(348,009)	-
Total Non-Operating Revenues (Expenses)	37,833	(348,009)	(310,176)	667
Change in net position	599,034	(89,925)	509,109	10,185
Total net position - beginning as				
previously stated	20,220,587	210,815	20,431,402	-
Prior period adjustments	9,858,248	-	9,858,248	336,628
Fund reclassification	-	-	-	126,242
Total net position - beginning, restated	30,078,835	210,815	30,289,658	462,870
Total net position - ending	\$ 30,677,869	120,890	30,798,759	473,055

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

City of Gautier, Mississippi
Statement Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2016

	Business-type Activities			Governmental Activities
	Water and Sewer Fund	Solid Waste Fund	Total Business-type Activities	Self Insurance Fund
Cash Flows From Operating Activities				
Cash received from customers	\$ 6,734,657	1,332,727	8,067,384	-
Cash received for premiums	-	-	-	966,248
Other operating receipts	504,227	-	504,227	-
Cash paid to suppliers	(291,810)	-	(291,810)	-
Cash paid to contractors	(5,021,605)	(989,372)	(6,010,977)	-
Cash paid for judgements and claims	-	-	-	(929,341)
Cash paid for administrative services	-	-	-	(23,235)
Net cash provided by (used in) operating activities	1,925,469	343,355	2,268,824	13,672
Cash Flows From Non-Capital Financing Activities				
Advances from (to) other funds	454,390	(354,390)	100,000	-
Net cash flows from non-capital financing activities	454,390	(354,390)	100,000	-
Cash Flows From Capital and Related Financing Activities				
Purchase of capital assets	(10,409)	-	(10,409)	-
Non-operating receipts for capital expenditures	65,080	-	65,080	-
Repayment of notes payable	(2,026,344)	-	(2,026,344)	-
Interest and amortization on debt	(478,886)	-	(478,886)	-
Net cash used in capital and related financing activities	(2,450,559)	-	(2,450,559)	-
Cash Flows From Investing Activities				
Interest received	3,630	-	3,630	667
Net cash flows from investing activities	3,630	-	3,630	667
Net increase (decrease) in cash	(67,070)	(11,035)	(78,105)	14,339
Cash - October 1	3,157,687	90,615	3,248,302	500,586
Cash - September 30	<u>\$ 3,090,617</u>	<u>79,580</u>	<u>3,170,197</u>	<u>514,925</u>

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

City of Gautier, Mississippi
Statement Cash Flows
Proprietary Funds (continued)
For the Fiscal Year Ended September 30, 2016

	Business-type Activities			Governmental Activities
	Water and Sewer Fund	Solid Waste Fund	Total Business-type Activities	Self Insurance Fund
Reconciliation of Operating Income (Loss) to Net Cash				
Provided by (Used In) Operating Activities:				
Operating income (loss)	\$ 561,201	258,084	819,285	9,518
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,257,577	3,326	1,260,903	-
(Increase) decrease in assets:				
Accounts receivable	(207,106)	-	(207,106)	-
Customer deposits	41,386	-	41,386	-
Increase (decrease) in liabilities:				
Claims and wages payable	272,411	81,945	354,356	-
Claims and judgements payable	-	-	-	4,154
Net cash provided by (used in) operating activities	<u>\$ 1,925,469</u>	<u>343,355</u>	<u>2,268,824</u>	<u>13,672</u>

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

City of Gautier, Mississippi
Combining Statement of Assets
and Liabilities – Agency Fund
September 30, 2016

		Payroll Clearing Account
Assets	\$	
Cash		305,069
Total Assets		305,069
Liabilities		
Due to other intra-entity government agencies		295,684
Accrued liabilities		9,385
Total Liabilities		305,069
Net Position		
Held in trust for benefits and other purposes	\$	-

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

NOTES TO THE FINANCIAL STATEMENTS

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 1 - Summary of Significant Accounting Policies

The City of Gautier, Mississippi, (the "City") was incorporated June 17, 1986 under the laws of the State of Mississippi. The City operates under a Council-Manager form of government, which provides for an elected mayor and a six-member council. The following services are authorized by the City's charter: Public Safety (Police, Fire, Civil Defense and Protection Inspection), Street Maintenance, Garbage Collection, Water and Sewer, Culture, Recreation and Community Services, Public Improvements, Planning and Zoning, and General Administrative Services. The accounting and reporting policies of the City relating to the funds and accounts groups included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the City are described below.

A. Financial Reporting Entity

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the City's governing board. As defined by accounting principles generally accepted in the United States of America, the City is considered a "primary government." The City is governed by a six member council in which five members were elected by the citizens of each defined ward and one member elected at-large.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth in Accounting Principles Generally Accepted in the United States of America. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government's reporting entity. Based upon the application of these criteria, the City has no component units.

Jackson County Utility Authority

This potential component unit was established by State Code and its governing board is appointed jointly by the area governments' governing bodies. This is an independent unit that selects management staff, sets user charges, establishes budgets and controls all aspects of its daily activities. The District has been determined to be a joint venture of the participating agencies. See Note 12 for details.

B. Basis of Presentation.

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

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the City as a whole. The statements include all non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements.

Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

The City's proprietary funds apply all applicable GASB pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: FASB Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The revenues and expenses of the proprietary funds are classified as operating and non-operating. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's primary operations. All other revenue and expenses are reported as non-operating.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

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

The City reports the following major Governmental Funds:

General Fund - This is the City's primary operating fund. It is used to account for all activities of the general government for which a separate fund has not been established.

\$7M Capital Improvement Bond Fund - This fund, along with others, is used to account for the City's revenues and expenditures restricted, committed or assigned to the construction and maintenance of public roads and bridges of the City and also to account for the City's debt service on the City's bond principal, interest and other debt related costs.

Additionally, the City reports the following fund types:

GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including acquisition or construction of capital facilities and other assets.

PROPRIETARY FUNDS

Enterprise Funds - These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the City has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

It is the intent of the City Council that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges and that periodic determination of revenues earned, expenses incurred, and net income be identified for capital maintenance, public policy, management control, account ability, or other purposes.

Internal Service Funds - These funds are used to account for those operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The City's internal service funds report on self-insurance for employee medical benefits and risk management for City's legal contingencies.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

FIDUCIARY FUNDS

Agency Funds - These funds account for various taxes, deposits and other monies collected or held by the City, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

D. Account Classifications

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2012 by the Government Finance Officers' Association.

E. Deposits and Investments

State law authorizes the City to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any City, municipality or school district of this state. Further, the City may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, and all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. However, the City had an investment that included governmental bonds during the fiscal year.

F. Receivables

All trade receivables are shown net of an allowance for uncollectibles. Miss. Code Ann. (1972) does not allow for write-off of debt owed to municipalities. The amount represented on the financial statements is conclusive of all bad debts owed by customers of the water and sewer department since the City started providing these services to citizens. The allowances are based on trade receivables in excess of 120 days outstanding.

G. Inter-Fund Transactions and Balances

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of inter-fund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a non-spendable fund balance account in the General Fund, if applicable, to indicate that they are not available for appropriation and are not expendable available financial resources. However, this is not applicable to advances reported in other governmental funds, which are reported, by definition, as restricted, committed, or assigned.

Inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Any outstanding balances between fiduciary funds and the government-wide activities of the government are reported as Intra-entity balances and included in intergovernmental receivables on the Statement of Net Position.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

H. Intragovernmental Transactions and Balances

Transactions between governmental agencies (agency funds) of the City are considered as transactions with external parties and are reported as revenues and expenditures/expenses in both the fund statements and the government-wide statements. However, associated receivables and payables as displayed as intragovernmental balances on the Statement of Net Position.

I. Capital Assets

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards allowed governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. The City meets these criteria and has so elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are not reported in the government-wide financial statements. However, as of September 30, 2016, the City has not systematically reported capital assets in accordance with generally accepted accounting principles.

Capital assets acquired or constructed for Proprietary Fund operations are capitalized at cost in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because non-capitalization of interest does not have a material effect on the City's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

Change in Accounting Principle

In an effort to comply with *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Municipal Audit and Accounting Guide*, issued by the Mississippi Office of the State Auditor, the City has changed its accounting principle in determining the useful lives and salvage values of capital assets. The City feels that adopting a more uniform policy in regards to capital assets that the accumulation of historical assets can be recorded more efficiently. As a result of this change in accounting principle, significant prior period adjustments have been made to net position in both the governmental and business-type activities. See Note 5 and Note 14 for more details.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

The following schedule details those thresholds, estimated useful lives and salvage value percentage of cost:

	Capitalization Threshold	Estimated Useful Life	Salvage Value (% of Cost)
Land	\$ -	N/A	N/A
Infrastructure	-	20 years	30%
Buildings	50,000	40 years	20%
Improvements	25,000	20 years	20%
Heavy machinery & equipment	5,000	10 years	10%
Machinery & equipment	5,000	5 years	10%
Property under capital leases	*	*	*

* Leased property capitalization policy and estimated useful life will correspond with the amounts for the asset classification, as listed above.

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources expenditure until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time.

Deferred amounts on pensions – Deferred outflows and inflows of resources should be reported when to show the City's proportionate share of amounts of the effects of actuarial differences and changes in assumptions to economic or demographic factors and differences between actual and projected earnings of multi-employer pension plan. In addition, a deferred inflow should be reported for employer contributions to the pension plan made subsequent to the measurement date.

Property tax for future reporting period/unavailable revenue – property taxes – Deferred inflows of resources should be reported when resources associated with imposed non-exchange revenue transactions are received or reported as a receivable before the period for which property taxes are levied.

Unavailable revenue – fines – When an asset is recorded in the governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

K. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System of Mississippi (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

L. Long-term Liabilities

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements and the Proprietary Fund financial information, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business activities Statement of Net Position.

M. Compensated Absences

The City has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements. In fund financial statements, Governmental Funds report the compensated absence liability payable only if the payable has matured.

An employee may accumulate unused vacation leave hours without limitation, however, cash payments upon employee termination or retirement are limited to a maximum of 30 days of a accumulated leave of pay. Employees have no claim for accumulated sick leave at termination, for retirement, lay-off, or cause. As such, no provision for unused sick leave has been provided in the financial statements. Unused vacation and sick leave balances may be credited to the Public Employee's Retirement System (PERS) as time worked.

N. Fund Balance Policies

In the fund financial statements, governmental funds report fund balance into classifications that comprise a hierarchy based on the extent to which the City is bound to honor constraints on the specific purpose for which amount in those funds can be spent. The classifications of fund balance are Non-spendable, Restricted, Committed, Assigned, and Unassigned. The following are descriptions of fund classifications used by the City:

Non-spendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

Committed fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the City Council, the City's highest level of decision-making authority. This formal action is an order of the City Council as approved in the board minutes.

Assigned fund balance includes amounts that are constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not classified as non-spendable and is neither restricted nor committed. Assignments of fund balance are created by management pursuant to authorization established by the Board of Alderman.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When both restricted and unrestricted resources are available for specified expenditures, restricted resources are considered spent before unrestricted resources. Within unrestricted resources, committed would be considered spent first (if available), followed by assigned (if available), and then unassigned amounts.

O. Net Position

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

Net investment in Capital Assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvement of those assets.

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

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

P. Intergovernmental Revenues in Governmental Funds

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

Q. Property Tax Revenues

Numerous statutes exist under which the City Council may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the City. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The City Council, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectability criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

R. Use of Estimates

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

S. Implementation of New Accounting Principles

The City adopted the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provision of GASB 67 and GASB 68* ("GASB 73"). GASB 73 provides guidance on assets accumulated for pension plans that are not administered through a trust and provides clarity on certain provision of GASB 67 and GASB 68. The impact of this statement in relation to GASB 67 and GASB 68 is discussed in detail in Note 9.

The City adopted the provisions of GASB Statement No 82, *Pension Issues* ("GASB 82"). GASB 82 addresses practice issues raised during the implementation of the GASB's pension accounting and financial reporting standards for state and local governments. The impact of this statement in relation to GASB 67 and GASB 68 is discussed in detail in Note 8.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 2 – Cash

A summary of cash at September 30, 2016 is as follows:

	Deposits with Financial Institutions		Cash on Hand	Total
	Unrestricted	Restricted		
Governmental-type activities				
General Fund	\$ 1,952,973	4,839	1,800	1,959,612
\$7M Capital Improvement Bond Fund	211,677	-	-	211,677
Other governmental fund	214,402	-	50	214,452
Total governmental activities	<u>2,379,052</u>	<u>4,839</u>	<u>1,850</u>	<u>2,385,741</u>
Business-type activities				
Water & Sewer Fund	921,282	2,168,535	800	3,090,617
Solid Waste Fund	79,580	-	-	79,580
Self-Insurance Fund	514,925	-	-	514,925
Total business-type activities	<u>1,515,787</u>	<u>2,168,535</u>	<u>800</u>	<u>3,685,122</u>
Agency Fund	<u>305,069</u>	<u>-</u>	<u>-</u>	<u>305,069</u>
Total cash	<u>\$ 4,199,908</u>	<u>2,173,374</u>	<u>2,650</u>	<u>6,375,932</u>

The carrying amount of the city's total deposits with financial institutions at September 30, 2016, was \$6,373,282, and the bank balance was \$6,486,545. Of this amount \$2,173,374 is restricted for workman's compensation trust and utility customer's deposits. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 3 – Receivables

A. Governmental Activities

Receivables in the governmental activities at September 30, 2016, consisted of the following:

Taxes receivable:	
Property taxes	
Current	\$ 114,411
For future reporting period	4,091,088
Total taxes receivable	<u>4,205,499</u>
Intergovernmental receivable:	
Sales taxes	362,880
Franchise taxes	38,290
County road taxes	35,372
Federal grants	233,571
State aid	148,849
Total intergovernmental	<u>818,962</u>
Court fines receivable	8,830,001
Less: allowance for doubtful accounts	<u>(8,388,499)</u>
Total court fines receivable, net	<u>441,502</u>
Total receivable - governmental activities	<u>\$ 5,465,963</u>

B. Business-type Activities

Receivable in the business-type activities at September 30, 2016, consisted of the following:

Customer accounts receivable:	
Customer utility charges (billed)	\$ 3,748,833
Less: allowance for doubtful accounts	<u>(3,017,811)</u>
Total receivable - business-type activities	<u>\$ 731,022</u>

All trade receivables are shown net of an allowance for bad debt. An allowance in the amount of \$3,017,811 at September 30, 2016 has been provided in the Water and Sewer Enterprise Fund for estimated uncollectible utility charges.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 4 – Interfund Transactions and Balances

Government-wide Financial Statements

A. Internal Balances

At September 30, 2016, the City had the following transfers:

Transfers In	Transfers Out	Amount
Business-type Activities	Governmental Activities	\$ 100,000

These amounts represent monies transferred from the governmental-type activities to the business-type activities for construction of water wells.

B. Intra-entity Balances

At September 30, 2016 the City had the following intra entity balances:

Due from other Government Agencies	Due to other Government Agencies	Amount
Governmental Activities	Fiduciary Agency Funds	295,425
Business-type Activities	Fiduciary Agency Funds	259
		\$ 295,684

These amounts represent excess cash transfers to the agency clearing funds that are owed back to the City Depository.

Fund Financial Statements

A. Due From/To Other Funds:

During the course of the year, certain expenditures were paid on a reimbursement basis requiring the City to borrow monies at year-end from the general fund in order to prevent a deficit cash balance in certain funds. Allocation percentages of federal reimbursement for construction projects caused expenditures to be paid from the wrong fund requiring many “due to/due from” transactions requiring cash transfer after year end.

Receivable Fund	Payable Fund	Amount
General Fund	Agency Fund	\$ 293,166
\$7M Capital Improvement Bond Fund	General Fund	32,890
Other Governmental Funds	Agency Fund	2,259
Water & Sewer Fund	Agency Fund	259
Total		\$ 328,574

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 4 – Interfund Transactions and Balances (continued)

B. Transfers In/Out:

Transfers were made in the course of the year for loans to various funds. Other transfers were made to reimburse the various funds for expenditures made on the behalf of other fund purposes.

Transfers In	Transfers Out	Amount
General Fund	Solid Waste Fund	\$ 100,000
\$7M Capital Improvement Bond Fund	General Fund	500,069
Other Governmental Funds	General Fund	407,627
Water & Sewer Fund	General Fund	200,000
Water & Sewer Fund	Solid Waste Fund	248,009
Total		<u>\$ 1,455,705</u>

Note 5 – Capital assets

A. Governmental Activities

The following is a summary of governmental capital assets activity for the year ended September 30, 2016:

	Balance 10/1/2015	Additions	Adjustments/ Sales	Balance 9/30/2016
Capital assets not being Depreciated:				
Land	\$ 1,798,104	1,584,356	-	3,382,460
Construction in Progress	463,698	1,126,979	(463,698)	1,126,979
Total capital assets not being depreciated	<u>2,261,802</u>	<u>2,711,335</u>	<u>(463,698)</u>	<u>4,509,439</u>
Capital assets being depreciated:				
Buildings & Improvements	2,874,369	-	(52,050)	2,822,319
Infrastructure	11,284,105	280,307	463,698	12,028,110
Machinery & Equipment	7,922,830	246,046	(6,947,288)	1,221,588
Equipment under Capital Leases	-	27,185	272,230	299,415
Total capital assets being depreciated	<u>22,081,304</u>	<u>553,538</u>	<u>(6,263,410)</u>	<u>16,371,432</u>
Less accumulated depreciation for:				
Buildings & improvements	745,635	56,446	(365,509)	436,572
Infrastructure	652,023	281,410	445,870	1,379,303
Machinery & Equipment	6,070,805	134,054	(5,385,320)	819,539
Equipment under Capital Leases	-	49,817	113,161	162,978
Total accumulated depreciation	<u>7,468,463</u>	<u>521,727</u>	<u>(5,191,798)</u>	<u>2,798,392</u>
Total Capital assets being depreciated, net	<u>14,612,841</u>	<u>31,811</u>	<u>(1,071,612)</u>	<u>13,573,040</u>
Total governmental activities capital assets, net	<u>\$ 16,874,643</u>	<u>2,743,146</u>	<u>(1,535,310)</u>	<u>18,082,479</u>

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 5 – Capital assets (continued)

Depreciation expense was charged to the following governmental functions:

General Government	\$ 51,441
Public Safety	188,172
Public Works	269,172
Culture & Recreation	12,942
	<u>\$ 521,727</u>

B. Business-type Activities

The following is a summary of business-type capital assets activity for the year ended September 30, 2016:

	Balance 10/1/2015	Additions	Adjustments/ Sales	Balance 9/30/2016
Capital assets not being Depreciated:				
Land	\$ 1,190,870	-	-	1,190,870
Total capital assets not being depreciated	<u>1,190,870</u>	<u>-</u>	<u>-</u>	<u>1,190,870</u>
Capital assets being depreciated:				
Buildings & Improvements	2,223,960	-	(2,223,960)	-
Infrastructure	48,063,461	-	(753,854)	47,309,607
Machinery & Equipment	1,585,497	64,830	8,257	1,658,584
Equipment under Capital Leases	-	-	3,224,544	<u>3,224,544</u>
Total capital assets being depreciated	<u>51,872,918</u>	<u>64,830</u>	<u>254,987</u>	<u>52,192,735</u>
Less accumulated depreciation for:				
Buildings & improvements	610,390	-	(610,390)	-
Infrastructure	16,684,866	1,103,891	(8,603,078)	9,185,679
Machinery & Equipment	1,485,497	81,773	(495,549)	1,071,721
Equipment under Capital Leases	-	75,239	75,239	150,478
Total accumulated depreciation	<u>18,780,753</u>	<u>1,260,903</u>	<u>(9,633,778)</u>	<u>10,407,878</u>
Total Capital assets being depreciated, net	<u>33,092,165</u>	<u>(1,196,073)</u>	<u>9,888,765</u>	<u>41,784,857</u>
Total business-type activities capital assets, net	<u>\$ 34,283,035</u>	<u>(1,196,073)</u>	<u>9,888,765</u>	<u>42,975,727</u>

Depreciation expense was charged to the following governmental functions:

Water and Sewer Fund	\$ 1,257,577
Solid Waste Fund	3,326
Total depreciation - business-type activities	<u>\$ 1,260,903</u>

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 6 – Court Fines Receivable/Deferred Inflows of Resources

Court fines receivables are recorded as deferred inflow of sources in the fund financial statements due to the funds using modified accrual basis. However, revenues received during the year are recorded in the government-wide financial statements on the full-accrual basis of accounting. Miss. Code Ann. (1972) does not allow for write-off of debt owed to municipalities. The amount represented on the financial statements is conclusive of all bad debts owed by citizens to the municipal courts since the City started providing court services. Court fines receivable at September 30, 2016, were \$8,830,001, of which an allowance of \$8,388,499 has been determined as uncollectible with \$441,502 deemed collectible.

Note 7 – Claims and Judgments

Risk Financing

The City finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool.

The City pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2016, to January 1, 2017. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

The City is exposed to risk of loss relating to employee health, accident and dental coverage. Pursuant to Section 25-15-101, Miss. Code Ann. (1972), the City established a risk management fund (included as an Internal Service Fund) to account for and finance its uninsured risk of loss. Under the plan, amounts payable to the risk management fund are based on actuarial estimates. Each employee pays a portion of his/her premium through a payroll deduction. The City pays the remaining portion of the premium on a single coverage policy for its respective employees. Employees desiring additional and/or dependent coverage pay the additional premium through a payroll deduction. Premium payments to the risk management fund are determined on an actuarial basis. The City has minimum uninsured risk retention to the extent that actual claims submitted exceed the predetermined premium. The City has implemented the following plans to minimize this potential loss:

The City has purchased coinsurance which functions on specific stop loss coverage. This coverage is purchased from an outside commercial carrier. For the current fiscal year, the specific coverage begins when an individual participant's claim exceeds \$65,000.

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). At September 30, 2016, the amount of this liability was \$89,359.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 7 – Claims and Judgments (continued)

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). At September 30, 2016, the amount of this liability was \$89,359.

	Amount
Liability at beginning of year	\$ 85,025
Claims and changes of estimates	933,675
Claims payments	(929,341)
Liability at end of year	\$ 89,359

Note 8 – Retirement Plan

The City contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature.

Plan Description and Provisions

Substantially all of the City's full-time employees participate in PERS, a multi-employer, cost-sharing, defined benefit public employee pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005, or by calling (601) 359-3589 or 1-800-444-PERS.

Benefits Provided

Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public cities. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring.

Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007).

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 8 – Retirement Plan (continued)

PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions

PERS members are required to contribute 9.00% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer's rate as of September 30, 2016, was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2016, the City reported a liability of \$11,967,873 in the governmental activities for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the PERS net pension liability was based on a projection of the City's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2016, the City's proportion was .067%. For the year ended September 30, 2016, the City recognized PERS pension expense for governmental activities of \$1,363,867.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 333,816	\$ -
Changes of assumptions	564,191	(31,802)
Net difference between projected and actual earnings on pension plan investments (netted with 2014 inflow)	810,765	-
Changes in City proportionate share of net pension liability	-	(140,837)
Changes in City's proportionate share of collective deferrals	-	(18,022)
Difference between City's contributions and proportionate share of contributions	-	(20,888)
City contributions subsequent to the measurement date	183,199	-
Total	<u>\$ 1,891,971</u>	<u>\$ (211,549)</u>

Within the deferred outflows, a net amount of \$183,199 of deferred outflows of resources is related to pensions resulting from the City's contributions subsequent to the measurement date and will be recognized as a reduction to the net pension liability in the year ended September 30, 2017.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 8 – Retirement Plan (continued)

The remaining amounts reported as deferred outflows of resources related to pensions of \$1,708,772, and deferred inflows of resources related to pensions of \$211,549, netting to \$1,497,223 will be recognized in pension expense as follows:

Year Ending September 30,	
2017	\$ 467,943
2018	376,028
2019	416,824
2020	236,428
	<u>\$ 1,497,223</u>

Actuarial assumptions

The total pension liabilities in the June 30, 2016, actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.75 percent to 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

The table for post-retirement mortality rates used in evaluating allowances to be paid was the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2016 with male rates set forward one year. The RP-Disabled Retiree Table set forward five years for males and four years for females, was used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the four year period ending June 30, 2016. The experience report is dated May 4, 2015.

The long-term expected rate of return on the investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of the plans' investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding expected inflation.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 8 – Retirement Plan (continued)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
US Broad	34%	5.20%
International Equity	19%	5.00%
Emerging Markets Equity	8%	5.45%
Fixed Income	20%	0.25%
Real Assets	10%	4.00%
Private Equity	8%	6.15%
Cash	1%	(0.50%)
	<u>100%</u>	

Discount rate

The discount rate used to measure the total pension liability was 7.75 percent, which was based on the future long-term expected rate of return of 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions for PERS will be made at rates set in the Board's Funding Policy. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return investments was applied to all periods of projected benefit payments to determine the plan's total pension liability.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate

The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.75 percent) or one percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
City's Proportionate share of PERS	\$ 15,345,496	\$ 11,967,873	\$ 9,165,540

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report which can be obtained at www.pers.ms.gov.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 8 – Retirement Plan (continued)

Three-year Trend Information

The following table provides the employer contribution to PERS for the last three fiscal years:

Fiscal Years Ending	Employer Contributions
2016	\$ 681,575
2015	658,899
2014	658,605

Note 9 – Long-term Debt

A. Governmental Activities

Transactions for the year ended September 30, 2016 are summarized as follows:

	Balance 10/1/2015	Additions	Retirements	Balance 9/30/2016	Due Within one Year
General Obligation Bonds	\$ 6,970,000	-	(545,000)	6,425,000	565,000
Capital Leases	187,048	26,685	(89,910)	123,823	90,077
Compensated Absences	287,375	64,812	-	352,187	31,169
	<u>\$ 7,444,423</u>	<u>91,497</u>	<u>(634,910)</u>	<u>6,901,010</u>	<u>686,246</u>

General Obligation Bonds, Series 2010 – In 2010, the City issued \$7,000,000 in general obligation bonds to be used for public improvements in the City. The bond is to be repaid over 20 years, maturing in August 2030 and carries a variable interest rate of 2.875% - 4.0%. Payment on this bond will be made from general ad valorem tax collections.

General Obligation – Katrina Loan Refunding Bond, Series 2010 – In 2010, the City issued \$2,360,000 in general obligation refunding bonds to be used to cover the costs associated with Hurricane Katrina for public improvements and repairs in the City. The bond is to be repaid over 10 years, maturing in 2020, and carries a fixed interest rate of 3.45%. Payment on this bond will be made from general ad valorem tax collections.

Annual debt service requirements to maturity for these bonds payable are as follows:

September 30,	Principal	Interest	Total
2017	\$ 565,000	217,573	782,573
2018	580,000	199,348	779,348
2019	600,000	180,628	780,628
2020	630,000	161,263	791,263
2021	370,000	145,869	515,869
2022-2026	1,985,000	543,006	2,528,006
2027-2030	1,695,000	169,763	1,864,763
	<u>\$ 6,425,000</u>	<u>1,617,450</u>	<u>8,042,450</u>

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 9 – Long-term Debt (continued)

Capital Lease Obligations-Governmental Activities

The City is obligated for the following capital assets acquired through capital leases as of September 30, 2016:

Classes of Property	Governmental Activities
Mobile equipment	\$ 299,415
Less: accumulated depreciation	(162,978)
Leased property under capital leases	\$ 136,437

The following is a schedule by years of the total payments due as of September 30, 2016:

September 30,	Principal	Interest	Total
2017	\$ 90,077	2,581	92,658
2018	26,308	662	26,970
2019	7,438	180	7,618
	\$ 123,823	3,423	127,246

B. Business-type Activities

Transactions for the year ended September 30, 2016 are summarized as follows:

	Balance 10/1/2015	Additions	Retirements	Balance 9/30/2016	Due Within one Year
Revenue Refunding Bonds	\$ 5,385,000	-	(1,310,000)	4,075,000	1,330,000
Special Obligation Bonds	3,220,000	-	(130,000)	3,090,000	135,000
Revolving Loans	5,177,141	-	(403,373)	4,773,768	412,796
Capital Leases	3,199,326	-	(182,971)	3,016,355	189,082
Subtotal	16,981,467	-	(2,026,344)	14,955,123	2,066,878
Add: Bond Premium*	63,813	-	(15,953)	47,860	15,953
Total business-type activities	\$ 17,045,280	-	(2,042,297)	15,002,983	2,082,831

*As a result of this refunding, a premium of \$127,625 was incurred. Current year amounts have been adjusted to show the remaining unamortized amount of this premium in the amount of \$47,860. See Note 14 for more details.

Water & Sewer Revenue Refunding Bonds, Series 2012 – In 2012, the City issued \$9,185,000 in refunding bonds. These bonds were issued to refund the Revenue Bonds, Series 2001 in an effort to reduce total debt payments. The refunding decreased the City's total debt service payments by approximately \$864,418. The transaction resulted in an economic loss (difference between the present value of the debt service on the old and the new bonds) of approximately \$866,494. The bond is to be repaid over 7 years, maturing in 2019, and carries a fixed interest rate of 2%. Payment on this bond will be made from the net revenues from the Water and Sewer system operations.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 9 – Long-term Debt (continued)

Annual debt service requirements to maturity for this bond payable is as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,330,000	68,200	1,398,200
2018	1,355,000	41,350	1,396,350
2019	1,390,000	13,900	1,403,900
	<u>\$ 4,075,000</u>	<u>123,450</u>	<u>4,198,450</u>

Special Obligation Bonds, Series 2013 – In 2013, the City issued \$3,500,000 in special obligation bonds to be used to cover the costs associated with Hurricane Katrina for public improvements and repairs in the City. The bond is to be repaid over 20 years, maturing in 2033, and carries a variable interest rate of 2.0% - 5.0%. Payment on this bond will be made from the net revenues from the Water and Sewer system operations.

Annual debt service requirements to maturity for this bond payable is as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 135,000	130,306	265,306
2018	140,000	126,256	266,256
2019	145,000	122,056	267,056
2020	145,000	117,706	262,706
2021	150,000	113,356	263,356
2022-2026	835,000	483,838	1,318,838
2027-2031	1,050,000	281,950	1,331,950
2032-2033	490,000	37,000	527,000
	<u>\$ 3,090,000</u>	<u>1,412,468</u>	<u>4,502,468</u>

Revolving Loans - The City's utility enterprise fund finances extensions and improvements to its system through note obligations, which are subordinate to the revenue bonds.

The utility currently has six state revolving loans, which enabled the City to provide sewer services in needed areas. The City executed these loan agreements with the State of Mississippi Environmental Quality for the purpose of improving the water distribution and sewer collection systems. The City entered into an agreement with the Mississippi State Tax Commission, allowing the Tax Commission to withhold \$43,424 from monthly sales tax revenues as payment for principal and interest on bonds beginning in fiscal year 2006.

Annual debt service requirements to maturity for these loans payable are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 412,796	108,329	521,125
2018	422,459	98,666	521,125
2019	432,368	88,757	521,125
2020	442,531	78,594	521,125
2021	452,955	68,171	521,126
2022-2026	2,134,352	177,617	2,311,969
2027-2030	476,307	16,925	493,232
	<u>\$ 4,773,768</u>	<u>637,059</u>	<u>5,410,827</u>

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 9 – Long-term Debt (continued)

Capital Lease Obligations-Business-type Activities

The City is obligated for the following capital assets acquired through capital leases as of September 30, 2016:

Classes of Property		Governmental Activities
Water Meters Project	\$	3,224,544
Less: accumulated depreciation		(150,479)
Leased property under capital leases	\$	3,074,065

The following is a schedule by years of the total payments due as of September 30, 2016:

September 30,	Principal	Interest	Total
2017	\$ 189,082	98,368	287,450
2018	195,397	92,052	287,449
2019	201,924	85,526	287,450
2020	208,668	78,781	287,449
2021	215,638	71,812	287,450
2022-2026	1,191,160	246,089	1,437,249
2027-2030	814,486	47,863	862,349
	\$ 3,016,355	720,491	3,736,846

C. Legal Debt Margin

The amount of debt, excluding specific exempted debt that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a City issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2016, the amount of outstanding debt was equal to 5.57% of the latest property assessments.

D. Compensated Absences

Compensated absences will be paid from the funds from which the employees' salaries were paid which are generally the General Fund.

Note 10 – Property and Sales Tax Revenue

A. Property Tax Revenues

The City levies a tax on real and personal property based on the assessed value of property as compiled by the information extracted from the City assessment tax rolls. The taxes on real property attach as an enforceable lien on the property as of January 1. Taxes on real and personal property are levied by the City Council at the first regular meeting in September.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 10 – Property and Sales Tax Revenue (continued)

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

The rates are expressed in terms of mills (i.e., ten mills equal one cent). The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt but exclusive of school bond and interest for the year ended September 30, 2016 was 37.70 mills or \$37.70 per \$1,000 of assessed valuation.

Property taxes at the fund level are recorded as receivables and deferred inflow of resources at the time the taxes are levied. Revenues are recognized as the related ad valorem taxes are collected including those collected 60 days after year-end. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with GAAP have been recognized as revenue.

B. General Sales Tax Revenues

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City of Gautier) back to the City monthly. General sales tax revenue reported in the General Fund was \$2,254,625.

Note 11 – Commitments and Contingencies

A. Risk Management

Claims and Judgments - The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Federal Grants - The city has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the City. No provision for any liability that may result has been recognized in the City's financial statements.

Litigation - The City is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the City with respect to the various proceedings. However, the City's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the City.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 11 – Commitments and Contingencies (continued)

B. Commitments

Contract for Operations of Water and Wastewater Systems – The City renewed a contract with Clearwater Solutions, LLC for operation and maintenance of the City's water and sewer systems and utility billing of water and sewer systems. The fee under the contract is \$203,358/month for the year ended September 30, 2016. Annually, the amount shall be adjusted by the consumer price index by the U.S. Department of Labor Statistics. During the fiscal year ended September 30, 2016 the City paid a total of \$2,663,034 to Clearwater Solutions, LLC under this contract.

Contract for Operations of Solid Waste Collections – The City renewed a contract with Delta Sanitation of MS, LLC for the operations of solid waste collections. The fee under the contract is approximately \$82,100/month for the year ended September 30, 2016. This amount includes commercial and residential garbage collection and approximately \$232/month for cart rentals. During the fiscal year ended September 30, 2016 the City paid a total of \$1,066,240 to Delta Sanitation of MS, LLC under this contract.

Note 12 – Joint Ventures

Joint Venture - The City of Gautier contracts with the Jackson County Utility Authority (the "Authority"), whereby the Authority picks up and disposes the City's solid waste and treats and disposes of the City's wastewater in compliance with water quality standards established by the Mississippi Air and Water Pollution Control law and the Federal Water Pollution Control Act.

The Authority provides for the operation and maintenance of the sewer treatment plants on a cost reimbursement basis. Pursuant to the terms of the agreement, the City is required to pay monthly costs of operations and maintenance directly associated with the treatment facilities and to share in the construction costs of the treatment facilities. The costs associated with this contract totaled \$2,132,125 for the year.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 12 – Joint Ventures (Continued)

As of the date of this report, the financial statements of the Jackson County Utility Authority had not be published; therefore; the following is a synopsis of the Authority’s financial statements as of and for the year ended September 30, 2015:

CONDENSED STATEMENT OF NET POSITION

<u>ASSETS</u>	
Current assets	\$ 2,380,509
Restricted assets	3,026,861
Capital assets, net	142,277,431
Total assets	<u>147,684,801</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
	<u>2,072,713</u>
<u>LIABILITIES</u>	
Current liabilities	9,801,739
Long-term liabilities	20,869,572
Total liabilities	<u>30,671,311</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
	<u>269,758</u>
<u>NET POSITION</u>	
Invested in capital assets, net of related debt	123,734,390
Restricted	3,023,861
Unrestricted	(7,944,806)
Total net position	<u>118,813,445</u>

**CONDENSED STATEMENT OF REVENUES AND EXPENDITURES AND
CHANGES IN NET POSITION**

Operating revenue	\$ 12,223,572
Operating expenses	(17,857,177)
Nonoperating revenues	32,395
Nonoperating expenditures	(340,273)
Capital grants and contributions	5,624,610
Change in net position	<u>\$ (316,873)</u>

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

A complete copy of the 2016 financial statements should be soon on file at the administrative offices of the Authority which are located at 11100 Highway 57, Vancleave, Mississippi 39565, or may be obtained by calling (228) 762-0119.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 13 – Jointly Governed Organizations

Jointly Governed Organization - On November 2, 1970, the City entered into an agreement with the Board of Trustees of the Jackson George Regional Library System, the City of Moss Point, City of Pascagoula, City of Ocean Springs, City of Lucedale, and the Board of Supervisors of Jackson County to mutually cooperate in securing a more economical public library system through combined resources, interests, materials and facilities to be known as the Jackson George Regional Library System. There are no specific monetary terms in the agreement and the City of Gautier has no equity interest in the organization. However, a budget is approved every year by the County Library Board, which stipulates the amount of funds needed from the participating municipalities and various other funding sources. The City contributed \$105,062 to the Library for the year ended September 30, 2016.

Note 14 – Prior Period Adjustments

Fund Statements

The following schedule details the adjustments that were made to beginning fund balances:

Description of adjustment	Statement of Revenues, Expenditures and Changes in Fund Balance
To correct prior year intergovernmental receivables	\$ (15,666)
To correct prior year sales tax receivable	(92,518)
To defer prior year court fines properly in fund	323,499
To correct prior year workman's compensation liability	(128,378)
	<u>\$ 86,937</u>

The following schedule is detail of the fund balance reclassification made to beginning fund balance:

	Statement of Revenues, Expenditures and Changes in Fund Balance	Statement of Revenues, Expenses and Changes in Net Position - Business- type Activities
To reclassify prior year internal service fund balance	\$ (126,242)	<u>126,242</u>

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 14 – Prior Period Adjustments (continued)

Government-Wide Statements

The following schedule details the adjustments that were made to net position:

Description of adjustment	Statement of Revenues, Expenses and Changes in Net Position - Business- type Activities	Statement of Revenues, Expenses and Changes in Net Position - Government-type Activities	Statement of Activities - Governmental Activities
To correct prior year intergovernmental receivables	\$ -	\$ -	\$ (15,666)
To correct prior year sales tax receivable	-	-	(92,518)
To deferred prior year court fines properly in fund	-	-	323,499
To correct prior year workman's compensation liability	(259)	-	(128,378)
To correct prior year insurance premiums receivable	-	336,628	336,630
To correct prior year accrued interest	42,202	-	(37,616)
To recognize prior year court fines deferred improperly	-	-	323,499
To correct prior year bond premium	63,813	-	-
To correct prior year capital assets	(9,964,004)	-	(1,535,310)
	<u>\$ (9,858,248)</u>	<u>\$ 336,628</u>	<u>\$ (825,860)</u>

Note 15 – Subsequent Events

Events that occur after the Statement of Net position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net position date require disclosure in the accompanying notes. Management of the City evaluated the activity of the City through July 18, 2017, (the date the financial statements were available to be issued), and determined that the following significant subsequent events have occurred requiring disclosure in the notes to the financial statement.

In December 2016, the City authorized “just compensation” in the amount of \$339,660 to purchase land for the Martin Bluff Road Widening Project.

In December 2016, the City authorized Compton Engineering to act as its agent on behalf of the City related to the Mississippi Department of Marine Resources grant received in the amount of \$190,310 for the City Park Boat Launch Improvement Project. The City’s local match for this grant is \$65,300 that the City expects to be paid with Tidelands grant funds.

In February 2017, the City entered into an operating lease rental agreement in the amount of \$22,602 to be paid monthly for 48 months for the lease of a copy machine and electronic equipment for the planning department.

In February 2017, the City entered into an operating lease rental agreement in the amount of \$7,992 to be paid monthly for 48 months for the lease of a copy machine.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2016

Note 15 – Subsequent Events (continued)

In February 2017, the City entered into an agreement with the Mississippi Development Authority for a capital improvement revolving loan in the amount of \$763,087. This loan carries a 2% interest rate and matures February 1, 2036. The City will make annual payments of \$46,324.

In April 2017, the City reorganized its department heads by eliminating the Cultural Services Director and Department and created two new divisions: The Parks and Facilities Department, which will be responsible for maintaining city parks, grounds and facilities, and the Community Activities Department which will be responsible for all city events, recreation and other activities.

In April 2017, the City received an award letter for a \$350,000 Development Infrastructure Grant for assistance in financing infrastructure projects to support business locations and expansions in Mississippi. The grant requires a \$35,000 local match. \$20,000 of the grant match is expected to come from the \$763,087 CAP loan with the Mississippi Development Authority, and the other \$15,000 portion of the match will come from the enterprise utility revenues.

In May 2017, the City entered into a lease agreement with Hancock/Whitney Bank to purchase 7 new vehicles in the amount of \$157,239. The terms of the lease are for 3 annual payments of \$54,725 a year. The lease carries a 2.19% interest rate.

REQUIRED SUPPLEMENTARY INFORMATION

City of Gautier, Mississippi
Statement of Revenues, Expenditures
and Changes in Fund Balance
General Fund
Budget to Actual - (Prepared on the Budgetary Basis)
For the Fiscal Year Ended September 30, 2016

	Budgeted Amounts		Actual Budgetary Basis	Variances	
				Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Property taxes	\$ 4,387,347	4,386,347	4,486,433	(1,000)	100,086
General sales tax	2,120,000	2,120,000	2,623,082	-	503,082
Fines and forfeitures	770,000	525,000	526,983	(245,000)	1,983
Licenses and permits	89,700	89,700	114,342	-	24,642
Intergovernmental	773,500	785,130	742,493	11,630	(42,637)
Charges for services	24,000	24,000	27,980	-	3,980
Franchise fees	163,000	163,000	164,803	-	1,803
Investment earnings	1,000	1,000	3,453	-	2,453
Miscellaneous	13,500	52,550	77,407	39,050	24,857
Total Revenues	8,342,047	8,146,727	8,766,976	(195,320)	620,249
Expenditures:					
General government:					
Personnel services	2,210,248	2,152,329	2,113,308	57,919	39,021
Supplies	61,200	62,450	49,418	(1,250)	13,032
Contractual	992,660	974,400	852,730	18,260	121,670
Capital outlay	149,554	178,968	173,508	(29,414)	5,460
Total general government	3,413,662	3,368,147	3,188,964	45,515	179,183
Public safety:					
Personnel services	4,187,168	4,138,988	3,988,714	48,180	150,274
Supplies	309,284	238,784	188,943	70,500	49,841
Contractual	237,855	244,355	196,576	(6,500)	47,779
Capital outlay	175,485	175,485	159,177	-	16,308
Total public safety	4,909,792	4,797,612	4,533,410	112,180	264,202
Public works:					
Personnel services	200,825	201,975	200,716	(1,150)	1,259
Supplies	68,500	113,550	100,900	(45,050)	12,650
Contractual	126,000	130,850	111,595	(4,850)	19,255
Capital outlay	16,000	54,950	54,824	(38,950)	126
Total public works	411,325	501,325	468,035	(90,000)	33,290
Culture and recreation					
Personnel services	267,163	251,513	239,050	15,650	12,463
Supplies	36,500	43,150	43,058	(6,650)	92
Contractual	80,650	77,200	77,222	3,450	(22)
Capital outlay	13,500	16,950	16,939	(3,450)	11
Total culture and recreation	397,813	388,813	376,269	9,000	12,544
Debt service	95,744	95,744	95,744	-	-
Total Expenditures	9,228,336	9,151,641	8,662,422	76,695	489,219

City of Gautier, Mississippi
Statement of Revenues, Expenditures
and Changes in Fund Balance
General Fund
Budget to Actual - (Prepared on the Budgetary Basis)
For the Fiscal Year Ended September 30, 2016

	Budgeted Amounts		Actual Budgetary Basis	Variances	
				Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Other Financing Sources (Uses):					
Proceeds from sale of surplus	-	(2,140)	(2,136)	(2,140)	4
Transfers in	100,000	100,000	100,000	-	-
Transfers out	<u>(911,329)</u>	<u>(1,116,279)</u>	<u>(1,107,696)</u>	<u>(204,950)</u>	<u>8,583</u>
Total Other Financing Sources (Uses)	<u>(811,329)</u>	<u>(1,018,419)</u>	<u>(1,009,832)</u>	<u>(207,090)</u>	<u>8,587</u>
Cash Basis	\$ <u>(1,697,618)</u>	<u>(2,023,333)</u>	(905,278)	<u>(325,715)</u>	<u>1,118,055</u>
Net Change in fund balance - Budget-Cash Basis			\$ (905,278)		
Revenues per Cash-basis Budget		8,766,976			
Additional accrued revenues		<u>(460,192)</u>	(460,192)		
Revenues per Fund Financial Statements		<u>8,306,784</u>			
Expenditures per Cash-basis Budget		8,662,422			
Additional accrued expenses		<u>47,657</u>	(47,657)		
Expenditures per Fund Financial Statement		<u>8,710,079</u>			
Lease proceeds not budgeted		<u>26,685</u>	<u>26,685</u>		
Net Change in fund balance - Fund Financials			<u>\$ (1,386,442)</u>		

City of Gautier, Mississippi
Notes to the Required
Supplementary Information-Budgetary Schedules
For the Fiscal Year Ended September 30, 2016

A. Budgetary Information.

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

B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major Special Revenue Fund. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

C. Budget/GAAP Reconciliation.

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

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

D. Budgetary Data

The procedures used by the City in establishing budget are mandated by Mississippi State law. A brief summary of the City's policies for recording budgetary data in the financial statements are as follows:

1. Prior to August 1, the Mayor submits to the Board of Alderman a proposed operating budget for the fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. No later than September 15, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all governmental and proprietary funds.
5. Budgets for the governmental and proprietary funds are adopted on a cash basis except for expenditures which include those paid within 30 days of the fiscal year end as required by state statute.

City of Gautier, Mississippi
 Schedule of the City's Proportionate Share of the Net Pension Liability
 Last 10 Fiscal Years*
 For the Fiscal Year Ended September 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.067%	0.067%	0.069%
City's proportionate share of the net pension liability (asset)	\$ 11,967,873	10,356,879	8,132,573
City's covered-employee payroll	\$ 4,269,283	4,199,035	4,182,032
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	280.33%	246.65%	194.46%
Plan fiduciary net position as a percentage of the total pension liability	57.47%	61.70%	61.70%

* The amounts presented for each fiscal year were determined as of the measurement date of June 30 prior to the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented for the fiscal year ended September 30, 2015, and, until a full 10 year trend is compiled, the City has only presented information for the years in which information is available.

City of Gautier, Mississippi
 Schedule of the City's Contributions
 Last 10 Fiscal Years*
 For the Fiscal Year Ended September 30, 2016

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 681,575	658,899
Contributions in relation to the contractually required contribution	<u>681,575</u>	<u>658,899</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
City's covered-employee payroll	\$ 4,327,460	4,183,486
Contributions as a percentage of covered-employee payroll	15.75%	15.75%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented for the fiscal year ended September 30, 2015, and, until, a full 10 year

City of Gautier, Mississippi
Notes to the Required Supplementary Information – Pension Schedules
For the Fiscal Year Ended September 30, 2016

Pension Schedules

A. Changes in assumptions

In 2016, and later, the assumed rate of interest credited to employee contributions was changed from 3.5% to 2.00%.

B. Valuation date

Effective July 1, 2016 the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and maximum rate of five percent.

SUPPLEMENTAL INFORMATION

City of Gautier, Mississippi
Schedule of the Expenditures of Federal Awards
For the Year Ended September 30, 2016

CITY OF GAUTIER, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Federal Grantor/ Passed-through Grantor/ Program Title or Cluster	Federal CFDA Number	Grant No. / Pass-Through Number	Federal Expenditures
Environmental Protection Agency			
Brownfield Assessment	66.818	BFD00D25414	<u>\$ 153,203</u>
Total Environmental Protection Agency			<u>153,203</u>
U.S. Department of Transportation			
Passed through Mississippi Department of Transportation			
Urban Youth Corp	20.000	STP-9999-09	33,967
Transportation Improvement-Martin Bluff Road*	20.205	STP-919	1,588,840
Transportation Improvement-Hwy 57*	20.205	STP-0494	41,534
Transportation Improvement-Safe Routes to Schools*	20.205	STP-0494	9,484
Passed through Mississippi Dept of Wildlife, Fisheries & Parks			
MS Recreational Trails-Shepard State Park	20.219	28-RTP-0234	<u>86,758</u>
Total U.S. Department of Transportation			<u>1,760,583</u>
Total Federal Financial Assistance			<u>\$ 1,913,786</u>

* Denotes major federal award program

City of Gautier, Mississippi
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

Note 1 -- General

The accompanying schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the City of Gautier, Mississippi (the "City). All federal awards received directly from federal agencies as well as federal awards passed through other government agencies to the City are included in the accompanying SEFA.

Note 2 -- Basis of Accounting

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. Differences between the granting-agency basis of accounting and the basis of accounting used by the City in preparing its financial fund statements may occur.

Note 3 -- Federal Loans

The City has the following federal loans outstanding as of September 30, 2016:

Program Title	CFDA Number	Current Year Expenditures	Unpaid Loan Balance	Original Loan Amount
Environmental Protection Agency Passed-through the Mississippi Department of Environmental Quality				
DWI-H280114-02	66.458	-	263,869	422,610
DWI-H280114-01-02	66.458	-	512,700	470,475
SRF-C280879-02-2	66.458	-	1,253,053	1,760,448
SRF-C280879-01-3	66.458	-	752,872	1,288,485
DWI-H280092-01-3	66.458	-	860,690	1,344,987
SRF-C280754-01-3	66.458	-	1,130,584	1,865,320
Total federal loans		\$ -	\$ 4,773,768	\$ 7,152,325

City of Gautier, Mississippi
Schedule of Surety Bonds
(Required by State of Mississippi)
For the Fiscal Year Ended September 30, 2016

Position	Name	Amount
Mayor	Gordon Gollott	\$ 100,000
Aldermen	Mary Martin	100,000
Aldermen	Casey Vaughan	100,000
Aldermen	Hurley Gutillotte	100,000
Aldermen	Johnny Jones	100,000
Aldermen	Charles Anderson	100,000
Aldermen	Adam Colledge	100,000
City Manager	Paula Yancy	50,000
Police Chief	Dante Elbin	50,000
City Clerk	Cynthia Russell	50,000
Deputy City Clerk	Teresa Montgomery	50,000
Deputy City Clerk	Tricia Thigpen	50,000
Executive Assistant	Chasity Bilbo	50,000
Administrative Clerk	Joan Craswell	50,000
Administrative Clerk	Rachel Honea	50,000
Administrative Clerk	Addie Bank	50,000
Administrative Clerk	Ramona Morgag	50,000
Accounting Personnel Clerk	Lekeisha Hill	50,000
Accounting Personnel Clerk	Kim Sheppard	50,000
Accounting Personnel Clerk	Leoquetta Reddix	50,000
Court Clerk	Donna Davis	50,000
Deputy Court Clerk	Nancy Lebhart	50,000
Police Captain	Daniel Selover	25,000
Records Clerk	Tina Hansen	50,000
Purchase Clerk	Sherry Farabee	50,000
Dispatcher	Michael Steward	50,000
Dispatcher	Cameron Thigpen	50,000
Dispatcher	Karri Dooley	50,000
Dispatcher	Danielle Price	50,000
Dispatcher	Ashtin Langdon	50,000
Dispatcher	Timothy Werner	50,000
Dispatcher	Keisha Keyes	50,000
Dispatcher	Alex Patrick	50,000
Dispatcher	Alyssa Mcvicker	50,000
Park Attendant	Laquita Harris	50,000
Park Attendant	Paxton Stokley	50,000
Park Attendant	Donnie Bennett	50,000
Park Attendant	Mohammed Gueye	50,000

SPECIAL REPORTS

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

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

Certified Public Accountants

HANCOCK BANK BUILDING

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INDEPENDENT AUDITOR'S 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*

July 18, 2017

Honorable Mayor and
City Council of
City of Gautier, Mississippi

We have audited, in accordance with the 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, the financial statements of the City of Gautier, Mississippi (the "City") which comprise the statement of financial position as of September 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 18, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we considered to be a material weaknesses: 2016-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* as described in the Schedule of findings and questioned cost: 2016-001.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

City of Gautier, Mississippi's Response to Findings

City of Gautier Mississippi's response to the findings identified in our audit is described in the Auditee's Corrective Action Plan. City of Gautier, Mississippi's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Wade Wade & Sons

WRIGHT, WARD, HATTEN & GUEL

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**LIMITED INTERNAL CONTROL AND
COMPLIANCE REVIEW MANAGEMENT REPORT**

July 18, 2017

Honorable Mayor and
City Council of
City of Gautier, Mississippi

In planning and performing our audit of the financial statements of the City of Gautier, Mississippi for the year ended September 30, 2016, we considered the City's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to City of Gautier's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the County's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated July 18, 2017, on the financial statements of the City of Gautier, Mississippi.

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

The results of our review procedures and compliance tests identified certain areas that are opportunities for strengthening internal controls and operating efficiency. Our finding, recommendation, and your response are disclosed below:

Comptroller.

1. The City is not following the chart of accounts prescribed by the State Auditor Municipal Audit and Accounting Guide. (Section 21-35-11)

Recommendation:

We recommend that the City follow the State Auditor's accounting guide.

City's Response:

The City concurs with the auditor's recommendation.

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

*Walter Woodworth * Sheriff*

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

July 18, 2017

Honorable Mayor and
City Council of
City of Gautier, Mississippi

Report on Compliance for Each Major Federal Program

We have audited City of Gulfport, Mississippi's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of City's major federal programs for the year ended September 30, 2016. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2016.

Report on Internal Control over Compliance

Management of the City, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Walter Wood 7/2/16 * Imp*

City of Gautier, Mississippi
 Schedule of Findings and Questioned Costs
 September 30, 2016

SECTION 1 – SUMMARY OF AUDITORS’ RESULTS

Financial Statements:

1.	Type of auditors' report issued on the financial statements:	
	Governmental activities	Qualified
	Business-type activities	Qualified
	General and other major funds	Unmodified
	Aggregate remaining fund information	Unmodified
2.	Internal control over financial reporting:	
	a. Material weaknesses identified?	Yes
	b. Significant deficiencies identified that are not considered to be material weaknesses?	No
3.	Noncompliance material to the financial statements noted?	Yes

Federal Awards:

4.	Type of auditor's report issued on compliance for major programs:	Unmodified				
5.	Internal control over major programs:					
	a. Material weaknesses identified?	No				
	b. Significant deficiencies identified that are not considered to be material weaknesses?	None Reported				
6.	Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	None				
7.	Federal programs identified as major:					
	<table border="0" style="margin-left: 20px;"> <tr> <td style="text-align: center;"><u>CFDA Number(s)</u></td> <td style="text-align: center;"><u>Name of Federal Program or Cluster</u></td> </tr> <tr> <td style="text-align: center;">20.205</td> <td style="text-align: center;">U.S. Department of Transportation</td> </tr> </table>	<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	20.205	U.S. Department of Transportation	
<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>					
20.205	U.S. Department of Transportation					
8.	Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000				
9.	Auditee qualified as low-risk auditee?	No				

City of Gautier, Mississippi
 Schedule of Findings and Questioned Costs (Continued)
 September 30, 2016

SECTION 2 – FINANCIAL STATEMENT FINDINGS

Finding Number 2016-001

Opinion Unit Governmental Activities
 Business-type Activities

Finding Type Material weakness

Finding Capital assets

Criteria Capital assets must be accounted for in accordance with State guidelines.

Condition During our audit testing we made several adjustments to capital assets and related depreciation to comply with *Governmental Auditing Standards* issued by the Comptroller General of the United States, and the *Municipal Audit and Accounting Guide* issued by the Mississippi Office of the State Auditor.

Effect The audit adjustments made to comply with guidelines were material to the governmental activities and business-type activities.

Recommendation The City needs to comply with *Governmental Auditing Standards* and the guidelines outlined in the *Municipal Audit and Accounting Guide* issued by the Mississippi Office of the State Auditor.

Finding Number 2016-002

Opinion Unit Governmental Activities
 Finding Type Material weakness in Internal Control

Finding Inadequate segregation of duties.

Criteria An effective system of internal control requires that no one person handle all of the elements of a single transaction.

Condition During our audit, we noted that the court clerk handles large volumes of cash transactions. She also handles receipts, and posts the payments to court software. The court clerk also has the ability to make adjustments to case data.

Effect Failure to implement controls over the collecting, recording and lack of separation of duties could result in the loss or misappropriation of public funds.

Recommendation We recommend that the City establish and implement new procedures and policies in order to maintain adequate separation of duties and oversight in the collection of court and traffic fees.

City of Gautier, Mississippi
Schedule of Findings and Questioned Costs (Continued)
September 30, 2016

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings noted during the fiscal year ended September 30, 2016.

AUDITEE CORRECTIVE ACTION PLAN

Mayor
Gordon J. Gollott

City of Gautier

Gautier, Mississippi

City Manager
Paula S. Yancey

City Clerk
Cynthia Russell

Council
At Large Mary F. Martin
Ward 1 Cameron B. George
Ward 2 Richard "DJ" Jackson
Ward 3 Casey C. Vaughan
Ward 4 Charles "Rusty" Anderson
Ward 5 Adam D. Colledge



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CITY OF GAUTIER, MISSISSIPPI Corrective Action Plan For the Year Ended September 30, 2016

Section 2 – Financial Statements Findings

2016-001 Capital Assets Material weakness

Response:

The City will continue to implement policies to be in compliance with *Governmental Auditing Standards* and the State Auditor's Municipal Auditing and Accounting Guide.

2016-002 Inadequate segregation of duties Material weakness

Response:

The City will try to implement policies and procedures to segregate incompatible duties.