

**CITY OF GAUTIER, MISSISSIPPI**  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2011

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Revenues:**

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

**Expenditures:**

Expenditures are recognized when the related fund liability is incurred.

**Compensated Absences:**

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

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

**Interfund Activity:**

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

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

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

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2011

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Fund Accounting Requirements**

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

<u>Fund:</u> _____	<u>Required By:</u> _____
CDBG Fund	Grant Agreement
Water & Sewer Fund	Trust Indenture
Solid Waste Fund	State Law

**B. Deposits and Investments - Laws and Regulations**

State law requires that all deposits in excess of Federal Depository Insurance Corporation (FDIC) insurance limits be 105% collateralized by U.S. Government obligations or by state municipal obligations that have a fair value of not less than the principal amount of the deposits. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the FDIC. The City's deposits were fully insured or collateralized as required by statute at September 30, 2011. At year-end, the respective bank balances totaled \$8,804,808. There were no certificates of deposit outstanding at September 30, 2011.

**C. Revenue Restrictions**

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

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

For the year ended September 30, 2010 the City complied, in all material respects, with these revenue restrictions.

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2011

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

**D. Debt Restrictions and Covenants**

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

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS**

**A. Cash and Investments**

The City deposits funds in financial institutions selected by the City's Councilmen in accordance with Mississippi statutes. Allocation of the resulting balance is accomplished with inter-bank transfers. Approved city depositories for the calendar years 2010-2011 were as follows:

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

By using this multiple financial institution collateral pool, all of the City's deposits at September 30, 2011, fall into the credit risk category of "Insured or collateralized with securities held by the entity or its agent in the entity's name."

Deposits at September 30, 2011, (including restricted deposits) were as follows:

	<u>Bank Balances</u>
Pooled deposits:	
Cash and cash equivalents	\$ 3,050,744
Non-pooled deposits:	
Cash and cash equivalents:	
Capital Improvement Bond Fund	4,046,280
Debt Service Fund	794,445
Contingency Fund	483,809
MS Development Loan	129,530
	\$ 8,504,808

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2011

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

**B. Restricted Cash**

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

The restricted assets as of September 30, 2011, were as follows:

<u>Types of Restricted Assets</u>	<u>Cash Including Time Deposits</u>
Capital Improvement Bond Fund	\$ 4,046,280
Bond Contingency Fund	483,809
Series 2001 Utility System Refunding Bond	794,445
2008 MS Development Loan	129,530
	<u>\$ 5,454,064</u>

**C. Accounts Receivable**

Accounts receivable at September 30, 2011, consisted of the following:

	<u>Accounts Receivable</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Net Accounts Receivable</u>
<b>Governmental activities:</b>			
General Fund:			
Ad valorem taxes	\$ 83,414	-	83,414
Municipal court	5,227,800	5,018,688	209,112
Sales tax	287,838	-	287,838
	-	-	-
Total General Fund	<u>5,599,052</u>	<u>5,018,688</u>	<u>580,364</u>
<b>Business-type activities:</b>			
Enterprise Fund:			
Water and sewer collections	2,106,976	1,521,089	585,887
Total business-type activities	<u>2,106,976</u>	<u>1,521,089</u>	<u>585,887</u>
Total government-wide activities	<u>\$ 7,706,028</u>	<u>6,539,777</u>	<u>1,166,251</u>

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2011

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

**D. Capital Assets**

Capital assets have not been audited.

Capital asset activity for the year ended September 30, 2011, was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
<b>Governmental Activities:</b>				
Capital Assets not being Depreciated:				
Land	743,862			743,862
Construction in Progress		572,774		572,774
Total capital assets not being depreciated	<u>743,862</u>	<u>572,774</u>	<u>0</u>	<u>1,316,636</u>
Capital assets being depreciated:				
Buildings & Improvements	2,176,725	607,759		2,784,484
Machinery & Equipment	6,714,502	407,725		7,122,227
Infrastructure	1,499,776	1,505,095		3,004,871
Total capital assets being depreciated	<u>10,391,003</u>	<u>2,520,579</u>	<u>0</u>	<u>12,911,582</u>
Less accumulated depreciation for:				
Buildings & improvements	(418,387)			(418,387)
Machinery & Equipment	(2,695,727)	(310,592)		(3,006,319)
Infrastructure	(25,805)	(2,167)		(27,972)
Total accumulated depreciation	<u>(3,139,919)</u>	<u>(312,759)</u>	<u>0</u>	<u>(3,452,678)</u>
Total Capital assets being depreciated, net	<u>7,251,084</u>	<u>2,207,820</u>	<u>0</u>	<u>9,458,904</u>
Total governmental activities capital assets, net	<u>7,994,946</u>	<u>2,780,594</u>	<u>0</u>	<u>10,775,540</u>
<b>Business-type Activities:</b>				
Capital Assets not being Depreciated:				
Land & Easements	1,188,570			1,188,570
Construction in Progress	1,824,227	416,825	(2,241,052)	0
Total capital assets not being depreciated	<u>3,012,797</u>	<u>416,825</u>	<u>(2,241,052)</u>	<u>1,188,570</u>
Capital assets being depreciated:				
Buildings & improvements	2,223,960			2,223,960
Machinery & Equipment	1,627,426			1,627,426
Infrastructure	39,882,585	2,241,052		42,123,637
Total capital assets being depreciated	<u>43,733,971</u>	<u>2,241,052</u>	<u>0</u>	<u>45,975,023</u>
Less accumulated depreciation for:				
Buildings & improvements	(366,773)	(8,697)		(375,470)
Machinery & Equipment	(1,156,597)	(195,422)		(1,352,019)
Utility System	(13,020,721)	(361,499)		(13,382,220)
Total accumulated depreciation	<u>(14,544,091)</u>	<u>(565,618)</u>	<u>0</u>	<u>(15,109,709)</u>
Total Capital assets being depreciated, net	<u>29,189,880</u>	<u>1,675,434</u>	<u>0</u>	<u>30,865,314</u>
Total business-type activities capital assets, net	<u>32,202,677</u>	<u>2,092,259</u>	<u>(2,241,052)</u>	<u>32,053,884</u>
<b>Primary Government</b>				
Total capital assets, net	<u>40,197,623</u>	<u>4,872,853</u>	<u>(2,241,052)</u>	<u>42,829,424</u>

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2011

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

A summary of general fixed assets transactions for the year ended September 30, 2011, follows:

	Expended through September 30, 2011	<u>Remaining Commitment</u>
Business-type activities (in progress at 09-30-10):		
Allen Road Water and Sewer Expansion	\$ 451,377	-
Lift Station Upgrade	2,503,100	--
Water Improvements - Old Spanish Trail	1,534,115	--
Highway 90/57 Sewer System Expansion	<u>6,361,715</u>	--
Total	<u>\$10,362,379</u>	<u>--</u>
Transferred to infrastructure	(7,430,148)	
Transferred to land & easements	(801,974)	
Adjustment to construction estimate	<u>(306,030)</u>	
Total transferred and added to fixed assets	<u>(10,362,379)</u>	
Business-type Activities - other		
Infrastructure addition	<u>416,825</u>	
Government Activities		
Construction in Progress at 09-30-11	<u>572,774</u>	<u>5,090,828</u>
Machinery & equipment purchased	407,725	
Infrastructure added	1,505,095	
Building Improvement	<u>607,759</u>	
Total	<u>2,520,579</u>	

Depreciation expense was charged to functions/programs for the year ended September 30, 2011, as follows:

Governmental activities:		
General government		<u>\$ 312,759</u>
Business-type activities:		
Water and Sewer Fund		\$ 556,921
Solid Waste Fund		<u>8,697</u>
Total business-type activities depreciation expense		<u>\$ 565,618</u>

**E. Accounts Payable**

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

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2011

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

**F. Long-Term Debt**

The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. Long-term liability activity for the year ended September 30, 2010, is shown below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Bonds and notes payable	\$ 9,198,650	347,808	525,922	9,020,536	875,923
Compensated absences	<u>208,531</u>	<u>23,178</u>	<u>0</u>	<u>231,709</u>	<u>74,986</u>
Total governmental activities long-term liabilities	<u>\$ 9,407,181</u>	<u>370,986</u>	<u>525,922</u>	<u>9,252,245</u>	<u>950,909</u>
Business-type activities:					
Water and sewer debt	\$16,698,689	-	1,363,880	15,334,809	1,363,968
Compensated absences	<u>16,636</u>	<u>7,565</u>	<u>-</u>	<u>24,201</u>	<u>9,894</u>
Total business-type activities long-term liabilities	<u>\$16,715,325</u>	<u>7,565</u>	<u>1,363,880</u>	<u>15,359,010</u>	<u>1,373,862</u>

**Description of Debt**

At September 30, 2010, notes payable consisted of the following individual issues:

	<u>General Long- Term Debt</u>
Governmental activities:	
General obligation bonds and notes:	
General Obligation Katrina Refunding Bond Series 2010; bearing interest at 3.45%, maturing March 2020	\$ 2,160,000
General Obligation Bond Series 2010; Capital Improvements; Maturing August, 2030; bearing interest at 3.13%	6,765,000
Police Court package Loan; 2.60% interest; maturing, May, 2015; annual payments Of \$ 73,040 until paid	273,650
Police Court Package Loan; 2.920% interest; maturing December, 2013; annual payments Of \$ \$ 123,243 until paid	347,808
Unsecured community disaster loan, bearing interest at 2.80%, maturing March 2011	<u>350,000</u>
Total general obligation bonds and notes	9,896,458
Compensated absences	306,696
Less current portion of long-term debt	<u>(950,909)</u>
Total governmental activities long-term debt	<u>\$ 9,252,545</u>

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2011

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

**Business-type activities:**

**Revenue Refunding Bond:**

Series 2001 Refunding Bond, payable in semiannual installments, bearing interest at a variable rate, currently 4.25%, maturing March 2019, secured by utility system revenues	\$ 9,905,000
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**Revenue Bonds:**

State Revolving Fund Loan, payable in monthly installments of \$9,019, beginning October 2006, bearing interest at 3.56%, maturing January 2026, secured by utility system revenues	1,218,483
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State Revolving Fund Loan, payable in monthly installments of \$10,949, beginning September 2006, bearing interest at 1.75%, maturing January 2026, secured by utility system revenues	1,664,490
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State Revolving Fund Loan, payable in monthly installments of \$7,877, beginning April 2006, bearing interest at 1.75%, maturing April 2025, secured by utility system revenues	1,142,083
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State Revolving Fund Loan, payable in monthly installments of \$3,765, beginning November, 2009; bearing interest at 1.95%, secured by utility system revenues	680,226
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State Revolving Fund Loan, payable in monthly installments of \$ 2,149, beginning October, 2009; bearing interest at 1.95%, secured by utility system revenues	362,188
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State Revolving Fund Loan, payable in monthly installments of \$ 9,665, beginning December, 2009, bearing interest at 2.75%, secured by utility system revenues	<u>1,633,525</u>
Total general obligation bonds and notes	16,605,995

SCADA Loan, Hancock Bank, \$48,551 per month, bearing interest at 3.15 %	92,782
<b>Compensated absences</b>	34,095
Less current portion of long-term debt	<u>(1,373,862)</u>
Total business-type activities long-term debt	<u>\$15,359,010</u>

**Revenue Refunding Bond**

Utility System Revenue Refunding Bonds, Series 2001, were issued for the purpose of providing for the refunding of all maturities of the Gautier Utility District's outstanding Combined Utility System Revenue Bonds, Series 1992, issued in the principal amount of \$19,970,000, in order to accomplish debt service savings for the District. The bond is payable solely from net revenues from water and sewer system operation. The Gautier Utility District was merged into the City of Gautier during fiscal year ended September 30, 2002.

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2011

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

The bonds are collateralized by the revenues of the water and sewer system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the Revenue Bond Funds. As long as the bonds are outstanding, the City agreed to fix and maintain rates and collect charges for the use and services of the System, which will at all times be sufficient to meet specified requirements. The balance outstanding at September 30, 2011, was \$ 9,905,000.

Revenue Bonds State revenue bonds are collateralized by the revenues of the water and sewer funds. The City executed several long-term debt 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. The balance outstanding on these bonds, as of September 30, 2011, was \$6,700,995.

**Debt Maturity**

Debt service requirements at September 30, 2011, were as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Notes &amp; Capital Leases</u>		<u>Water and Sewer Bonds &amp; Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	989,010	304,691	1,433,589	652,281
2013	664,777	288,458	1,498,551	584,706
2014	686,977	271,490	1,520,224	513,707
2015	585,694	253,586	1,567,228	437,494
2016-2020	2,920,000	993,893	7,172,955	854,986
2021-2025	2,355,000	688,874	2,319,609	286,018
2026-2030	1,695,000	169,767	1,186,621	55,289
Total	<u>\$ 9,896,458</u>	<u>2,970,759</u>	<u>16,698,777</u>	<u>3,384,481</u>