NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Gautier, Mississippi was incorporated on June 17, 1986. The City operates under a Council-Manager form of government described under Title 21, Chapter 9, of the Mississippi Code of 1972. The City provides the following services, as authorized by its charter: public safety, public works, public health and welfare, culture, recreation and water, sewer and gas system.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City with the option of electing to apply FASB pronouncements issued after that date. The City has chosen not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. The City implemented the general provisions of GASB Statement Nos. 33 and 34 during fiscal year ended September 30, 2004.

A. Financial Reporting Entity

These financial statements present the City (the primary government) only. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

-the organization is legally separate (can sue and be sued in their own name)
-the City holds the corporate powers of the organization
-the City appoints a voting majority of the organization's board
-the City is able to impose its will on the organization
-the organization has the potential to impose a financial benefit/burden on the City
-there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Gautier has no component units.

B. Basic Financial Statements - Government-wide statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's police and fire protection, parks, recreation, public works, and general administrative services are classified as governmental activities. The City's water and sewer system and solid waste management services are classified as business-type activities.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the Government-Wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The Government-Wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (public safety, public works, culture and recreation, etc.). The functions are also supported by general governmental revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Government-Wide Statement of Activities reduces gross expenses (including depreciation) by related program revenues and by operating and capital grants. Program revenues must be directly associated with the function (police, public works, community and youth services, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital- specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc).

The City does not allocate indirect costs. An administrative service fee is charged by the General Fund to the Water and Sewer Fund to recover the direct costs of General Fund services provided (finance, personnel, purchasing, legal, technology management, etc.).

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

C. Basic Financial Statements - Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by genetic classification within the financial statements.

Governmental Funds:

The focus of governmental fund measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. These funds include: Fire Protection Fund, Recreation Fund, Tideland Grant Fund, etc.

3. Debt service funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

4. Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds). The City had capital projects funds during the year ended September 30, 2012.

Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City.

1. Enterprise funds are used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. These funds include: Water and Sewer System Fund, Solid Waste Fund and related projects.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual:

Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Modified Accrual:

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

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

E. Financial Statement Amounts

Cash and Cash Equivalents:

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

Capital Assets:

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues:

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

Expenditures:

Expenditures are recognized when the related fund liability is incurred.

Compensated Absences:

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

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

Interfund Activity:

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

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

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Fund Accounting Requirements

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

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

B. Deposits and Investments - Laws and Regulations

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

C, Revenue Restrictions

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

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

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

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

D. Debt Restrictions and Covenants

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

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

A. Cash and Investments

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

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

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

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

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

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

B. Restricted Cash

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

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

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

C. Accounts Receivable

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

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

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

D. Capital Assets

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

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