Government-wide financial statements - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

The government-wide financial statements outline both functions of the City and business-type activities.

The governmental activities of the City include police and fire protection, parks, recreation, public works, urban and economic development, and general administrative services. The business-type activities include the water and sewer system and its related projects.

The government-wide financial statements can be found on pages 17 and 18 of this report.

Fund financial statements - Fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements are comprised of the following funds: governmental and proprietary (enterprise) funds.

Notes to the financial statements - The notes provide additional information that is essential to a user's understanding of the basic financial statements. The notes to the financial statements can be found on pages 31-51 of this report.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process.

The City adopts an annual operating budget for all governmental funds. A Budgetary Comparison Statement has been provided for the General Fund. This required supplementary information can be found on pages 53-57 of this report.

Reporting the City's Most Significant Funds

Fund financial statements begin on page 21 and provide detailed information about the most significant funds. Some funds are required to be established by State law. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two major types of funds are discussed below:

Governmental funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. 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 determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in the reconciliation's found on pages 22 and 24.

Proprietary funds - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Assets and the Statement of Activities. Proprietary funds include the Water and Sewer and Sewer Expansion funds. Other nonmajor proprietary funds include the Solid Waste and Sewer Rehab funds which are combined into a single column on the proprietary fund financial statements. These funds are the same as the business-type activities reported in the government- wide financial statements but provide more detail and additional information, such as cash flows. The accrual basis of accounting is used for proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Net assets may serve over time as a useful indicator of a government's financial position. The following table presents a summary of the City's net assets for the fiscal years ended September 30, 2012 and 2011.

Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 4,076,521	6,293,513	3,845,348	3,486,166	7,921,869	9,779,679
Capital assets	13,885,323	10,775,540	31,669,534	32,053,884	45,554,857	42,829,424
Total assets	17,961,844	17,069,053	35,514,882	35,540,050	53,476,726	52,609,103
Long-term debt outstanding	8,415,104	9,252,245	14,046,808	15,359,010	22,461,912	24,611,255
Other liabilities	1,315,167	1,176,623	2,280,556	2,084,448	3,595,723	3,261,071
Total liabilities	$ 9,730,271	10,428,868	16,327,364	17,443,458	26,057,635	27,872,326
Net assets:						
Invested in capital assets, net of debt	$ 4,655,983	4,591,141	15,930,347	10,129,447	20,586,330	14,720,588
Restricted	2,569,532	167,790	1,330,819	1,116,815	3,900,351	1,284,605
Unrestricted	1,006,058	1,430,394	1,926,353	5,318,666	2,932,411	6,749,060
Total net assets	$ 8,231,573	6,189,325	19,187,519	16,564,928	27,419,092	22,754,253

The City's restricted net assets accounted for 14.22% of total net assets in 2012, and 5.65% in 2011. Investment in capital assets (e.g. land, construction in progress, buildings, equipment, and infrastructure) accounted for 75.08% of total net assets in 2012 and 64.42% in 2011, respectively. The remaining balance consisted of unrestricted net assets, is the part of net assets used to finance everyday operations without constraints of legal requirements.

The following are significant transactions that have had an impact on the Statement of Net Assets.

• In 2004, the City implemented the new standards of GASB 34 which requires it to report and depreciate new and old infrastructure assets [e.g. roads, bridges, underground pipes (other than utilities), traffic signals, etc]. The retroactive reporting of infrastructure was subject to an extended implementation period and was first effective for fiscal years ended in 2006. As of September 30, 2012, the City had not implemented retroactive reporting of infrastructure.

Changes in net assets - The City's total revenues for the fiscal years ended September 30, 2012 and 2011 were $18,608,482 and $18,035,954, respectively. The total cost of all programs and services was $15,926,170 and $16,053,433. The following table presents a summary of the changes in net assets for the fiscal years ended September 30, 2012 and 2011.

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues						
Charges for services	$ 893,524	1,137,597	7,499,264	7,617,579	8,392,788	8,755,176
Operating Grants and Contributions	108,143	1,130,759	185,965	-	294,108	1,130,759
Capital Grants And contributions	2,272,793	-	-	497,269	2,272,793	497,269
General Revenues						
Property Taxes	3,928,370	3,478,622	-	-	3,928,370	3,478,622
Franchise Taxes	157,727	175,076	-	-	157,727	175,076
Intergovernmental Revenues	2,936,882	3,093,971	-	-	2,936,882	3,093,971
Other general revenues	622,662	492,196	3,152	412,885	625,814	905,081
Total revenues	$ 10,920,101	9,508,221	7,688,381	8,527,733	18,608,482	18,035,954

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program Expenses						
General Government	$ 2,302,868	2,416,644	-	-	2,302,868	2,416,644
Public Safety	5,888,087	5,889,030	-	-	5,888,087	5,889,030
Public Works	1,330,505	1,261,218	-	-	1,330,505	1,261,218
Culture & Recreation	184,441	276,678	-	-	184,441	276,678
Capital Outlay	-	-	-	-	-	-
Debt Service-interest	372,814	367,684	-	-	372,814	367,684
Water and Sewer Fund	-	-	4,438,274	4,497,343	4,438,274	4,497,343
Solid waste	-	-	1,409,181	1,344,836	1,409,181	1,344,836
Total expenses	$10,078,015	10,211,254	5,847,455	5,842,179	15,926,170	16,053,433
Increase in net assets	$ 841,386	(703,033)	1,840,926	2,685,554	2,682,312	1,982,521

Governmental activities

The following table presents the cost of major City functional activities: general government, public safety, public works, culture and recreation, urban and economic development, capital outlay, and debt service-interest. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and City's taxpayers by each of these functions.

Governmental Activities

	2012		2011	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Program Expenses				
General Government	$ 2,302,868	51,058	2,416,644	(1,370,623)
Public Safety	5,888,087	(4,967,553)	5,889,030	(4,666,695)
Public Works	1,330,505	(1,330,505)	1,261,218	(1,261,218)
Culture & Recreation	184,441	(184,441)	276,678	(276,678)
Capital Outlay	-	-	-	-
Debt Service-interest	372,814	(372,814)	367,684	(367,684)
Total expenses	$10,078,715	(6,804,255)	10,211,254	(7,942,898)

Business-type activities

The City's business-type activities generated a change in net assets of $1,840,926 during the fiscal year ending September 30, 2012. This represents a decrease of approximately $844,628 from the change during the previous year. The factors contributing to this decrease included:

• The Water and Sewer Fund had an decrease in service charges of approximately $118,315.

• The Water and Sewer Fund had a decrease in grant revenues of approximately $ 311,304 .

• The City had an decrease in other revenues of approximately $ 279,267.

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As the City completed the year, its governmental funds reported a combined fund balance of $4,076,251, compared to $1,737,421 in the prior year. Activities within the general fund contributed to approximately 30.02% in 2012 and 21.62% of the fund balances, respectively. Other items that influenced the fund balances are as follows:

• The City received approximately $ 2.6 million in grant revenues, which represents a increase of approximately 58 % from the previous year.

General Fund Budgetary Highlights

Over the course of the year, adjustments made in the budget were minor. The changes were due to the following: 1) amendments were made shortly after the beginning of the year, 2) the Council made changes in the middle of the year to prevent shortages from the addition or extension of service contracts, or 3) the Council approved several increases in appropriations to prevent budget overruns and to recognize receipt of funds not expected.

With these adjustments, the actual expenditures were $ 9,691,861 compared to $ 10,129,951 in the budget. A schedule showing the original and final budget amounts compared to the City's actual financial activity for the General Fund is provided on pages 53-57 of this report as required supplementary information.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - The City's total capital assets for 2012 and 2011 were $45,554,857 and $42,829,424, respectively. The City mainly invested in infrastructure improvements for the area. The following table presents a summary of the City's capital net assets for the fiscal years ended September 30, 2012 and 2011.

Capital Assets at Year End (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	$ 798,104	743,862	1,188,570	1,188,570	1,986,674	1,932,432
Construction in progress	3,021,932	572,774	-	-	3,021,932	572,774
Buildings and improvements	2,341,687	2,366,097	1,792,891	1,848,490	4,134,578	4,214,587
Machinery and Equipment	3,519,356	4,115,908	308,151	275,407	3,827,507	4,391,315
Utility System	-	-	28,379,922	28,741,417	28,379,922	28,741,417
Infrastructure	4,204,244	2,976,899			4,204,244	2,976,899
Total	$13,885,323	10,775,540	31,669,534	32,053,884	45,554,857	42,829,424

Major projects have included:

	Completed Through September 30, 2012	Remaining Commitment
Government and business-type activities:		
Allen Road Water and Sewer Expansion	$ 451,377	-
Lift Station Upgrade	2,503,100	-
Water Improvements - Old Spanish Trail	2,527,999	-
Highway 90/57 Sewer System Expansion	6,631,715	-
Streetscape Project	3,021,932	2,551,502
Martin Bluff Road Improvements	239,011	

Debt Administration At September 30, 2012, the City had $25,311,995 in general obligation bonds and other long-term debt outstanding, of which $ 2,850,083 is due within one year.

Outstanding Debt at Year-End

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds (backed by the City	$ 6,515,000	6,765,000	9,185,000	9,905,000	15,700,000	16,670,000
Revenue Bonds and Notes (backed by specific tax and fee revenues)	2,714,341	3,131,458	6,554,187	6,793,777	9,268,528	9,925,235
Compensated absences	309,109	306,696	34,358	34,095	343,467	340,791
Total	$ 9,538,450	10,203,154	15,773,545	16,732,872	25,311,995	27,085,336

More detailed information about the City's long-term liabilities is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

On August 29, 2005, the City was severely impacted by Hurricane Katrina. The City is in the continuing process of rebuilding, which will be the case for some years. The City has used federal grants, insurance reimbursements and loans to help with these rebuilding costs.

The City's elected and appointed officials considered many factors when setting the fiscal-year 2012 budget, tax rates, and fees to be charged for business-type activities. The local economy continues its slow recovery from the loss of several major industries and revenues lost due to Hurricane Katrina, but the prospects for new industries are improving. This is evidenced by the Council utilizing the City's financial leverage in issuing seven million dollars of General Obligation Bonds for a New Police Station and other improvements to provide for a platform for continuing economic development, and the issuance in the current Fiscal Year of a Refunding Bond saving the City anticipated interest charges. Also in September of 2012, the City adopted its first ever five year strategic plan. The City also privatized its public works resulting in savings of hundreds of thousands of dollars.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If - you have any questions about this report or need additional financial information, contact the Finance Director's Office at 3330 Hwy 90, Gautier, Mississippi or tmontgomery@gautier-ms.gov.

BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2012

The basic financial statements include integrated sets of financial statements as required by the Governmental Accounting Standards Board. The sets of statements include:

- Government-wide financial statements
- Fund financial statements:
  - Governmental funds
  - Proprietary (enterprise) funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS