

CITY OF GAUTIER, MISSISSIPPI  
AUDITED FINANCIAL STATEMENTS  
For the Year Ended September 30, 2013

CITY OF GAUTIER, MISSISSIPPI  
MUNICIPAL OFFICIALS  
For the Year Ended September 30, 2013

**OFFICIALS**

Mayor

Gordon Gollott

**CITY COUNCIL**

Councilwoman

Mary Martin

Councilman

Johnny Jones

Councilman

Hurley Ray Guillotte

Councilman

Casey Vaughn

Councilman

Charles Anderson

Councilman

Adam Colledge

**DEPARTMENT HEADS**

City Attorney

Robert Ramsay

City Manager

Samantha Abell

City Clerk

Cindy Russell

Police Chief

Dante Elbin

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LLOYD B. MARSHALL, JR.  
CERTIFIED PUBLIC ACCOUNTANT  
4321 Gautier Vancleave Rd. Suite A  
Gautier, Mississippi 39553

## INDEPENDENT AUDITORS' REPORT

### **Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gautier, Mississippi, as of and for the year ended September 30, 2013, 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.

### ***Auditor's Responsibility***

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

**Independent Auditors' Report**  
**Page 2**

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

***Summary of Opinions***

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Qualified
General Fund	Unmodified
Capital Projects Funds	Unmodified
Water & Sewer Fund	Unmodified
Solid Waste Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

***Basis for Qualified Opinions on Government-Wide Financial Statements and Proprietary Funds Financial Statements and Capital Assets Note to the Financial Statements***

Because of the inadequacy of accounting records for the fiscal year ended September 30, 2013, that relate to the fixed assets, accumulated depreciation and depreciation expense, I was unable to form an opinion regarding those amounts and net assets invested in capital assets, net of related debt, for the Government-Wide Financial Statements, which includes amounts at which property and equipment and accumulated depreciation, and the amount of depreciation expense for the year then ended, as outlined in the Capital Assets Note to the Financial Statements, are recorded in the accompanying balance sheet at September 30, 2013, and the Proprietary Funds Financial Statements which includes amounts at which property and equipment and accumulated depreciation, and the amount of depreciation expense for the year then ended, as also outlined in the Capital Assets Note to the Financial Statements, are recorded in the accompanying balance sheet at September 30, 2013. As a result, I was unable to form an opinion on the respective net assets to which these balances are related.

***Qualified Opinions***

In My opinion, except for the effects of the matter described in the “*Basis for Qualified Opinions on Government-Wide Financial Statements and Proprietary Funds Financial Statements and Capital Assets Note to the Financial Statements*” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Gautier, Mississippi, as of September 30, 2013, 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.

***Unmodified Opinions***

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the General Fund, the Capital Projects Fund, the Water & Sewer Fund, the Solid Waste Fund, and the aggregate remaining fund information of the City of Gautier, Mississippi, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133***

I have audited the financial statements of City of Gautier as of and for the year ended September 30, 2013, and have issued my report thereon dated June 30, 2014, which contained an unmodified opinion on those financial statements. My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In My opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

***Required Supplementary Information***

Management has omitted management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by 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. My opinion on the basic financial statements is not affected by this missing information.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, I have also issued my report dated June 30, 2014 on my consideration of the City of Gautier's internal control over financial reporting and on my 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's internal control over financial reporting and compliance.

Gautier, Mississippi  
June 30, 2014

## **BASIC FINANCIAL STATEMENTS**

For the Year Ended September 30, 2013

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**

**CITY OF GAUTIER, MISSISSIPPI**  
**GOVERNMENT-WIDE STATEMENT OF NET POSITION**  
September 30, 2013

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,899,761	1,264,341	3,164,102
Restricted cash and cash equivalents	1,957,364	5,103,374	7,060,738
Receivables, net	654,325	659,302	1,313,627
Internal Balances	-	-	-
Capital assets:			
Land & Construction in Progress	5,824,954	1,190,870	7,015,824
Other capital assets, net of Depreciation	<u>9,539,291</u>	<u>28,869,692</u>	<u>39,408,983</u>
Total capital assets	<u>15,364,245</u>	<u>31,060,562</u>	<u>46,424,807</u>
Total assets	<u>19,875,695</u>	<u>38,087,579</u>	<u>57,963,274</u>
<b>LIABILITIES</b>			
Accounts payable	96,970	11,120	108,090
Accrued Expenses & Interest Payable	80,836		80,836
Compensated absences, current	35,157	994	36,151
Customer deposits	-	556,195	556,195
Long-term liabilities:			
Due within one year	1,014,427	1,808,679	2,823,106
Due in more than one year	<u>7,549,362</u>	<u>15,741,653</u>	<u>23,291,015</u>
Total liabilities	<u>8,776,302</u>	<u>18,118,641</u>	<u>26,894,943</u>
<b>NET ASSETS</b>			
Investment in capital assets (net of related debt)	6,800,456	13,510,231	20,310,687
Restricted net assets:			
Debt service	2,460	756,604	759,064
Bond contingency fund	2,566,037	946,561	3,512,598
Unrestricted net assets	<u>1,730,440</u>	<u>4,755,542</u>	<u>6,485,982</u>
Total net assets	<u>\$11,099,393</u>	<u>19,968,938</u>	<u>31,068,331</u>

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

**CITY OF GAUTIER, MISSISSIPPI**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
For the Year Ended September 30, 2013

	Program Revenue				Net (expense) revenue and changes in net Assets		
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Government Activities:</b>							
General Government	\$ 2,300,198	77,291	414,989	1,621,836	(186,082)	-	(186,082)
Public Safety	5,610,620	814,884	-	-	(4,795,736)	-	(4,795,736)
Public Works	700,346	-	-	-	( 700,346)	-	( 700,346)
Culture and Recreation	336,574	-	-	-	( 336,574)	-	( 336,574)
Debt service – interest	<u>294,560</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 294,560)</u>	<u>-</u>	<u>( 294,560)</u>
Total Government Activities	<u>\$ 9,242,298</u>	<u>892,175</u>	<u>414,989</u>	<u>1,621,836</u>	<u>(6,313,298)</u>	<u>-</u>	<u>(6,313,298)</u>
<b>Business-type activities:</b>							
Water & Sewer Fund	4,787,422	5,763,569	65,989	-	-	1,042,436	1,042,436
Solid Waste	<u>1,027,313</u>	<u>1,246,782</u>	<u>39,697</u>	<u>-</u>	<u>-</u>	<u>259,166</u>	<u>59,166</u>
Total Business-type Activities	<u>5,814,735</u>	<u>7,010,351</u>	<u>105,686</u>	<u>-</u>	<u>-</u>	<u>1,301,302</u>	<u>1,301,302</u>
Total Primary	<u>\$15,057,033</u>	<u>7,902,526</u>	<u>520,675</u>	<u>1,621,386</u>	<u>(6,313,98)</u>	<u>1,301,302</u>	<u>(5,011,996)</u>
<b>General Revenues:</b>							
Property Taxes					3,989,866	-	3,989,866
Franchise Taxes					166,565	-	166,565
Intergovernmental					3,022,351	-	3,022,351
Interest Income					4,380	3,599	7,979
Miscellaneous					<u>504,786</u>	<u>465,106</u>	<u>969,892</u>
Total General Revenues					<u>7,687,948</u>	<u>468,705</u>	<u>8,156,653</u>
<b>Changes in Net Assets</b>					1,374,650	1,770,007	3,144,657
Net assets, beginning					8,321,573	19,187,518	27,419,091
Prior Period Adjustments					182,780		182,780
Transfers & Special Item					<u>1,310,390</u>	<u>(988,587)</u>	<u>321,803</u>
Net Assets, ending					<u>\$11,099,393</u>	<u>19,968,938</u>	<u>31,068,331</u>

**FUND FINANCIAL STATEMENTS**

**GOVERNMENTAL FUNDS FINANCIAL STATEMENTS**

**CITY OF GAUTIER, MISSISSIPPI**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
September 30, 2013

	<u>General Fund</u>	<u>Capital Projects Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$1,084,189	-	815,572	1,899,761
Receivables, net	654,325	-		654,325
Due From (To)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	1,738,514	-	815,572	2,554,086
Noncurrent assets:				
Restricted cash	<u>-</u>	<u>1,957,364</u>	<u>-</u>	<u>1,957,364</u>
Total assets	<u>\$ 1,738,514</u>	<u>1,957,364</u>	<u>815,572</u>	<u>4,511,450</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 73,587	14,806	8,577	96,970
Other accrued liabilities	86,386	-		80,386
Compensated absences, Current	35,157	-		35,157
Total liabilities	<u>189,830</u>	<u>14,806</u>	<u>8,577</u>	<u>212,513</u>
Fund balances:				
Reserved for:				
Debt service	-	1,942,558	-	1,942,558
Unreserved:				
General fund	1,549,384	-	-	1,549,384
Special revenue funds	<u>-</u>	<u>-</u>	<u>806,595</u>	<u>806,995</u>
Total fund balances	<u>1,549,384</u>	<u>1,942,558</u>	<u>806,595</u>	<u>4,298,937</u>
Total liabilities and fund balances	<u>\$ 1,738,514</u>	<u>1,957,364</u>	<u>815,572</u>	<u>4,511,450</u>

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

**CITY OF GAUTIER, MISSISSIPPI**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
September 30, 2013

**Total governmental funds balance** **\$ 4,298,937**

Amounts reported for governmental activities in the statement of net assets 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	\$ 20,637,859	
Less: accumulated depreciation	( 5,273,613)	15,364,246

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Bonds and notes	( 8,326,969)	
Compensated absences	<u>(236,821)</u>	
 Net assets of governmental activities		 <b><u>\$ 11,099,393</u></b>

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

**CITY OF GAUTIER, MISSISSIPPI**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2013

	<u>General Fund</u>	<u>Capital Projects Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Property taxes	\$ 3,878,034	-	111,832	3,989,866
Franchise fees	166,565	-	-	166,565
Fees and fines	753,453	-	61,431	814,884
Licenses and permits	77,291	-	-	77,291
Intergovernmental	2,923,368	-	98,893	3,022,351
Interest income	2,018	2,362	-	4,380
Grants	1,421,439	242,909	372,476	2,036,824
Miscellaneous	426,903	-	162,095	588,998
Total revenues	<u>9,649,071</u>	<u>245,271</u>	<u>806,817</u>	<u>10,701,159</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,260,031	3,035	-	2,263,066
Public safety	4,847,643	-	5,489	4,853,132
Public works	468,396	-	92,704	561,100
Culture and recreation	170,426	-	160,148	336,574
Debt service:				
Interest and fiscal charges	193,283	763,054	-	959,337
Capital outlay	<u>1,165,708</u>	<u>839,210</u>	<u>402,314</u>	<u>2,407,232</u>
Total expenditures	<u>9,114,487</u>	<u>1,605,299</u>	<u>660,655</u>	<u>11,380,441</u>
Excess of revenues over (under) expenditures	<u>534,584</u>	<u>( 1,360,028)</u>	<u>146,162</u>	<u>( 679,282)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in (out)	<u>220,497</u>	<u>733,054</u>	<u>35,036</u>	<u>988,587</u>
Total other financing sources (uses)	<u>220,497</u>	<u>733,054</u>	<u>35,036</u>	<u>988,587</u>
Net changes in fund balances	755,081	( 626,974)	181,198	309,305
Fund balance - beginning of year	611,524	2,539,532	625,797	3,806,853
Prior period adjustment	<u>182,779</u>	<u>-</u>	<u>-</u>	<u>182,779</u>
Fund balance - end of year	<u>\$1,549,384</u>	<u>1,942,558</u>	<u>806,995</u>	<u>4,298,937</u>

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

**CITY OF GAUTIER, MISSISSIPPI**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2013**

**Net change in fund balances - total governmental funds** **\$ 309,305**

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. Also, transfers out are not recorded.

Capital outlay	\$2,407,232	
Depreciation	(928,309)	
Excess of depreciation expense over capital outlay		1,478,923

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 the funds.

Transfers		(988,587)
Net Adjustments for compensated absences		( 5,558)
Principal paid on debt		664,778
New loan for Command Vehicle		<u>( 84,211)</u>
		<u>1,065,345</u>

Changes in net assets of governmental activities **\$ 1,374,650**

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

**PROPRIETARY FUNDS FINANCIAL STATEMENTS**

**CITY OF GAUTIER, MISSISSIPPI**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**September 30, 2013**

	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Total Proprietary Funds</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,260,825	3,516	1,264,341
Accounts receivable, net	659,302	-	659,302
Due (to) from other Funds	(103,948)	103,948	
Total current assets	<u>1,816,179</u>	<u>107,464</u>	<u>1,923,643</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	5,103,374	-	5,103,374
Capital assets:			
Land	1,190,870	-	1,190,870
Other capital assets, net of accumulated depreciation	<u>29,851,983</u>	<u>17,709</u>	<u>28,869,692</u>
Total noncurrent assets	<u>36,146,227</u>	<u>17,709</u>	<u>36,163,936</u>
Total assets	<u>37,962,406</u>	<u>125,173</u>	<u>38,087,579</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	11,120		11,120
Due to Other Funds	-		-
Compensated absences payable	994		994
Bonds and notes payable	1,808,679	-	1,808,679
Payable from restricted assets:			
Customer deposits	<u>556,195</u>	<u>-</u>	<u>556,195</u>
Total current liabilities	<u>2,376,988</u>	<u>-</u>	<u>2,376,988</u>
Noncurrent liabilities:			
Compensated absences	27,568	-	27,568
Bonds and notes payable	<u>15,714,084</u>	<u>-</u>	<u>15,714,084</u>
Total noncurrent liabilities	<u>15,741,652</u>	<u>-</u>	<u>15,741,652</u>
Total liabilities	<u>18,118,640</u>	<u>-</u>	<u>18,118,640</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	13,492,522	17,709	13,510,231
Restricted:			
Debt service	3,620,956	-	3,620,956
Bond contingency fund	946,561	-	946,561
Unrestricted	<u>1,783,726</u>	<u>107,464</u>	<u>1,891,120</u>
Total net assets	<u>\$ 19,843,765</u>	<u>125,173</u>	<u>19,968,938</u>

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

**CITY OF GAUTIER, MISSISSIPPI**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
For the Year Ended September 30, 2013

	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Total Proprietary Funds</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 5,765,569	1,246,782	7,010,351
Grants	65,989	39,697	105,686
Other	<u>465,106</u>	<u>-</u>	<u>465,106</u>
Total operating revenues	<u>6,385,525</u>	<u>1,299,704</u>	<u>7,685,229</u>
<b>OPERATING EXPENSES</b>			
Personnel services	314,372	7,660	322,032
Wastewater treatment	1,235,736	-	1,235,736
Waste collections and disposals	-	1,001,770	1,001,770
Utilities	198,196	-	198,196
Supplies	142,028	-	142,028
Maintenance and repairs	37,576	-	37,576
Depreciation	660,721	9,621	670,342
Other services and charges	<u>1,876,734</u>	<u>8,262</u>	<u>1,884,996</u>
Total operating expenses	<u>4,465,363</u>	<u>1,027,313</u>	<u>5,492,676</u>
Operating income (loss)	<u>1,829,301</u>	<u>259,166</u>	<u>2,088,467</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	3,152	-	3,152
Interest expense	<u>(523,343)</u>	<u>-</u>	<u>(523,343)</u>
Net nonoperating revenues (expenses)	<u>(520,191)</u>	<u>-</u>	<u>(520,191)</u>
<b>CAPITAL CONTRIBUTIONS &amp; TRANSFERS</b>			
Transfer In (Out)	<u>(708,860)</u>	<u>( 279,727)</u>	<u>(988,587)</u>
Changes in net position	801,981	( 20,561)	781,420
Net position - beginning of year	19,041,784	145,734	19,187,518
Net position - end of year	<u>\$ 19,843,765</u>	<u>125,173</u>	<u>19,968,938</u>

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

**CITY OF GAUTIER, MISSISSIPPI**  
**RECONCILIATION OF THE PROPRIETARY FUNDS NET ASSETS**  
**TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
September 30, 2013

<b>Total Proprietary Fund net assets</b>	<b>\$19,968,938</b>
Differences in Interfund Balances	<u>0</u>
Net assets of proprietary activities on government-wide statement of net assets	<b><u>\$19,968,938</u></b>

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

**CITY OF GAUTIER, MISSISSIPPI**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended September 30, 2013

	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Total Proprietary Funds</u>
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ 5,623,417	1,211,802	6,835,219
Cash received from grants	65,990	39,697	105,687
Payments for goods and services	(3,419,658)	(1,010,132)	(4,429,790)
Payments to employees	( 320,167)	( 7,660)	( 327,827)
Other receipts	<u>511,178</u>	<u>-</u>	<u>511,178</u>
Net cash provided (used) in operating Activities	<u>2,460,760</u>	<u>233,707</u>	<u>2,694,467</u>
<b>Cash flows from noncapital financing activities:</b>			
Decrease in customer Deposits & other activities	<u>( 46,937)</u>	<u>-</u>	<u>( 46,937)</u>
Net cash provided (used) by noncapital financing activities	<u>( 46,937)</u>	<u>-</u>	<u>( 46,937)</u>
<b>Cash flows from capital and related financing activities:</b>			
Increase in Capital Debt	3,500,000	-	3,500,000
Transfers	( 708,860)	( 279,627)	( 988,487)
Purchase and construction of capital assets	( 61,370)	-	( 61,370)
Principal paid on capital debt	(1,716,425)	-	(1,716,425)
Interest paid on capital debt	(322,059)	-	(322,059)
Investments in restricted cash	<u>(3,772,555)</u>	<u>-</u>	<u>(3,772,555)</u>
Net cash used in capital and related financing Activities	<u>(3,081,269)</u>	<u>(279,627)</u>	<u>(3,360,896)</u>
<b>Cash flows from investing activities:</b>			
Interest received	<u>3,599</u>	<u>-</u>	<u>3,599</u>
Net cash provided by investing activities	<u>3,599</u>	<u>-</u>	<u>3,599</u>
Net change in cash and cash equivalents Cash and cash equivalents:	(663,847)	( 45,920)	(709,767)
Beginning of the year	<u>1,924,672</u>	<u>49,436</u>	<u>1,974,108</u>
End of the year	<u>\$1,260,825</u>	<u>3,516</u>	<u>1,264,341</u>

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

**CITY OF GAUTIER, MISSISSIPPI**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended September 30, 2013

	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>			
Operating income (loss)	\$ 1,829,301	259,166	2,088,467
Adjustments to reconcile operating (income) loss to net cash			
Depreciation expense	660,721	9,621	670,342
Increase (Decrease) in current assets:			
Accounts receivable & prepaids	(14,933)	(35,080)	(50,013)
(Increase) Decrease in current liabilities:			
Accounts payable	871		871
Other liabilities	(15,200)	-	(15,200)
Net cash provided by (used in) operating Activities	<u>\$ 2,460,760</u>	<u>233,707</u>	<u>2,694,467</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2013

**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.

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2013

**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:

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2013

**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, 2013.

**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.

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2013

**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.

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2013

**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, 2013

**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, 2013. At year-end, the respective bank balances totaled \$7,002,772. There were no certificates of deposit outstanding at September 30, 2013.

**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, 2013 the City complied, in all material respects, with these revenue restrictions.

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2013

**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 2012-2013 were as follows:

	Allocation Percentage
Hancock Bank	52%
Merchant and Marine Bank	38%
Peoples Bank	10%
	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, 2013, (including restricted deposits) were as follows:

	<u>Bank Balances</u>
Pooled deposits:	
Cash and cash equivalents	\$ 3,723,462
Non-pooled deposits:	
Cash and cash equivalents:	
Capital Improvement Bond Fund	1,954,904
Debt Service Funds	1,192,920
Contingency Fund	484,742
MS Development Loans	2,868,812
	\$ 10,224,840

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2013

**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, 2013, were as follows:

<u>Types of Restricted Assets</u>	<u>Cash Including Time Deposits</u>
Capital Improvement Bond Fund	\$ 1,954,904
Meter Deposit Fund	561,359
Bond Contingency Funds	757,090
Series 2012 Utility System Refunding Bond	820,573
Series 2013 Bond Fund	2,964,352
2008 MS Development Loan	2,460
	<u>\$ 7,060,738</u>

**C. Accounts Receivable**

Accounts receivable at September 30, 2012, 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	\$ 63,112	-	63,112
Municipal court	6,598,498	6,341,157	257,342
Sales tax	283,622	-	283,622
Grants	50,249	-	50,249
Total General Fund	<u>6,995,481</u>	<u>6,341,157</u>	<u>654,325</u>
<b>Business-type activities:</b>			
Enterprise Fund:			
Water and sewer collections	2,541,852	1,882,550	659,302
Total business-type activities	<u>2,541,852</u>	<u>1,882,550</u>	<u>659,302</u>
Total government-wide activities	<u>\$ 9,537,333</u>	<u>8,223,707</u>	<u>1,313,626</u>

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2013

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

**D. Capital Assets**

**See Excel Spreadsheet**

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2013

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

A summary of general fixed assets transactions for the year ended September 30, 2013, follows:

	<u>Expended through September 30, 2013</u>	<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>	<u>--</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		
Land & machinery addition	<u>61,370</u>	
Government Activities		
Construction in Progress at 09-30-13	<u>5,026,850</u>	<u>2,409,196</u>
Additions to Construction in Progress	2,004,918	
Machinery & equipment purchased	343,064	
Infrastructure added	36,850	
Building Improvement	<u>22,400</u>	
Total	<u>2,407,232</u>	

Depreciation expense was charged to functions/programs for the year ended September 30, 2013, as follows:

Governmental activities:	
General government	<u>\$ 928,310</u>
Business-type activities:	
Water and Sewer Fund	\$ 660,721
Solid Waste Fund	<u>9,621</u>
Total business-type activities depreciation expense	<u>\$ 670,342</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, 2013

**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, 2013, 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	\$ 9,229,340	84,211	986,583	8,326,968	979,270
Compensated absences	<u>309,110</u>	<u>          </u>	<u>37,132</u>	<u>271,978</u>	<u>35,157</u>
Total governmental activities long-term liabilities	<u>\$ 9,538,450</u>	<u>84,211</u>	<u>1,023,715</u>	<u>8,598,946</u>	<u>1,014,427</u>
Business-type activities:					
Water and sewer debt	\$15,739,138	3,500,000	1,716,425	15,522,763	1,808,679
Compensated absences	<u>24,201</u>	<u>          </u>	<u>242</u>	<u>23,959</u>	<u>994</u>
Total business-type activities long-term liabilities	<u>\$15,359,010</u>	<u>474,000</u>	<u>1,786,202</u>	<u>15,359,010</u>	<u>1,809,673</u>

**Description of Debt**

At September 30, 2013, 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	\$ 1,735,000
General Obligation Bond Series 2010; Capital Improvements; Maturing August, 2030; bearing interest at 3.13%	6,250,000
Police Court package Loan; 2.60% interest; maturing, May, 2015; annual payments Of \$ 73,040 until paid	117,582
Police Court Package Loan; 2.920% interest; maturing December, 2013; annual payments Of \$ \$ 123,243 until paid	140,175
Command Vehicle Loan; 1.730% interest; maturing July, 2018; annual payments of \$ 17,747 until paid	<u>84,211</u>
Total general obligation bonds and notes	8,326,968
Compensated absences	271,978
Less current portion of long-term debt	<u>(1,104,427)</u>
Total governmental activities long-term debt	<u>\$ 7,584,519</u>

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2013

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

**Business-type activities:**

**Revenue Refunding Bond:**

Series 2012 Refunding Bond, payable in semiannual installments, bearing interest at a variable rate, currently 4.25%, maturing September 2019, secured by utility system revenues \$ 7,915,000

**Revenue Bonds:**

State Revolving Fund Loan, payable in monthly installments of \$9,019, beginning October 2006, bearing interest at 3.56%, maturing January 2026, secured by utility system revenues 1,082,820

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 1,456,513

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 990,469

State Revolving Fund Loan, payable in monthly installments of \$3,765, beginning November, 2009; bearing interest at 1.95%, secured by utility system revenues 615,167

State Revolving Fund Loan, payable in monthly installments of \$ 2,149, beginning October, 2009; bearing interest at 1.95%, secured by utility system revenues 324,006

State Revolving Fund Loan, payable in monthly installments of \$ 9,665, beginning December, 2009, bearing interest at 2.75%, secured by utility system revenues 1,487,575  
Total general obligation bonds and notes 14,022,763

MS Development Bank Series 2013 Bonds Maturing 2014-2033 interest 2.00 to 5.00 % 3,500,000

Vacuum Truck Loan, M & M Bank, \$27,794 per year, Bearing Interest at 2.830% 151,213

**Compensated absences** 28,563

Less current portion of long-term debt (1,809,673)

Total business-type activities long-term debt \$15,741,653

**Revenue Refunding Bond**

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

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2013

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

The original Series 2001 bonds were 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 were outstanding, the City agreed to fix and maintain rates and collect charges for the use and services of the System, which were to be at all times be sufficient to meet specified requirements. The balance outstanding at the Series 2012 issue date was \$ 7,915,000.

State Revolving 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, 2013, was \$5,956,550.

**Debt Maturity**

Debt service requirements at September 30, 2013, 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>
2014	703,242	276,028	1,808,679	404,048
2015	602,331	254,782	1,801,356	379,907
2016-2020	3,971,395	995,711	7,881,584	1,263,822
2021-2026	2,355,000	688,874	3,124,609	800,062
2026-2030	1,695,000	169,767	2,906,536	457,391
Total	<u>\$ 8,326,968</u>	<u>2,385,162</u>	<u>17,522,763</u>	<u>3,305,231</u>

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2013

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

**G. Interfund Balances**

Interfund balances at September 30, 2013, consisted of the following:

<u>DUE TO:</u>	<b>DUE FROM:</b>					<u>Total</u>
	<b>Governmental Activities</b>			<b>Business-Type Activities</b>		
	General Fund	MS Development	Other Governmental Funds	Water and Sewer Fund	Solid Waste Fund	
Governmental activities:						
General Fund	\$ -	-	-	-	-	-
MS Development		-		-		-
Other Governmental Funds	-	-	-	-		-
Business-type Activities:						
Water and Sewer Fund	-	-	-	103,948	(103,948)	-
Solid Waste Fund Total	-	-	-	-	-	-
Total	\$ -	-	-	103,948	(103,948)	-

All balances resulted from the time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Since all interfund balances were reclassified as revenues or expenditures respectfully, there were no remaining interfund balances at the fiscal year end.

**H. Interfund Transfers**

Transfer balances at September 30, 2013, consisted of the following:

<u>TRANSFERS OUT:</u>	<b>TRANSFERS IN:</b>		
	Governmental Activities	Business-Type Activities	Total
	Other Governmental Fund	Other Business- Type Fund	
Governmental activities:			
General Fund	\$ 988,587	-	988,587
MS Development	-	-	-
Other Governmental Funds	-	-	-
Business-type activities:			
Water and Sewer Fund	-	(988,587)	(988,587)
Solid Waste	-	-	-
Total	\$ 988,587	(988,587)	-

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE 4. OTHER NOTES**

**A. Property Tax**

Property tax is levied on the assessed (appraised) value as compiled by the Jackson County Tax Assessor for all real and business personal property located in the City. The assessment roll is approved and the levy is set before September 30, following a series of public hearings to receive citizen objections.

Resulting taxes are due on or before February 1. Installment payments are accepted on or before February 1, May 1, and August 1. An inter-local government agreement, effective October 1, 1989, provided for billing and collection of City and Pascagoula School District taxes by Jackson County, Mississippi.

Included in revenues are taxes for automobile tags, which are assessed and collected by Jackson County.

Such taxes, less a collection fee, are remitted to the City monthly.

Property tax revenues are recognized as the related ad valorem taxes are collected. 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 generally accepted accounting principles have been recognized as revenue.

Increases in taxes are generally limited by State law to 10% of the taxes collected for the prior assessment year, excluding taxes from property added to the tax assessment rolls in the current year.

The City is required by law to assess and collect taxes necessary for operation of the Jackson-George Regional Library System and for service of certain related debt. Jackson-George Regional Library System provides services to residents of inside and outside the geographic boundaries of the City and has a separate appointed and/or elected board. Jackson-George Regional Library System is not included as a component unit of the City's financial reporting entity because the City does not have the ability to exercise control over library operations or approve budgets.

For the year ended September 30, 2013, the City's 2012 tax rate was as follows:

	<u>MILLS</u>
General Fund	24.350
Library Fund	1.000
Debt Service	<u>6.750</u>
Total	<u>25.770</u>

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE 4. OTHER NOTES (continued)**

**B. Pension Plans**

**Defined Benefit Pension Plan**

Plan Description - The City of Gautier contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit 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.

Funding Policy - PERS' members are required to contribute 9.00 %, of their annual covered salary and the Jackson County Utility Authority is required to contribute at an actuarially determined rate. The current rate of 15.75% (effective July 1, 2013) of annual covered payroll is contributed by the City. These were the rates and the end of FY 2013. The contribution requirements of PERS' members are established and may be amended only by the State of Mississippi Legislature.

The City of Gautier's contributions to PERS for the years ended September 30, 2013 and 2012 were \$670,020 and \$729,428, respectively, representing 100% of the required contributions for the year.

**Deferred Compensation Plan**

The City, through PERS, offers its employees a voluntary deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The assets of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. The requirements of Internal Revenue Code Section 457(g) prescribe that the City does not own the amounts deferred by employees, including the related income on those amounts. Additionally, the City does not have fiduciary accountability for the plan. Accordingly, the assets and the liability for compensation deferred by plan participants, including earnings on plan assets, are not included in the City's financial statements.

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2013

**NOTE 4. OTHER NOTES (continued)**

**C. Commitments and Contingencies**

**Related Party Transactions**

No known transactions requiring disclosure occurred between the City and its employees or elected officials.

Grants and Awards The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed by management to be material.

Litigation - various claims and lawsuits are pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially affect the City's financial position.

**Contract Commitments Service Contracts:**

On May 17, 1988, the City entered into an agreement with Jackson County, under which the County provides animal shelter services for a current fee of \$10,560 per year.

On January 1, 1988, the City entered into an agreement with Mississippi Regional Housing Authority No. VIII (the Housing Authority) for the development of low-income housing units operated by the Housing Authority within the municipality. Under the agreement, all projects are exempt from all real and personal property taxes and special assessments levied by any taxing body. The Housing Authority makes annual payments in lieu of such taxes for the public services and facilities furnished by the City. Annual payments would be the lesser of 10% of shelter rent collected or the amount permitted to be paid by state law in effect on the date payment is made.

The City's six-year contract for trash collection services expired on September 30, 2006; however, the City renewed the contract for another six-years. The contractor is paid on a per unit basis, with an additional charge for Recycle Center collections.

CITY OF GAUTIER, MISSISSIPPI  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 September 30, 2013

**NOTE 4. OTHER NOTES (continued)**

Construction Contracts:

The City entered into various construction contracts in the prior Fiscal Year for infrastructure improvements with some estimated remaining commitments at September 3, 2013. The majority of these projects were funded by various state and federal grants. See Note 3. D for more detailed information on these projects.

**D. Joint Venture**

The City is a member of the joint venture Jackson County Utility Authority (the Authority), which was established by an act of the Mississippi Legislature to design and implement a water pollution abatement plan. The Authority is responsible for the operations and maintenance of the wastewater treatment plants for the cities of Gautier, Moss Point, Ocean Springs and Pascagoula. The Authority enters into subscription agreements with each of the governing bodies and districts to fund its operations.

The following is a synopsis of the Authority's financial statements as of and for the year ended September 30, 2013, a complete copy of which is on file at the administrative offices of the Authority, located at 1225 Jackson Avenue, Pascagoula, Mississippi 39567.

**BALANCE SHEET**

**ASSETS**

Current assets	\$	2,828,776
Restricted investments		3,124,829
Capital assets	\$	<u>135,840,387</u>
Total assets	\$	<u><u>141,793,992</u></u>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Current liabilities	\$	6,651,372
Noncurrent liabilities		<u>8,268,820</u>
Total liabilities		<u><u>14,920,192</u></u>

**NET POSITION**

Total liabilities and net assets	\$	<u><u>126,873,800</u></u>
		<u><u>141,793,992</u></u>

**STATEMENT OF REVENUES AND EXPENSES**

Operating revenues	\$	9,212,044
Operating expenses		(14,625,320)
Non-operating revenues		<u>1,963,443</u>
Change in Net Assets		( 3,449,833)
Net Position, Beginning of the Year		<u>130,323,633</u>
Net Position assets, end of the year	\$	<u><u>126,873,800</u></u>

CITY OF GAUTIER, MISSISSIPPI  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2013

**NOTE 4. OTHER NOTES (continued)**

**E. Deficit fund balances/Retained earnings**

There were only two deficit fund balances of individual funds were as follows:

**Governmental activities:**

Tidelands Grant Fund	5,876
BP Oil Spill Grant Fund	395

CITY OF GAUTIER, MISSISSIPPI  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 September 30, 2013

**NOTE 4. OTHER NOTES (continued)**

**F. Settlements from prior periods:**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS:**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net assets September 30, 2012, as originally presented	\$ 8,231,573	19,187,518	27,419,091
Prior period adjustment – Liability Adjustment	<u>182,780</u>	<u>                    </u>	<u>182,780</u>
Net Assets, September 30, 2012	<u>\$ 8,414,353</u>	<u>19,187,518</u>	<u>27,601,871</u>

**FUND FINANCIAL STATEMENTS:**

	<u>General Fund</u>	<u>Water and Sewer Fund</u>
Fund balance September 30, 2012, as originally presented	\$ 3,806,853	19,187,518
Prior Period Adjustment	<u>182,780</u>	<u>0</u>
Fund balance, September 30, 2012	<u>\$ 3,989,633</u>	<u>\$ 19,187,518</u>

**CITY OF GAUTIER, MISSISSIPPI**  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2013

**NOTE 4. OTHER NOTES (continued)**

**G. Subsequent events** –

- Community Disaster Loan of \$ 350,000 plus accrued interest forgiven

**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF GAUTIER, MISSISSIPPI**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended September 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Justice</b>			
Passed Through State:			
Local Law Enforcement Block Grant			
Task Force Grant	16.592	7NM1301	\$ 13,792
FBI Safe Street	16.592	18PGCP540Z	16,251
HIDTA	16.592	18PGCP540Z	10,819
<b>U.S. Department of the Interior</b>			
Passed Through State:			
Coastal Improvement Assistance	15.668	MS.30.701	16,483
Coastal Improvement Assistance	15.668	USFWSF12AF00434	59,069
<b>U.S. Department of Homeland Security</b>			
Passed Through State:			
Assistance to Firefighters	97.044	EMW-2012-FO-02393	76,396
<b>Federal Emergency Management Center</b>			
Hazard Mitigation Grant – Police	97.039	HMBP 1794-23-01	22,400
Hurricane Isaac	97.036	FEMA-4081-DR-MS	28,525
<b>U.S. Department of Housing and Urban Development</b>			
Passed Through State:			
Community Development Block Grant - 14.219/14.228		R-109-192-01-KCR	2,425,785
<b>U.S Department of Transportation</b>			
Passed Through State:			
Urban Youth Corps	20.000	STP-9999-09(032)-106638- 304300	36,529
MDOT	20.205	STP-9194-00(001) / LPA/105069-801000	<u>137,715</u>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 2,843,765</u></b>

The accompanying notes are an integral part of these financial statements.

**CITY OF GAUTIER, MISSISSIPPI**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended September 30, 2013

**NOTE 1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Gautier and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.

A reconciliation follows:

Totals above	\$ 2,843,765
Accrued in prior year	(1,310,327)
Accrued at 09-30-2013	<u>50,249</u>
Amount included in Financial Statements	<u>\$ 1,583,687</u>

**NOTE 2. LOAN AGREEMENTS OUTSTANDING**

Proceeds of State Revolving Fund loans were obtained for sewer rehabilitation and drinking water system improvements. The State Revolving Fund is financed, at least in part, by the U.S. Environmental Protection Agency. The principal balance on September 30, 2013, was:

DWI-H280092-01-3	\$ 1,082,820
SRF-C2808754-01-3	1,456,513
SRF-C280879-01-1	990,469
DWI-H280114-01-2	615,167
DWI-H280114-02-0	324,006
SRF-C280879-02-2	<u>1,487,575</u>
	<u>\$ 5,956,550</u>

**CITY OF GAUTIER, MISSISSIPPI**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
For the Year Ended September 30, 2013

2010-B-1      The City was still unable to provide sufficient documentary evidence to support the carrying amounts of fixed assets on its books. This finding continues, with the exception of taking a physical inventory, and is noted for the third year in Finding 2012-001.

**REPORTS ON COMPLIANCE AND INTERNAL CONTROL**

4321 Gautier Vancleave Rd. Suite A  
Gautier, Mississippi 39553

228-497-2788

**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***

The Honorable Mayor and Members of the City Council City of Gautier, Mississippi

I 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Gautier as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Gautier's basic financial statements, and have issued My report thereon dated June 30, 2014.

**Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered City of Gautier's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Gautier's internal control. Accordingly, I do not express an opinion on the effectiveness of City of Gautier'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.

My 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 I did not identify. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that I consider to be significant deficiencies. It is listed as item 2012-001.

**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 Governmental Auditing Standards**

Page 2

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Gautier's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests no disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**City of Gautier's Response to Findings**

City of Gautier's response to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. City of Gautier's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gautier, Mississippi  
June 30, 2014

4321 Gautier Vancleave Rd. Suite A  
Gautier, Mississippi 39553

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and Members of the City Council  
City of Gautier, Mississippi

**Report on Compliance for Each Major Federal Program**

I have audited City of Gautier's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of City of Gautier's major federal programs for the year ended September 30, 2013. City of Gautier'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**

My responsibility is to express an opinion on compliance for each of City of Gautier's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I 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 City of Gautier's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of City of Gautier's compliance.

**Opinion on Each Major Federal Program**

In my opinion, City of Gautier 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 major federal programs for the year ended September 30, 2013.

**Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**  
**Page 2**

**Report on Internal Control Over Compliance**

Management of City of Gautier is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered City of Gautier'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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of City of Gautier'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.

My 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. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Gautier, Mississippi  
June 30, 2014

4321 Gautier Vancleave Rd. Suite A  
Gautier, Mississippi 39553  
(228) -497-2788

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH MISSISSIPPI STATE LAWS AND REGULATIONS**

The Honorable Mayor and Members of the City Council  
City of Gautier, Mississippi

I have audited the accompanying financial statements of the City of Gautier, Mississippi (the City) as of and for the year ended September 30, 2013 and have issued my report dated June 30, 2014. I have 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*.

***Compliance***

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, I have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of those procedures and my audit of the basic financial statements disclosed the following material instances of noncompliance with state laws and regulations. My findings and recommendations and your responses are as follows:

***Finding***

The City was not able to generate a ledger providing detailed information of the City's fixed assets. The City should be responsible for custody of its assets and accurately report them in the financial statements. Further, the City has not been reconciling the annual inventory of fixed assets to ledger balances; however, a comprehensive fiscal inventory of fixed assets taken for the Fiscal Year ending September 30, 2013 which is an improvement in the process.

***Recommendation***

I recommend the City maintain a detailed ledger of fixed assets, along with a listing of additions and deletions during the year. This ledger should be reconciled to the annual inventory. The Office of the State Auditor has prepared forms and checklists to assist municipalities in performing this required inventory; they are available for download on the State Auditor's website.

**Independent Auditors' Report on Compliance with Mississippi State Laws and Regulations**  
**Page 2**

***Auditee's Response***

Management recognizes the issue regarding fixed assets. The City Clerk has been and is in the process of making great strides in resolving the problem, having taken a complete asset inventory for Fiscal 2013. Additionally, an individual with comprehensive experience in this area has been retained to oversee the fixed asset inventory.

***City of Gautier's Response to Findings***

City of Gautier's response to the findings identified in my audit is described above. City of Gautier'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.

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. Accordingly, this report is not suitable for any other purpose.

Gautier, Mississippi  
June 30, 2014

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**CITY OF GAUTIER, MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended September 30, 2013

**A. SUMMARY OF AUDIT RESULTS**

1. In my report, my opinion on the financial statements, was qualified for inadequate records for fixed assets.
2. A material weakness relating to the audit of the financial statements is reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters. There were no significant deficiencies noted.
3. No instances of noncompliance material to the financial statements of the City of Gautier, Mississippi are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.
4. No material weaknesses relating to the audit of major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance. There were no significant deficiencies noted.
5. The auditor's report on compliance for major federal award programs for the City of Gautier, Mississippi expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for the City of Gautier, Mississippi, that are to be reported in Part C of this schedule.
7. Major program tested:

Community Development Block Grant - 14.219/14.228
8. The dollar threshold for distinguishing Type A and B programs was \$300,000.
9. The City of Gautier, Mississippi did not qualify as a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

Reportable instances of noncompliance and reportable conditions and material weaknesses

2012-001

Finding

Criteria: Generally Accepted Accounting Principles (GAAP) for Governments indicate that they should have adequate records regarding the fixed assets, accumulated depreciation and depreciation expense that detail each class of asset, the description, date purchased or built, the cost (or estimated cost), the depreciation method (if applicable), the depreciation for the year and accumulated depreciation.

**CITY OF GAUTIER, MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended September 30, 2013

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)**

Condition: The City was unable to provide sufficient documentary evidence to support the carrying amounts of fixed assets on its books, and they were unable to satisfy GAAP as to the existence and valuation of the City's fixed assets.

Cause: The City has not reconciled the carrying amount of fixed assets on their books to their inventory.

Effect: This weakness in internal control regarding fixed assets leaves the City susceptible to misappropriation and unverifiable values on their books for the related items

Recommendation: I recommend the City implement a fixed assets control system. At the end of the fiscal year, the accounting department should reconcile the general ledger to the inventory control records.

Auditee's Response: Management recognizes the problem with the fixed assets. The City Purchasing Agent has been and is making great strides in resolving the problem.

Follow-up on prior audit findings: The previous year had the same finding listed as 2012-B-1

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

There were no findings related to the major federal program.