

CITY OF GAUTIER, MISSISSIPPI

Audited Financial Statements and Special Reports

For the Year Ended September 30, 2017

CITY OF GAUTIER, MISSISSIPPI
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For the Year Ended September 30, 2017

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INTRODUCTORY SECTION

ELECTED OFFICIALS
As of September 30, 2017



Phil Torjusen
Mayor



Mary Martin
Councilwoman At-Large



Cameron B. George
Councilman, Ward 1



Richard "DJ" Jackson
Councilman, Ward 2



Casey Vaughan
Councilman, Ward 3



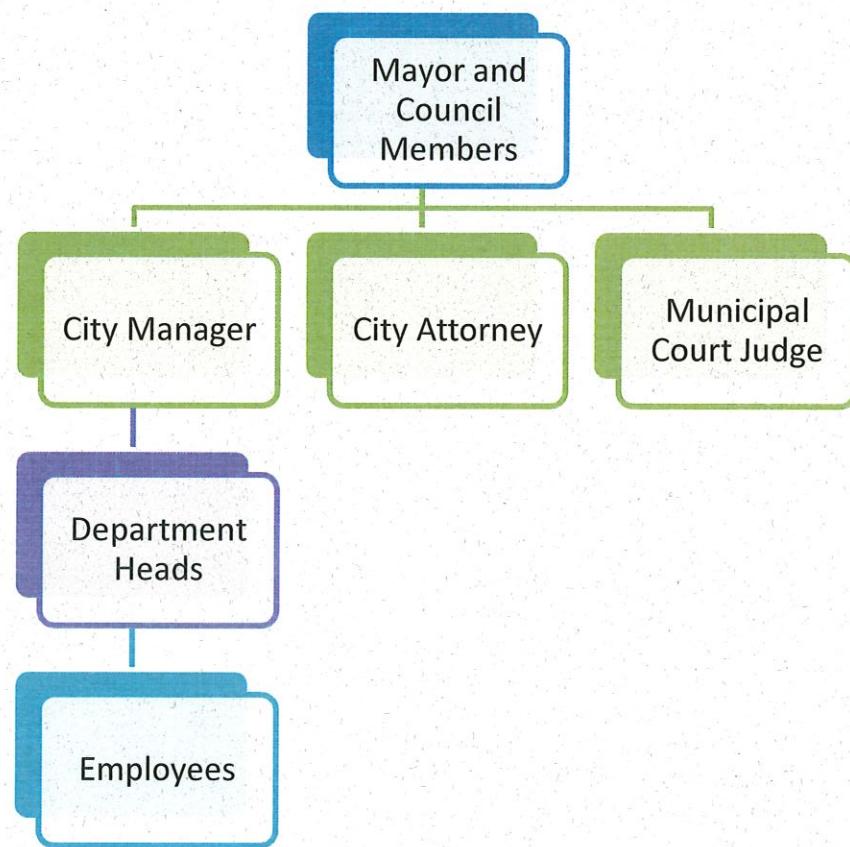
Charles "Rusty" Anderson
Councilman, Ward 4



Adam Colledge
Councilman, Ward 5



ORGANIZATION CHART
As of September 30, 2017



FINANCIAL SECTION

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

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

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

CHRIS TAYLOR, CPA
CHARLENE KERKOW, CPA

Certified Public Accountants

HANCOCK BANK BUILDING

2510 - 14TH STREET

P.O. BOX 129

GULFPORT, MISSISSIPPI 39502

MEMBERS

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INDEPENDENT AUDITORS' REPORT

August 7, 2018

Honorable Mayor and
City Council of
City of Gautier, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Gautier, Mississippi, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Gautier, Mississippi, as of September 30, 2017, 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.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The accompanying Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2018, on our consideration of City of Gautier, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Gautier, Mississippi's internal control over financial reporting and compliance.

Other Reporting Required by *State of Mississippi*

In accordance with the State of Mississippi, we have also issued our report dated August 7, 2018, on our consideration of the City of Gautier's compliance with state laws and regulations. The purpose of that report is to describe the scope of our testing of internal controls over compliance with state laws and regulations and the result of that testing, and not to provide an opinion on internal controls or compliance. That report is an integral part of an audit performed in accordance with state guidelines in considering the City of Gautier's internal control over financial reporting and compliance.

Walt Ward, Heather & Lorie

MANAGEMENT DISCUSSION AND ANALYSIS

CITY OF GAUTIER, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2017



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Gautier, Mississippi's (the City) Annual Financial Report presents a narrative overview and comparative analysis of the financial activities of the City for the fiscal year ended September 30, 2017 and 2016. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements that immediately follow.

City of Gautier is located on the Mississippi Gulf Coast. According to the United States Census Bureau, the estimated population of City of Gautier as of July 1, 2017, is 18,512. The median household income is \$47,931 with over 89.8% of persons 25 years or older holding a high school degree or higher.

Government-wide Financial Highlights

- Total net position increased \$4,031,681 or 11% from 2016 primarily due to increased grant revenues received.
- General revenues amounted to of \$8,662,234 or 38% of total revenues. This amount increased \$105,907 from 2016. Program revenues amounted to \$14,149,254 or 62% of total revenues, which increased \$3,994,503 from 2016. This increase was mostly due to the federal revenues received for capital projects.
- Capital assets, net of accumulated depreciation, increased by \$2,098,352 in the governmental activities and decreased \$1,253,782 in the business-type activities during 2017. The increase in governmental capital assets is primarily as a result of the purchases of land associated with the Martin Bluff project. The decrease in business-type activities stems from annual depreciation.
- Long-term debt increased by \$636,281 in the governmental activities primarily due to a new capital improvement loan associated with the Allen Road project. This amount also includes a \$13,896 increase in compensated absences which represents amounts that would be due to an employee from the City upon termination of employment. Long-term debt decreased by \$2,082,833 in the business-type activities. The City's total debt outstanding at September 30, 2017 is \$20,457,441 which the liability for compensated absences is \$366,083.

Fund Highlights

- *General Fund* – This fund is used for the general operations of the City. The General Fund had \$8,685,247 in revenues, which shows an increase of \$378,463 from 2016 and \$8,723,917 in expenditures, an increase of \$9,566 from 2016, in the current year. The General Fund's fund balance decreased by \$39,704.
- *\$7M Capital Improvement Bond* – This fund is used to account for bond proceeds received for construction and repair of the City's infrastructure. The fund balance of \$935,093 represents monies still available for construction and repair.

CITY OF GAUTIER, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2017

Using this Annual Financial Report

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

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

Reporting the City of Gautier as a Whole

Statement of Net Position and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2017?" The Statement of Net Position and the Statement of Activities answer this question.

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

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

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

Table 1 and Table 2 provide a summary of the City's net position and changes in net position for 2017 compared to 2016.

CITY OF GAUTIER, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2017

TABLE 1
Condensed Statement of Net Position
September 30, 2017 and 2016

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current assets	\$ 9,611,401	8,716,966	5,382,490	3,901,478	14,993,891	12,618,444
Capital assets	20,180,831	18,082,479	41,721,945	42,975,727	61,902,776	61,058,206
Total Assets	<u>29,792,232</u>	<u>26,799,445</u>	<u>47,104,435</u>	<u>46,877,205</u>	<u>76,896,667</u>	<u>73,676,650</u>
Deferred Outflows	903,965	1,891,971	-	-	903,965	1,891,971
Liabilities						
Current liabilities	689,112	802,497	1,017,858	1,075,463	1,706,970	1,877,960
Non-current liabilities	19,173,667	18,868,883	12,920,150	15,002,983	32,093,817	33,871,866
Total Liabilities	<u>19,862,779</u>	<u>19,671,380</u>	<u>13,938,008</u>	<u>16,078,446</u>	<u>33,800,787</u>	<u>35,749,826</u>
Deferred Inflows	4,452,006	4,302,637	-	-	4,452,006	4,302,637
Net Position						
Investment in capital assets, net of related debt	13,009,623	11,533,656	31,578,702	32,095,604	44,588,325	43,629,260
Restricted net assets	701,952	1,034,850	832,535	1,550,346	1,534,487	2,585,196
Unrestricted	(7,330,163)	(7,851,107)	755,190	(2,847,191)	(6,574,973)	(10,698,298)
Total Net Position	<u>\$ 6,381,412</u>	<u>4,717,399</u>	<u>33,166,427</u>	<u>30,798,759</u>	<u>39,547,839</u>	<u>35,516,158</u>

TABLE 2
Condensed Statement of Activities
September 30, 2017 and 2016

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues	\$ 3,975,910	1,849,457	10,173,344	8,305,267	14,149,254	10,154,724
General revenues	8,103,245	8,048,470	558,989	507,857	8,662,234	8,556,327
Total revenues	<u>12,079,155</u>	<u>9,897,927</u>	<u>10,732,333</u>	<u>8,813,124</u>	<u>22,811,488</u>	<u>18,711,051</u>
Expenses:						
General government	2,594,421	2,730,130	-	-	2,594,421	2,730,130
Public safety	6,663,535	6,025,392	-	-	6,663,535	6,025,392
Public works	814,529	1,190,246	-	-	814,529	1,190,246
Culture and recreation	615,884	209,575	-	-	615,884	209,575
Interest on long-term debt	243,273	238,804	-	-	243,273	238,804
Water and sewer	-	-	6,931,569	7,329,372	6,931,569	7,329,372
Solid waste	-	-	916,596	1,074,643	916,596	1,074,643
Total expenses	<u>10,931,642</u>	<u>10,394,147</u>	<u>7,848,165</u>	<u>8,404,015</u>	<u>18,779,807</u>	<u>18,798,162</u>
Transfers	516,500	(100,000)	(516,500)	100,000	-	-
Increase (Decrease) in net assets	1,664,013	(596,220)	2,367,668	509,109	4,031,681	(87,111)
Net Position - beginning, restated	<u>4,717,399</u>	<u>5,313,619</u>	<u>30,798,759</u>	<u>30,289,650</u>	<u>35,516,158</u>	<u>35,603,269</u>
Net Position - ending	<u>\$ 6,381,412</u>	<u>4,717,399</u>	<u>33,166,427</u>	<u>30,798,759</u>	<u>39,547,839</u>	<u>35,516,158</u>

CITY OF GAUTIER, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2017

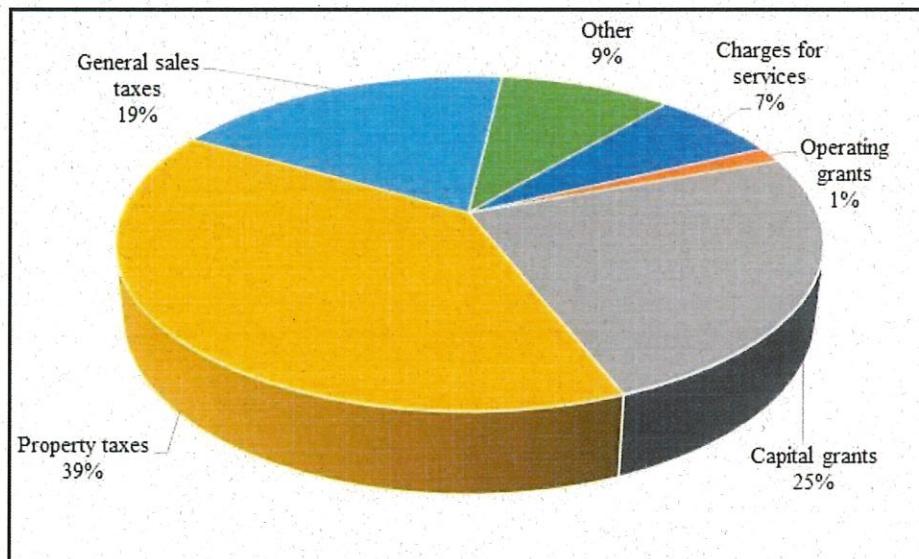
Governmental Activities

Total net position increased \$1,664,013 as a result primarily due to an increase in grant revenues.

Under the accrual basis of accounting, general revenues amounted to \$8,103,245 or 67% of total revenues. This amount increased \$54,775 from 2016. Program revenues amounted to \$3,975,910 or 33% of total revenues, which increased \$2,126,453 from 2016.

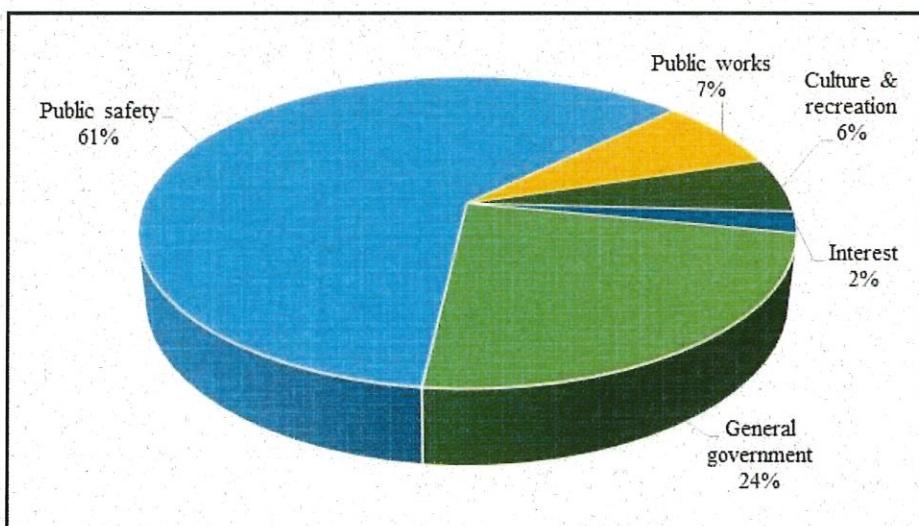
Several revenue sources fund our governmental activities. The following chart shows the City's total general revenues and program income that is used to offset governmental expenses.

Chart 1 – Governmental Revenue Sources



Major governmental expense activities are shown in the following chart.

Chart 2 – Governmental Activities



CITY OF GAUTIER, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2017

Business-type activities

Net position for the business-type activities was \$33,166,427, an increase of \$2,367,668. Charges for services increased approximately \$1,933,157 due primarily to an increase in collections.

Reporting the City of Gautier's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

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

Fiduciary Funds

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

CITY OF GAUTIER, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2017

The City's Funds

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

General Fund Budgeting Highlights

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

During the course of 2017, the City amended its general fund budget. All recommendations for a budget change come from the City Clerk to the Board of Alderman for approval. State law does not allow budget changes that modify functional levels of budget amounts within a department without board approval. With the General Fund supporting many of our major activities, such as our police and fire departments, as well as most legislative and executive activities, the General Fund is monitored closely looking for possible revenue shortfalls or over spending by individual departments.

Capital Assets

Table 3 shows the Changes in Capital Assets for the years ended September 30, 2017 and 2016.

TABLE 3
Schedule of Capital Assets (Net of Accumulated Depreciation)
September 30, 2017 and 2016

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 4,768,936	3,382,460	1,190,870	1,190,870	5,959,806	4,573,330
Construction in progress	1,045,701	1,126,979	-	-	1,045,701	1,126,979
Buildings	2,329,301	2,385,747	-	-	2,329,301	2,385,747
Infrastructure	11,079,013	10,648,807	37,020,037	38,123,928	48,099,050	48,772,735
Mobile equipment	291,778	402,049	512,212	586,864	803,990	988,913
Leased equipment	666,102	136,437	2,998,826	3,074,065	3,664,928	3,210,502
Total	\$ 20,180,831	18,082,479	41,721,945	42,975,727	61,902,776	61,058,206

The primary increase in capital assets occurred due to land purchases.

CITY OF GAUTIER, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2017

General Long-term Obligations

At September 30, 2017, the City had \$20,457,441 outstanding debt obligations, which included \$366,083 of compensated absences payable.

TABLE 4
Schedule of Long-term Debt
September 30, 2017 and 2016

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$ 5,860,000	6,425,000	-	-	5,860,000	6,425,000
Revenue Refunding Bonds	-	-	2,745,000	4,075,000	2,745,000	4,075,000
Special Obligation Bonds	-	-	2,955,000	3,090,000	2,955,000	3,090,000
Capital Improvement Loans	731,738	-	-	-	731,738	-
Revolving Loans	-	-	4,360,970	4,773,768	4,360,970	4,773,768
Capital Leases	579,470	123,823	2,827,273	3,016,355	3,406,743	3,140,178
Add: Bond Premium*	-	-	31,907	47,860	31,907	47,860
Compensated Absences	366,083	352,187	-	-	366,083	352,187
Total	\$ 7,537,291	6,901,010	12,920,150	15,002,983	20,457,441	21,903,993

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

Contact the City's Financial Management

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

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

FINANCIAL STATEMENTS

City of Gautier, Mississippi

Statement of Net Position

September 30, 2017

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Assets			
Current assets			
Cash	\$ 3,397,014	1,850,984	5,247,998
Taxes receivables	4,724,424	-	4,724,424
Customer accounts receivable (net of allowance)	-	1,298,266	1,298,266
Fines receivable (net of allowance)	495,270	-	495,270
Intergovernmental receivables	791,117	-	791,117
Premium receivable	76,523	-	76,523
Intra-agency receivables	127,053	-	127,053
Restricted current assets - cash	-	2,233,240	2,233,240
Total Current Assets	<u>\$ 9,611,401</u>	<u>5,382,490</u>	<u>14,993,891</u>
Capital assets			
Land and construction in progress	5,814,637	1,190,870	7,005,507
Other capital assets (net of accumulated depreciation):			
Buildings	2,329,301	-	2,329,301
Infrastructure	11,079,013	37,020,037	48,099,050
Mobile equipment	291,778	512,212	803,990
Equipment under capital leases	666,102	2,998,826	3,664,928
Total Capital Assets	<u>\$ 20,180,831</u>	<u>41,721,945</u>	<u>61,902,776</u>
Total Assets	<u>\$ 29,792,232</u>	<u>47,104,435</u>	<u>76,896,667</u>
Deferred Outflow of Resources			
Deferred amounts on pension			
Total Deferred Outflow of Resources	<u>\$ 903,965</u>	<u>-</u>	<u>903,965</u>
Liabilities			
Current liabilities:			
Claims and wages payable	\$ 258,919	28,337	287,256
Accrued interest payable	37,583	311,913	349,496
Grant revenue not earned	173,387	-	173,387
Claims and judgements payable	219,223	-	219,223
Payable from restricted assets - Customer deposits	-	677,608	677,608
Noncurrent Liabilities:			
Net pension liability	11,636,376	-	11,636,376
Due within one year			
Capital debt	782,061	757,856	1,539,917
Noncapital debt	22,113	1,370,953	1,393,066
Due in more than one year			
Capital debt	6,389,147	9,385,387	15,774,534
Noncapital debt	343,970	1,405,954	1,749,924
Total Liabilities	<u>\$ 19,862,779</u>	<u>13,938,008</u>	<u>33,800,787</u>
Deferred Inflows of Resources			
Property tax for future reporting period			
Total Deferred Inflows of Resources	<u>\$ 4,131,108</u>	<u>-</u>	<u>4,131,108</u>
Deferred amount on pension			
Total Deferred Inflows of Resources	<u>\$ 320,898</u>	<u>-</u>	<u>320,898</u>
Net Position			
Investment in capital assets, net of related debt			
Total Net Position:			
Non-expendable	4,839	-	4,839
Expendable:			
Restricted for debt service	-	761,670	761,670
Restricted for grant/bond purposes	-	70,865	70,865
Restricted for public safety	697,113	-	697,113
Unrestricted	(7,330,163)	755,190	(6,574,973)
Total Net Position	<u>\$ 6,381,412</u>	<u>33,166,427</u>	<u>39,547,839</u>

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

City of Gautier, Mississippi
Statement of Activities
For the Year Ended September 30, 2017

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General government	\$ 2,594,421	137,410	2,215	-	(2,454,796)
Public safety	6,663,535	587,283	174,078	-	(5,902,174)
Public works	814,529	-	-	2,528,411	1,713,882
Culture, recreation and community services	615,884	113,372	-	433,141	(69,371)
Interest on long-term debt	243,273	-	-	-	(243,273)
Total governmental activities	<u>10,931,642</u>	<u>838,065</u>	<u>176,293</u>	<u>2,961,552</u>	<u>(6,955,732)</u>
Business-type activities:					
Water and sewer	6,931,569	8,874,257	-	-	1,942,688
Solid waste	916,596	1,299,087	-	-	382,491
Total business-type activities	<u>7,848,165</u>	<u>10,173,344</u>	<u>-</u>	<u>-</u>	<u>2,325,179</u>
Total government	<u>\$ 18,779,807</u>	<u>11,011,409</u>	<u>176,293</u>	<u>2,961,552</u>	<u>(4,630,533)</u>
General Revenues:					
Taxes:					
Property taxes, general			3,259,656		3,259,656
Property taxes, debt service			921,833		921,833
Property taxes, community support			107,212		107,212
Property taxes in lieu - federal government			443,575		443,575
General sales taxes			2,247,340		2,247,340
Road and bridge privilege taxes			609,450		609,450
Franchise taxes			163,132		163,132
Grants and contributions not restricted to a special purpose			105,460		105,460
Unrestricted investment earnings			6,303		13,185
Miscellaneous			239,284	552,107	791,391
Total general revenues			<u>8,103,245</u>	<u>558,989</u>	<u>8,662,234</u>
Transfers			<u>516,500</u>	<u>(516,500)</u>	<u>-</u>
Total general revenues and transfers			<u>8,619,745</u>	<u>42,489</u>	<u>8,662,234</u>
Changes in net position			1,664,013	2,367,668	4,031,681
Net position - beginning			<u>4,717,399</u>	<u>30,798,759</u>	<u>35,516,158</u>
Net position - ending			<u>\$ 6,381,412</u>	<u>33,166,427</u>	<u>39,547,839</u>

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

City of Gautier, Mississippi
Balance Sheet – Governmental Funds
September 30, 2017

	Major Funds				Total Governmental Funds
	\$7M Capital		Other		
	General Fund	Improvement Bond Fund	Governmental Funds		
ASSETS					
Cash	\$ 2,015,077	282,271	916,457	3,213,805	
Receivables:					
Property tax	4,083,520	-	111,272	4,194,792	
Sales tax	357,600	-	-	357,600	
Franchise taxes	137,873	-	-	137,873	
Intergovernmental	34,159	652,822	138,295	825,276	
Court fines & fees	495,270	-	-	495,270	
Due from other funds	127,053	-	-	127,053	
Total Assets	<u>\$ 7,250,552</u>	<u>935,093</u>	<u>1,166,024</u>	<u>9,351,669</u>	
LIABILITIES					
Liabilities:					
Claims payable	\$ 60,989	-	5,668	66,657	
Wages payable	192,262	-	-	192,262	
Grant revenue unearned	-	-	173,387	173,387	
Compensated absences, current	22,112	-	-	22,112	
Total Liabilities	<u>275,363</u>	<u>-</u>	<u>179,055</u>	<u>454,418</u>	
DEFERRED INFLOWS OF RESOURCES					
Property taxes for future reporting period	4,021,530	-	109,578	4,131,108	
Unavailable revenue - fines	495,270	-	-	495,270	
Total Deferred Inflows of Resources	<u>4,516,800</u>	<u>-</u>	<u>109,578</u>	<u>4,626,378</u>	
FUND BALANCES					
Non-spendable					
Unemployment compensation	4,839	-	-	4,839	
Restricted:					
Debt service	-	-	275	275	
Grant/bond purposes	-	935,093	13,632	948,725	
Public safety	-	-	697,113	697,113	
Committed:					
Capital projects	-	-	749,240	749,240	
Unassigned	2,453,550	-	(582,869)	1,870,681	
Total Fund Balances	<u>2,458,389</u>	<u>935,093</u>	<u>877,391</u>	<u>4,270,873</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 7,250,552</u>	<u>935,093</u>	<u>1,166,024</u>	<u>9,351,669</u>	

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

City of Gautier, Mississippi
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position
September 30, 2017

Total governmental funds balance	\$ 4,270,873
Amounts reported for governmental activities in the statement of net position are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Governmental capital assets	\$ 23,525,690
Less: accumulated depreciation	<u>(3,344,859)</u>
	20,180,831
Long-term liabilities are not due and payable in the current period expenditures and therefore are not reported in the governmental funds.	
Bonds payable	\$ (5,860,000)
Capital leases payable	<u>(1,311,208)</u>
Compensated absences	<u>(343,971)</u>
	(7,515,179)
Other long term assets are not available to pay or current period expenditures and therefore are deferred in the funds.	
Court fines receivable	\$ 495,270
	495,270
Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds.	
Net pension liability	(11,636,376)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflows of resources related to pensions	\$ 903,965
Deferred inflows of resources related to pensions	<u>(320,898)</u>
	583,067
Internal Service Funds are used by management to charge the costs of various internal operations to individual funds. The assets and liabilities of Internal Service Funds are included in governmental activities in the Statement of Net Position as follows:	
Current assets	\$ 259,732
Estimated claims payable	<u>(219,223)</u>
	40,509
Accrued interest not due and payable in the current period expenditures and, therefore, not reported in the funds.	
	<u>(37,583)</u>
Net position of governmental activities	<u><u>\$ 6,381,412</u></u>

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

City of Gautier, Mississippi
Statement of Revenues, Expenditures and
Changes in Fund Balance – Governmental Funds
For the Fiscal Year Ended September 30, 2017

	Major Funds			
	General Fund	\$7M Capital Improvement Bond Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 4,625,064	-	107,212	4,732,276
General sales taxes	2,247,340	-	-	2,247,340
Franchise fees	163,132	-	-	163,132
Licenses and permit fees	124,380	-	-	124,380
Intergovernmental	760,705	2,037,823	1,054,558	3,853,086
Charges for services	36,841	-	89,562	126,403
Fines and forfeitures	533,515	-	-	533,515
Investment earnings	3,139	2,117	-	5,256
Miscellaneous	191,131	9,378	38,443	238,952
Total Revenues	8,685,247	2,049,318	1,289,775	12,024,340
Expenditures:				
General government	2,176,226	-	147,032	2,323,258
Public safety	5,653,037	-	547,499	6,200,536
Public works	442,742	1,357,648	262,182	2,062,572
Culture & recreation	376,895	-	593,633	970,528
Debt service:				
Principal	72,741	320,000	294,096	686,837
Interest and other fiscal charges	2,276	188,119	49,271	239,666
Total Expenditures	8,723,917	1,865,767	1,893,713	12,483,397
Excess (Deficiency) of Revenues Over Expenditures	(38,670)	183,551	(603,938)	(459,057)
Other Financing Sources (Uses):				
Lease proceeds	157,239	-	388,896	546,135
Proceeds from loans	-	-	763,087	763,087
Transfers in	648,863	508,119	299,018	1,456,000
Transfers out	(807,136)	-	(132,364)	(939,500)
Total Other Financing Sources (Uses)	(1,034)	508,119	1,318,637	1,825,722
Net change in fund balances	(39,704)	691,670	714,699	1,366,665
Fund balances - beginning	2,498,093	243,423	162,692	2,904,208
Fund balances - ending	\$ 2,458,389	935,093	877,391	4,270,873

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

City of Gautier, Mississippi
 Reconciliation of the Governmental Funds
 Statement of Revenues, Expenditures and
 Changes in Fund Balance to the Statement of Activities
 For the Fiscal Year Ended September 30, 2017

Net Change in Fund Balances - total governmental funds \$ 1,366,665

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

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

Capital outlay	\$ 2,644,819	
Depreciation	<u>(546,467)</u>	2,098,352

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

Debt retirement	\$ 686,837	
Debt issuance	<u>(1,309,222)</u>	(622,385)

Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full accrual basis of accounting. 53,768

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

Pension expense and contributions made after measurement date	(765,858)	
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Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.

Accrued interest payable	(3,607)	
Compensated absences	<u>(22,953)</u>	(22,953)
Prepaid expenses	<u>(7,423)</u>	(7,423)

Internal service funds are used by management to charge the cost of certain activities, such as insurance costs and risk management, to individual funds. (432,546)

Change in net position of governmental activities \$ 1,664,013

City of Gautier, Mississippi
Statement of Net Position
Proprietary Funds
September 30, 2017

	Business-type Activities			Governmental Activities
	Water and Sewer Fund	Solid Waste Fund	Total Business-type Activities	Self Insurance Fund
Assets				
Current assets				
Cash	\$ 1,850,984	-	1,850,984	183,209
Customer accounts receivable (net of uncollectible of \$2,096,971)	1,164,242	134,024	1,298,266	-
Premiums receivable	-	-	-	76,523
Due from other fund	-	116,656	116,656	-
Restricted current assets				
Cash	2,233,240	-	2,233,240	-
Total Current Assets	5,248,466	250,680	5,499,146	259,732
Capital assets, net				
Land	1,190,870	-	1,190,870	-
Infrastructure	37,020,037	-	37,020,037	-
Mobile equipment	503,002	9,210	512,212	-
Equipment under capital leases	2,998,826	-	2,998,826	-
Total Capital Assets	41,712,735	9,210	41,721,945	-
Total Assets	\$ 46,961,201	259,890	47,221,091	259,732
Liabilities				
Current liabilities:				
Claims payable	\$ 28,337	-	28,337	-
Accrued interest payable	311,913	-	311,913	-
Due to other fund	116,656	-	116,656	-
Claims and judgements payable	-	-	-	219,223
Payable from restricted assets:				
Customer deposits	677,608	-	677,608	-
Noncurrent Liabilities:				
Due within one year				
Capital debt	757,856	-	757,856	-
Noncapital debt	1,370,953	-	1,370,953	-
Due in more than one year				
Capital debt	9,385,387	-	9,385,387	-
Noncapital debt	1,405,954	-	1,405,954	-
Total Liabilities	\$ 14,054,664	-	14,054,664	219,223
Net Position				
Net investment in capital assets	\$ 31,569,492	9,210	31,578,702	-
Restricted Net Position				
Expendable:				
Restricted for debt service	761,670	-	761,670	-
Restricted for grant purposes	70,865	-	70,865	-
Unrestricted	504,510	250,680	755,190	40,509
Total Net Position	\$ 32,906,537	259,890	33,166,427	40,509

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

City of Gautier, Mississippi
Statement of Revenues, Expenses and
Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended September 30, 2017

	Business-type Activities			Governmental Activities
	Water and Sewer Fund	Solid Waste Fund	Total Business-type Activities	Self Insurance Fund
Revenues:				
Charges for services	\$ 8,874,257	1,299,087	10,173,344	-
Employer contributions	-	-	-	50,000
Employee contributions	-	-	-	938,043
Insurance claim reimbursements	-	-	-	86,382
Miscellaneous operating revenues	552,107	-	552,107	690
Total Operating Revenues	9,426,364	1,299,087	10,725,451	1,075,115
Operating Expenses:				
Wastewater treatment	2,157,216	-	2,157,216	-
Privatization costs	2,202,935	-	2,202,935	-
Waste collection and disposal	-	913,270	913,270	-
Supplies	221,867	-	221,867	-
Maintenance and repairs	74,964	-	74,964	-
Other contractual services and charges	401,461	-	401,461	1,550
Claims and estimate changes	-	-	-	1,507,158
Depreciation	1,250,456	3,326	1,253,782	-
Total Operating Expenses	6,308,899	916,596	7,225,495	1,508,708
Operating income (loss)	3,117,465	382,491	3,499,956	(433,593)
Non-Operating Revenues (Expenses)				
Interest and investment revenue	6,882	-	6,882	1,047
Interest Expense	(622,670)	-	(622,670)	-
Transfers in	-	-	-	-
Transfers out	(273,009)	(243,491)	(516,500)	-
Total Non-Operating Revenues (Expenses)	(888,797)	(243,491)	(1,132,288)	1,047
Change in net position	2,228,668	139,000	2,367,668	(432,546)
Total net position - beginning	30,677,869	120,890	30,798,759	473,055
Total net position - ending	\$ 32,906,537	259,890	33,166,427	40,509

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

City of Gautier, Mississippi
Statement Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2017

	Business-type Activities			Governmental Activities
	Water and Sewer Fund	Solid Waste Fund	Total Business-type Activities	Self Insurance Fund
Cash Flows From Operating Activities				
Cash received from customers	\$ 8,500,456	1,165,063	9,665,519	-
Cash received for premiums	-	-	-	1,046,081
Other operating receipts	552,107	-	552,107	-
Cash paid to suppliers	(221,867)	(81,945)	(303,812)	-
Cash paid to contractors	(5,144,199)	(913,270)	(6,057,469)	-
Cash paid for judgements and claims	-	-	-	(1,377,294)
Cash paid for administrative services	-	-	-	(1,550)
Net cash provided by (used in) operating activities	<u>3,686,497</u>	<u>169,848</u>	<u>3,856,345</u>	<u>(332,763)</u>
Cash Flows From Non-Capital Financing Activities				
Advances from (to) other funds	<u>(266,813)</u>	<u>(249,428)</u>	<u>(516,241)</u>	<u>-</u>
Net cash flows from non-capital financing activities	<u>(266,813)</u>	<u>(249,428)</u>	<u>(516,241)</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities				
Purchase of capital assets	-	-	-	-
Non-operating receipts for capital expenditures	-	-	-	-
Repayment of notes payable	(2,066,880)	-	(2,066,880)	-
Interest and amortization on debt	(366,079)	-	(366,079)	-
Net cash used in capital and related financing activities	<u>(2,432,959)</u>	<u>-</u>	<u>(2,432,959)</u>	<u>-</u>
Cash Flows From Investing Activities				
Interest received	6,882	-	6,882	1,047
Net cash flows from investing activities	<u>6,882</u>	<u>-</u>	<u>6,882</u>	<u>1,047</u>
Net increase (decrease) in cash	993,607	(79,580)	914,027	(331,716)
Cash - October 1	<u>3,090,617</u>	<u>79,580</u>	<u>3,170,197</u>	<u>514,925</u>
Cash - September 30	<u>\$ 4,084,224</u>	<u>-</u>	<u>4,084,224</u>	<u>183,209</u>

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

City of Gautier, Mississippi
Statement Cash Flows
Proprietary Funds (continued)
For the Fiscal Year Ended September 30, 2017

	Business-type Activities			Governmental Activities
	Water and Sewer Fund	Solid Waste Fund	Total Business-type Activities	Self Insurance Fund
Reconciliation of Operating Income (Loss) to Net Cash				
Provided by (Used In) Operating Activities:				
Operating income (loss)	\$ 3,117,465	382,491	3,499,956	(433,593)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,250,456	3,326	1,253,782	-
(Increase) decrease in assets:				
Accounts receivable	(433,220)	(134,024)	(567,244)	(29,034)
Customer deposits	59,419	-	59,419	-
Increase (decrease) in liabilities:				
Claims and wages payable	(307,623)	(81,945)	(389,568)	-
Claims and judgements payable	-	-	-	129,864
Net cash provided by (used in) operating activities	\$ 3,686,497	169,848	3,856,345	(332,763)

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

City of Gautier, Mississippi
Combining Statement of Assets
and Liabilities – Agency Fund
September 30, 2017

	Payroll Clearing Account
Assets	
Cash	\$ 246,786
Total Assets	<u><u>246,786</u></u>
Liabilities	
Due to other intra-entity government agencies	127,053
Accrued liabilities	<u>119,733</u>
Total Liabilities	<u><u>246,786</u></u>
Net Position	
Held in trust for benefits and other purposes	\$ -

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

NOTES TO THE FINANCIAL STATEMENTS

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

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

Jackson County Utility Authority

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

B. Basis of Presentation.

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

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

Government-wide Financial Statements:

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

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

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

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

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

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

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

The City reports the following major Governmental Funds:

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

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

Additionally, the City reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

PROPRIETARY FUNDS

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

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

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

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

FIDUCIARY FUNDS

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

D. Account Classifications

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

E. Deposits and Investments

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

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

F. Receivables

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

G. Inter-Fund Transactions and Balances

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

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

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

H. Intragovernmental Transactions and Balances

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

I. Capital Assets

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

Governmental accounting and financial reporting standards allowed governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. The City meets these criteria and has so elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are not reported in the government-wide financial statements. However, as of September 30, 2017, the City has not systematically reported capital assets in accordance with generally accepted accounting principles.

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

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

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

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

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

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

J. Deferred Outflows/Inflows of Resources

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

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

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

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

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

K. Pensions

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

L. Long-term Liabilities

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

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

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

M. Compensated Absences

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

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

N. Fund Balance Policies

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

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

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

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

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

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

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

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

O. Net Position

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

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

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

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

P. Intergovernmental Revenues in Governmental Funds

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

Q. Property Tax Revenues

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

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

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

City of Gautier, Mississippi
 Notes to the Financial Statements
 September 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

R. Use of Estimates

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

S. Change in Accounting Standard

The City implemented the following standards issued by the Governmental Accounting Standards Board (GASB) in the current fiscal year as required: GASB Statement No. 77, Tax Abatement Disclosures and GASB Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73. The provisions of these standards have been incorporated into the financial statements and notes.

Note 2 – Cash

The carrying amount of the city's total deposits with financial institutions at September 30, 2017, was \$7,728,024 and the bank balance was \$8,052,255. Of this amount \$2,238,079 is restricted for workman's compensation trust and utility customer's deposits. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

A summary of cash at September 30, 2017 is as follows:

	Deposits with Financial Institutions			
	Unrestricted	Restricted	Cash on Hand	Total
Governmental-type activities				
General Fund	\$ 2,008,688	4,839	1,550	2,015,077
\$7M Capital Improvement Bond Fund	282,271	-	-	282,271
Other governmental fund	<u>916,437</u>	<u>-</u>	<u>20</u>	<u>916,457</u>
Total governmental activities	<u>3,207,396</u>	<u>4,839</u>	<u>1,570</u>	<u>3,213,805</u>
Business-type activities				
Water & Sewer Fund	1,850,384	2,233,240	600	4,084,224
Solid Waste Fund	-	-	-	-
Self-Insurance Fund	183,209	-	-	183,209
Total business-type activities	<u>2,033,593</u>	<u>2,233,240</u>	<u>600</u>	<u>4,267,433</u>
Agency Fund				
Total cash	<u>\$ 5,487,775</u>	<u>2,238,079</u>	<u>2,170</u>	<u>7,728,024</u>

City of Gautier, Mississippi
 Notes to the Financial Statements
 September 30, 2017

Note 2 – Cash (continued)

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

Note 3 – Receivables

A. Governmental Activities

Receivables in the governmental activities at September 30, 2017, consisted of the following:

Taxes receivable:	
Property taxes	
Current	\$ 63,684
For future reporting period	<u>4,131,108</u>
Total taxes receivable	<u>4,194,792</u>
Intergovernmental receivable:	
Sales taxes	357,600
Franchise taxes	137,873
County road taxes	34,159
Federal grants	720,949
State grants	<u>70,168</u>
Total intergovernmental	<u>1,320,749</u>
Court fines receivable	
Less: allowance for doubtful accounts	(9,410,128)
Total court fines receivable, net	<u>495,270</u>
Total receivable - governmental activities	<u>\$ 6,010,811</u>

B. Business-type Activities

Receivable in the business-type activities at September 30, 2017, consisted of the following:

Customer accounts receivable:	
Customer utility charges (billed)	2,604,933
Customer accounts, earned but unbilled	790,304
Less: allowance for doubtful accounts	<u>(2,096,971)</u>
Total customer accounts receivable, net	<u>1,298,266</u>
Total receivable - business-type activities	<u>\$ 1,298,266</u>

City of Gautier, Mississippi
 Notes to the Financial Statements
 September 30, 2017

Note 3 – Receivables (continued)

All trade receivables are shown net of an allowance for bad debt. An allowance in the amount of \$2,096,971 at September 30, 2017 has been provided in the Water and Sewer Enterprise Fund for estimated uncollectible utility charges.

Note 4 – Interfund Transactions and Balances

Government-wide Financial Statements

A. Internal Balances

At September 30, 2017, the City had the following transfers:

Transfers In	Transfers Out	Amount
Governmental Activities	Business-type Activities	<u>\$ 516,500</u>

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

B. Intra-entity Balances

At September 30, 2017 the City had the following intra entity balances:

Due from other Government Agencies	Due to other Government Agencies	Amount
Governmental Activities	Fiduciary Agency Funds	<u>\$ 127,053</u>
		<u>\$ 127,053</u>

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

Fund Financial Statements

A. Due From/To Other Funds:

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

Receivable Fund	Payable Fund	Amount
General Fund	Agency Fund	\$ 127,053
Solid Waste Fund	Water & Sewer Fund	\$ 116,656
Total		<u>\$ 243,709</u>

City of Gautier, Mississippi
 Notes to the Financial Statements
 September 30, 2017

Note 4 – Interfund Transactions and Balances (continued)

B. Transfers In/Out:

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

Transfers In	Transfers Out	Amount
General Fund	Other Governmental Funds	\$ 132,363
General Fund	Water & Sewer Fund	273,009
General Fund	Solid Waste Fund	243,491
\$7M Capital Improvement Bond Fund	General Fund	508,119
Other Governmental Funds	General Fund	299,018
Total		<u>\$ 1,456,000</u>

Note 5 – Capital assets

A. Governmental Activities

The following is a summary of governmental capital assets activity for the year ended September 30, 2017:

	Balance 9/30/2016	Additions	Adjustments/ Sales	Balance 9/30/2017
Capital assets not being Depreciated:				
Land	\$ 3,382,460	1,386,476	-	4,768,936
Construction in Progress	1,126,979	644,410	(725,688)	1,045,701
Total capital assets not being depreciated	<u>4,509,439</u>	<u>2,030,886</u>	<u>(725,688)</u>	<u>5,814,637</u>
Capital assets being depreciated:				
Buildings & Improvements	2,822,319	-	-	2,822,319
Infrastructure	12,028,110	725,688	-	12,753,798
Machinery & Equipment	1,221,588	8,095	-	1,229,683
Equipment under Capital Leases	299,415	605,838	-	905,253
Total capital assets being depreciated	<u>16,371,432</u>	<u>1,339,621</u>	<u>-</u>	<u>17,711,053</u>
Less accumulated depreciation for:				
Buildings & improvements	436,572	56,446	-	493,018
Infrastructure	1,379,303	295,482	-	1,674,785
Machinery & Equipment	819,539	118,366	-	937,905
Equipment under Capital Leases	162,978	76,173	-	239,151
Total accumulated depreciation	<u>2,798,392</u>	<u>546,467</u>	<u>-</u>	<u>3,344,859</u>
Total Capital assets being depreciated, net	<u>13,573,040</u>	<u>793,154</u>	<u>-</u>	<u>14,366,194</u>
Total governmental activities capital assets, net	<u>\$ 18,082,479</u>	<u>2,824,040</u>	<u>(725,688)</u>	<u>20,180,831</u>

City of Gautier, Mississippi
 Notes to the Financial Statements
 September 30, 2017

Note 5 – Capital assets (continued)

Depreciation expense was charged to the following governmental functions:

General Government	\$ 50,923
Public Safety	187,192
Public Works	291,166
Culture & Recreation	17,186
	<u><u>\$ 546,467</u></u>

B. Business-type Activities

The following is a summary of business-type capital assets activity for the year ended September 30, 2017:

	Balance 10/1/2016	Additions	Adjustments/ Sales	Balance 9/30/2017
Capital assets not being Depreciated:				
Land	\$ 1,190,870	-	-	1,190,870
Construction in Progress	-	-	-	-
Total capital assets not being depreciated	1,190,870	-	-	1,190,870
Capital assets being depreciated:				
Infrastructure	47,309,607	-	-	47,309,607
Machinery & Equipment	1,658,584	-	-	1,658,584
Equipment under Capital Leases	3,224,544	-	-	3,224,544
Total capital assets being depreciated	52,192,735	-	-	52,192,735
Less accumulated depreciation for:				
Infrastructure	9,185,679	1,103,891	-	10,289,570
Machinery & Equipment	1,071,721	74,651	-	1,146,372
Equipment under Capital Leases	150,478	75,240	-	225,718
Total accumulated depreciation	10,407,878	1,253,782	-	11,661,660
Total Capital assets being depreciated, net	41,784,857	(1,253,782)	-	40,531,075
Total business-type activities capital assets, net	\$ 42,975,727	(1,253,782)	-	41,721,945

Depreciation expense was charged to the following governmental functions:

Water and Sewer Fund	\$ 1,250,456
Solid Waste Fund	3,326
Total depreciation - business-type activities	\$ 1,253,782

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 6 – Court Fines Receivable/Deferred Inflows of Resources

Court fines receivables are recorded as deferred inflow of sources in the fund financial statements due to the funds using modified accrual basis. However, revenues received during the year are recorded in the government-wide financial statements on the full-accrual basis of accounting. Miss. Code Ann. (1972) does not allow for write-off of debt owed to municipalities. The amount represented on the financial statements is conclusive of all bad debts owed by citizens to the municipal courts since the City started providing court services. Court fines receivable at September 30, 2017, were \$9,905,398, of which an allowance of \$9,410,128 has been determined as uncollectible with \$495,270 deemed collectible.

Note 7 – Claims and Judgments

Risk Financing

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

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

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

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

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). At September 30, 2017, the amount of this liability was \$219,223.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 7 – Claims and Judgments (continued)

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). At September 30, 2017, the amount of this liability was \$219,223.

	<u>Amount</u>
Liability at beginning of year	\$ 89,359
Claims and changes of estimates	1,637,022
Claims payments	<u>(1,507,158)</u>
Liability at end of year	<u>\$ 219,223</u>

Note 8 – Retirement Plan

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

Plan Description and Provisions

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

Benefits Provided

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

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

City of Gautier, Mississippi
 Notes to the Financial Statements
 September 30, 2017

Note 8 – Retirement Plan (continued)

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

Contributions

PERS members are required to contribute 9.00% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer's rate as of September 30, 2017, was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature.

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

At September 30, 2017, the City reported a liability of \$11,636,376 in the governmental activities for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the PERS net pension liability was based on a projection of the City's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2017, the City's proportion was .070%. For the year ended September 30, 2017, the City recognized PERS pension expense for governmental activities of \$1,479,217.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 167,178	\$ (84,908)
Changes of assumptions	258,631	(19,828)
Net difference between projected and actual earnings on pension plan investments	-	(149,402)
Changes in City proportionate share of net pension liability and differences between City contributions and proportionate share of contributions	322,331	(66,760)
City contributions subsequent to the measurement date	155,825	-
Total	\$ 903,965	\$ (320,898)

Within the deferred outflows, a net amount of \$155,825 of deferred outflows of resources is related to pensions resulting from the City's contributions subsequent to the measurement date and will be recognized as a reduction to the net pension liability in the year ended September 30, 2017.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 8 – Retirement Plan (continued)

The remaining amounts reported as deferred outflows of resources related to pensions of \$748,140 and deferred inflows of resources related to pensions of \$320,898 netting to \$427,242 will be recognized in pension expense as follows:

Year Ending <u>September 30,</u>	
2018	\$ 275,537
2019	315,515
2020	60,964
2021	<u>(224,774)</u>
	<u><u>\$ 427,242</u></u>

Actuarial assumptions

The total pension liabilities in the June 30, 2017, actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.25 percent to 18.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

The table for post-retirement mortality rates used in evaluating allowances to be paid was the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2017 with male rates set forward one year. The RP-Disabled Retiree Table set forward five years for males and four years for females, was used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the four year period ending June 30, 2017. The experience report is dated May 4, 2016.

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

City of Gautier, Mississippi
 Notes to the Financial Statements
 September 30, 2017

Note 8 – Retirement Plan (continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Broad	27.00 %	4.60
International Equity	18.00	4.50
Emerging Markets Equity	4.00	4.75
Global	12.00	4.75
Fixed Income	18.00	0.75
Real Assets	10.00	3.50
Private Equity	8.00	5.10
Emerging Debt	2.00	2.25
Cash	1.00	0.00
Total	<u>100.00 %</u>	

Discount rate

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

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

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

	Current		
	1% Decrease	Discount	1 % Increase
	(6.75%)	Rate (7.75%)	(8.75%)
City's Proportionate share of PERS	\$ 15,261,884	\$ 11,636,376	\$ 8,626,416

Pension plan fiduciary net position

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

City of Gautier, Mississippi
 Notes to the Financial Statements
 September 30, 2017

Note 8 – Retirement Plan (continued)

Three-year Trend Information

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

Fiscal Years Ending	Employer Contributions
2017	\$ 713,359
2016	681,575
2015	658,899

Note 9 – Long-term Debt

A. Governmental Activities

Transactions for the year ended September 30, 2017 are summarized as follows:

	Balance 10/1/2016	Additions	Retirements	Balance 9/30/2017	Due Within one Year
General Obligation Bonds	\$ 6,425,000	-	(565,000)	5,860,000	580,000
Capital Improvement Loan	-	763,087	(31,349)	731,738	31,981
Capital Leases	123,823	546,135	(90,488)	579,470	170,080
Compensated Absences	352,187	13,896	-	366,083	22,113
	<u>\$ 6,901,010</u>	<u>1,323,118</u>	<u>(686,837)</u>	<u>7,537,291</u>	<u>804,174</u>

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

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

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

September 30,	Principal	Interest	Total
2018	\$ 580,000	213,061	793,061
2019	600,000	185,371	785,371
2020	630,000	161,262	791,262
2021	370,000	145,868	515,868
2022	385,000	134,769	519,769
2023-2027	2,015,000	475,000	2,490,000
2028-2030	1,280,000	103,000	1,383,000
	<u>\$ 5,860,000</u>	<u>1,418,331</u>	<u>7,278,331</u>

City of Gautier, Mississippi
 Notes to the Financial Statements
 September 30, 2017

Note 9 – Long-term Debt (continued)

A. Governmental Activities

Capital Improvement Loan – In February 2017, the City received a \$763,087 capital improvement loan from the Mississippi Development Authority to be used to cover the costs associated with Allen Road. The bond is to be repaid over 18 years, maturing in 2036, and carries a fixed interest rate of 2.0%. Payment on this loan will be made from general ad valorem tax collections.

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

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 31,981	14,343	46,324
2019	32,627	13,697	46,324
2020	33,285	13,039	46,324
2021	33,957	12,367	46,324
2022	34,643	11,681	46,324
2023-2027	183,988	47,632	231,620
2028-2030	203,322	28,297	231,619
2031-2036	177,935	7,361	185,296
	<u>\$ 731,738</u>	<u>148,417</u>	<u>880,155</u>

Capital Lease Obligations-Governmental Activities

The City is obligated for the following capital assets acquired through capital leases as of September 30, 2017:

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ 456,654
Pumper truck	448,599
Less: accumulated depreciation	(239,151)
Leased property under capital leases	<u>\$ 666,102</u>

The following is a schedule by years of the total payments due as of September 30, 2017:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 170,080	12,760	182,840
2019	157,064	9,136	166,200
2020	151,833	5,645	157,478
2021	100,493	2,261	102,754
	<u>\$ 579,470</u>	<u>29,802</u>	<u>609,272</u>

City of Gautier, Mississippi
 Notes to the Financial Statements
 September 30, 2017

Note 9 – Long-term Debt (continued)

B. Business-type Activities

Transactions for the year ended September 30, 2017 are summarized as follows:

	Balance 10/1/2016	Additions	Retirements	Balance 9/30/2017	Due Within one Year
Revenue Refunding Bonds	\$ 4,075,000	-	(1,330,000)	2,745,000	1,355,000
Special Obligation Bonds	3,090,000	-	(135,000)	2,955,000	140,000
Revolving Loans	4,773,768	-	(412,798)	4,360,970	422,459
Capital Leases	3,016,355	-	(189,082)	2,827,273	195,397
Subtotal	<u>14,955,123</u>	<u>-</u>	<u>(2,066,880)</u>	<u>12,888,243</u>	<u>2,112,856</u>
Add: Bond Premium*	47,860	-	(15,953)	31,907	15,953
Total business-type activities	<u><u>\$ 15,002,983</u></u>	<u><u>-</u></u>	<u><u>(2,082,833)</u></u>	<u><u>12,920,150</u></u>	<u><u>2,128,809</u></u>

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

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

September 30,	Principal	Interest	Total
2018	\$ 1,355,000	41,350	1,396,350
2019	1,390,000	13,900	1,403,900
	<u><u>\$ 2,745,000</u></u>	<u><u>55,250</u></u>	<u><u>2,800,250</u></u>

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

City of Gautier, Mississippi
 Notes to the Financial Statements
 September 30, 2017

Note 9 – Long-term Debt (continued)

B. Business-type Activities

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

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 140,000	126,256	266,256
2019	145,000	122,056	267,056
2020	145,000	117,706	262,706
2021	150,000	113,356	263,356
2022	155,000	108,856	263,856
2023-2027	870,000	450,482	1,320,482
2028-2032	1,100,000	230,950	1,330,950
2033	250,000	12,500	262,500
	<u>\$ 2,955,000</u>	<u>1,282,162</u>	<u>4,237,162</u>

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

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

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

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 422,459	98,667	521,126
2019	432,368	88,759	521,127
2020	442,532	78,594	521,126
2021	452,956	68,171	521,127
2022	463,646	52,079	515,725
2023-2027	1,847,844	129,989	1,977,833
2028-2030	299,165	7,083	306,248
	<u>\$ 4,360,970</u>	<u>523,342</u>	<u>4,884,312</u>

Capital Lease Obligations-Business-type Activities

The City is obligated for the following capital assets acquired through capital leases as of September 30, 2017:

<u>Classes of Property</u>	<u>Business-type Activities</u>
Water meter project	\$ 3,224,544
Less: accumulated depreciation	(228,718)
Leased property under capital leases	<u>\$ 2,995,826</u>

City of Gautier, Mississippi
 Notes to the Financial Statements
 September 30, 2017

Note 9 – Long-term Debt (continued)

B. Business-type Activities

The following is a schedule by years of the total payments due as of September 30, 2017:

September 30,	Principal	Interest	Total
2018	\$ 195,397	92,052	287,449
2019	201,924	85,526	287,450
2020	208,668	78,781	287,449
2021	215,638	71,811	287,449
2022	222,840	64,609	287,449
2023-2027	1,230,946	206,303	1,437,249
2028-2030	551,860	23,039	574,899
	<u>\$ 2,827,273</u>	<u>622,121</u>	<u>3,449,394</u>

A. Legal Debt Margin

The amount of debt, excluding specific exempted debt that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a City issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2017, the amount of outstanding debt was equal to 5.08% of the latest property assessments.

B. Compensated Absences

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

Note 10 – Property and Sales Tax Revenue

A. Property Tax Revenues

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

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

The rates are expressed in terms of mills (i.e., ten mills equal one cent). The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt but exclusive of school bond and interest for the year ended September 30, 2017 was 37.70 mills or \$37.70 per \$1,000 of assessed valuation.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 10 – Property and Sales Tax Revenue (continued)

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

B. General Sales Tax Revenues

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City of Gautier) back to the City monthly. General sales tax revenue reported in the General Fund was \$2,247,340.

Note 11 – Commitments and Contingencies

A. Risk Management

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

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

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

B. Commitments

Contract for Operations of Water and Wastewater Systems – The City renewed a contract with Clearwater Solutions, LLC for operation and maintenance of the City's water and sewer systems and utility billing of water and sewer systems. The fee under the contract is \$203,358/month for the year ended September 30, 2017. Annually, the amount shall be adjusted by the consumer price index by the U.S. Department of Labor Statistics. During the fiscal year ended September 30, 2017 the City paid a total of \$2,202,935 to Clearwater Solutions, LLC under this contract.

Contract for Operations of Solid Waste Collections – The City renewed a contract with Delta Sanitation of MS, LLC for the operations of solid waste collections. The fee under the contract is approximately \$82,600/month for the year ended September 30, 2017. This amount includes commercial and residential garbage collection and approximately \$2,670/month for cart rentals. During the fiscal year ended September 30, 2017 the City paid a total of \$913,270 to Delta Sanitation of MS, LLC under this contract.

City of Gautier, Mississippi
 Notes to the Financial Statements
 September 30, 2017

Note 12 – Joint Ventures

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

The Authority provides for the operation and maintenance of the sewer treatment plants on a cost reimbursement basis. Pursuant to the terms of the agreement, the City is required to pay monthly costs of operations and maintenance directly associated with the treatment facilities and to share in the construction costs of the treatment facilities. The costs associated with this contract totaled \$2,157,216 for the year.

As of the date of this report, the financial statements of the Jackson County Utility Authority had not be published; therefore; the following is a synopsis of the Authority’s financial statements as of and for the year ended September 30, 2016:

CONDENSED STATEMENT OF NET POSITION

<u>ASSETS</u>	
Current assets	\$ 4,961,364
Restricted assets	29,323,459
Capital assets, net	146,570,377
Total assets	<u>180,855,200</u>
	<u>3,233,605</u>
	<u>DEFERRED OUTFLOWS OF RESOURCES</u>
	<u>LIABILITIES</u>
Current liabilities	7,274,005
Long-term liabilities	60,575,100
Total liabilities	<u>67,849,105</u>
	<u>DEFERRED INFLOWS OF RESOURCES</u>
	<u>NET POSITION</u>
	<u>\$ 116,207,114</u>

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

Operating revenue	\$ 15,458,591
Operating expenses	(19,281,537)
Nonoperating revenues	29,292
Nonoperating expenditures	(2,175,701)
Capital grants and contributions	3,363,024
Change in net position	<u>\$ (2,606,331)</u>

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2017

Note 12 – Joint Ventures (continued)

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

A complete copy of the 2017 financial statements should be soon on file at the administrative offices of the Authority which are located at 11100 Highway 57, Vancleave, Mississippi 39565, or may be obtained by calling (228) 762-0119.

Note 13 – Jointly Governed Organizations

Jointly Governed Organization - On November 2, 1970, the City entered into an agreement with the Board of Trustees of the Jackson George Regional Library System, the City of Moss Point, City of Pascagoula, City of Ocean Springs, City of Laredo, and the Board of Supervisors of Jackson County to mutually cooperate in securing a more economical public library system through combined resources, interests, materials and facilities to be known as the Jackson George Regional Library System. There are no specific monetary terms in the agreement and the City of Gautier has no equity interest in the organization. However, a budget is approved every year by the County Library Board, which stipulates the amount of funds needed from the participating municipalities and various other funding sources. The City contributed \$108,639 to the Library for the year ended September 30, 2017.

Note 14— Subsequent Events

Events that occur after the Statement of Net position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net position date require disclosure in the accompanying notes. Management of the City evaluated the activity of the City through August 7, 2018, (the date the financial statements were available to be issued), and determined that the following significant subsequent events have occurred requiring disclosure in the notes to the financial statement.

In January of 2018 the City approved a resolution authorizing the sale of \$10,000,000 of Revenue Bonds to improve, repair and extend the utility system. In June of 2018 the city sold \$4,000,000 of these bonds at interest rates varying from 3.25% to 4.375% with the final payment due in November of 2032.

REQUIRED SUPPLEMENTARY INFORMATION

City of Gautier, Mississippi
Statement of Revenues, Expenditures
and Changes in Fund Balance
General Fund
Budget to Actual - (Prepared on the Budgetary Basis)
For the Fiscal Year Ended September 30, 2017

	Variances				
	Budgeted Amounts		Actual	Favorable (Unfavorable)	
	Original	Final	Budgetary Basis	Original to Final	Final to Actual
Revenues:					
Property taxes	4,472,188	4,472,188	4,573,749	-	101,561
General sales tax	2,225,000	2,225,000	2,252,620	-	27,620
Fines and forfeitures	476,000	466,000	510,698	(10,000)	44,698
Licenses and permits	92,600	92,600	124,380	-	31,780
Intergovernmental	776,555	776,555	766,825	-	(9,730)
Charges for services	28,000	28,000	36,841	-	8,841
Franchise fees	163,000	153,000	164,164	(10,000)	11,164
Investment earnings	2,200	2,200	2,737	-	537
Miscellaneous	29,400	64,300	91,131	34,900	26,831
Total Revenues	8,264,943	8,279,843	8,523,145	14,900	243,302
Expenditures:					
General government:					
Personnel services	2,125,113	2,129,444	2,105,695	(4,331)	23,749
Supplies	52,700	58,112	44,973	(5,412)	13,139
Other services and charges	973,114	946,859	896,729	26,255	50,130
Capital outlay	184,500	175,900	163,012	8,600	12,888
Total general government	3,335,427	3,310,315	3,210,409	25,112	99,906
Public safety:					
Personnel services	4,097,434	4,108,434	3,997,548	(11,000)	110,886
Supplies	252,867	254,467	226,301	(1,600)	28,166
Other services and charges	260,870	245,870	195,104	15,000	50,766
Capital outlay	142,515	142,515	128,345	-	14,170
Total public safety	4,753,686	4,751,286	4,547,298	2,400	203,988
Public works:					
Personnel services	205,708	205,708	204,098	-	1,610
Supplies	64,900	94,900	86,951	(30,000)	7,949
Other services and charges	154,830	134,830	117,865	20,000	16,965
Capital outlay	15,000	46,900	36,656	(31,900)	10,244
Total public works	440,438	482,338	445,570	(41,900)	36,768
Culture and recreation					
Personnel services	272,919	254,539	252,841	18,380	1,698
Supplies	37,700	37,700	28,938	-	8,762
Other services and charges	85,900	89,400	85,711	(3,500)	3,689
Capital outlay	-	-	-	-	-
Total culture and recreation	396,519	381,639	367,490	14,880	14,149
Debt service	-	-	75,017	-	(75,017)
Total Expenditures	8,926,070	8,925,578	8,645,784	492	279,794
Excess (Deficiency) of Revenues					
Over Expenditures	(661,127)	(645,735)	(122,639)	15,392	523,096

The accompanying notes to the Required Supplementary Information are an integral part of this schedule.

City of Gautier, Mississippi
Statement of Revenues, Expenditures
and Changes in Fund Balance
General Fund
Budget to Actual - (Prepared on the Budgetary Basis)
For the Fiscal Year Ended September 30, 2017

	Budgeted Amounts		Actual Budgetary Basis	Variances	
	Original	Final		Favorable (Unfavorable)	Final to Actual
				Original to Final	
Other Financing Sources (Uses):					
Transfers in	516,500	522,896	522,896	6,396	
Transfers out	(791,839)	(813,627)	(813,627)	(21,788)	
Total Other Financing Sources (Uses)	<u>(275,339)</u>	<u>(290,731)</u>	<u>(290,731)</u>	<u>(15,392)</u>	
Cash Basis	\$ (936,466)	(936,466)	(413,370)		523,096
 Net Change in fund balance - Budget-Cash Basis					
Revenues per Cash-basis Budget		9,046,041			
Additional accrued revenues		<u>288,069</u>		288,069	
Revenues per Fund Financial Statements		<u>9,334,110</u>			
Expenditures per Cash-basis Budget		9,459,411			
Additional accrued expenses		<u>71,642</u>		(71,642)	
Expenditures per Fund Financial Statement		<u>9,531,053</u>			
Lease proceeds not budgeted		<u>157,239</u>		<u>157,239</u>	
Net Change in fund balance - Fund Financials	\$ (39,704)				

The accompanying notes to the Required Supplementary Information are an integral part of this schedule.

City of Gautier, Mississippi
Notes to the Required
Supplementary Information-Budgetary Schedules
For the Fiscal Year Ended September 30, 2017

A. Budgetary Information.

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

D. Budgetary Data

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

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

City of Gautier, Mississippi
Schedule of the City's Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*
For the Fiscal Year Ended September 30, 2017
(UNAUDITED)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.070%	0.067%	0.067%	0.069%
City's proportionate share of the net pension liability (asset)	\$ 11,636,376	11,967,873	10,356,879	8,132,573
City's covered payroll	\$ 4,502,222	4,269,283	4,199,035	4,182,032
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	258.46%	280.33%	246.65%	194.46%
Plan fiduciary net position as a percentage of the total pension liability	0.61%	57.47%	61.70%	67.21%

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

City of Gautier, Mississippi
Schedule of the City's Contributions
Last 10 Fiscal Years*
For the Fiscal Year Ended September 30, 2017
(UNAUDITED)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 713,359	681,575	658,899
Contributions in relation to the contractually required contribution	<u>713,359</u>	<u>681,575</u>	<u>658,899</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>
City's covered payroll	\$ 4,529,263	4,327,460	4,183,486
Contributions as a percentage of covered payroll	15.75%	15.75%	15.75%

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

City of Gautier, Mississippi
Notes to the Required Supplementary Information – Pension Schedules
For the Fiscal Year Ended September 30, 2017

Pension Schedules

A. Changes of assumptions.

2017

- The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.
- The wage inflation assumption was reduced from 3.75% to 3.25%.
- Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.
- The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

2016

- The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

2015

- The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015.
- The expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015.
- Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.
- Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.
- The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

B. Changes in benefit provisions.

2016

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

SUPPLEMENTAL INFORMATION

City of Gautier, Mississippi
Schedule of the Expenditures of Federal Awards
For the Year Ended September 30, 2017

<u>Federal Grantor/ Passed-through Grantor/ Program Title or Cluster</u>	<u>Federal CFDA Number</u>	<u>Grant No. / Pass-Through Number</u>	<u>Federal Expenditures</u>
Environmental Protection Agency			
Brownfield Assessment	66.818	BFD00D25414	\$ 211,972
Total Environmental Protection Agency			<u>211,972</u>
U.S. Department of Transportation			
Passed through the MS Department of Transportation			
Transportation Improvement - Martin Bluff Road	20.205	STP-919	1,332,242
Transportation Improvement - Hwy 57	20.205	STP-0494	1,142
Transportation Improvement - Safe Routes to Schools	20.205	STP-0494	186,972
Sub-total			<u>1,520,356</u>
Passed through MS Department of Public Safety			
Alcohol Impaired Driving Enforcement Grant	20.607	154AL-2017-ST-21-1	<u>21,732</u>
Total U.S. Department of Transportation			<u>1,542,088</u>
U.S. Fish and Wildlife Service			
Passed through MS Department of Marine Resources			
Sport Fish Access Program - Boat Launch Improvements	15.605	MS-F-F16AF00484	156,638
Total U.S. Fish and Wildlife Service			<u>156,638</u>
U.S. Department of Agriculture			
Passed through the Natural Resources Conservation Service			
Emergency Watershed Protection	10.923	68-4423-17-222	<u>14,150</u>
Total U.S. Department of Agriculture			<u>14,150</u>
U.S. Department of Justice			
Equitable Sharing Program	16.922		<u>51,257</u>
Total U.S. Department of Justice			<u>51,257</u>
Total Expenditures of Federal Awards			<u>1,976,105</u>

City of Gautier, Mississippi
 Notes to the Schedule of Expenditures of Federal Awards
 For the Year Ended September 30, 2017

Note 1 – General

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

Note 2 – Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the modified-accrual basis of accounting. Differences between the granting-agency basis of accounting and the basis of accounting used by the City in preparing its financial fund statements may occur.

Note 3 – Federal Loans

The City has the following federal loans outstanding as of September 30, 2017:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Current Year Expenditures</u>	<u>Unpaid Loan Balance</u>	<u>Original Loan Amount</u>
Environmental Protection Agency Passed-through the Mississippi Department of Environmental Quality				
DWI-H280114-02	66.458	-	243,030	422,610
DWI-H280114-01-02	66.458	-	477,191	470,475
SRF-C280879-02-2	66.458	-	1,170,483	1,760,448
SRF-C280879-01-3	66.458	-	670,862	1,288,485
DWI-H280092-01-3	66.458	-	781,318	1,344,987
SRF-C280754-01-3	66.458	-	1,018,086	1,865,320
 Total federal loans	 \$	 -	 \$ 4,360,970	 \$ 7,152,325

City of Gautier, Mississippi
Schedule of Surety Bonds
(Required by State of Mississippi)
For the Fiscal Year Ended September 30, 2017

Position	Name	Amount
Mayor	Philip Henry Torjusen	\$ 100,000
Councilman	Adam Douglas Colledge	100,000
Councilman	Mary F Martin	100,000
Councilman	Cameron B George	100,000
Councilman	Richard Jackson	100,000
Councilman	Casey C Vaughan	100,000
Councilman	Charles Rusty Anderson	100,000
City Manager	Paula N Yancey	50,000
Police Chief	Dante L Elbin	50,000
City Clerk	Cynthia Russell	50,000
Deputy City Clerk	Teresa Montgomery	50,000
Deputy City Clerk	Tricia Thigpen	50,000
Executive Asst	Chasity Bilbo	50,000
Administrative Clerk	Joan Craswell	50,000
Administrative Clerk	Rachel Honea	50,000
Administrative Clerk	Addie Bang	50,000
Administrative Clerk	Ramona Morgan	50,000
Purchasing Clerk	Sherry Farabee	50,000
Acctg/Personnel Clerk	Lekeisha Hill	50,000
Acctg/Personnel Clerk	Kim Sheppard	50,000
Acctg/Personnel Clerk	Leoquette Reddix	50,000
Court Clerk	Donna Davis	50,000
Records Clerk	Tina Hansen	50,000
Police	Daniel Selover	25,000
Dispatcher	Michael Steward	50,000
Dispatcher	Teresa Godwin	50,000
Dispatcher	Cameron Thigpen	50,000
Dispatcher	Juanita Wells	50,000
Dispatcher	Danielle Price	50,000
Dispatcher	Ashtin Langdon	50,000
Dispatcher	Timothy Werner	50,000
Dispatcher	Keisha Keyes	50,000
Dispatcher	David Lovett	50,000
Dispatcher	Alyssa McVicker	50,000
Park Attendant	Laquita Harris	50,000
Park Attendant	Paxton Stokley	50,000
Park Attendant	Donnie Bennett	50,000
Park Attendant	Emily Cumbest	50,000

SPECIAL REPORTS

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

(SUCCESSIONS TO A. L. EVANS & COMPANY ESTABLISHED 1920)

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

August 7, 2018

Honorable Mayor and
City Council of
City of Gautier, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gautier, Mississippi (the "City") as and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 7, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we considered to be material weaknesses. We did not identify any deficiencies in internal control that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: 2017-002.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. 2017-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* as described in the schedule of findings and questioned cost: 2017-002.

City of Gautier, Mississippi's Response to Findings

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

Purpose of this Report

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

Walt Ward Path * Lmp

WRIGHT, WARD, HATTEN & GUEL

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

August 7, 2018

Honorable Mayor and
City Council of
City of Gautier, Mississippi

In planning and performing our audit of the financial statements of the City of Gautier, Mississippi for the year ended September 30, 2017, we considered the City's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to the City of Gautier, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the County's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated August 7, 2018, on the financial statements of the City of Gautier, Mississippi.

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

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

Purchasing.

1. The state purchase law regarding the bidding procedures for purchases over \$5,000 but not over \$50,000 requires two bids to be obtained as prescribed by the State Auditor Purchase Law Summary. (Section 31-7-13(d)). The City made a purchase within the above limits without receiving two quotes.

Repeat Finding	No
Criteria	Purchases must be made in compliance with state law.
Condition	During our audit testing we noted an instance where two quotes were not obtained for a purchase that totaled between \$5,000 and \$50,000. This purchase was made for equipment in total of \$5,278.
Cause	Two bids were not received for purchases that were greater than \$5,000.
Effect	Mississippi law was not followed.
Recommendation	We recommend that the City follow the State Auditor's Purchase Law Summary and to ensure that all costs, exclusive of freight or shipping charges, are included to determine the threshold for obtaining two quotes.
City's Response	A purchase was made for \$5,573 for disc golf equipment, of which \$295 of that amount was for shipping; therefore, making the purchase for \$5,278. The City obtained verbal quotes, but not written as prescribed. The City will take measures to ensure that \$5,000 threshold is complied with in accordance with purchasing laws.

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

Walt Ward 7/27/04

WRIGHT, WARD, HATTEN & GUEL

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

August 7, 2018

Honorable Mayor and
City Council of
City of Gautier, Mississippi

Report on Compliance for Each Major Federal Program

We have audited City of Gautier, Mississippi's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on the City's major federal program for the year ended September 30, 2017. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2017.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

Purpose of this Report

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

Walt Ward, Jr. & Son

City of Gautier, Mississippi
Schedule of Findings and Questioned Costs
September 30, 2017

SECTION 1 – SUMMARY OF AUDITORS’ RESULTS

Financial Statements:

1.	Type of auditors' report issued on the financial statements:	
	Governmental activities	Unmodified
	Business-type activities	Unmodified
	General and other major funds	Unmodified
	Aggregate remaining fund information	Unmodified
2.	Internal control over financial reporting:	
	a. Material weaknesses identified?	Yes
	b. Significant deficiencies identified that are not considered to be material weaknesses?	Yes
3.	Noncompliance material to the financial statements noted?	Yes

Federal Awards:

4.	Type of auditor's report issued on compliance for major programs:	Unmodified
5.	Internal control over major programs:	
	a. Material weaknesses identified?	No
	b. Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
6.	Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	None
7.	Federal programs identified as major:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.205	U.S. Department of Transportation

8.	Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
9.	Auditee qualified as low-risk auditee?	No
10.	Prior fiscal year audit finding(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings in accordance with 2 CFR 200.526(b)?	No

City of Gautier, Mississippi
Schedule of Findings and Questioned Costs (Continued)
September 30, 2017

SECTION 2 – FINANCIAL STATEMENT FINDINGS

Governmental Activities

Significant Deficiency in Internal Control

2017-001	Inadequate segregation of duties.
Repeat Finding	Yes, 2016-002
Criteria	An effective system of internal control under generally accepted accounting principles requires that no one person handle all of the elements of a single transaction.
Condition	During our audit, we noted that the court clerk handles large volumes of cash transactions. She also handles receipts and posts the payments to court software. The court clerk also has the ability to make adjustments to case data.
Cause	The city lacks proper staffing and task assignments for adequate segregation of duties.
Effect	Failure to implement controls over the collecting, recording and lack of separation of duties could result in the loss or misappropriation of public funds.
Recommendation	We recommend that the City establish and implement new procedures and policies in order to maintain adequate separation of duties or oversight in the collection of court and traffic fees.

Business-type Activities

Material weakness in Internal Control/Non-Compliance

2017-002	Lack of oversight in handling delinquent employee utility bills.
Repeat Finding	No
Criteria	An employee of the city with a city utility account with the city should not be allowed to carry an extended delinquent account and continue to have utility service.
Condition	During our audit, we noted instances where employees were beyond the period for having services terminated, yet termination still did not occur.
Cause	Failure to follow-up and lack of policies and procedures concerning employee's utility accounts.
Effect	An employee's failure to follow the city's policy can result in loss of public trust and loss of public funds.
Recommendation	We recommend that the City follow established guidelines and monitor employees utility accounts on a more diligent basis.

City of Gautier, Mississippi
Schedule of Findings and Questioned Costs (Continued)
September 30, 2017

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings noted during the fiscal year ended September 30, 2017.

AUDITEE CORRECTIVE ACTION PLAN

Mayor
Phil Torjusen

Council

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

City of Gautier

Gautier, Mississippi

City Manager
Paula S. Yancey

City Clerk
Cynthia Russell

3330 Highway 90
Gautier, MS 39553
Phone: (228) 497-8000
Fax: (228) 497-8028
Email: gautier@gautier-ms.gov
Website: www.gautier-ms.gov



CITY OF GAUTIER, MISSISSIPPI Corrective Action Plan For the Year Ended September 30, 2017

Section 2 – Financial Statements Findings

2017-001	Inadequate segregation of duties	Significant Deficiency
Response:	The City disagrees with the finding that a significant deficiency in internal control exists relating to the segregation of the court clerk's duties (Finding Number 2017-001). By law, specifically, Miss. Code Ann. Section 21-23-11, the municipal court clerk " shall keep permanent dockets [and/or] a minute record", " shall administer collection of all fines, penalties, fees and costs imposed by the court and [shall] deposit all collections" (emphasis added). Therefore, to "segregate" these responsibilities as suggested in the above-referenced Finding, would be a violation of state statute.	
2017-002	Oversight of employee utility bills	Material weakness
Response:	During the audited time period, Utility billing was actually done by a third-party contractor. Subsequently during fiscal year 2018, (and prior to the actual audit occurring), the City has taken back over its Utility billing by City employees, which is now under the supervision of the City Clerk. There has also been established the position of Billing Supervisor to oversee the billing process. Additional steps have been taken to resolve the notation. It does deserve to be noted that the code "cutoff override" utilized by the Tyler billing system appears in many cases, such as when an account is pending council action on a proper adjustment, or when payment arrangements have been made. This is true for any resident of the City of Gautier.	

