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CITY OF GAUTIER, MISSISSIPPI

Audited Financial Statements and Special Reports

Year Ended September 30, 2019

CITY OF GAUTIER, MISSISSIPPI
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Year Ended September 30, 2019

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INTRODUCTORY SECTION

**ELECTED OFFICIALS
As of September 30, 2019**



**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**

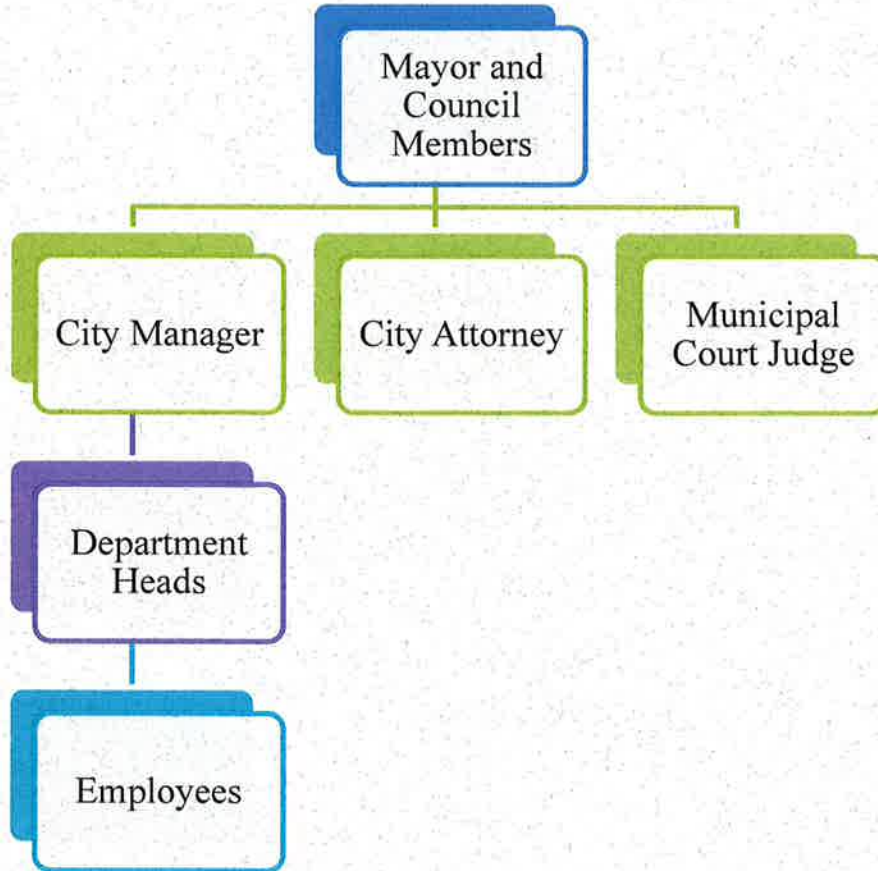


**Charles "Rusty" Anderson
Councilman, Ward 4**



**Adam Colledge
Councilman, Ward 5**

ORGANIZATION CHART
As of September 30, 2019



FINANCIAL SECTION

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

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

Certified Public Accountants

HANCOCK BANK BUILDING

2510 - 14TH STREET

P.O. BOX 129

GULFPORT, MISSISSIPPI 39502

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

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
City Council
City of Gautier, Mississippi

Report on the Financial Statements

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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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.

Other Reporting Required by *State of Mississippi*

In accordance with the State of Mississippi, we have also issued our report dated July 24, 2020, 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.

Wright Ward Hatten & Guel

Wright, Ward, Hatten & Guel
Gulfport, MS
July 24, 2020

MANAGEMENT DISCUSSION AND ANALYSIS

City of Gautier, Mississippi
Management's Discussion and Analysis
Year Ended September 30, 2019



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, 2019 and 2018. 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, 2019, is 18,490. The median household income is \$47,492 with over 87.4% of persons 25 years or older holding a high school degree or higher.

Government-wide Financial Highlights

- Total net position increased \$3,373,317 or 8% from 2018 which increased \$3,884,279.
- General revenues amounted to \$9,567,759 or 41% of total revenues. This amount increased \$845,375 from 2018. Program revenues amounted to \$13,661,676 or 59% of total revenues, an decrease of \$284,586 from 2018. This increase was mostly due to the more federal revenues received for capital projects.
- Capital assets, net of accumulated depreciation, increased by \$584,071 in the governmental activities and decreased \$318,267 in the business-type activities during 2019. The increase in governmental capital assets is primarily as a result of \$1,713,638 in capital assets acquisitions. The decrease in business-type activities stems from annual depreciation.
- Long-term debt increased by \$3,842,181 in the governmental activities primarily due a new bond debt issue. This amount also includes a \$28,196 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 \$2,419,676 in the business-type activities. This amount also includes a \$4,046 increase in compensated absences for the business-type activities. The City's total debt outstanding at September 30, 2019 is \$22,992,791 of which the liability for compensated absences is \$422,040.

Fund Highlights

- * *General Fund* – This fund is used for the general operations of the City. The General Fund had \$9,907,815 in revenues, which shows an increase of \$679,341 from 2018 and \$9,146,936 in expenditures, an increase of \$473,818 from 2018, in the current year. The General Fund's fund balance increased \$884,856.

City of Gautier, Mississippi
Management's Discussion and Analysis
Year Ended September 30, 2019

TABLE 1
Condensed Statement of Net Position
September 30, 2019 and 2018

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets						
Current assets	\$ 17,103,349	11,027,367	9,808,255	10,398,825	26,911,604	21,426,192
Capital assets	22,998,313	22,414,242	40,246,501	40,564,768	63,244,814	62,979,010
Total Assets	40,101,662	33,441,609	50,054,756	50,963,593	90,156,418	84,405,202
Deferred Outflows	589,137	441,997	37,604	334	626,741	442,331
Liabilities						
Current liabilities	600,386	865,295	1,281,608	803,346	1,881,994	1,668,641
Non-current liabilities	22,876,662	18,400,686	12,782,094	14,812,682	35,658,756	33,213,368
Total Liabilities	23,477,048	19,265,981	14,063,702	15,616,028	37,540,750	34,882,009
Deferred Inflows	4,973,469	5,073,267	9,993	6,627	4,983,462	5,079,894
Net Position						
Investment in capital assets, net of related debt	12,795,180	16,025,094	27,878,883	27,163,428	40,674,063	43,188,522
Restricted net assets	3,871,819	660,457	1,057,397	5,499,313	4,929,216	6,159,770
Unrestricted	(4,426,717)	(7,141,193)	7,082,385	2,678,531	2,655,668	(4,462,662)
Total Net Position	\$ 12,240,282	9,544,358	36,018,665	35,341,272	48,258,947	44,885,630

TABLE 2
Condensed Statement of Activities
September 30, 2019 and 2018

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues	\$ 3,217,106	3,119,078	10,444,570	10,827,184	13,661,676	13,946,262
General revenues	9,080,524	8,424,998	487,235	297,386	9,567,759	8,722,384
Total revenues	12,297,630	11,544,076	10,931,805	11,124,570	23,229,435	22,668,646
Expenses:						
General government	2,299,086	2,500,601	-	-	2,299,086	2,500,601
Public safety	6,157,983	6,641,484	-	-	6,157,983	6,641,484
Public works	661,109	318,592	-	-	661,109	318,592
Culture and recreation	910,483	782,759	-	-	910,483	782,759
Interest on long-term debt	408,532	231,206	-	-	408,532	231,206
Water and sewer	-	-	8,199,528	7,218,544	8,199,528	7,218,544
Solid waste	-	-	1,219,397	1,091,181	1,219,397	1,091,181
Total expenses	10,437,193	10,474,642	9,418,925	8,309,725	19,856,118	18,784,367
Transfers	835,487	640,000	(835,487)	(640,000)	-	-
Increase (Decrease) in net assets	2,695,924	1,709,434	677,393	2,174,845	3,373,317	3,884,279
Net Position - beginning, restated	9,544,358	7,834,924	35,341,272	33,166,427	44,885,630	41,001,351
Net Position - ending	\$ 12,240,282	9,544,358	36,018,665	35,341,272	48,258,947	44,885,630

City of Gautier, Mississippi
Management's Discussion and Analysis
Year Ended September 30, 2019

Business-type activities

Net position for the business-type activities was \$36,018,665 an increase of \$677,393. Charges for services decreased approximately \$705,765.

Restricted net position increased significantly during 2019 primarily due to bond proceeds being expended in the current year.

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 fund is the General fund.

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
Year Ended September 30, 2019

General Long-term Obligations

At September 30, 2019, the City had \$22,992,791 outstanding debt obligations, which included \$422,040 of compensated absences payable.

TABLE 4
Schedule of Long-term Debt
September 30, 2019 and 2018

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
General Obligation Bonds	\$ 4,680,000	5,860,000	-	-	4,680,000	5,860,000
Limited Obligation Bonds	4,390,000	-	-	-	4,390,000	-
Revenue Refunding Bonds	-	-	3,865,000	-	3,865,000	-
Revenue Bonds	-	-	-	2,745,000	-	2,745,000
Special Obligation Bonds	-	-	2,670,000	2,955,000	2,670,000	2,955,000
Capital Improvement Loans	667,130	731,738	-	-	667,130	731,738
Revolving Loans	-	-	3,506,143	4,360,970	3,506,143	4,360,970
Capital Leases	396,213	579,470	2,326,475	2,827,273	2,722,688	3,406,743
Add: Bond Premium*	69,790	-	-	31,907	69,790	31,907
Compensated Absences	405,152	366,083	16,888	-	422,040	366,083
Total	\$ 10,608,285	7,537,291	12,384,506	12,920,150	22,992,791	20,457,441

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, 2019

	Governmental	Business-Type	Total
ASSETS			
Current assets			
Cash	\$ 10,504,732	6,886,846	17,391,578
Taxes receivables	4,879,093	-	4,879,093
Customer accounts receivable (net of allowance)	-	1,489,589	1,489,589
Intergovernmental receivables	696,012	262,607	958,619
Fines receivable (net of allowance)	647,294	-	647,294
Premiums receivable	21,179	-	21,179
Interfund	24,680	(24,680)	-
Due from fiduciary funds	135,564	-	135,564
Restricted current assets - cash	194,795	1,193,893	1,388,688
Total current assets	<u>17,103,349</u>	<u>9,808,255</u>	<u>26,911,604</u>
Capital assets			
Land and construction in progress	7,361,439	2,125,969	9,487,408
Other capital assets, net of accumulated depreciation			
Buildings	2,519,389	-	2,519,389
Infrastructure	11,997,668	34,812,255	46,809,923
Machinery and equipment	506,607	459,929	966,536
Equipment under capital leases	613,210	2,848,348	3,461,558
Total capital assets	<u>22,998,313</u>	<u>40,246,501</u>	<u>63,244,814</u>
Total assets	<u><u>40,101,662</u></u>	<u><u>50,054,756</u></u>	<u><u>90,156,418</u></u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts on pension	589,137	37,604	626,741
Total deferred outflows of resources	<u>589,137</u>	<u>37,604</u>	<u>626,741</u>
LIABILITIES			
Current liabilities:			
Claims and wages payable	489,056	425,594	914,650
Accrued interest payable	44,184	132,191	176,375
Claims and judgements payable	67,146	-	67,146
Payable from restricted assets			
Customer deposits	-	723,567	723,567
Noncurrent Liabilities:			
Net pension liability	12,268,377	397,844	12,666,221
Due within one year			
Capital debt	860,894	832,722	1,693,616
Noncapital debt	45,009	3,319	48,328
Due in more than one year			
Capital debt	9,342,239	11,534,896	20,877,135
Noncapital debt	360,143	13,569	373,712
Total liabilities	<u>23,477,048</u>	<u>14,063,702</u>	<u>37,540,750</u>
DEFERRED INFLOWS OF RESOURCES			
Property tax for future reporting period	4,813,810	-	4,813,810
Deferred amount on pension	159,659	9,993	169,652
Total deferred inflows of resources	<u>4,973,469</u>	<u>9,993</u>	<u>4,983,462</u>
NET POSITION			
Investment in capital assets, net of related debt	12,795,180	27,878,883	40,674,063
Restricted Net Position:			
Non-expendable	4,845	-	4,845
Expendable:			
Restricted for debt service	2,705,667	743,546	3,449,213
Restricted for grant/bond purposes	505,693	313,851	819,544
Restricted for public safety	655,614	-	655,614
Unrestricted (deficit)	<u>(4,426,717)</u>	<u>7,082,385</u>	<u>2,655,668</u>
Total net position	<u><u>\$ 12,240,282</u></u>	<u><u>36,018,665</u></u>	<u><u>48,258,947</u></u>

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

City of Gautier, Mississippi

Balance Sheet

Governmental Funds

September 30, 2019

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 2,870,773	7,090,853	9,961,626
Receivables:			
Property tax	4,765,612	113,481	4,879,093
Sales tax	369,873	-	369,873
Franchise taxes	142,724	-	142,724
Intergovernmental	46,514	136,901	183,415
Court fines & fees	647,294	-	647,294
Due from other funds	293,198	7,979	301,177
Restricted assets - cash	4,845	189,950	194,795
Total assets	<u>9,140,833</u>	<u>7,539,164</u>	<u>16,679,997</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Claims payable	93,136	193,742	286,878
Wages payable	202,178	-	202,178
Due to other funds	7,979	110,121	118,100
Total liabilities	<u>303,293</u>	<u>303,863</u>	<u>607,156</u>
Deferred Inflows of Resources:			
Property taxes for future reporting period	4,701,861	111,949	4,813,810
Unavailable revenue - fines	647,294	-	647,294
Total deferred inflows of resources	<u>5,349,155</u>	<u>111,949</u>	<u>5,461,104</u>
Fund Balances:			
Nonspendable			
Unemployment compensation	4,845	-	4,845
Restricted for:			
Debt service	-	1,672,003	1,672,003
Public safety	-	638,533	638,533
Committed for:			
Capital projects	-	4,812,816	4,812,816
Assigned to:			
Emergency travel fund	1,144	-	1,144
Unassigned	3,482,396	-	3,482,396
Total fund balances	<u>3,488,385</u>	<u>7,123,352</u>	<u>10,611,737</u>
Total liabilities, deferred inflows of resources, and fund balances	\$ <u>9,140,833</u>	<u>7,539,164</u>	<u>16,679,997</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 Balances
Governmental Funds
Year Ended September 30, 2019

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 5,255,803	115,443	5,371,246
General sales taxes	2,305,610	-	2,305,610
Franchise fees	149,151	-	149,151
Licenses and permits	126,634	-	126,634
Intergovernmental	1,324,636	1,877,205	3,201,841
Charges for services	41,789	114,868	156,657
Fines and forfeitures	518,093	-	518,093
Investment earnings	96,540	58,301	154,841
Miscellaneous	89,563	2,051	91,614
Total revenues	<u>9,907,819</u>	<u>2,167,868</u>	<u>12,075,687</u>
EXPENDITURES			
General government	2,317,191	-	2,317,191
Public safety	5,671,239	236,785	5,908,024
Public works	398,531	465,054	863,585
Culture and recreation	699,029	732,285	1,431,314
Debt service:			
Principal	60,946	728,747	789,693
Interest and other fiscal charges	-	400,735	400,735
Total expenditures	<u>9,146,936</u>	<u>2,563,606</u>	<u>11,710,542</u>
Excess (deficiency) of revenues over expenditures	<u>760,883</u>	<u>(395,738)</u>	<u>365,145</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from bonds	-	4,390,000	4,390,000
Bond premiums	-	71,275	71,275
Proceeds from capital leases	143,888	-	143,888
Transfers in	860,487	4,801,299	5,661,786
Transfers out	(880,402)	(3,945,897)	(4,826,299)
Total other financing sources and uses	<u>123,973</u>	<u>5,316,677</u>	<u>5,440,650</u>
Net change in fund balances	884,856	4,920,939	5,805,795
Fund balances—beginning	<u>2,603,529</u>	<u>2,202,413</u>	<u>4,805,942</u>
Fund balances—ending	<u>\$ 3,488,385</u>	<u>7,123,352</u>	<u>10,611,737</u>

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

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City of Gautier, Mississippi
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
Year Ended September 30, 2019

	Enterprise Funds			Internal Service Funds
	Water and Sewer Fund	Solid Waste Fund	Totals	
Operating Revenues				
Charges for services	\$ 8,605,744	1,515,675	10,121,419	-
Employer contributions	-	-	-	1,470,266
Employee contributions	-	-	-	94,177
Insurance claim reimbursements	-	-	-	731,421
Miscellaneous	305,469	-	305,469	-
Total operating revenues	<u>8,911,213</u>	<u>1,515,675</u>	<u>10,426,888</u>	<u>2,295,864</u>
Operating Expenses				
Personnel services	824,926	-	824,926	-
Wastewater treatment	2,217,587	-	2,217,587	-
Privatization costs	2,184,561	-	2,184,561	-
Waste collection and disposal	-	1,217,207	1,217,207	-
Supplies	185,897	-	185,897	-
Repairs and maintenance	107,416	-	107,416	-
Other contractual services and charges	536,819	-	536,819	1,057
Insurance claims and expenses	-	-	-	1,886,389
Other services and charges	383,911	-	383,911	-
Depreciation	1,252,505	2,190	1,254,695	-
Total operating expenses	<u>7,693,622</u>	<u>1,219,397</u>	<u>8,913,019</u>	<u>1,887,446</u>
Operating income (loss)	<u>1,217,591</u>	<u>296,278</u>	<u>1,513,869</u>	<u>408,418</u>
Nonoperating Revenues (Expenses)				
Interest and investment revenue	181,766	-	181,766	3,015
Interest and debt expense	(505,906)	-	(505,906)	-
Grant revenue	323,151	-	323,151	-
Transfers in	6,186,296	-	6,186,296	-
Transfers out	(6,832,681)	(189,102)	(7,021,783)	-
Total nonoperating revenues (expenses)	<u>(647,374)</u>	<u>(189,102)</u>	<u>(836,476)</u>	<u>3,015</u>
Change in net position	570,217	107,176	677,393	411,433
Total net position—beginning	<u>34,853,438</u>	<u>487,834</u>	<u>35,341,272</u>	<u>62,873</u>
Total net position—ending	<u>\$ 35,423,655</u>	<u>595,010</u>	<u>36,018,665</u>	<u>474,306</u>

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

City of Gautier, Mississippi
Statement of Cash Flows
Proprietary Funds (continued)
Year Ended September 30, 2019

	Enterprise Funds			Internal Service Funds
	Water and Sewer Fund	Solid Waste Fund	Totals	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 1,217,591	296,278	1,513,869	408,418
Adjustments to reconcile operating income to net cash provided by operating activities:				
Cash flows reported in other categories				
Depreciation expense	1,252,505	2,190	1,254,695	-
(Increase) decrease in assets:				
Accounts receivable, net	14,410	120,396	134,806	-
Grants receivable	(262,545)	-	(262,545)	-
Premiums receivable	-	-	-	196,598
Increase (decrease) in liabilities:				
Accounts payable	348,257	-	348,257	-
Wages payable	2,562	-	2,562	-
Internal activity	124,609	(124,609)	-	-
Compensated absences	(8,796)	-	(8,796)	-
Pension liabilities and deferrals	355,884	(444)	355,440	-
Claims and judgements payable	-	-	-	(64,925)
Net cash provided (used) by operating activities	\$ <u>3,044,477</u>	<u>293,811</u>	<u>3,338,288</u>	<u>540,091</u>

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

City of Gautier, Mississippi
Combining Statement of Assets and Liabilities
Agency Funds
September 30, 2019

	<u>Payroll</u> <u>Clearing Account</u>
Assets	
Cash and cash equivalents	\$ <u>375,560</u>
Total Assets	<u><u>375,560</u></u>
 Liabilities	
Due to other intra-entity government agencies	135,564
Accounts payable and accrued liabilities	<u>239,996</u>
Total Liabilities	<u><u>375,560</u></u>
 Net Position	
Held in trust for benefits and other purposes	\$ <u><u>-</u></u>

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, 2019

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.

Joint Venture

The Jackson County Utility Authority is a joint venture established by State Code, and its governing board is appointed jointly by the area governments' governing bodies. It 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 13 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, 2019

Note 1 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (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.

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.

Debt Service Funds – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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.

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.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2019

Note 1 - Summary of Significant Accounting Policies (continued)

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, 2019, 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:

	Capitalization Threshold	Estimated Useful Life	Salvage Value (% of Cost)
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.

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.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2019

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 240 hours 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 legislation.

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, 2019

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. 88; *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The provisions of this standard 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, 2019, was \$19,155,826 and the bank balance was \$19,986,779. Of this amount \$1,388,688 is restricted for unemployment, utility customers' deposits and debt service. 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, 2019 is as follows:

	Deposits with Financial Institutions		Cash on Hand	Total
	Unrestricted	Restricted		
Governmental-type activities				
General Fund	\$ 2,869,223	4,845	1,550	2,875,618
Other Governmental Funds	7,090,833	189,950	20	7,280,803
Self-Insurance Fund	543,106	-	-	543,106
Total governmental activities	10,503,162	194,795	1,570	10,699,527
Business-type activities				
Water & Sewer Fund	6,716,107	1,193,893	600	7,910,600
Solid Waste Fund	170,139	-	-	170,139
Total business-type activities	6,886,246	1,193,893	600	8,080,739
Agency fund	375,560	-	-	375,560
Total cash	\$ 17,764,968	1,388,688	2,170	19,155,826

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2019

Note 4 – Interfund Transactions and Balances

Government-wide Financial Statements

A. Interfund Transfers

At September 30, 2019, the City had the following transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Governmental Activities	Business-type Activities	\$ <u>835,487</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, 2019 the City had the following intra entity balances:

<u>Due from other Government Agencies</u>	<u>Due to other Government Agencies</u>	<u>Amount</u>
General Fund	Fiduciary Funds	\$ <u>135,564</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.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 110,121
General Fund	Fiduciary Funds	135,564
General Fund	Water & Sewer Fund	47,513
Other Governmental Funds	General Fund	7,979
Solid Waste Fund	Self Insurance Fund	22,833
Solid Waste Fund	Water & Sewer Fund	193,494
Total		\$ <u>517,504</u>

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2019

Note 5 – Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 38,049
Public Safety	115,981
Public Works	371,264
Culture & Recreation	49,824
	<u>\$ 575,118</u>

B. Business-type Activities

The following is a summary of business-type capital assets activity for the year ended September 30, 2019:

	Balance 10/1/2018	Additions	Adjustments/ Disposals	Balance 9/30/2019
Capital assets not being depreciated:				
Land	\$ 1,215,870	-	-	1,215,870
Construction in Progress	66,500	843,599	-	910,099
Total capital assets not being depreciated	<u>1,282,370</u>	<u>843,599</u>	<u>-</u>	<u>2,125,969</u>
Capital assets being depreciated:				
Infrastructure	47,309,607	-	-	47,309,607
Machinery & Equipment	1,658,584	92,826	1	1,751,411
Equipment under Capital Leases	3,224,544	-	-	3,224,544
Total capital assets being depreciated	<u>52,192,735</u>	<u>92,826</u>	<u>1</u>	<u>52,285,562</u>
Less accumulated depreciation for:				
Infrastructure	11,393,461	1,103,891	-	12,497,352
Machinery & Equipment	1,215,919	75,565	(2)	1,291,482
Equipment under Capital Leases	300,957	75,239	-	376,196
Total accumulated depreciation	<u>12,910,337</u>	<u>1,254,695</u>	<u>(2)</u>	<u>14,165,030</u>
Total capital assets being depreciated, net	<u>39,282,398</u>	<u>(1,161,869)</u>	<u>3</u>	<u>38,120,532</u>
Total business-type activities capital assets, net	<u>\$ 40,564,768</u>	<u>(318,270)</u>	<u>3</u>	<u>40,246,501</u>

Depreciation expense was charged to business-type functions as follows:

Water and Sewer Fund	\$ 1,252,505
Solid Waste Fund	2,190
Total depreciation - business-type activities	<u>\$ 1,254,695</u>

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2019

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, 2018, to January 1, 2019. 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, 2019, the amount of this liability was \$67,146.

	Amount
Liability at beginning of year	\$ 132,495
Claims and changes of estimates	1,821,041
Claims payments	(1,886,390)
Liability at end of year	\$ <u>67,146</u>

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2019

Note 8 – Retirement Plan (continued)

A. Defined Benefit Pension 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 for the period of October 1, 2018 through June 30, 2019 was 15.75% of annual covered payroll. The employer's rate for the period of July 1, 2019 through September 30, 2019, was 17.4% 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, 2019, the City reported a liability of \$12,268,377 in the governmental activities and \$397,844 in the business-type activities for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2019, the City's proportion was .072%. For the year ended September 30, 2019, the City recognized \$1,021,116 of PERS pension expense for governmental activities and \$400,339 for the business-type activities.

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		
	Governmental Activities	Business-Type Activities	Total
Differences between expected and actual experience	\$ 7,043	450	7,493
Changes of assumptions	116,730	7,451	124,181
Changes in proportion and differences between City contributions and Proportionate share on contributions	289,356	18,468	307,824
City's contributions subsequent to the measurement date	176,008	11,235	187,243
Total	\$ 589,137	37,604	626,741

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2019

Note 8 – Retirement Plan (continued)

A. Defined Benefit Pension Plan (continued)

Mortality rates were based on the PubS.H-2010(B) Retiree Table with the following adjustments: For males, 112% of male rates from ages 18 to 75 scaled down to 105% for ages 80 to 119. For females, 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 75 to 119. Mortality rates will be projected generationally using the MP-2018 projection scale to account for future improvements in life expectancy.

The actuarial assumptions used in the June 30, 2019 valuation was based on the results of an actuarial experience study for the four-year period ending June 30, 2018. The experience report is dated April 2, 2019.

The long-term expected rate of return on pension plan 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 pension plan 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 rates of return by the target asset allocation percentage and by adding expected inflation.

The most recent 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	%	4.90	%
International Equity	22.00		4.75	
Global Equity	12.00		5.00	
Fixed Income	20.00		1.50	
Real Assets	10.00		4.00	
Private Equity	8.00		6.25	
Cash	1.00		0.25	
Total	100.00	%		

Discount rate

The discount rate used to measure the total pension liability for PERS 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 (9.0%) and that employer contribution rate (15.75%) through June 30, 2019 and at the current contribution rate (17.4%) thereafter. 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 each plan's total pension liability.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2019

Note 9 – Long-term Debt

A. Governmental Activities

Transactions for the year ended September 30, 2019 are summarized as follows:

	Balance 10/1/2018	Additions	Retirements	Balance 9/30/2019	Due Within one Year
General Obligation Bonds	\$ 5,280,000	-	(600,000)	4,680,000	630,000
Limited Obligation Bonds	-	4,390,000	-	4,390,000	-
Capital Improvement Loans	699,757	-	(32,627)	667,130	33,285
Capital Leases	409,391	143,888	(157,066)	396,213	197,609
Compensated Absences	376,956	28,196	-	405,152	45,009
Total	\$ 6,766,104	4,562,084	(789,693)	10,538,495	905,903
Add:					
Bond Premium	-	71,275	(1,485)	69,790	-
Total	6,766,104	4,633,359	(791,178)	10,608,285	905,903

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
2020	\$ 630,000	161,262	791,262
2021	370,000	145,868	515,868
2022	385,000	134,769	519,769
2023	405,000	122,256	527,256
2024	390,000	109,094	499,094
2025-2029	2,065,000	329,250	2,394,250
2030	435,000	17,400	452,400
\$	4,680,000	1,019,899	5,699,899

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.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2019

Note 9 – Long-term Debt (continued)

A. Governmental Activities (continued)

The following is a schedule by years of the total payments due as of September 30, 2019:

September 30,	Principal	Interest	Total
2020	\$ 197,609	12,410	210,019
2021	148,422	6,875	155,297
2022	50,182	2,358	52,540
\$	<u>396,213</u>	<u>21,643</u>	<u>417,856</u>

B. Business-type Activities

Transactions for the year ended September 30, 2019 are summarized as follows:

	Balance 10/1/2018	Additions	Retirements	Balance 9/30/2019	Due Within one Year
Revenue Refunding Bonds	\$ 4,000,000	-	(135,000)	3,865,000	140,000
Revenue Bonds	1,390,000	-	(1,390,000)	-	-
Special Obligation Bonds	2,815,000	-	(145,000)	2,670,000	145,000
Revolving Loans	3,938,510	-	(432,367)	3,506,143	442,531
Capital Leases	2,631,876	-	(305,401)	2,326,475	105,191
Compensated Absences	12,842	4,046	-	16,888	3,319
Subtotal	<u>14,788,228</u>	<u>4,046</u>	<u>(2,407,768)</u>	<u>12,384,506</u>	<u>836,041</u>
Add: Bond Premium*	15,954	-	(15,954)	-	-
Total business-type activities	<u>\$ 14,804,182</u>	<u>4,046</u>	<u>(2,423,722)</u>	<u>12,384,506</u>	<u>836,041</u>

Water & Sewer Revenue Bonds, Series 2018 – In 2018, the City issued \$4,000,000 in revenue bonds. The bond is to be repaid over 20 years, maturing in 2038, and carries an average interest rate of 3.73%. Payments on this bond will be made from the net revenues of the Water and Sewer system operations.

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

September 30,	Principal	Interest	Total
2020	\$ 140,000	146,781	286,781
2021	145,000	140,656	285,656
2022	150,000	134,494	284,494
2023	160,000	128,118	288,118
2024	165,000	121,318	286,318
2025-2029	920,000	500,930	1,420,930
2030-2034	880,000	276,518	1,156,518
2035-2038	1,305,000	157,200	1,462,200
\$	<u>3,865,000</u>	<u>1,606,015</u>	<u>5,471,015</u>

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2019

Note 9 – Long-term Debt (continued)

B. Business-type Activities (continued)

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

September 30,	Principal	Interest	Total
2020	\$ 442,531	78,594	521,125
2021	452,956	68,171	521,127
2022	463,646	52,079	515,725
2023	474,614	46,522	521,136
2024	485,864	35,261	521,125
2025-2029	1,186,532	55,289	1,241,821
	<u>\$ 3,506,143</u>	<u>335,916</u>	<u>3,842,059</u>

Capital Lease Obligations-Business-type Activities

The City is obligated for the following capital assets acquired through capital leases as of September 30, 2019:

Classes of property	Business-type Activities
Water meter project	\$ 3,224,544
Less: accumulated depreciation	(376,196)
Leased property under capital leases	<u>\$ 2,848,348</u>

The following is a schedule by years of the total payments due as of September 30, 2019:

September 30,	Principal	Interest	Total
2020	\$ 105,191	38,534	143,725
2021	215,637	71,811	287,448
2022	222,840	64,609	287,449
2023	230,283	57,166	287,449
2024	237,975	49,475	287,450
2025-2029	1,314,549	122,701	1,437,250
	<u>\$ 2,326,475</u>	<u>404,296</u>	<u>2,730,771</u>

C. 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 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, 2019, the amount of outstanding debt was equal to 8.2% of the latest property assessments.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2019

Note 12 – 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 potentially a 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 potential proceedings. However, the City's legal counsel believes that any ultimate liability resulting from these lawsuits, if any, will not have a material adverse effect on the financial condition of the City.

B. Commitments

Contract for Operations of Water and Wastewater Systems – In November of 2013, the City entered into a ten-year 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 \$170,691/month for the year ended September 30, 2019. 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, 2019 the City paid a total of \$2,124,061 to Clearwater Solutions, LLC under this contract.

Contract for Operations of Solid Waste Collections – In August of 2018, the City signed a contract with Waste Pro of MS, Inc. for the operations of solid waste collections. The fee under the contract is \$16.83 per contractual unit per month. The only adjustment to the compensation rate is from a fluctuation in the number of units received. The contract term is through September 16, 2024. During the fiscal year ended September 30, 2019 the City paid a total of \$1,215,917 to Waste Pro of MS, Inc. under this contract.

Note 13 – Joint Venture

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 \$2,217,587 for the year.

City of Gautier, Mississippi
Notes to the Financial Statements
September 30, 2019

Note 14 – Jointly Governed Organization

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 Lucedale, 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 \$106,983 to the Library for the year ended September 30, 2019.

Note 15– 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 July 24, 2020, (the date the financial statements were available to be issued) and determined the following noteworthy subsequent events.

On December 18, 2019, the City issued Combined Utility System Revenue Bonds, Series 2019, in the amount of \$6,000,000. Interest rates range from 2.5% to 3.375% for the Series 2019 bonds. The bonds mature in 2039. The bond issuance costs amounted to \$108,000.

In early 2020, an outbreak of the novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been mandates from federal, state, and local authorities resulting in an overall decline in economic activity. The ultimate impact of COVID-19 on the financial performance of the City is not reasonably estimable at this time.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Gautier, Mississippi
Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund (continued)
Budget to Actual - (Prepared on the Budgetary Basis)
Year Ended September 30, 2019

	Budgeted Amounts		Actual Budgetary Basis	Variances Favorable (Unfavorable)	
	Original	Final		Original	Final
				to Final	to Actual
Other Financing Sources (Uses):					
Proceeds from capital leases	\$ 200,000	200,000	143,888	-	(56,112)
Transfers in	830,923	860,487	860,487	29,564	-
Transfers out	(830,452)	(880,452)	(880,402)	(50,000)	50
Total other financing sources and uses	<u>200,471</u>	<u>180,035</u>	<u>123,973</u>	<u>(20,436)</u>	<u>(56,062)</u>
Net Change in Fund Balance - Budget	<u>(369,819)</u>	<u>(369,819)</u>	799,671	-	1,169,490

Net Change in fund balance - Budget-Cash Basis \$ 799,671

Revenues per Cash-basis Budget	10,877,043	
Additional accrued revenues	<u>35,151</u>	35,151
Revenues per Fund Financial Statements	<u>10,912,194</u>	

Expenditures per Cash-basis Budget	10,077,372	
Additional accrued expenses	<u>(50,034)</u>	50,034
Expenditures per Fund Financial Statement	<u>10,027,338</u>	

Net Change in fund balance - Fund Financials \$ 884,856

The 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
Year Ended September 30, 2019

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 City Manager submits to the City Council 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 Contributions
Last 10 Fiscal Years*
Year Ended September 30, 2019
(UNAUDITED)

	2019	2018	2017	2016	2015
Contractually required contribution	\$ 756,838	722,163	713,359	681,575	658,899
Contributions in relation to the contractually required contribution	756,838	722,163	713,359	681,575	658,899
Contribution deficiency (excess)	\$ -	-	-	-	-
City's covered payroll	\$ 4,683,397	4,585,162	4,529,263	4,327,460	4,183,460
Contributions as a percentage of covered payroll	16.16%	15.75%	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
Year Ended September 30, 2019

Pension Schedules

A. *Changes in assumptions (continued)*

➤ 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.

Methods and assumptions used in calculations of actuarially determined contributions

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (June 30, 2017 valuation for the June 30, 2019 fiscal year end). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	36.6 years
Asset valuation method	5-year smoothed market
Price inflation	3.00 percent
Salary increase	3.25 percent to 18.50 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

SUPPLEMENTAL INFORMATION

City of Gautier, Mississippi
Schedule of Surety Bonds
(Required by the State of Mississippi)
Year Ended September 30, 2019

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
Comptroller	Teresa Montgomery	50,000
Asst Comptroller	Tara Tapper	50,000
Executive Asst	Emily Cumbest	50,000
Acctg/Personnel Clerk	Lekeisha Hill	50,000
Acctg/Personnel Clerk	Leoquêita Reddix	50,000
Administrative Clerk	Cora Floyd	50,000
Administrative Clerk	Rachel Honea	50,000
Administrative Clerk	Addie Bang	50,000
Administrative Clerk	Barbara Logan	50,000
Administrative Clerk	Brenda Greco	50,000
Purchasing Clerk	Sherry Farabee	50,000
Court Clerk	Michael Steward	50,000
Deputy Court Clerk	Bernadette Morrow	50,000
Records Clerk	Tina Hansen	50,000
Police	Daniel Selover	25,000
Dispatcher	Katherine Clifton	50,000
Dispatcher	Cameron Thigpen	50,000
Dispatcher	Susan Powell	50,000
Dispatcher	Jameika Henderson	50,000
Dispatcher	Danielle King	50,000
Dispatcher	Timothy Werner	50,000
Dispatcher	Brittany Worth	50,000
Dispatcher	Chasity McLendon	50,000
Dispatcher	Traci Webb	50,000
Park Attendant	Laquita Harris	50,000
Park Attendant	Kayla Ferreira	50,000
Park Attendant	Joan Craswell	50,000
Utility Services	Kim Sheppard	50,000
Utility Services	Darlene Brown	50,000
Utility Services	Debra Holmes	50,000
Utility Services	Melissa Chandler	50,000
Utility Services	Karen Kihyet	50,000
Utility Services	Summer Devine	50,000
Utility Services	Lauren Eshliman	50,000

SPECIAL REPORTS

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

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

Certified Public Accountants

HANCOCK BANK BUILDING

2510 - 14TH STREET

P.O. BOX 129

GULFPORT, MISSISSIPPI 39502

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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***

Honorable Mayor and
City Council
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, the major fund, and the aggregate remaining fund information of the City of Gautier, Mississippi, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Gautier, Mississippi's basic financial statements, and have issued our report thereon dated July 24, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Gautier, Mississippi'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Gautier, Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Gautier, Mississippi's internal control.

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

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

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

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

Certified Public Accountants

HANCOCK BANK BUILDING

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LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

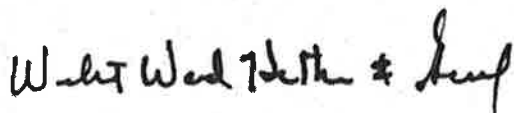
Honorable Mayor and
City Council
City of Gautier, Mississippi

In planning and performing our audit of the financial statements of the City of Gautier, Mississippi for the year ended September 30, 2019, we considered the City of Gautier, Mississippi'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 City's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated July 24, 2020, on the financial statements of the City of Gautier, Mississippi.

Although no findings came to our attention as a result of these review procedures and compliance tests, these procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of the 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.

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



Wright, Ward, Hatten & Guel
Gulfport, MS
July 24, 2020

City of Gautier, Mississippi
Schedule of Findings and Questioned Costs
September 30, 2019

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statements:

- | | | |
|----|--|---------------|
| 1. | Type of auditor’s report issued on the financial statements: | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | No |
| | b. Significant deficiencies identified? | None Reported |
| 3. | Noncompliance material to the financial statements noted? | No |

SECTION 2 – FINANCIAL STATEMENT FINDINGS

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.