CITY OF ADRIAN, GEORGIA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

City of Adrian, Georgia
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For The Year Ended December 31, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Adrian, Georgia

I was engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of City of Adrian, Georgia, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Adrian, Georgia's, management.

City of Adrian, Georgia does not maintain adequate accounting records to provide sufficient information for the audit of the basic financial statements. The scope of the work was not sufficient to warrant the expression of an opinion.

City of Adrian did not provide water and garbage billings or collections for January, February, and March 2011. The only records provided were deposits made to the bank. Further audit procedures could not support that the deposits made reflected actual billings or actual collections.

City of Adrian had discrepancies in water and garbage billings to customers and corresponding collections in the system, to what was deposited into the bank account for months April-December 2011. Further audit procedures indicate that there is a shortage of funds deposited. These shortages are noted on the face of the financial statements as a contra revenue account.

City of Adrian had a few checks in small amounts, made payable to cash and was not able to provide documentation for the nature of the check.

City of Adrian did not provide me with adequate records to verify and test expenditures, if any, sufficient to provide assurance that the Special Purpose Local Option Sales Tax schedule is fairly presented in relation to the financial statements.

A separate letter to management has been issued to address these issues discussed above, in detail and to recommend procedures for improvement.

The City of Adrian has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements

Because of the significance of the matters discussed in the preceding paragraphs, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on the financial statements referred to in the first paragraph. Because of the significance of the matters discussed in the preceding paragraphs and the inability to verify the Schedule of Special Purpose Local Option Sales Tax amounts,

the scope of my work was not sufficient to enable me to express, and I do not express an opinion on the Schedule of Special Purpose Local Option Sales Tax.

Stacie Avery

August 23, 2012

City of Adrian, Georgia
Statement of Net Assets
December 31, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets			
Cash	$ 32,820	$ 43,436	$ 76,256
Receivables - net where applicable of allowance for uncollectibles:			
Accounts	4,810	3,927	8,737
Taxes	24,961	-	24,961
Due from other governments	-		-
Capital Assets			
Nondepreciable capital assets	13,156	-	13,156
Depreciable capital assets, net	99,531	385,828	485,359
Total Assets	$ 175,278	$ 433,191	$ 608,469
Liabilities			
Current Liabilities			
Accounts payable	$ 10,281	$ 543	$ 10,824
Other accrued payables	435		435
Due to/from Other Funds	5,086	(5,086)	-
Customer deposits	-	27,500	27,500
Current portion of long-term debt	5,100	17,773	22,873
Long-Term Liabilities			
Notes payable (net of current portion)	20,313	206,961	227,274
Capital leases payable (net of current portion)	-	-	-
Total Liabilities	$ 41,215	$ 247,691	$ 288,906
Net Assets			
Invested in capital assets, net of related debt	$ 87,274	$ 161,094	$ 248,368
Restricted for Capital Outlay	$ 7,048		
Unrestricted	39,741	24,405	64,146
Plus Prior Pd Adjustment	-	19,752	19,752
Total Net Assets	$ 134,063	$ 205,251	$ 339,314

See accompanying notes to the basic financial statements.

City of Adrian, Georgia
Statement of Activities
For the Year Ended December 31, 2011

Functions	Expenses	Program Revenue: Charges for Services and Fines	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business Type Activities	Primary Government: Total
Primary Government							
Governmental Activities							
General government	$ 113,449	$ 3,025	$ -	$ 4,660	$ (105,764)	$ -	$ (105,764)
Public safety	66,274	10,755	-	5,806	(49,713)	-	(49,713)
Public works	104,389	50,737	-	-	(53,652)	-	(53,652)
Culture/recreation	8,299	-	5,293	-	(3,006)	-	(3,006)
Interest	-	-	-	15	15	-	15
Total Governmental Activities	292,411	64,517	5,293	10,481	(212,120)	-	(212,120)
Business Type Activities							
Water	67,843	58,740	-	-	-	(9,103)	(9,103)
Total Primary Government	$ 360,254	$ 123,257	$ 5,293	$ 10,481	(212,120)	(9,103)	(221,223)
General Revenues							
Property taxes					44,270	-	44,270
Sales taxes					62,478	-	62,478
Insurance premium					31,144	-	31,144
Franchise					25,284	-	25,284
Other taxes					3,444	-	3,444
Investment earnings					39	-	39
Miscellaneous					9,051	-	9,051
Total General Revenues and Transfers					175,710	-	175,710
Change in Net Assets					(36,410)	(9,103)	(45,513)
Net Assets - January 1					170,473	234,106	404,579
Prior Period Adjustment						(19,752)	(19,752)
Net Assets - December 31					$ 134,063	$ 205,251	$ 339,314

See accompanying notes to the basic financial statements.

City of Adrian, Georgia
Balance Sheet
Governmental Funds
December 31, 2011

	General Fund	Special Local Option Sales Tax	Total Governmental Funds
Assets			
Cash	$ 25,772	$ 7,048	$ 32,820
Receivables - net where applicable of allowance for uncollectibles:			
Accounts	4,810	-	4,810
Taxes	24,961	-	24,961
Due from other governments	-	-	-
Total Assets	$ 55,543	$ 7,048	$ 62,591
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 10,281	$ -	$ 10,281
Accrued payables	435	-	435
Due to Other Funds	5,086		5,086
Deferred revenue	18,514	-	18,514
Total Liabilities	34,316	-	34,316
Fund Balances			
Restricted		7,048	7,048
Unassigned	21,227	-	21,227
Total Fund Balances	21,227	-	28,275
Total Liabilities and Fund Balances	$ 55,543	$ -	$ 62,591

See accompanying notes to the basic financial statements.

City of Adrian, Georgia
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
December 31, 2011

Total Governmental Fund Balance		$ 28,275
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Cost	277,448	
Less accumulated depreciation	(164,761)	112,687
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:		
Property taxes		18,514
Liabilities, not due and payable in the current period and therefore not reported in the funds, but are reported in the statement of net assets:		(25,413)
Net Assets of Governmental Activities		$ 134,063

See accompanying notes to the basic financial statements.

City of Adrian
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	General	Special Local Option Sales Tax	Grants	Total Governmental Funds
Revenues				
Taxes	$ 160,244	$ -		$ 160,244
Licenses and permits	3,025	-		$ 3,025
Intergovernmental	-	4,660		$ 4,660
Charges for services	55,756	-		$ 55,756
Less Shortage on Garbage Revenue	(5,019)			$ (5,019)
Fines and forfeitures	10,755	-		$ 10,755
Investment earnings	39	15		$ 54
Contributions and donations from private sources	5,293	-		$ 5,293
Miscellaneous	9,051	-	5,806	14,857
Total Revenues	239,144	4,675	5,806	249,625
Expenditures				
Current:				
General government	111,980	-	-	111,980
Culture and Recreation	8,299	-	-	8,299
Public safety	47,790	-	5,806	53,596
Public works	94,790	-	-	94,790
Capital Outlay	8,995	-	-	8,995
Debt Service				-
Principal	-	-	-	-
Interest	-	-	-	-
Total Expenditures	271,854	-	5,806	277,660
Excess of Revenues Over (Under) Expenditures	(32,710)	4,675	-	(28,035)
Other Financing Sources (Uses)				
Loan Proceeds	-	-	-	-
Capital leases	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	(32,710)	4,675	-	(28,035)
Fund Balance - January 1	53,937	2,373	-	56,310
Fund Balance - December 31	$ 21,227	$ 7,048	$ -	$ 28,275

See accompanying notes to the basic financial statements.

City of Adrian, Georgia
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2011

Net Changes in Fund Balances - Total Governmental Funds:		$ (28,035)
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 as depreciation expense. This is the amount by which capital outlay differed from depreciation expense in the current period.		
Depreciation expense	$ (23,746)	
Capital outlay	8,995	(14,751)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes:		
Deferred @ January 1	$ (12,138)	
Deferred @ December 31	18,514	6,376
The proceeds of debt issuances provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Debt issuances		-
Debt repayment		-
Changes in Net Assets		$ (36,410)

See accompanying notes to the basic financial statements.

City of Adrian, Georgia
Statement of Net Assets
Proprietary Funds
December 31, 2011

	Water Fund
Assets	
Current Assets:	
Cash	$ 43,436
Receivables - net of allowance for uncollectibles	
Accounts	3,927
Due from General Fund	5,085
Total Current Assets	52,448
Noncurrent Assets:	
Capital Assets:	
Depreciable capital assets, net	385,828
Capital Assets, net	385,828
Total Assets	$ 438,276
Liabilities	
Current Liabilities:	
Accounts payable	$ 543
Customer deposits	27,500
Current portion of long-term debt	17,773
Total Current Liabilities	45,816
Long-term Liabilities:	
Notes Payable	206,961
Total Long-term Liabilities	206,961
Total Liabilities	$ 252,777
Net Assets	
Invested in capital assets, net of related debt	161,094
Unrestricted	24,405
Preliminary Total Net Assets	$ 185,499
Plus prior period adjustment	19,752
Final Total Net Assets	$ 205,251

See accompanying notes to the basic financial statements.

City of Adrian, Georgia
Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2011

	Water Fund
Operating Revenues	
Water charges	58,740
Less: Shortage on Water Revenue	(5,897)
Total Operating Revenues	52,843
Operating Expenses	
Salaries	8,326
Purchased professional and technical services	3,430
Supplies	29,612
Depreciation	16,771
Total Operating Expenses	58,139
Operating Income (Loss)	(5,296)
Non-Operating Revenues (Expenses)	
Grants	-
Interest earned on investments	-
Interest expense	(3,807)
Total Non-Operating Revenues (Expenses)	(3,807)
Net Income	(9,103)
Net Assets - January 1	234,106
Prior Period Adjustment	(19,752)
Net Assets - December 31	$ 205,251

See accompanying notes to the basic financial statements.

City of Adrian, Georgia
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	Water Fund
Increase (Decrease) in Cash	
Cash Flows From Operating Activities	
Cash received from customers	$ 53,974
Cash payments for personnel services	(8,326)
Cash payments for goods and services	(34,687)
Net Cash provided by (Used in) Operating Activities	10,961
Cash Flows From Noncapital Financing Activities	
Prior Pd Adjustment	(19,752)
Net Cash Provided by (Used in) Noncapital Financing Activities	(19,752)
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	-
Interest paid	(3,807)
Principal paid on notes	(21,274)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(25,081)
Cash Flows from Investing Activities	
Investment earnings	-
Net Cash Provided by (Used in) Investing Activities	-
Net Increase (Decrease) in Cash	(33,872)
Cash - January 1	77,308
Cash - December 31	$ 43,436

City of Adrian, Georgia
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	Water Fund
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating Income (Loss)	$ (5,296)
Adjustments:	
Depreciation	16,771
(Increase) Decrease in Assets:	
Accounts receivable	1,131
Increase (Decrease) in Liabilities:	
Accounts payable	(1,645)
Customer deposits	-
Net Cash Provided by Operating Activities	$ 10,961

The City of Adrian, Georgia (the "City") was incorporated in 1899. The City operates under a council-mayor form of government and provides the following services: public safety, highways and streets, culture and recreation, public improvements, sanitation, and general and administrative services. In addition, the City operates a public utility (water system).

Note 1 – Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting. The City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental and business-type activities at the government-wide financial reporting level and to its enterprise funds at the fund reporting level, provided they do not conflict with or contradict GASB pronouncements.

The most significant of the City's accounting policies are listed below.

1-A. Reporting Entity

The reporting entity is comprised of the primary government, and component units, if any, and other organizations that are included to ensure that the financial statements are not misleading.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organizations; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization.

Discretely presented component units generally are reported only at the government-wide financial reporting level.

The City did not have any organizations that met the requirements of being a component unit for the current fiscal year.

1-B. Basis of Presentation

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

Government-wide Financial Statements – The government-wide financial statements include a statement of net assets and a statement of activities. These statements report financial information for the City as a whole. All funds other than fiduciary activities, if any, are included at the government-wide reporting level. Individual funds are not displayed at this reporting level, but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of net assets presents the financial position of the governmental and business-type activities of the City.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and for each identifiable activity of the business-type activities of the City. Direct expenses are those that are specifically associated with a function and therefore clearly identifiable to that particular function. The City does not allocate indirect expenses to functions in the statement of activities.

The statement of activities reports the expenses of a given function offset by program revenues directly related to the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. For identifying to which function program revenue pertains, the determining factor for charges for services is which function generates the revenue. For grants and contributions, the determining factor is to which function the revenues are restricted.

Taxes and other revenue sources not properly included with program revenues are reported as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Fund financial statements are provided for governmental and proprietary funds.

Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds, if any. The fiduciary funds are reported by type, if any.
Fund Accounting – The City uses funds to maintain its financial records during the year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The City uses two categories of funds: governmental and proprietary.

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between governmental fund assets and liabilities as fund balance. The following are the City's major governmental funds:

General Fund – The general fund accounts for all financial resources except those required to be accounted for in other funds. The general fund's fund balance is available to the City for any purpose provided it is expended or transferred

according to the general laws of Georgia.

Capital Projects Fund – This fund type is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary operations). The City's Capital Projects Fund is funded by Special Purpose Local Option Sales Taxes (SPLOST).

Proprietary Funds – Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise funds.

Water Fund – This fund is used for the operation of the City's water system which renders services to the residents and businesses located within the incorporated and immediately surrounding areas.

1-C. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities reports revenues and expenses, including depreciation.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus in these financial statements. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus on both financial reporting levels. All assets and all liabilities associated with the operation of these funds are included on the statements of net assets. The statements of changes in fund net assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

1-D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, governmental funds use the modified accrual basis of accounting and fiduciary funds use the accrual basis of accounting. Proprietary funds use the accrual basis of accounting at both reporting levels. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, the phrase "available for exchange transactions" means expected to be received within two months of year-end.

Revenues – Non-exchange – Non-exchange transactions in which the City receives value without directly giving equal value in return, includes sales taxes, property taxes, grants and donations. On an accrual basis, revenue from sales taxes is recognized in the period in which the taxable sale takes place and on the modified accrual basis, it is recognized in the year the sale taxes place as long as it is received within 60 days (i.e., when considered available). Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions also must be available (i.e., collected within 60 days) before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: property taxes, sales taxes, interest and federal and state grants.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

On governmental fund financial statements (i.e., on the modified accrual basis), receivables that will not be collected within the available period have been reported as deferred revenue (i.e., they are measurable but not available) rather than as revenue.

Property taxes receivable not collected within 60 days of year-end have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met (e.g., cash advances), if any, also are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

1-E. Assets, Liabilities and Fund Equity

1-E-1. Cash, Cash Equivalents, and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

Investments are stated at fair value based on quoted market prices.

Georgia law authorizes the City to invest in the following type of obligations:

Obligations of the State of Georgia or of any other states
Obligations of the United States Government
Obligations fully insured or guaranteed by the government or governmental agency
Obligations of any corporation of the government
Prime bankers' acceptances
The State of Georgia local government investment pool (i.e., Georgia Fund 1)
Repurchase agreements
Obligations of the other political subdivisions of the State of Georgia

Any investment or deposit in excess of the Federal Deposit Insurance Corporation (FDIC) insured amount must be secured by 110% of an equivalent amount of State or U. S. obligations.

1-E-2. Receivables

All trade and property tax receivables are reported net of an allowance for uncollectables, where applicable.

1-E-3. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the government-wide statement of net assets, except for any net residual amounts due between governmental and business-type activities, if any, which are reclassified and presented as internal balances.

1-E-4. Consumable Inventories

On the government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used (i.e., the consumption method). When payments to vendors reflect costs applicable to future accounting periods, they are recorded as expenditures when paid.

On the fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as expenditure in the governmental fund types when consumed.

1-E-5. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column of the government-wide statement of net assets but does not report these assets in the governmental fund financial statements. Capital assets utilized by enterprise funds are reported both in the business-type activities column of the government-wide statement of net assets and in the enterprise funds' statement of net assets.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars for equipment and vehicles, all buildings purchased prior to 2004 and fifty thousand dollars for buildings purchased in or after 2004, and two hundred and fifty thousand dollars for infrastructure. The City's infrastructure consists of roads, bridges and water lines. Improvements (i.e., betterments) to capital assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets utilized by the enterprise fund is capitalized.

All reported capital assets are depreciated except for land, and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Building and improvements	30 – 50 Years	30 – 50 Years
Equipment	5 – 10 Years	5 – 10 Years
Utility plant in service	-	40 Years
Infrastructure	15 – 50 Years	-

1-E-6. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

All compensated absence liabilities include salary-related payments, where applicable.

The total compensated absence liability is reported on the government-wide financial statements. Proprietary funds report the total compensated liability in each individual fund at the fund reporting level. Governmental funds report the compensated absence liability at the fund reporting level only "when due."

There was no accrued vacation pay for the current year.

1-E-7. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of these funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year. Debt service expenditures are recognized as a liability in the governmental fund financial statements when due.

1-E-8. Bond Premiums, Discounts and Issuance Costs

On the government-wide statement of net assets and the proprietary fund type statement of net assets, bond premiums and discounts are netted against bonds payable and bond issuance costs are reported as deferred charges. On the government-wide and proprietary fund type statement of activities, bond premiums and discounts and bond issuance costs are deferred and amortized over the life of the bonds using the effective interest method.

At government fund reporting level, bond premiums and discounts are reported as other financing sources and uses, separately from the face amount of the bonds issued. Bond issuance costs are reported as expenditures.

1-E-9 Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net assets."

- ***Nonspendable*** – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

- ***Restricted*** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

- ***Committed*** – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the approval of a motion. Only, the City also may modify or rescind the commitment.

- ***Assigned*** – Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor

committed. By motion, the City Council has authorized the Mayor or City Clerk or designee to assign fund balances.

- ***Unassigned*** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds. Currently, the City only reports unassigned fund balance.

Flow Assumptions – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

Net Assets – Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. The net asset amount also is adjusted by any bond issuance deferred amounts. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other assets are reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

1-E-10. Operating and Nonoperating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for the water program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of each program. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses, including operating grants, investment earnings and interest expense.

1-E-11. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or

from grants or outside contributions of resources restricted to capital acquisition and construction.

1-E-12. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and the after non-operating revenues/expenses section in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements (i.e., they are netted).

Transfers between governmental and business-type activities on the government-wide statement of activities are reported as general revenues. Transfers between funds reported in the governmental activities column are eliminated. Transfers between funds reported in the business type activities column are eliminated.

1-E-13. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2 – Stewardship, Compliance and Accountability

2-A. Budgetary Information – The City adopts an annual operating budget for the general fund, each special revenue fund, if any, and each enterprise fund. A project budget is adopted for each capital projects fund, if any. The budget resolution reflects the total of each department's appropriation in each fund.

The governmental funds budgets and the Enterprise fund budgets are adopted on a basis consistent with GAAP.

All unexpended annual appropriations lapse at year-end.

The level of budgetary control (the level at which expenditures may not exceed appropriations) is the department level with the following provisions:

The City Clerk may transfer funds from one object or purpose to another within the same department.

The City Council may amend the budget by motion during the fiscal year.

Formal budgetary integration is employed as a management control device during the year for all budgeted funds.

2-B. Excess of Expenditures Over Appropriations

The following funds reported expenditures/expenses over appropriations: Culture & Recreation, $8,299; and Public Works $20,405 plus Capital Outlay Public Works $8,995

Note 3 – Detailed Notes on All Funds

3-A. Deposits

Deposits – The bank balance is classified into three categories of credit risk: 1) cash that is insured or collateralized with securities held by the City or by its agent in its name, 2) cash collateralized with securities held by the pledging financial institution's trust department or agent in the City's name, and 3) uncollateralized bank accounts including any bank balance that is collateralized with securities held by the pledging institution's trust department or agent but not in the City's name.

The City's deposits are classified as follows at December 31, 2011:

	Category			Bank	Carrying
	1	2	3	Balance	Amount
Primary Government	$ 78,563	$ -	$ -	$ 78,563	$ 76,256

3-B. Receivables

Receivables at December 31, 2011, consisted of taxes, accounts (billings for user charges) and intergovernmental receivables.

Receivables and payables are recorded on the City's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectability.

3-C. Property Taxes

Normally, property tax levies are set by the City Council in June of each year for collection in that fiscal year. City of Adrian spreads all levies over assessable property. Taxes are levied annually by the City and for the year ended December 31, 2011, the levy occurred around December. Real and personal property taxes are due December 31. Property taxes receivable becomes a lien on January 1. At fiscal year-end, the receivables represent delinquent taxes. At the fund reporting level, if delinquent taxes are not paid with 60 days of year-end, they are recorded as deferred revenue since they are not available to finance current expenditures.

3-D. Interfund Balances and Transfers

There were interfund balances of $5,086 at December 31.

3-E. Compensated Absences

In general, employees earn annual leave at the rate of 5 days per year after one year of service and 10 days per year after two years of service. Upon termination, employees are paid for any accrued annual leave.

Sick leave accrues to full-time, permanent employees to specified maximums. Unused sick leave is allowed to accumulate from service year to service year. Upon termination, employees forfeit all accumulated unused sick leave.

3-F. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 13,156	$ -	$ -	$ 13,156
Other capital assets:				
Buildings	124,188	-	-	124,188
Equipment	131,109	8,995	-	140,104
Infrastructure	-	-	-	-
Total other capital assets	255,297	8,995	-	264,292
Accumulated depreciation				
Buildings	57,148	2,560	-	59,708
Equipment	83,867	21,186	-	105,053
Infrastructure	-	-	-	-
	141,015	23,746	-	164,761
Governmental activities capital assets, net	$ 127,438	$ (14,751)	$ -	$ 112,687

Governmental activities depreciation expense	
General government	$ 1,469
Public safety	12,678
Public works	9,599
Culture/recreation	-
Total governmental activities depreciation expense	$ 23,746

Business-type activities:

	Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011
Capital assets not being depreciated:				
Land	$ -	$ -	$ -	$ -
Other capital assets:				
Buildings	-	-	-	-
Utility plant in service	567,469	-	-	567,469
Equipment	25,575	-	-	25,575
Total other capital assets	593,044	-	-	593,044
Accumulated depreciation				
Buildings	-	-	-	-
Utility plant in service	176,009	14,220	-	190,229
Equipment	14,436	2,551	-	16,987
Less: accumulated depreciation	190,445	16,771	-	207,216
Business-type activities capital assets, net	$ 402,599	$ (16,771)	$ -	$ 385,828

3-G. Long-Term Debt

Summary of Water Fund Debt:

The following is a summary of the outstanding notes to Georgia Environmental Facilities Authority (GEFA) and bonds held by GMAC Commercial Mortgage (GMAC):

Description	Issue Date	Rate	Maturity	Original Amount	Outstanding 12/31/2011
GEFA	2/22/2001	0%	Final maturity 2/01/21	$346,582	$177,734
Revenue Bonds	1/01/1982	5%	Final maturity 1/01/22	111,000	47,000
					$224,734

These notes and bonds were for extending the water system. The GEFA note has a quarterly installment of $4,443 and the revenue bonds payable to GMAC have a variable annual installment.

Debt Service Requirements to Maturity:

	Business-Type Activities			
	Notes Payable		Bonds Payable	
Year	Principal	Interest	Principal	Interest
2012	17,773	-	4,500	2,575
2013	17,773	-	4,500	2,300
2014	17,773	-	4,500	2,075
2015	17,773	-	4,500	1,850
2016	17,773	-	4,500	1,625
2017	17,773	-	4,500	1,400
2018	17,773	-	4,500	1,300
2019-2022	53,323	-	15,500	1,300
	$ 177,734	$ -	$ 47,000	$ 14,425

Changes in Long-term Debt:

Changes in the City's long-term obligations consisted of the following for the year ended December 31, 2011:

	Outstanding 12/31/2010	Additions	Reductions	Outstanding 12/31/2011	Due Within One Year
Governmental Activities					
Note Payable	$ 25,413	$ -	$ -	$25,413	$5,100
Total Governmental Activities	$ 25,413	$ -	$ -	$25,413	$5,100
Business-Type Activities					
Water & Sewer Bonds	$ 50,500	$ -	$ 3,500	$ 47,000	-
Water & Sewer Notes	195,508	-	17,774	177,734	17,773
Total Business-Type Activities	$ 246,008	$ -	$ 21,274	$ 224,734	$ 17,773

Principal and interest payments related to the City's water enterprise fund are financed from income derived from the operation of the water system.

Note 4 – Other Notes

4-A. Risk Management

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 has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Agency Property and Liability Insurance Fund and the Georgia Municipal Association Group Self-Insurance Workers Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for member local governments. There have been no significant reductions in insurance coverage during the current year.

As part of these risk pools, the City is obligated to pay all contributions and assessments as prescribed by the pools, to cooperate with the pool's agents and attorneys, to follow loss reduction procedures established by the funds, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss. The City is also to allow the pool's agents and attorneys to represent the City in investigation, settlement discussions and all levels of litigation arising out of any claim made against the City within the scope of loss protection furnished by the fund.

The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member government contract and in accordance with the worker's compensation law of Georgia. The funds are to pay all cost taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

Settled claims in the past three years have not exceeded the coverage.

4-B. Contingent Liabilities

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement to the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the City believes such disallowances, if any, will be immaterial.

The City is not involved in any lawsuits at 12/31/2011.

4-C The customer deposits on water accounts figure that was given at 12/31/2010 was misstated. This amount is correctly reported at 12/31/2011 as a prior period adjustment. This amount is immaterial in relation to the financial statements at 12/31/2010.

4-D. Joint Venture

Under Georgia law, the City, in conjunction with other municipalities and counties in the middle Georgia area, is a member of the Heart of Georgia Altamaha Regional Development Center (RDC). Membership in the RDC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34, which provides for the organizational structure of the RDC in Georgia. The RDC Board membership includes representation from each county and municipality of the area, as well as representatives from the private sector and other governmental entities. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of an RDC. Separate financial statements for the RDC are available from:

Heart of Georgia Altamaha Regional Development Center
501 Oak Street
Eastman, Georgia 31023

City of Adrian, Georgia
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance
Revenues				
Taxes	$ 176,955	$ 176,955	$ 160,244	$ (16,711)
Licenses and permits	5,250	5,250	3,025	(2,225)
Intergovernmental	-	-	-	-
Charges for services	52,300	52,300	50,737	(1,563)
Fines and forfeitures	6,000	6,000	10,755	4,755
Investment earnings	30	30	39	9
Contributions and donations from private sources	-	-	5,293	5,293
Miscellaneous	1,500	1,500	9,051	7,551
Total Revenues	242,035	242,035	239,144	(2,891)
Expenditures				
Current:				
General government	115,300	115,300	111,980	3,320
Culture/Recreation	-	-	8,299	(8,299)
Public safety	52,350	52,350	47,790	4,560
Public works	74,385	74,385	94,790	(20,405)
Capital Outlay			8,995	(8,995)
Principal			-	-
Interest	-	-	-	-
Total Expenditures	242,035	242,035	271,854	(29,819)
Excess (Deficiency) of Revenues Over (under) Expenditures	-	-	(32,710)	(32,710)
Other Financing Sources (Uses)				
Loan Proceeds	-	-	-	-
Net Change in Fund Balances	$ -	$ -	$ (32,710)	$ (32,710)

See accompanying notes to the required supplemental information.

City of Adrian, Georgia
Notes to Required Supplemental Information
For the Year Ended December 31, 2011

I. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund.

II. The departments that had excesses of expenditures over appropriations are as follows:

General Fund
- Culture/Recreation
- Public Works

City of Adrian, Georgia
Schedule of Projects Constructed
With Special Purpose Local Option Sales Tax Proceeds
For the Year Ended December 31, 2011

	Original Estimated Cost	Current Estimated Cost	Expenditures			Estimated Percent Completed
			Prior Years	Current Year	Total	
Public Safety Equipment	$ 32,000	$ 32,000	$ 41,592	$ -	$ 41,592	130%
Recreation Equipment	8,000	8,000	-	-	-	0%
Water System Capital Improvements	10,000	10,000	8,150	-	8,150	82%
Total	$ 50,000	$ 50,000	$ 49,742	$ -	$ 49,742	

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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*

To the Honorable Mayor and City Council
City of Adrian, Georgia

I was engaged to audit the financial statements of the governmental activities, the business-type activities, and each major fund of City of Adrian, Georgia, as of and for the year ended December 31, 2011, which collectively comprise the City of Adrian, Georgia's basic financial statements and have issued my Disclaimer on financial statements as a whole, dated August 23, 2012.

Internal Control over Financial Reporting and Compliance

Because of inadequate records, missing and inadequate documentation, and lack of employee knowledge of data, procedures, and government unit as a whole, the scope of my work was limited.

Since I was unable to apply other procedures to satisfy myself as to the effectiveness of the City of Adrian, Georgia's internal control over financial reporting and on compliance, the scope of my work was not sufficient to enable me to express, and I do not express, and opinion on the effectiveness of the City of Adrian, Georgia's internal control over financial reporting and compliance.

I also noted certain matters and recommendations that I reported to management of City of Adrian, Georgia, in a separate letter dated August 23, 2012.

This report is intended solely for the information and use of management, City Council, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stacie Avery

August 23, 2012