TOWN OF DEEPSTEP, GEORGIA

FINANCIAL STATEMENTS

For the Year Ended December 31, 2012

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INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Deepstep, Georgia, as of and for the year ended December 31, 2012 which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Deepstep, Georgia's management. 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 Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Deepstep, Georgia, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated May 6, 2013 on our consideration of the Town of Deepstep, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Town of Deepstep has not presented management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financials statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that budgetary comparison information on pages 23 through 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Deepstep, Georgia's basic financial statements. The schedule of projects constructed with special sales tax proceeds and the other schedules included in other supplementary information as described in the accompanying table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Wright & Wright, P. C.

May 6, 2013

BASIC FINANCIAL STATEMENTS

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

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

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

TOWN OF DEEPSTEP, GEORGIA
STATEMENT OF NET ASSETS
DECEMBER 31, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	$ 53,430	$ 14,572	$ 68,002
Restricted assets:			
Cash in bank	-	1,859	1,859
Accounts receivable, net	6,461	2,245	8,706
Inventory	-	1,101	1,101
Receivable from other governments	6,160	-	6,160
Internal balances	-	-	-
Total current assets	66,051	19,777	85,828
Noncurrent assets:			
Land	71,144	250	71,394
Depreciable capital assets, net of accumulated depreciation	360,601	133,387	493,988
Total assets	497,796	153,414	651,210
LIABILITIES:			
Current liabilities:			
Accounts payable	563	1,196	1,759
Liabilities payable from restricted assets:			
Current portion of note payable	-	2,000	2,000
Meter deposits held	-	3,091	3,091
Other accrued liabilities	496	103	599
Total current liabilities	1,059	6,390	7,449
Noncurrent liabilities:			
Note payable, less current portion	-	9,500	9,500
Total liabilities	1,059	15,890	16,949
NET ASSETS:			
Invested in capital assets, net of related debt	431,745	122,137	553,882
Restricted for:			
Revenue bond retirement	-	2,575	2,575
Capital projects	31,866	-	31,866
Unrestricted	33,126	12,812	45,938
	$ 496,737	$ 137,524	$ 634,261

See accompanying notes to the basic financial statements

TOWN OF DEEPSTEP, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Total
Primary government:							
Governmental activities:							
General government	$ 35,609	$ 1,723	$ -	$ -	$ (33,886)	$ -	$ (33,886)
Street department	12,560	3,574	-	21,769	12,783	-	12,783
Recreation department	10,368	4,083	-	-	(6,285)	-	(6,285)
Public safety	5,860	-	-	-	(5,860)	-	(5,860)
Interest on long-term debt	-	-	-	-	-	-	-
Total governmental activities	64,397	9,380	-	21,769	(33,248)	-	(33,248)
Business-type activities:							
Water fees	47,516	35,173	-	-	-	(12,343)	(12,343)
Total business-type activities	47,516	35,173	-	-	-	(12,343)	(12,343)
Total primary government	$ 111,913	$ 44,553	$ -	$ 21,769	(33,248)	(12,343)	(45,591)
General revenues:							
Taxes:							
Property taxes					10,188	-	10,188
General sales and use tax					20,344	-	20,344
Motor vehicle tax					1,306	-	1,306
Insurance company premium tax					6,526	-	6,526
Other taxes					175	-	175
Grants and contributions					-	-	-
Interest and dividend earnings					60	57	117
Miscellaneous					648	-	648
Transfers					(2,675)	2,675	-
Total general revenues and transfers					36,572	2,732	39,304
Change in net assets					3,324	(9,611)	(6,287)
Net assets, beginning					493,413	147,135	640,548
Net assets, ending					$ 496,737	$ 137,524	$ 634,261

See accompanying notes to the basic financial statements

TOWN OF DEEPSTEP, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General Fund	Capital Projects Fund (2009)	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	$ 25,284	$ 28,146	$ 53,430
Accounts receivable, net	6,461	-	6,461
Receivables from other governments	2,440	3,720	6,160
Receivables from other funds	-	-	-
Total assets	$ 34,185	$ 31,866	$ 66,051
LIABILITIES:			
Accounts payable	$ 563	$ -	$ 563
Other liabilities	496	-	496
Due to other funds	-	-	-
Deferred revenue	5,464	-	5,464
Total liabilties	6,523	-	6,523
FUND BALANCES:			
Non-spendable fund balance	-	-	-
Restricted fund balance:			
Capital projects		31,866	31,866
Committed fund balance	-	-	-
Assigned fund balance	-	-	-
Unassigned fund balance	27,662	-	27,662
Total fund balances	27,662	31,866	59,528
Total liabilities and fund balances	$ 34,185	$ 31,866	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of $148,556	431,745
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Accounts receivable, net of allowance for doubtful accounts of $0	5,464
Net assets of governmental activities	$ 496,737

See accompanying notes to the basic financial statements

TOWN OF DEEPSTEP, GEORGIA
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	General Fund	Capital Projects Fund (2009)	Total Governmental Funds
REVENUES:			
Taxes	$ 38,443	$ -	$ 38,443
Licenses and permits	743	-	743
Intergovernmental	-	21,769	21,769
Charges for services	7,657	-	7,657
Other	1,688	-	1,688
Total revenues	48,531	21,769	70,300
EXPENDITURES:			
Current operating:			
General government	28,049	-	28,049
Street department	8,666	2,813	11,479
Recreation department	5,829	-	5,829
Public safety	1,000	-	1,000
Debt service:			
Principal	-	-	-
Interest and other charges	-	-	-
Capital outlays	-	7,699	7,699
Total expenditures	43,544	10,512	54,056
Excess (deficiency) of revenues over expenditures	4,987	11,257	16,244
OTHER FINANCING SOURCES (USES):			
Loan proceeds	-	-	-
Transfers in (out)	-	-	-
Total other financing sources and uses	-	-	-
Net change in fund balance	4,987	11,257	16,244
FUND BALANCE, beginning of year	22,675	20,609	43,284
FUND BALANCE, end of year	$ 27,662	$ 31,866	$ 59,528

(Continued)

See accompanying notes to the basic financial statements

TOWN OF DEEPSTEP, GEORGIA

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2012

Net change in fund balances - total governmental funds	$ 16,244
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital outlays	5,024
Depreciation	(18,040)
	(13,016)
The effect of various capital asset disposals, sales and contributions, net of accumulated depreciation	-
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Receivables, net of deferred revenue	96
	$ 3,324

See accompanying notes to the basic financial statements

TOWN OF DEEPSTEP, GEORGIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2012

	Water Fund
ASSETS	
CURRENT ASSETS:	
Cash in bank	$ 14,572
Restricted assets:	
Cash in bank	1,859
Accounts receivable, net of allowance	2,245
Inventory	1,101
Total current assets	19,777
NONCURRENT ASSETS:	
Capital Assets:	
Land and improvements	250
Buildings	15,842
Distribution system	405,923
	422,015
Less accumulated depreciation	(288,378)
Total capital assets	133,637
Total assets	153,414
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	1,196
Other accrued liabilities	103
Meter deposits held	3,091
Liabilities payable from restricted assets:	
Current portion of note payable	2,000
Total current liabilities	6,390
NONCURRENT LIABILITIES:	
Note payable, net of current portion	9,500
Total noncurrent liabilities	9,500
Total liabilities	15,890
NET ASSETS	
INVESTED IN CAPITAL ASSETS, net of related debt	122,137
RESTRICTED FOR:	
Revenue bond retirement	2,600
UNRESTRICTED	12,787
Total net assets	$ 137,524

See accompanying notes to the basic financial statements

TOWN OF DEEPSTEP, GEORGIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PRORIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Water Fund
OPERATING REVENUES:	
Water sales	$ 34,467
Miscellaneous income	706
Total operating revenue	35,173
OPERATING EXPENSES:	
Personal services and employee benefits:	
Salaries	12,472
Payroll taxes	505
Purchased/contracted services:	
Repairs and replacement	10,102
Professional fees	1,545
Testing	790
Insurance	2,436
Supplies:	
Chemicals and supplies	480
Office supplies	704
Utilities	2,437
Depreciation	12,656
Miscellaneous	2,714
Total operating expenses	46,841
OPERATING LOSS	(11,668)
NON-OPERATING REVENUES (EXPENSES):	
Interest income	57
Interest expense	(675)
Total non-operating revenues (expenses)	(618)
NET LOSS BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(12,286)
CAPITAL CONTRIBUTIONS:	
Contribution from Capital Projects Fund	2,675
NET INCOME (LOSS) BEFORE TRANSFERS	(9,611)
TRANSFERS FROM (TO) GENERAL FUND	-
NET INCOME (LOSS)	(9,611)
NET ASSETS, beginning of year	147,135
NET ASSETS, end of year	$ 137,524

See accompanying notes to the basic financial statements

TOWN OF DEEPSTEP, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Water Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	$ 35,800
Cash paid to suppliers for goods and services	(20,123)
Cash paid to employees	(12,977)
Net cash provided by (used for) operating activities	2,700
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfer from (to) other funds	-
Net cash provided by (used for) noncapital financing activities	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of capital assets	-
Principal paid on capital debt	-
Interest paid on capital debt	-
Net cash provided by (used for) capital and related financing activities	-
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	57
Net cash provided by (used for) investing activities	57
NET INCREASE (DECREASE) IN CASH	2,757
CASH AND CASH EQUIVALENTS, beginning of year	13,674
CASH AND CASH EQUIVALENTS, end of year	$ 16,431
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:	
Net operating income (loss)	$ (11,668)
Adjustments to reconcile net operating income (loss to net cash provided by operating activities:	
Cash flows reported in other categories:	
Depreciation expense	12,656
Changes in assets and liabilities:	
Accounts receivable	627
Inventory	178
Accounts payable	533
Other accrued liabilities	75
Meter deposits held	299
Net cash provided by (used for) operating activities	$ 2,700
NONCASH CAPITAL FINANCING ACTIVITIES:	
Principal and interest payments of $2,675 were made from the Capital Projects Fund	
CASH CLASSIFIED AS:	
Current assets - cash	$ 14,572
Restricted assets - cash	1,859
	$ 16,431

See accompanying notes to the basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements of Town of Deepstep (the "Town") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. As required by GAAP, these financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the Town's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the Town.

Currently, the Town has no blended component units or discretely presented component units

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Town (the primary government) and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The Town has elected not to allocate indirect costs among the programs, functions and segments. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, including accrued interest on general long-term debt, is recognized when due, and certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Those revenues susceptible to accrual are property taxes, interest, and charges for services. Other receipts and taxes become measurable and available when cash is received by the Town and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The Town reports the following major governmental funds:

> The General Fund is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
>
> The Capital Projects Fund (2009) accounts for capital outlay and other transactions related to the additional one-percent local option sales tax in effect for the period October 1, 2009 to September 30, 2014.

The Town reports the following major proprietary fund:

> The Water Fund is used to account for the provision of water services to businesses and residents of the Town. All activities necessary to provide such services are accounted for in the fund, including but not limited to, administration, operation, financing and related debt services, and billing and collections.

The Town complies with Governmental Accounting Standards Board ("GASB") Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting. This Statement requires the Town to apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Town has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's proprietary funds are charges to customers for sales and services; operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Town.

Investments, if any, are stated at fair market value with unrealized holding gains and losses reported as the "Change in fair market value of investments" in the Statement of Revenues, Expenses and Changes in Retained Earnings.

E. Inventory

Inventory is valued at cost, which approximates market, using the first-in/first-out ("FIFO") method. The cost of governmental fund-type inventory is recorded as an expenditure when consumed rather than when purchased.

F. Restricted Assets

Total deposits, at cost, of $1,859 are available to pay principal and interest on the GMAC loan.

G. Prepaid Items

Prepaid balances, if any, are for payments made by the Town in the current year to provide services occurring in the subsequent fiscal year, and a reserve for prepaid items is recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

I. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., streets, sidewalks, distribution systems and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an estimated useful life in excess of two years, and an original cost of $1,500 or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. No infrastructure assets were completed during the year ended December 31, 2012. At December 31, 2012, there was no construction-in-progress related to infrastructure assets.

The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows

Buildings	30-40 years
Depreciable land improvements	8 - 20 years
Machinery and equipment	5 - 25 years
Infrastructure	40 – 50 years

J. Compensated Absences

Accumulated leave of governmental funds that is expected to be liquidated with expendable available financial resources is reported as an expenditure in the fund financial statements. All accumulated leave, including that which is not expected to be liquidated with expendable available financial resources, is reported in the government-wide

financial statements. Accumulated leave of Enterprise Funds is recorded as an expense and liability of the respective fund as the benefits accrue to employees. Liabilities for compensated absences are recorded as other liabilities and accrued expenses in the Enterprise Funds. In accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

The Town does not allow accumulated vacation pay beyond one year; therefore there are no significant unrecorded balances at December 31, 2012.

K. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as non-spendable, restricted, committed, assigned and unassigned. Proprietary fund equity is classified the same as in the government-wide statements.

The Town uses restricted amounts to be spent first when both restricted and unrestricted fund balances are available, unless there are legal documents/contracts that prohibit the use of restricted fund balances, such as grant agreements that require a dollar match. Additionally, the Town would then use committed, assigned and lastly unassigned amounts from the unrestricted fund balance when expending funds.

M. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly chargeable to another fund, are recorded as expenditures/ expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

N. New Accounting Pronouncement

Beginning with last fiscal year, management has adopted the provisions of Governmental Accounting Standards Board Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions. The main financial statement effects relating to this new accounting standard are with how the components of the Town's fund balance will be presented on the fund balance sheet.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Basis

GAAP is the budgetary basis used in the preparation of these statements.

Budget Requirements, Accounting and Reporting

The Town follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to year end the Town Clerk submits to the Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Council holds a public hearing on the budget, giving notice thereof at least ten days in advance by publication in the official organ of Town of Deepstep.
3. The budget is then revised and adopted or amended by the Council at a regular meeting early in the year to which it applies.

4. The budget so adopted may be revised during the year only by formal action of the Council in a regular meeting and no increase shall be made therein without provision also being made for financing same.
5. The legal level of budgetary control is the department level within the General Fund. Increases in the total appropriations of a department, whether accomplished through an increase in estimated revenues or through a transfer of appropriations among departments, require the approval of the Mayor and Council.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund. The budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with GAAP.
7. Budgeted amounts are as originally adopted, or as amended by the Council. Individual amendments were not material in relation to the original appropriations which were amended.

Excesses of Expenditures over Appropriations in Individual Funds

In the recreation department actual expenditures of $5,829 exceeded appropriations of $3,734, and in the public safety department expenditures of $1,000 exceeded appropriations of $500. In the future, the Mayor and Council will more closely monitor expenditures to determine if a budget amendment needs to be made or whether expenses should be reduced.

3. DEPOSITS AND INVESTMENTS

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of December 31, 2012, none of the Town's $69,861 was exposed to custodial credit risk.

Investments - There were no investments at December 31, 2012.

4. PROPERTY TAXES

The value of all real and business personal property located in the Town is assessed (appraised) as of each January 1. Taxable assessed value represents the appraisal value less applicable exemptions authorized by the Town Council. Appraised values are established by the Washington County Tax Assessors at 40% of estimated fair market value. Taxes were levied when the milleage rate was set on or about September 20. Taxes are billed and collected by the Washington County Tax Commissioner. Taxes are billed shortly after October 8 and are due December 10, after which date penalties and interest may be assessed. Property on which taxes are not paid within 60 days of mailing may then be levied on by the Town. Current tax collections for the years ended December 31, 2012, were 75.7% of the tax levy.

Property taxes are recorded as receivables and deferred at the time the tax levy is billed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible within sixty days following the close of the fiscal year, and therefore susceptible to accrual in accordance with GAAP, have been recognized as revenue.

5. ACCOUNTS RECEIVABLE

At December 31, 2012, accounts receivable consisted of the following:

	Governmental Activities	Business-type Activities	Total
General Fund:			
Property tax	$ 5,975	$ -	$ 5,975
Local option sales tax	2,439	-	2,439
Garbage fees receivable	486	-	486
Capital Projects Fund (2012):			
Special local option sales tax	3,720	-	3,720
Water Fund:			
Water fees	-	2,245	2,245
Miscellaneous	-	-	-
	12,620	2,245	14,865
Allowance for doubtful accounts	-	-	-
	$ 12,620	$ 2,245	$ 14,865

6. CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	$ 71,144	$ -	$ -	$ 71,144
Subtotal	71,144	-	-	71,144
Depreciable capital assets:				
Buildings	388,578	-	-	388,578
Equipment	115,555	5,024	-	120,579
Subtotal	575,277	5,024	-	580,301
Accumulated depreciation:				
Buildings	69,630	11,540	-	81,170
Equipment	60,886	6,500	-	67,386
Subtotal	130,516	18,040	-	148,556
Net capital assets	$ 444,761	$ (13,016)	$ -	$ 431,745

Governmental activities depreciation expense:

General government	$ 7,560
Street department	1,081
Recreation department	4,539
Public safety	4,860
	$ 18,040

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Not being depreciated:				
Land	$ 250	$ -	$ -	$ 250
Construction-in-progress	-	-	-	-
Subtotal	250	-	-	250
Depreciable capital assets:				
Building	15,842	-	-	15,842
Infrastructure	405,923	-	-	405,923
Subtotal	422,015	-	-	422,015
Accumulated depreciation:				
Building	8,553	612	-	9,165
Infrastructure	267,169	12,044	-	279,213
Subtotal	275,722	12,656	-	288,378
Net capital assets	$146,293	$ (12,656)	$ -	$133,637

7. LONG-TERM DEBT

Outstanding Debt:

At December 31, 2012, long-term debt consisted of the following:

	Enterprise Fund Debt
$48,000 note payable for water system improvements to GMAC Commercial Mortgage Corporation, interest at 5%	$ 11,500
Total long-term debt	$ 11,500

Following is a summary of changes in long-term debt for business-type activities for the year ended December 31, 2012:

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012	Amount Due in One Year
Business-type activities:					
Note payable	$ 13,500	$ -	$ 2,000	$ 11,500	$ 2,000

Annual Requirements to Retire Debt Obligations:

The annual maturities for the years subsequent to December 31, 2012 are as follows:

	Water Fund Note Payable	
Year Ending December 31	Principal	Interest
2013	$ 2,000	$ 575
2014	2,000	475
2015	2,000	375
2016	2,000	275
2017	2,000	175
2018	1,500	75
	$ 11,500	$ 1,950

8. FUND DEFICITS

Deficit fund balances or retained earnings balances of individual funds. No fund had a deficit fund balance at December 31, 2012.

9. INTERFUND TRANSACTIONS AND BALANCES

There were no interfund balances or transfers at December 31, 2012.

10. COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from federal and state grantor agencies are subject to audit and adjustment by the applicable agency. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

Litigation

Various claims and lawsuits are pending against the Town. In the opinion of Town management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially effect the Town's financial position.

11. RETIREMENT PLAN

The Town does not have a retirement or pension plan.

12. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors of omissions, job related illnesses or injuries to employees; natural disaster; and unemployment compensation.

There were no significant reductions of insurance coverage in the prior year. Management believes that the coverage is adequate to preclude any significant uninsured risk exposure to the Town. Settled claims have not exceeded the commercial excess coverage in any of the past three fiscal years.

Risk Pool

The Town has elected to be a member of the Georgia Municipal Association Workers' Compensation Self-Insurance Fund (GMAWCSIF) and Georgia Interlocal Risk Management Agency (GIRMA), risk management agencies created under Georgia law. As a participant in the GMAWCSIF and GIRMA, the Town has no legal obligation to pay its own workers' compensation claims or general liability claims. The Town is required to make an annual contribution to the funds in an amount that is determined on the basis of actuarial projections of losses. With payment of the Town's annual contribution, the Town has effectively transferred the risk and responsibility for payment of its workers' compensation claims and general liability claims. However, the enabling statute creating the GMAWCSIF and GIRMA permits the funds to levy an assessment upon its members to make up any deficiency the fund may have in surplus or reserves. Since excess insurance is purchased by the GMASCSIF and GIRMA to protect the funds from catastrophic losses, no amount has been recorded in the financial statements for this contingency as management believes the likelihood for assessment is remote.

Self Insurance

The Town is self-insured with regard to unemployment compensation claims. The Town accounts for claims with expenditures and liabilities being reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. The Town has not experienced any claims related to unemployment compensation in the past three years.

13. JOINT VENTURE

Under Georgia law, the Town in conjunction with other cities and counties in the fourteen Town east central Georgia area, is a member of the Central Savannah River Area Regional Commission and is required to pay annual dues thereto. During its year ended December 31, 2012, the Town paid $211 in such dues. Membership in a Regional Commission is required by the OCGA Section 50-8-34 which provides for the organizational structure of the Regional Commissions in Georgia. The Regional Commission Board membership includes the chief elected official of each Town and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of a Regional Commission. Separate financial statements may be obtained from:

Central Savannah River Area Regional Commission
2123 Wrightsboro Road
Augusta, Georgia 30914-2800

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedules – General Fund

TOWN OF DEEPSTEP, GEORGIA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET (GAAP) BASIS AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes:				
Ad valorem	$ 11,000	$ 11,000	$ 10,092	$ (908)
Vehicle	1,450	1,450	1,306	(144)
Local option sales tax	20,000	20,000	20,344	344
Insurance company premium	6,500	6,500	6,526	26
Other	300	300	175	(125)
	39,250	39,250	38,443	(807)
Licenses and Permits:				
Business and occupation licenses	650	650	743	93
	650	650	743	93
Intergovernmental	-	-	-	-
	-	-	-	-
Charges for services:				
Garbage fees	-	3,120	3,574	454
Recreation department fees	2,734	2,734	4,083	1,349
	2,734	5,854	7,657	1,803
Miscellaneous:				
Interest income	100	100	60	(40)
Rent income	1,100	1,100	980	(120)
Other	180	180	648	468
	1,380	1,380	1,688	308
Total revenues	44,014	47,134	48,531	1,397

TOWN OF DEEPSTEP, GEORGIA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET (GAAP) BASIS AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
EXPENDITURES:				
Current Operating:				
General government	$ 27,760	$ 30,880	$ 28,049	$ 2,831
Street department	12,020	12,020	8,666	3,354
Recreation department	3,734	3,734	5,829	(2,095)
Public safety	500	500	1,000	(500)
	44,014	47,134	43,544	3,590
Capital Outlays:				
General government	-	-	-	-
Street department	-	-	-	-
Recreation department	-	-	-	-
Public safety	-	-	-	-
	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
	-	-	-	-
Total expenditures	44,014	47,134	43,544	3,590
Excess (deficiency) of revenues over expenditures	-	-	4,987	5,633
OTHER FINANCING SOURCES (USES):				
Loan proceeds	-	-	-	-
Transfers in (out)	4,100	4,100	-	(4,100)
	4,100	4,100	-	(4,100)
Excess (deficiency) of revenues over expenditures and other financing sources	4,100	4,100	4,987	1,533
FUND BALANCE, beginning of year	22,675	22,675	22,675	-
FUND BALANCE, end of year	$ 26,775	$ 26,775	$ 27,662	$ 1,533

OTHER SUPPLEMENTARY INFORMATION

Other supplementary information includes financial statements and schedules not required by the GASB, nor are a part of the basic financial statements, but are presented for purposes of additional analysis. Such information includes:

- Schedule of Projects Constructed with Special Sales Tax Proceeds
- Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

TOWN OF DEEPSTEP, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH
SPECIAL SALES TAX PROCEEDS
For the Year Ended December 31, 2012

Project	Original Estimated Cost	Revised Estimated Cost	Expenditures			Estimated Percentage of Completion
			Prior Years	Current Year	Total	
2005 Referendum:						
Street repairs	$ 30,000	$ 7,826	$ 7,826	$ -	$ 7,826	100.0%
Water fund equipment	15,000	90,675	90,675	-	90,675	100.0%
Recreation department improvements and equipment	-	52,287	52,287	-	52,287	100.0%
General government equipment	-	64,858	64,858	-	64,858	100.0%
Street department equipment	-	31,383	31,383	-	31,383	100.0%
Transportation improvements	-	8,188	8,188	-	8,188	100.0%
Fire Station Building	-	144,264	144,264	-	144,264	100.0%
2009 Referendum:						
Street repairs	20,000	20,000	1,028	2,813	3,841	19.2%
Water fund equipment	25,000	25,000	6,523	2,675	9,198	36.8%
Recreation department improvements and equipment	15,000	15,000	-	5,024	5,024	33.5%
General government equipment	15,000	15,000	-	-	-	-
Street department equipment	25,000	25,000	18,504	-	18,504	74.0%

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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 Mayor and Council
Town of Deepstep, Georgia

We have audited the financial statements of the governmental activities, the business type activities and each major fund of the Town of Deepstep, Georgia as of and for the year ended December 31, 2012, which collectively comprise the Town of Deepstep's basic financial statements and have issued our report thereon dated May 6, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Deepstep, Georgia's internal control over financial reporting as a basis for designing our auditing procedures 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 Town of Deepstep, Georgia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Deepstep's internal control over financial reporting.

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.

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

certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies in internal control over financial reporting noted as items 12-1 and 12-2. 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 charge with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Deepstep, Georgia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 12-3.

Town of Deepstep, Georgia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Town of Deepstep, Georgia's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Town Council, others within the entity, 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.

Wright & Wright, P.C.

May 6, 2013

TOWN OF DEEPSTEP, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2012

SIGNIFICANT DEFICIENCIES

12-1 Segregation of Duties

Condition

Due to the small size of the Town's staff, controls are not practical to provide adequate segregation of duties in the cash receipts and disbursements functions.

Effect

Because of the failure to separate control over cash, errors or fraud that might avoid detection are possible.

Recommendation

The Town Council should implement other internal controls in areas where segregation of duties is not practical.

Views of Responsible Officials

We concur and will continue to require dual signatures on checks and council approval for non recurring expenditures.

12-2 Controls Over Financial Statement Presentation

Condition

Town personnel do not currently possess the professional skills necessary to prepare or review the year end financial statements in sufficient detail to detect material misstatements in the financial statements and related footnotes.

Effect

The deficiency identified above could result in a material misstatement to the Town's financial statements that would not be prevented or detected on a timely basis.

Recommendation

The Town should consider additional training that would provide accounting personnel with the skills to detect and correct misstatements in the financial statements.

Views of Responsible Officials

We concur. We will evaluate the cost effectiveness of implementing the control and act accordingly.

COMPLIANCE AND OTHER MATTERS

12-3 Budgetary

Condition

In the Town's General Fund, actual expenditures exceeded budget appropriations in two departments. This is a violation of state law.

Effect

Fiscal control and accountability over departmental expenditures may be jeopardized.

Recommendation

The Town should monitor the budget and amend it when appropriate.

Views of Responsible Officials

Our Town Council will analyze budgetary financial data periodically and amend the budget when appropriate.

TOWN OF DEEPSTEP

9676 DEEPSTEP ROAD
SANDERSVILLE, GA 31082

Georgia Department of Audits & Accounts
Attn: Mr. Edward Blaha, Director
270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Gentlemen:

The following constitutes our corrective action plan regarding the findings and recommendations in our audit report for the year ended December 31, 2012.

With respect to the finding regarding segregation of duties in the "Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards," we submit the following comments:

1. We annually review our system of internal control after our audited financial statements are received, along with any suggestions from the accounting firm as to improvements that can be made to strengthen controls.

2. We have a part-time clerk who performs all of our bookkeeping functions. Checks are signed by the clerk after invoices are approved by Council.

3. Our budget will not permit us to hire additional personnel to further separate accounting duties.

4. In the recreation department of the General Fund, actual expenditures of $5,829 exceeded appropriations of $3,734 and in the public safety department, expenditures of $1,000 exceeded appropriations of $500. In the future, the Mayor and Council will more closely monitor expenditures to determine if a budget amendment needs to be made or whether expenses should be reduced.

5. Town personnel do not currently possess the professional skills necessary to prepare or review the year end financial statements and related footnotes. The Town will consider additional training that would provide accounting personnel with the skills to detect and correct misstatements in the financial statements.

We feel that our internal control system is as strong as possible with the limited number of personnel we have. As indicated in the auditor's report, no significant errors or irregularities were found because of our lack of segregation of duties.

Should you need any further explanation of this matter please contact us.

Sincerely,

Mayor, Town of Deepstep