CITY OF GUYTON, GEORGIA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2012

City of Guyton, Georgia
Audit of Financial Statements
For the Year Ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Guyton, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Guyton, Georgia as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Guyton, 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 accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 basic 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 City of Guyton, Georgia as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, 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 also issued our report dated June 28, 2013, on our consideration of the City of Guyton, Georgia's internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

The budgetary comparison information on pages 37-39 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

The City has not presented the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Guyton, Georgia's basic financial statements. The combining and individual fund statements and other schedules, including the Schedule of Projects Constructed with Special Local Option Sales Tax Proceeds, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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.

Caines, Hodges & Company, P.C.

Rincon, Georgia
June 28, 2013

City of Guyton, Georgia
Statement of Net Assets
June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents (Note 4)	$ 1,311,915	$ 5,835,622	$ 7,147,537
Receivables:			
Accounts		76,840	76,840
Taxes	70,231		70,231
Intergovernmental	56,045		56,045
Interfund	127,035	(127,035)	
Prepaid items	32,022	9,254	41,276
Deferred charges - loan costs		239,973	239,973
Capital assets: (Note 7)			
Nondepreciable capital assets	186,010	3,344,213	3,530,223
Depreciable capital assets, net	1,850,854	5,159,906	7,010,760
Total assets	3,634,112	14,538,773	18,172,885
Liabilities			
Current liabilities:			
Accounts payable	63,080	132,531	195,611
Accrued salaries and wages	519		519
Accrued interest payable	4,855	138,286	143,141
Unearned revenue		485,100	485,100
Compensated absences payable	8,954	3,021	11,975
Notes payable	14,246	100,000	114,246
Capital leases payable	63,166		63,166
Long-term liabilities: (Note 10)			
Notes payable (net of current portion)	9,991	9,360,000	9,369,991
Discount on notes payable (net of amortization)		(158,456)	(158,456)
Capital leases payable (net of current portion)	184,673		184,673
Compensated absences payable (net of current portion)	5,969	2,014	7,983
Total liabilities	355,453	10,062,496	10,417,949
Net Assets			
Invested in capital assets, net of related debt (Note 13)	1,764,788	3,546,162	5,310,950
Restricted for:			
Debt service		1,170,185	1,170,185
Capital projects	354,110	4,466,658	4,820,768
Public safety	89,305		89,305
Unrestricted	1,070,456	(4,706,728)	(3,636,272)
Total net assets	$ 3,278,659	$ 4,476,277	$ 7,754,936

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

City of Guyton, Georgia
Statement of Activities
For the Year Ended June 30, 2012

Function/Program	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants, Contributions and Interest	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: Total
Primary government							
Governmental activities							
General government							
Administration	$ 175,873	$ 21,003			$ (154,870)		$ (154,870)
Other governmental services	111,414				(111,414)		(111,414)
Public safety							
Police	210,412	23,400			(187,012)		(187,012)
Fire	55,939	29,945	$ 145,780	$ 154,801	274,587		274,587
Public works							
Streets and lanes	179,727			132,459	(47,268)		(47,268)
Sanitation	94,696	110,376			15,680		15,680
Water and sewer				69,802	69,802		69,802
Parks and recreation	28,481			144,135	115,654		115,654
Interest	7,018				(7,018)		(7,018)
Total governmental activities	863,560	184,724	145,780	501,197	(31,859)	$ 0	(31,859)
Business-type activities:							
Water and sewer	705,495	542,757		152,864		(9,874)	(9,874)
Total business-type activities	705,495	542,757		152,864		(9,874)	(9,874)
Total - primary government	$ 1,569,055	$ 727,481	$ 145,780	$ 654,061	(31,859)	(9,874)	(41,733)
General revenues							
Property taxes					91,303		91,303
Local option sales tax					225,440		225,440
Franchise taxes					89,392		89,392
Motor vehicle tax					11,630		11,630
Real estate transfer tax					389		389
Intangible tax					1,247		1,247
Alcohol taxes					35,317		35,317
Insurance premium taxes					78,987		78,987
Investment earnings					8,479	1,351	9,830
Gain on sale of capital assets					4,822		4,822
Miscellaneous					36,802		36,802
Total general revenues					583,808	1,351	585,159
Transfers					(405,325)	405,325	0
Total general revenues and transfers					178,483	406,676	585,159
Change in net assets					146,624	396,802	543,426
Net assets beginning of year					3,132,035	4,079,475	7,211,510
Net assets end of year					$ 3,278,659	$ 4,476,277	$ 7,754,936

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

City of Guyton, Georgia
Balance Sheet
Governmental Funds
June 30, 2012

	General	Special Revenue Fund - Fire	Capital Projects Fund SPLOST	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 894,353	$ 83,187	$ 334,375	$ 1,311,915
Receivables				
Taxes	76,031			76,031
Intergovernmental				
County			30,942	30,942
State			25,103	25,103
Interfund	127,511			127,511
Prepaid items	25,428	6,594		32,022
Total assets	$ 1,123,323	$ 89,781	$ 390,420	$ 1,603,524
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 26,770		$ 36,310	$ 63,080
Accrued salaries and wages	519			519
Interfund		$ 476		476
Deferred revenue	35,754			35,754
Total liabilities	63,043	476	36,310	99,829
Fund balances				
Nonspendable - prepaid items	25,428			25,428
Restricted for:				
Capital projects			354,110	354,110
Public safety		89,305		89,305
Unassigned	1,034,852			1,034,852
Total fund balances	1,060,280	89,305	354,110	1,503,695
Total liabilities and fund balances	$ 1,123,323	$ 89,781	$ 390,420	$ 1,603,524

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

City of Guyton, Georgia
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2012

Total governmental fund balances		$ 1,503,695
Amounts reported for governmental activities in the statement of net assets are different because:		
Property taxes are deferred in the governmental funds because they are not available but they are reported as revenue in the statement of activities, net of an allowance for doubtful accounts:		
Deferred revenues	$ 35,754	
Allowance for doubtful accounts	(5,800)	29,954
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. However, in the statement of net assets the cost of these assets are capitalized and expensed over their estimated lives through annual depreciation expense.		
Cost of capital assets	$ 3,444,292	
Less accumulated depreciation	(1,407,428)	2,036,864
Accrued interest on long-term debt is not reported at the fund financial reporting level, but is reported at the government-wide reporting level.		(4,855)
Liabilities, including notes payable and compensated absences are not due and payable in the current period and therefore are not reported in the fund financial reporting level, however are reported at the government-wide reporting level:		
Notes payable	$ (24,237)	
Capital leases payable	(247,839)	
Compensated absences	(14,923)	(286,999)
Net assets of governmental activities		$ 3,278,659

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

City of Guyton, Georgia

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2012

	General	Special Revenue Fund - Fire	Capital Projects Fund SPLOST	Total Governmental Funds
Revenues				
Taxes	$ 531,113			$ 531,113
Licenses and permits	21,003			21,003
Intergovernmental	193,728	$ 162,280	$ 290,952	646,960
Charges for services	110,376	29,945		140,321
Fines and forfeitures	23,400			23,400
Investment income	8,428	51	17	8,496
Miscellaneous	36,802	0		36,802
Total revenues	924,850	192,276	290,969	1,408,095
Expenditures				
Current:				
General government				
Administration	166,605			166,605
Other governmental services	111,414			111,414
Public safety				
Police	192,739			192,739
Fire		165,570		165,570
Public works				
Streets and lanes	116,445			116,445
Sanitation	94,696			94,696
Parks and recreation	18,540			18,540
Capital Outlays			175,094	175,094
Debt service:				
Principal	14,803	59,699		74,502
Interest	2,462	6,567		9,029
Total expenditures	717,704	231,836	175,094	1,124,634
Excess (deficit) of revenues to expenditures	207,146	(39,560)	115,875	283,461
Other financing sources (uses)				
Proceeds from sale of assets		4,822		4,822
Proceeds from capital leases		105,000		105,000
Transfers out - water and sewer	(5,319)		(400,006)	(405,325)
	(5,319)	109,822	(400,006)	(295,503)
Net change in fund balances	201,827	70,262	(284,131)	(12,042)
Fund balances -				
Beginning of year	858,453	19,043	638,241	1,515,737
End of year	$ 1,060,280	$ 89,305	$ 354,110	$ 1,503,695

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

City of Guyton, Georgia

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds		$ (12,042)
Amounts reported for governmental activities in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense expense in the current period.		
Depreciation expense	$ (111,468)	
Capital outlay	294,353	182,885
Property taxes in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Deferred at 6/30/12	$ 35,754	
Deferred at 6/30/11	(33,862)	
Allowance for doubtful accounts at 6/30/12	(5,800)	
Allowance for doubtful accounts at 6/30/11	6,500	2,592
Interest expense on long-term debt reported in the statement of activities does not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Liability at 6/30/12	$ (4,855)	
Liability at 6/30/11	6,866	2,011
The issuance of long-term debt (e.g., notes payable, capital leases) provides current financial resources to the governmental funds, but the receipt of proceeds from long-term debt increases long-term liabilities in the statement of net assets.		(105,000)
Repayment of debt principal is an expenditure in the governmental funds but the repayment reduces liabilities in the statement of net assets		74,502
Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds		
Compensated absences at 6/30/12	$ (14,923)	
Compensated absences at 6/30/11	16,599	1,676
Change in net assets of governmental activities		$ 146,624

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

City of Guyton, Georgia
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Water and Sewer	Construction Trust Fund	Other Proprietary Funds	Total Proprietary Funds
Assets				
Current assets:				
Cash and cash equivalents				
Unrestricted	$ 163,394			$ 163,394
Restricted		$ 4,502,043	$ 1,170,185	5,672,228
Receivables - accounts	76,840			76,840
Prepaid expenses	9,254			9,254
Total current assets	249,488	4,502,043	1,170,185	5,921,716
Noncurrent assets:				
Deferred charges - loan costs	239,973			239,973
Capital assets:				
Nondepreciable capital assets	3,344,213			3,344,213
Depreciable capital assets, net	5,159,906			5,159,906
Total Noncurrent assets	8,744,092	0	0	8,744,092
Total assets	8,993,580	4,502,043	1,170,185	14,665,808
Liabilities				
Current Liabilities				
Accounts payable	97,146	35,385		132,531
Accrued expenses	138,286			138,286
Interfund payable	127,035			127,035
Unearned revenue	485,100			485,100
Compensated absences payable	3,021			3,021
Notes payable	100,000			100,000
Total current liabilities	950,588	35,385	0	985,973
Long-term liabilities:				
Compensated absences payable (net of current portion)	2,014			2,014
Notes payable (net of current portion)	9,360,000			9,360,000
Discount on notes payable (net of amortization)	(158,456)			(158,456)
Total long-term liabilities	9,203,558	0	0	9,203,558
Total liabilities	10,154,146	35,385	0	10,189,531
Net Assets				
Invested in capital assets, net of related debt	3,546,162			3,546,162
Restricted for:				
Debt service			1,170,185	1,170,185
Capital projects		4,466,658		4,466,658
Unrestricted	(4,706,728)			(4,706,728)
Total net assets	$ (1,160,566)	$ 4,466,658	$ 1,170,185	$ 4,476,277

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

City of Guyton, Georgia
Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2012

	Water and Sewer	Construction Trust Fund	Other Proprietary Funds	Total Proprietary Funds
Operating revenues				
Charges for services	$ 470,414			$ 470,414
Connection fees	23,205			23,205
Miscellaneous	49,138			49,138
Total operating revenues	542,757	$ 0	$ 0	542,757
Operating expenses				
Salaries	75,749			75,749
Payroll taxes	11,506			11,506
Professional fees	8,190			8,190
Utilities	20,679			20,679
Sewerage treatment	70,167			70,167
Maintenance - repairs	7,401			7,401
Supplies	8,799			8,799
Postage	3,275			3,275
Chlorine	2,911			2,911
Insurance	13,061			13,061
Miscellaneous	21,455	295		21,750
Amortization	11,110			11,110
Depreciation	141,415			141,415
Total operating expenses	395,718	295	0	396,013
Operating income (loss)	147,039	(295)	0	146,744
Non-operating revenues (expenses)				
Investment earnings	1,168		183	1,351
Interest expense	(301,207)			(301,207)
Amortization of deferred loan costs	(8,275)			(8,275)
Community Development Block Grant	152,864			152,864
Total non-operating revenues	(155,450)	0	183	(155,267)
Income (loss) before transfers	(8,411)	(295)	183	(8,523)
Interfund transfers				
Transfer from general fund	5,319			5,319
Transfer from SPLOST fund	12,758	387,248		400,006
Transfers to/from proprietary funds	(5,249,707)	4,079,705	1,170,002	0
Total interfund transfers	(5,231,630)	4,466,953	1,170,002	405,325
Change in net assets	(5,240,041)	4,466,658	1,170,185	396,802
Net assets beginning of year	4,079,475			4,079,475
Net assets end of year	$ (1,160,566)	$ 4,466,658	$ 1,170,185	$ 4,476,277

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

City of Guyton, Georgia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012

	Water and Sewer	Construction Trust Fund	Other Proprietary Funds	Total Proprietary Funds
Increase (Decrease) in Cash and Cash Equivalents				
Cash flows from operating activities				
Cash received from customers	$ 552,523			$ 552,523
Cash payments to employees for personal services	(88,237)			(88,237)
Cash payments for goods and services	(236,956)	$ (295)		(237,251)
Net cash provided by (used for) operating activities	227,330	(295)	$ 0	227,035
Cash flows from noncapital financing activities				
Interfund transfers	5,319	4,822,483	1,170,002	5,997,804
Cash flows from capital and related financing activities				
Long term debt proceeds	9,166,571			9,166,571
Capital grants	152,864			152,864
Amortization of loan fees and bond discount	(8,275)			(8,275)
Interfund transfers	(5,236,949)	(320,145)		(5,557,094)
Principal paid on notes	(3,811,776)			(3,811,776)
Interest paid on debt	(250,417)			(250,417)
Payments for capital acquisitions	(527,739)			(527,739)
Net cash used for capital and related financing activities	(515,721)	(320,145)	0	(835,866)
Cash flows from investing activities				
Investment earnings	1,168		183	1,351
Net increase decrease in cash and cash equivalents	(281,904)	4,502,043	1,170,185	5,390,324
Cash and cash equivalents beginning of year	445,298	0	0	445,298
Cash and cash equivalents end of year	$ 163,394	$ 4,502,043	$ 1,170,185	$ 5,835,622

(continued)

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

City of Guyton, Georgia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012
(continued)

	Water and Sewer	Construction Trust Fund	Other Proprietary Funds	Total Proprietary Funds
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	$ 147,039	$ (295)		$ 146,744
Adjustments:				
Depreciation and amortization	152,525			152,525
(Increase) decrease in assets				
Accounts receivable	9,766			9,766
Prepaid expense	(1,050)			(1,050)
Increase (decrease) in liabilities:				
Accounts payable	(79,968)			(79,968)
Accrued salaries	(1,328)			(1,328)
Compensated absences payable	346			346
Net cash provided by operating activities	$ 227,330	$ (295)	$ 0	$ 227,035

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

Note 1 - Reporting Entity

The City of Guyton, Georgia (the City) was incorporated under the provisions of Georgia law in 1887. The City operates under a Council-managed form of government and provides the following services as authorized by its charter: public safety (fire), streets and lanes, sanitation, planning and zoning, water and sewer, and various administrative services.

The reporting entity is comprised of the primary government and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City.

The City has no component units and there are no organizations which have been excluded from the reporting entity.

Note 2 - 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 described below.

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 the statement of net assets and the statement of activities. These statements report financial information for the City as a whole. The primary government is presented separately within these financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and grants and City's 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 at year end.

Note 2 - Summary of Significant Accounting Policies (continued)

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 connected with 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; and (2) 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.

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 on the fund statements.

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 - Government 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:

Note 2 - Summary of Significant Accounting Policies (continued)

The General Fund – The general fund accounts for all financial resources except those required to be accounted for in another fund. 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.

The SPLOST Capital Projects Fund – This fund is used to account for financial resources to be used for the acquisition or construction or other capital projects under the Special Local Option Sales Tax referendum.

The Fire Special Revenue Fund – This fund is used to account for financial resources to be used for operation of activities involved in providing fire protection services to the residents in the City and areas surrounding the City for which the City is under contract with Effingham County.

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. The proprietary funds are classified as enterprise funds. The following is the City's major enterprise fund:

Water and Sewer Fund – This fund is used to account for the construction of facilities and operation of activities involved in providing water and sewer services to City residents.

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.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. 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 a 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.

Note 2 - Summary of Significant Accounting Policies (continued)

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, the governmental funds use the modified 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 60 days of year-end.

Revenues - Non-exchange Transactions - Non-exchange transactions in which the City receives value without directly giving equal value in return, include 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. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (Note 6) 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/Unearned 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.

Note 2 - Summary of Significant Accounting Policies (continued)

Grants and entitlements received before the eligibility requirements are met (e.g., cash advances) also are recorded as deferred revenue.

Deferred revenue is reclassified as unearned revenue on the government-wide statement of net assets.

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.

Assets, Liabilities and Fund Equity

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 United States Government or Government agency
- Obligations of any corporation of the United States Government
- Prime bankers' acceptances
- The State of Georgia local government investment pool (i.e., Georgia Fund I)
- Repurchase agreements
- Obligations of the other political subdivisions of the State of Georgia

Receivables - All trade and property tax receivables are reported net of an allowance for uncollectibles, where applicable. Unbilled water and sewer charges are accrued as receivables and revenue at June 30, 2012.

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

Prepaid Items - Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

Note 2 - Summary of Significant Accounting Policies (continued)

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 one thousand dollars. The City's infrastructure consists of roads, bridges, water lines and sewer lines. Improvements to capital assets are capitalized. The City has capitalized only those infrastructure costs incurred in the years subsequent June 30, 2003. 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 funds 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:

	Estimated Useful Lives	
Asset Class	Governmental Activities	Business-type Activities
Buildings and improvements	30-50 Years	
Machinery and equipment	5-10 years	7-10 Years
Furniture and fixtures	5 years	
Computer equipment	5 years	
Vehicles	5-8 years	5 Years
Infrastructure	3-10 years	
Water System		50 Years
Sewer collection system		50 Years

At the inception of capital leases at the governmental fund reporting level, expenditures and an "other financing source" of an equal amount are reported at the net present value of future minimum lease payments.

Note 2 - Summary of Significant Accounting Policies (continued)

Compensated Absences - Vacation benefits are accrued as a liability as the benefits are earned if the employee's 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. The proprietary fund reports total compensated absence liability at the fund level, if applicable. Governmental funds report compensated absence liability at the fund reporting level only "when due."

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. Capital leases are recognized as a liability in the governmental fund financial statements when due.

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 the governmental 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.

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."

Fund Balance – Beginning with the year ended June 30, 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance - amounts that are not in spendable form (such as prepaid items) or are required to be maintained intact.

Note 2 - Summary of Significant Accounting Policies (continued)

Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions, or by enabling legislation.

Committed fund balance - amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. the City Council). To be reported as committed, amounts cannot be used for any other purposes unless the City takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the City intends to use for a specific purpose. Intent can be expressed by the City or by an official or body to which the City Council delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purposes (such as the purchase of capital assets, construction, debt service, or other purposes). Additionally, assigned fund balance may reflect management's intended use of resources to be set forth in current or future annual budgets and any amendments thereto.

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. This net asset amount also is adjusted by any bond issuance deferral 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 net 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 unless there are legal documents or contracts that prohibit doing this. Additionally, the City would first use committed fund balance, followed by assigned fund balance, then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the "unrestricted" fund balance classifications could be used.

Note 2 - Summary of Significant Accounting Policies (continued)

Operating 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 water and sewer. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

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 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.

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.

Comparative Data - Comparative total data for the prior year has been presented only for individual funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified to be consistent with the current year's presentation.

Note 3 – Stewardship, Compliance and Accountability

Budgetary Information

The City adopts an annual operating budget for the general fund, capital projects fund and the special revenue fund. The budget resolution reflects the total of each department's appropriation in each fund.

The general, capital projects and special revenue fund's budgets are adopted on a basis consistent with GAAP.

The legal level of control (the level at which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the department level within each individual fund. Any change in total to a fund or departmental appropriation within a fund requires approval of the City Council.

Note 3 – Stewardship, Compliance and Accountability (continued)

Transfer of budget amounts can occur within departments. All unexpended annual appropriations lapse at year-end.

On the budgetary basis, debt service expenditures (i.e., $83,531) are budgeted within the functions but are reported as a separate character classification on the GAAP basis.

Accumulated Fund Deficit

The City has an accumulated fund deficit in the sanitation fund totaling $1,160,566. This fund deficit resulted from issuance of debt by the water and sewer fund and the required transfer of a portion of the proceeds to a Construction Fund. As the project is constructed, the funds will be transferred back to the water and sewer fund.

Note 4 - Cash and Cash Equivalents

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk; however, as of June 30, 2012 the government is not exposed to custodial credit risk.

Note 5 - Receivables

Receivables at June 30, 2012, consisted of taxes, interest, and accounts (billings for user charges).

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, collectibility.

Note 6 - Property Taxes

The City council levies property taxes on or about July 15th of each year. Property taxes attach as an enforceable lien on property as of January 1. Property taxes are usually billed on or about September 15th of each year and are payable within sixty days. The Effingham County Tax Commissioner bills and collects the City's property taxes and City property tax revenues at the fund reporting level are recognized when levied to the extent that they result in current receivables (i.e., collectible in 60 days). For 2012 property taxes were levied on July 26, 2011; and were due November 15, 2011.

Note 7 - Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2012, was as follows:

	Balance 7/01/2011	Additions	Deductions	Reclass-ifications	Balance 6/30/2012
Governmental activities:					
Capital assets not being depreciated:					
Land	$ 186,010				$ 186,010
Construction in progress	661,267	$ 69,071		$ (730,338)	0
	847,277	69,071	$ 0	(730,338)	186,010
Depreciable capital assets:					
Buildings	817,771	9,607			827,378
Machinery and equipment	440,020	15,429			455,449
Vehicles	860,982	108,000	406,118		562,864
Furniture & fixtures	32,758				32,758
Computer equipment	36,004				36,004
Infrastructure	521,246	92,246		730,338	1,343,830
Total depreciable capital assets	2,708,781	225,282	406,118	730,338	3,258,283
Total capital assets	3,556,058	294,353	406,118	0	3,444,293
Accumulated depreciation:					
Buildings	178,708	19,240			197,948
Machinery and equipment	377,508	20,857			398,365
Vehicles	810,665	20,045	406,118		424,592
Furniture & fixtures	30,477	1,519			31,996
Computer equipment	33,786	341			34,127
Infrastructure	270,935	49,466			320,401
Total accumulated depreciation	1,702,079	111,468	406,118	0	1,407,429
Governmental activities capital assets, net	$ 1,853,979	$ 182,885	$ 0	$ 0	$ 2,036,864

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Note 7 - Capital Assets (continued)

Governmental activities depreciation expense:	
General government	$ 7,888
Public safety - police	21,031
Public safety - fire	11,507
Public works - streets	62,290
Parks and recreation	8,752
Total governmental activities depreciation expense	$ 111,468

Capital asset activity for business-type activities for the year ended June 30, 2012, was as follows:

	Balance 7/01/2011	Additions	Deductions	Reclass-ifications	Balance 6/30/2012
Business-type activities:					
Capital assets not being depreciated:					
Land and rights	$ 2,127,513				$ 2,127,513
Construction in progress	1,102,807	$ 604,596		$ (490,703)	1,216,700
Total capital assets not being depreciated	3,230,320	604,596	$ 0	(490,703)	3,344,213
Depreciable capital assets:					
Improvements - not building	6,296,522			490,703	6,787,225
Machinery and equipment	384,627	2,291			386,918
Total depreciable capital assets	6,681,149	2,291	0	490,703	7,174,143
Total capital assets	9,911,469	606,887	0	0	10,518,356
Accumulated depreciation:					
Improvements - not building	1,593,546	136,312			1,729,858
Machinery and equipment	268,166	16,213			284,379
Total accumulated depreciation	1,861,712	152,525	0	0	2,014,237
Water and sewer capital assets, net	$ 8,049,757	$ 454,362	$ 0	$ 0	$ 8,504,119

Note 8 - Interfund Balances and Transfers

Interfund balances at June 30, 2012, consisted of the following:

General fund receivable from fire fund for various expenses paid by general fund $476.

General fund receivable from water and sewer fund for various expenses paid by general fund $127,035.

Interfund transfers for the year ended June 30, 2012, consisted of the following.

Transfer from general fund to the water and sewer fund for water and sewer portion of workers compensation insurance $5,319.

Transfer from SPLOST fund to the water and sewer fund for qualified water and sewer capital additions paid for by the SPLOST fund $400,006.

Note 10 - Long-Term Liabilities

Governmental Activities

General Obligation Debt

General obligation debt at June 30, 2012 is comprised of the following.

Note payable to Bank of America in the name of Guyton Volunteer Fire Department, in equal monthly installments of $1,262, including interest at 5.08%. The original purpose of this note was to purchase fire equipment in the amount of $144,618. This note is serviced through the fire fund.	$ 24,237

Annual debt service requirements to amortize the general obligation debt outstanding as of June 30, 2012, follow:

Year	Principal	Interest	Total
2013	$ 14,246	$ 903	$ 15,149
2014	9,991	195	10,186
Total	$ 24,237	$ 1,098	$ 25,335

Capital Leases - The City has entered into capital leases for various pieces of property and equipment. These leases meet the criteria of a capital lease since they transfer benefits and risks of ownership to the lessee at the end of the lease term. Capital lease payments are reflected as debt service expenditures at the governmental fund reporting level.

Note 10 - Long-Term Liabilities (continued)

Capital lease payable to Branch Banking and Trust Company, Inc. in equal annual payments of approximately $9,730 through July, 2013 including interest at 4.22%. This lease was used to purchase a vehicle for the police with a cost of $46,701. The equipment acquired by the lease is included in the governmental activities general capital assets in the amount of $10,119 (cost of $46,701 less accumulated depreciation of $36,582). The outstanding balance of the corresponding liabilities is included in the governmental activities general long-term debt. Annual debt service requirements to amortize this capital lease as of June 30, 2012, follow:

Year	Principal	Interest	Total
2013	$ 8,958	$ 772	$ 9,730
2014	9,337	393	9,730
Total	$ 18,295	$ 1,165	$ 19,460

Capital lease payable to Branch Banking and Trust Company, Inc. in equal annual payments of approximately $51,117 through August, 2013 including interest at 3.46%. This lease was used to purchase computer equipment for the fire department with a cost of $9,050 and to refinance a short term loan issued to purchase equipment (a tanker and an engine) for the fire department with a cost of $406,118. The equipment acquired by the lease is included in the governmental activities general capital assets in the amount of $0 (cost of $406,118 less accumulated depreciation of $406,118). The outstanding balance of the corresponding liabilities is included in the governmental activities general long-term debt. Annual debt service requirements to amortize this capital lease as of June 30, 2012 follow:

Year	Principal	Interest	Total
2013	$ 47,756	$ 3,361	$ 51,117
2014	49,406	1,711	51,117
Total	$ 97,162	$ 5,072	$ 102,234

Capital lease payable to Branch Banking and Trust Company, Inc. in equal annual payments of approximately $7,535 through June, 2016 including interest at 3.95%. This lease was used to purchase a vehicle for the police with a cost of $33,590. The equipment acquired by the lease is included in the governmental activities general capital assets in the amount of $20,154 (cost of $33,590 less accumulated depreciation of $13,436). The outstanding balance of the corresponding liabilities is included in the governmental activities general long-term debt. Annual debt service requirements to amortize this capital lease as of June 30, 2012 follow:

Year	Principal	Interest	Total
2013	$ 6,452	$ 1,083	$ 7,535
2014	6,708	827	7,535
2015	6,973	562	7,535
2016	7,249	286	7,535
Total	$ 27,382	$ 2,758	$ 30,140

Note 10 - Long-Term Liabilities (continued)

Capital lease payable to Branch Banking and Trust Company, Inc. in equal annual payments of approximately $12,416 through July, 2022 including interest at 3.17%. This lease was used to purchase a vehicle for the fire department with a cost of $105,000. The equipment acquired by the lease is included in the governmental activities general capital assets in the amount of $105,000 (cost of $105,000 with no accumulated depreciation). The outstanding balance of the corresponding liabilities is included in the governmental activities general long-term debt. Annual debt service requirements to amortize this capital lease as of June 30, 2012 follow:

Year	Principal	Interest	Total
2014	$ 9,088	$ 3,328	$ 12,416
2015	9,376	3,040	12,416
2016	9,673	2,743	12,416
2017	9,980	2,436	12,416
2018-2022	54,849	7,232	62,081
2023	12,034	382	12,416
Total	$ 105,000	$ 18,779	$ 111,745

Business Type Activities

FHA Water and Sewer Bonds - 1997A - Payments are due in equal monthly installments of $3,380 including interest at 5.0%, beginning August 22, 1998 and ending April 22, 2037. The purpose of the loan in the original principal amount of $693,900 was to expand the sewer system. This bond was refunded in the year ended June 30, 2012.

FHA Water and Sewer Bonds – 1997B - Payments are due in equal monthly installments of $482 including interest at 5.0%, beginning August 22, 1998 and ending April 22, 2037. The purpose of the loan in the original amount of $98,800 was to expand the sewer system. This bond was refunded in the year ended June 30, 2012.

Georgia Environmental Facilities Authority – Contract 2000-L66WS - Payments are due in equal monthly installments of $3,090 (previously $9,293 quarterly) including interest at 2.0%, beginning June 1, 2002 and ending March 1, 2022. The purpose of the loan in the original amount of $462,423 was to expand the water and sewer system. This bond was refunded in the year ended June 30, 2012.

Georgia Environmental Facilities Authority – Contract 2004-L19WS – Payments are due in equal monthly installments of $2,083 including interest at 3.82%, beginning January 1, 2006 and ending December 1, 2025. The purpose of the loan in the original amount of $349,112 was to construct a new well. This bond was refunded in the year ended June 30, 2012.

Note 10 - Long-Term Liabilities (continued)

Georgia Environmental Facilities Authority – Contract 2008-L06WQ – Payments are due in equal monthly installments of $13,231 including interest at 4.10%, beginning June 1, 2009 and ending May 1, 2029. The proceeds of this loan were used to acquire land for a waste water treatment facility, which has not yet been constructed. This bond was refunded in the year ended June 30, 2012.

US Department of Agriculture – Issued in the amount of $460,000 for the purchase of a sewer pump station. Payments are due in equal monthly installments of $2,411 including interest at 2.375%, beginning April 17, 2010 and ending March 17, 2030. This bond was refunded in the year ended June 30, 2012.

Water & Sewer Refunding and Improvement Revenue Bonds, "Series 2011 Bonds" – Issued on August 25, 2011, in the amount of $9,565,000 for the refunding all outstanding water and sewer related bonds and the construction of a waste water treatment facility. The bonds have maturity dates ranging from March 1, 2012, to March 1, 2041, in varying amounts. Interest is payable at varying rates ranging from 2.0% to 4.8% based on bond maturity. The bonds are secured by direct revenues of the water/sewer system. At June 30, 2012, debt service requirements to maturity are as follows:

Year	Principal	Interest	Total
2013	$ 100,000	$ 417,145	$ 517,145
2014	110,000	415,145	525,145
2015	15,000	412,945	427,945
2016	25,000	412,570	437,570
2017	65,000	411,945	476,945
2018-2022	335,000	2,036,190	2,371,190
2023-2027	1,310,000	1,917,800	3,227,800
2028-2032	2,160,000	1,561,863	3,721,863
2033-2037	2,690,000	1,031,213	3,721,213
2038-2041	2,650,000	325,680	2,975,680
Total	$ 9,460,000	$ 8,942,496	$ 18,402,496

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Note 10 - Long-Term Liabilities (continued)

Changes in Long-term Debt - Changes in the City's long-term obligations consisted of the following for the year ended June 30, 2012:

Governmental activities	Outstanding 7/1/2011	Additions	Reductions	Outstanding 6/30/2012	Amounts due in one year
Notes payable					
Bank of America	$ 37,779		$ 13,542	$ 24,237	$ 14,246
Capital leases payable					
Branch Bank and Trust	26,890		8,595	18,295	8,958
Branch Bank and Trust	143,319		46,157	97,162	47,756
Branch Bank and Trust	33,590		6,208	27,382	6,452
Branch Bank and Trust		105,000		105,000	
Compensated absences	16,599	$ 12,685	14,361	14,923	8,954
Total governmental activities	$ 258,177	$ 117,685	$ 88,863	$ 286,999	$ 86,366

Business-type activities	Outstanding 7/1/2011	Additions	Reductions	Outstanding 6/30/2012	Amounts due in one year
FHA					
1997A	$ 587,741		$ 587,741	$ 0	
1997B	83,523		83,523	0	
GEFA					
Contract 2000-L66WS	305,574		305,574	0	
Contract 2004-L19WS	279,054		279,054	0	
Contract 2008-L06WQ	2,012,735		2,012,735	0	
USDA	438,149		438,149	0	
Water & Sewer Refunding & Improvement Bonds - "Series 2011 Bonds"		9,565,000	105,000	9,460,000	$ 100,000
Compensated absences	4,689	$ 4,280	3,934	5,035	3,021
Total business-type activities	$ 3,711,465	$ 9,569,280	$ 3,815,710	$ 9,465,035	$ 103,021

The governmental activities notes payable are being financed through future general fund and fire special revenue expendable available financial sources as they become due. Principal and interest payments related to the City's FHA, GEFA and USDA loans for the water and sewer fund are financed from income derived from the operation of the water and sewer system.

Note 10 - Long-Term Liabilities (continued)

The compensated absences liability will be paid from the fund from which the employee's salaries are paid. Generally, the compensated absences liability has been liquidated by the general fund and the water and sewer fund in the prior year.

Note 11 - Major Customer

Approximately 70% of the Water & Sewer Enterprise Fund's sewage revenue is generated by sales to the Effingham County School System.

Note 12 - Pension

The City participates in the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer defined benefit pension plan.

Plan Description - The Plan provides retirement, disability and death benefits to plan members and beneficiaries. These retirement provisions were established by an adoption agreement executed by the City Council. The Plan is affiliated with the Georgia Municipal Employees Benefit System (GMEBS), administered by the Georgia Municipal Association. The Georgia Municipal Association issues a publicly available financial report on GMEBS that includes financial statements and required supplementary information. That report may be obtained by writing to Georgia Municipal Association, 201 Pryor Street, Atlanta, Georgia, 30303.

Funding Policy - The Plan members are not required to contribute to the Plan. The City is required to contribute at an actuarially determined rate; the current rate is 9.22% of annual covered payroll. The contribution requirements of the City are established and may be amended by the GMEBS Board of Trustees.

Annual Pension Cost - The required contribution was determined as part of the January 1, 2012, actuarial valuation for the Plan using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.75% per year investment rate of return (net of investment expenses) and (b) projected salary increases for inflation of 3.5% per year plus age or service based merit increases ranging from .5% - 7.5% annually per employee. The actuarial value of net assets is determined by a roll forward of prior year actuarial values combined with contributions, disbursements and expected return on investments, adjusted by 10% of the amount that the value differs from market value. The period, and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years from 1999 and current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods as a level dollar amount. These periods, if applicable, are closed for this plan year.

Note 12 - Pension (continued)

Schedule of Funding Progress

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Funded Ratio (1)/(2)	(4) Unfunded AAL/(UAAL) (2)-(1)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll
5/1/2008	150,629	200,273	75.2%	49,644	252,616	19.7%
5/1/2009	132,629	233,738	56.7%	101,109	272,719	37.1%
1/1/2010*	186,383	253,687	73.5%	67,304	323,544	20.8%
1/1/2011	227,648	285,690	79.7%	58,042	323,544	17.9%
1/1/2012	269,841	298,578	90.4%	28,737	277,726	10.3%

* Beginning in 2010, the actuarial valuation date changed to January 1.

Schedule of Employer Contributions

Year Beginning January 1,	Annual Required Contribution	Annual Pension Cost	Percentage Contributed	Annual Pension Obligation
2007	$ 20,697	$ 20,697	100.0%	0
2008	22,606	22,606	100.0%	0
2009	29,864	29,864	100.0%	0
2010*	29,806	29,806	100.0%	0
2011	30,335	30,335	100.0%	0

* Beginning in 2010, year beginning date changed from May 1.

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Note 13 - Net Assets

Net assets on the City-wide statement of net assets as of June 30, 2012 are as follows:

Investments in capital assets, net of related debt:	Governmental Activities	Business Type Activities
Cost of capital assets	$ 3,444,293	$ 10,518,356
Less accumulated depreciation	1,407,429	2,014,237
Book value	2,036,864	8,504,119
Less capital related debt		
Gross debt	272,076	9,460,000
Less bond proceeds held in escrow for sewer system expansion		4,502,043
	272,076	4,957,957
Investments in capital assets, net of related debt	$ 1,764,788	$ 3,546,162

Note 14 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; and errors or omissions; and workers compensation for which the City carries the following insurance coverages.

The City's risk of significant loss from liability, fire, accident and other claims that may arise are covered by commercial insurance purchased from Titon Indemnity Company. Insurance coverage limits are utility system and public officials liability of $1,000,000; accidents related to vehicles of $1,000,000; and property and bond liability of $3,000,000. There were no reductions of insurance coverage compared to the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The City has elected to be a member of the Georgia Municipal Association Workers' Compensation Self-Insurance Fund (the Fund). As a participant in the Fund, the City has no legal obligation to pay its own workers' compensation claims. The City is required to make an annual contribution to the Fund in an amount that is determined on the basis of actuarial projections of losses. With payment of the City's annual contribution, the City has effectively transferred the risk and responsibility for payment of its workers' compensation claims. However, the enabling statute creating the Fund permits the Fund to levy an assessment upon its members to make up any deficiency the Fund may have in surplus or reserves. No amount has been recorded in the financial statements for this contingency as management believes the likelihood for assessment is remote.

Note 15 - Contingent Liabilities

Federal Grant Audits - 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.

Note 16 - Joint Ventures

Under Georgia law, the City, in conjunction with other cities and counties in the coastal Georgia area, is a member of the Coastal Georgia Regional Development Center (RDC) and is required to pay annual dues thereto. Membership in an 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 the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of an RDC. Separate financial statements may be obtained from Coastal Georgia Regional Development Center, P. O. Box 2917, Brunswick, Georgia 31521.

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Required Supplementary Information

City of Guyton, Georgia
General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Taxes	$ 523,990	$ 510,861	$ 531,113	$ 20,252
Licenses and permits	22,880	21,330	21,003	(327)
Intergovernmental	67,500	269,962	193,728	(76,234)
Charges for services	113,442	113,442	110,376	(3,066)
Fines and forfeitures	47,050	26,200	23,400	(2,800)
Investment earnings	4,000	11,853	8,428	(3,425)
Miscellaneous	20,240	75,901	36,802	(39,099)
Total revenues	799,102	1,029,549	924,850	(104,699)
Expenditures				
Current:				
General government				
Administration	209,076	200,147	166,605	33,542
Other governmental services	133,426	184,381	111,414	72,967
Public safety				
Police	221,680	282,210	210,004	72,206
Fire		39,230		39,230
Public works				
Streets and lanes	133,400	140,519	116,445	24,074
Sanitation	93,500	94,937	94,696	241
Parks and recreation	27,132	88,125	18,540	69,585
Total expenditures	818,214	1,029,549	717,704	311,845
Excess (deficit) of revenues to expenditures	(19,112)	0	207,146	207,146
Other financing sources (uses)				
Transfers out - water and sewer			(5,319)	(5,319)
Net change in fund balances	$ (19,112)	$ 0	201,827	$ 201,827
Fund balance beginning of year			858,453	
Fund balance end of year			$ 1,060,280	

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

City of Guyton, Georgia
Fire Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Intergovernmental revenues	$ 145,780	$ 162,280	$ 162,280	$ 0
Charges for service	28,680	28,680	29,945	1,265
Investment income	300	300	51	(249)
Miscellaneous	500	3,519	0	(3,519)
Total revenues	175,260	194,779	192,276	(2,503)
Expenditures				
Public Safety	209,124	243,404	231,836	11,568
Excess (deficit) of revenues to expenditures	(33,864)	(48,625)	(39,560)	9,065
Other financing sources (uses)				
Proceeds from sale of assets			4,822	4,822
Proceeds from capital lease			105,000	105,000
Interfund transfers	33,864	33,864		(33,864)
Total other financing sources	33,864	33,864	109,822	75,958
Net change in fund balances	$ 0	$ (14,761)	70,262	$ 85,023
Fund balance beginning of year			19,043	
Fund balance end of year			$ 89,305	

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

Note 1 - Budgetary Information

The City adopts an annual operating budget for the general fund, each special revenue fund, and each capital projects fund.

All budgets are adopted on a basis consistent with GAAP.

The legal level of control (the level at which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the department level within each individual fund.

The City Manager may approve budget transfers within departments. Any changes to a fund total or departmental appropriation within a fund requires approval of the City Council. During the year, the City Council approved one budget revision.

All unexpended annual appropriations lapse at year-end.

On the budgetary basis, payments for debt service on long-term debt (i.e. $17,265 for the general fund and $66,266 for the fire fund) are budgeted within the functions but are reported as separate character classifications on the GAAP basis.

Other Supplementary Information

City of Guyton, Georgia
General Fund
Comparative Balance Sheet
June 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	$ 894,353	$ 675,974
Receivables:		
Taxes	76,031	71,328
Interfund balances	127,511	145,951
Prepaid items	25,428	20,089
Total assets	$ 1,123,323	$ 913,342
Liabilities and Fund Balances		
Liabilities		
Accounts payable	$ 26,770	$ 17,199
Accrued salaries and wages	519	3,828
Deferred revenues	35,754	33,862
Total liabilities	63,043	54,889
Fund balances		
Nonspendable - prepaid items	25,428	20,089
Unassigned	1,034,852	838,364
Total fund balances	1,060,280	858,453
Total liabilities and fund balances	$ 1,123,323	$ 913,342

City of Guyton, Georgia
General Fund
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance
For the Years Ended June 30, 2012 and 2011

	2012	2011
Revenues		
Taxes	$ 531,113	$ 495,716
Licenses and permits	21,003	15,992
Intergovernmental	193,728	59,938
Charges for services	110,376	110,161
Fines and forfeitures	23,400	43,558
Investment income	8,428	9,645
Miscellaneous	36,802	16,274
Total revenues	924,850	751,284
Expenditures		
Current:		
General government		
Administration	166,605	204,770
Other governmental services	111,414	124,256
Public safety		
Police	192,739	247,850
Fire		18,658
Public works		
Streets and lanes	116,445	116,623
Sanitation	94,696	91,723
Parks and recreation	18,540	68,700
Debt Service:		
Principal	14,803	8,248
Interest	2,462	1,482
Total expenditures	717,704	882,310
Excess (deficit) of revenues to expenditures	207,146	(131,026)
Other financing sources (uses)		
Proceeds from capital leases		33,590
Transfers in (out) - water and sewer	(5,319)	(5,528)
Total other financing sources (uses)	(5,319)	28,062
Net change in fund balances	201,827	(102,964)
Fund balances beginning of year	858,453	961,417
Fund balances end of year	$ 1,060,280	$ 858,453

City of Guyton, Georgia
Fire Fund
Comparative Balance Sheet
June 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	$ 83,187	$ 29,187
Receivables		
Accounts		3,260
Prepaid expenses	6,594	6,750
Total assets	$ 89,781	$ 39,197
Liabilities and Fund Balance		
Current liabilities:		
Accounts payable		$ 1,238
Interfund	$ 476	18,916
Fund balance		
Restricted for public safety	89,305	19,043
Total liabilities and fund balance	$ 89,781	$ 39,197

City of Guyton, Georgia
Fire Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance
For the Years Ended June 30, 2012 and 2011

	2012	2011
Revenues		
Intergovernmental revenues	$ 162,280	$ 24,650
Charges for service	29,945	28,489
Investment income	51	69
Miscellaneous		9,336
Total revenues	192,276	62,544
Expenditures		
Current:		
Public Safety	165,570	59,872
Debt service:		
Principal	59,699	57,487
Interest	6,567	8,779
Total expenditures	231,836	126,138
Deficit of revenues to expenditures	(39,560)	(63,594)
Other financing sources		
Proceeds from sale of assets	4,822	
Proceeds from capital lease	105,000	
Total other financing sources	109,822	0
Net change in fund balances	70,262	(63,594)
Fund balance - beginning of year	19,043	82,637
Fund balance - end of year	$ 89,305	$ 19,043

City of Guyton, Georgia
SPLOST Capital Projects Fund
Comparative Balance Sheet
June 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	$ 334,375	$ 606,493
Receivables - intergovernmental		
County	30,942	31,748
State - grant	25,103	
Total assets	$ 390,420	$ 638,241
Liabilities and Fund Balances		
Current Liabilities		
Accounts payable	$ 36,310	
Fund Balances		
Restricted for capital projects	354,110	$ 638,241
Total liabilities and fund balances	$ 390,420	$ 638,241

City of Guyton, Georgia
SPLOST Capital Projects Fund
Comparative Schedule of Revenues, Expenditures and
Changes in Fund Balance
For the Years Ended June 30, 2012 and 2011

	2012	2011
Revenues		
Intergovernmental		
County	$ 189,621	$ 201,207
State - grant	101,331	
Investment income	17	183
Total revenues	290,969	201,390
Expenditures		
Capital Outlays:		
Public works	95,227	5,329
Parks and recreation	79,867	57,085
Total expenditures	175,094	62,414
Excess of revenues over expenditures	115,875	138,976
Other financing uses		
Transfers out - water and sewer	(400,006)	(81,485)
Net change in fund balances	(284,131)	57,491
Fund balance beginning of year	638,241	580,750
Fund balance end of year	$ 354,110	$ 638,241

City of Guyton Georgia
Combining Schedule of Net Assets
Nonmajor Proprietary Funds
June 30, 2012

	Nonmajor Debt Service Trust	Nonmajor Debt Service Reserve Trust	Total Nonmajor Proprietary Funds
Assets			
Restricted cash and cash equivalents	$ 423,079	$ 747,106	$ 1,170,185
Liabilities			
Current liabilities	0	0	0
Net assets			
Restricted for debt service	$ 423,079	$ 747,106	$ 1,170,185

City of Sylvania, Georgia
Combining Schedule of Revenues, Expenses and Changes in Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2012

	Nonmajor Debt Service Trust	Nonmajor Debt Service Reserve Trust	Total Nonmajor Proprietary Funds
Revenues			
Investment earnings	$ 72	$ 111	$ 183
Expenditures	0	0	0
Excess of revenues to expenditures	72	111	183
Other financing sources (uses)			
Transfer to water and sewer fund	(114,727)		(114,727)
Transfer from construction trust	537,734	746,995	1,284,729
Total other financing sources (uses)	423,007	746,995	1,170,002
Net change in fund balances	423,079	747,106	1,170,185
Fund balances beginning of year	0	0	0
Fund balances end of year	$ 423,079	$ 747,106	$ 1,170,185

City of Guyton, Georgia
Water and Sewer Fund
Comparative Statement of Net Assets
June 30, 2012 and 2011

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents:		
Unrestricted	$ 163,394	$ 217,472
Restricted		227,826
Receivables - accounts	76,840	86,606
Prepaid expenses	9,254	8,204
Total current assets	249,488	540,108
Noncurrent assets:		
Deferred charges- loan costs	239,973	
Capital assets:		
Nondepreciable capital asset	3,344,213	3,230,320
Depreciable capital assets, net	5,159,906	4,819,437
Total noncurrent assets	8,744,092	8,049,757
Total assets	8,993,580	8,589,865
Liabilities		
Current Liabilities:		
Accounts payable	97,146	177,114
Accrued salaries and wages		1,328
Accrued interest payable	138,286	8,348
Interfund payable	127,035	127,035
Unearned revenue	485,100	485,100
Compensated absences payable	3,021	2,813
Notes payable	100,000	145,764
Total current liabilities	950,588	947,502
Long-term liabilities:		
Compensated absences payable (net of current portion)	2,014	1,876
Notes payable (net of current portion)	9,360,000	3,561,012
Discount on notes payable (net of amortization)	(158,456)	
Total long-term liabilities	9,203,558	3,562,888
Total liabilities	10,154,146	4,510,390
Net assets		
Invested in capital assets, net of related debt	3,546,162	4,342,981
Restricted for:		
Debt service		225,876
Unrestricted	(4,706,728)	(489,382)
Total net assets	$ (1,160,566)	$ 4,079,475

City of Guyton, Georgia
Water and Sewer Fund
Comparative Statement of Revenues,
Expenses and Changes in Fund Net Assets
For the Years Ended June 30, 2012 and 2011

	2012	2011
Operating revenues		
Charges for services	$ 470,414	$ 460,969
Connection fees	23,205	28,035
Miscellaneous	49,138	51,333
Total operating revenues	542,757	540,337
Operating expenses		
Salaries	75,749	83,366
Payroll taxes	11,506	11,506
Professional fees	8,190	22,000
Utilities	20,679	17,620
Sewerage treatment	70,167	73,987
Maintenance - repairs	7,401	3,958
Supplies	8,799	13,059
Postage	3,275	2,877
Chlorine	2,911	3,644
Insurance	13,061	12,768
Miscellaneous	21,455	10,107
Amortization	11,110	66,667
Depreciation	141,415	146,103
Total operating expenses	395,718	467,662
Operating income	147,039	72,675
Non-operating revenues (expenses)		
Investment earnings	1,168	1,942
Interest expense	(301,207)	(154,050)
Amortization- loan costs and bond discount	(8,275)	
Loss on disposal of assets		(466)
Community Development Block Grant	152,864	309,255
Total non-operating revenues (expenses)	(155,450)	156,681
Income (loss) before transfers	(8,411)	229,356
Interfund transfers		
Transfer from general fund	5,319	5,528
Transfer from SPLOST fund	12,758	81,485
Transfer from debt service trust fund	114,727	
Transfer to construction trust fund	(5,364,434)	
Total interfund transfers	(5,231,630)	87,013
Change in net assets	(5,240,041)	316,369
Net assets beginning of year	4,079,475	3,763,106
Net assets end of year	$ (1,160,566)	$ 4,079,475

City of Guyton, Georgia
Schedule of Projects Constructed with
Special Purpose Local Option Sales Tax Proceeds
For the Year Ended June 30, 2012

	Original Estimated Cost	Revised Estimated Cost	Prior Years	Current Year	Total	Percentage Complete
2006 Effingham County SPLOST						
Streets	$ 488,000	$ 383,000	$ 5,329	$ 95,227	$ 100,556	26.25%
Recreation	244,000	192,000	57,085	(21,464)	35,621	18.55%
Water and sewerage	488,000	500,758	100,752	400,006	500,758	100.00%
Total	$ 1,220,000	$ 1,075,758	$ 163,166	$ 473,769	$ 636,935	
Funds remaining at June 30, 2012					$ 390,420	

The 2006 Effingham County SPLOST became effective on September 1, 2007. Under this referendum, SPLOST would be imposed for a period of time not to exceed five years and for the raising of an estimated $50,000,000. In accordance with the referendum approved by voters the tax proceeds are to be used for roads, streets and bridges; public buildings capital outlay projects; public safety capital outlay projects; recreation capital outlay projects; and water and sewer capital outlay projects. The referendum does not specify individual projects to be completed with the taxes collected. The City receives approximately 2.42% of the proceeds from this SPLOST referendum. For the year ended June 30, 2012, the City recognized $189,621 of revenues from this SPLOST referendum. Total revenues recognized for the life of the 2006 Effingham County SPLOST is $987,633.

The "negative" current year expenditures for recreation resulted from the determination that expenses paid with local funds from a grant project in previous years, which was believed to be not reimbursable under the grant agreement, were in fact reimbursable and the revenues were recognized in the current year, which resulted in a reduction of qualified SPLOST expenditures.

Reconciliation of current year disbursemen	
Total disbursements per the Schedule of Revenues, Expenditures and Changes in Fund Balances	$ 575,100
Intergovernmental grant revenues from State of Georgia	(101,331)
	$ 473,769

Government Auditing Standards Section

CAINES, HODGES & COMPANY, P.C.
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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
City of Guyton, Georgia

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Guyton, Georgia, as of and for the year ended June 30, 2012, which collectively comprise the City of Guyton, Georgia's basic financial statements and have issued our report thereon dated June 28, 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

Management of City of Guyton, Georgia, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Guyton, 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 City of Guyton, Georgia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Guyton, Georgia's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses at 2012-1 through 2012-5 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and responses at 2012-6 through 2012-10 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Guyton, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the City of Guyton, Georgia, in a separate letter dated June 28, 2013.

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

This report is intended solely for the information and use of management, the City 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.

Carnes, Hodges & Company, P.C.

Rincon, Georgia
June 28, 2013

NONCOMPLIANCE
None

INTERNAL CONTROL

2012-1 Lack of segregation of duties

Condition: There is a lack of segregation of duties in various areas of the utility clerk, city clerk and receptionist.

Context: Internal control procedures should be in place to ensure there is a proper segregation of duties surrounding collecting cash, recording receipts and disbursements, authorizing disbursements, authorizing adjustments to accounts and reconciling accounts.

Effect: This condition could lead to inappropriate transactions and the risk of potential fraud or theft.

Cause: The utility clerk receives customer payments, records customer payments, prepares and makes deposits, has access to bank statements, and authorizes and makes adjustments to accounts. The City Clerk and receptionist each perform several of these duties as well.

Recommendation: Establish procedures to segregate the duties of receiving cash, disbursing cash, recording cash, authorizing cash transactions, and reconciling cash. Segregate duties in such a way that no one person performs any two of the following functions: 1) collects cash, (2) records receipts and disbursements, (3) authorizes disbursements, (4) authorizes and records customer account adjustments, and (5) reconciles accounts.

Management response: We are aware of this situation and will continue to evaluate the costs and related benefits of adding additional personnel to alleviate this problem. We will continue to use alternative measures where available in safeguarding assets.

2012-2 Bank account reconciliations

Condition: All bank account reconciliations are not being reconciled on a timely basis.

Context: Internal controls should be in place that provide reasonable assurance that all bank accounts recorded in the general ledger are reconciled to bank statements on a timely basis.

Effect: The failure to reconcile all bank accounts on a timely basis could lead to the potential for errors or fraud to occur without timely detection and the possibility of unnecessary recurrence.

Cause: Improper procedures for recording all transactions in new "non-operating" accounts and the failure to follow City procedures requiring the timely reconciling of accounts.

2012-2 Bank account reconciliations (continued)

Recommendation: Require the City's policy requiring the timely recording of detail and reconciling of bank accounts to be strictly adhered to.

Management response: Management agrees with finding and will require all bank accounts to be reconciled within two weeks of the closing period of each bank account.

2012-3 Manual corrections to payment history report (REPEAT FINDING)

Condition: Undocumented manual corrections were made to the "Payment History Report" from which general ledger entries are made.

Context: The City's utility billing system does not integrate with the general ledger system. Cash receipts are recorded by journal entry from the Payment History Report. From time to time these reports, from which the general ledger entry is recorded, included undocumented manual adjustments. Internal control procedures should be in place to ensure that all general ledger entries and adjustments to the utility billing system have adequate documented support.

Effect: Failure to have proper documentation of all adjustments and to allow manual adjustments to the reports the utility billing system generates causes an unnecessary risk for undetected fraudulent activity and reporting.

Cause: Lack of attention to providing appropriate supporting documentation for adjustments and to recording properly within the utility billing system.

Recommendation: Establish procedures to ensure that all adjustments to the Payment History Report be adequately documented and made within the billing system rather than manually. Provide training to staff related to data entry to minimize the need for adjustments.

Management response: Management agrees with finding, and will establish procedures to ensure all adjustments are made through the utility billing system and are properly documented.

2012-4 Accounts receivable - utilities (REPEAT FINDING)

Condition: The accounts receivable detail for utilities is not periodically reconciled to the general ledger control account.

Context: Internal controls should be in place that provide reasonable assurance that all utility receivable general ledger accounts are reconciled to detail accounts receivable aging reports on a timely basis.

2012-4 Accounts receivable - utilities (REPEAT FINDING) (continued)

Effect: Because of the failure to require the accounts receivable detail to be reconciled to the general ledger, errors or other irregularities could remain undetected for extended periods of time and result in inaccurate financial reporting.

Cause: Adequate procedures are not in place to ensure aging and general ledger reporting agree.

Recommendation: Establish procedures to periodically reconcile accounts receivable detail to the general ledger control account.

Management response: Management agrees with finding and will establish procedures to assure that accounts receivable detail records are balanced to the general ledger at least monthly.

2012-5 Grant financial reports

Condition: Grant financial reports are not reconciled to the accounting records.

Context: Internal controls should be in place to ensure that all grant financial reports (payment requests) agree to the accounting records. Reports are prepared by a third party administrator who does not have access to the City's accounting records. City personnel do not reconcile these reports to the general ledger.

Effect: Failure to reconcile financial reports to the general ledger could result in unnecessary risk of receiving reimbursement for unqualified expenditures, not receiving reimbursement for qualified expenditures or undetected errors or fraud in the financial reports.

Cause: Responsibility was not taken for reconciling these reports to the accounting records (i.e., general ledger.

Recommendation: Establish procedures to ensure that all grant financial reports are reconciled to the general ledger.

Management response: Management agrees with finding and will establish procedures to reconcile grant financial reports to the general ledger.

2012-6 Long outstanding checks (REPEAT FINDING)

Condition: The City's bank account reconciliations carry long outstanding checks (from prior years) as reconciling items.

Context: The City reconciles its bank statements monthly; however, it does not routinely investigate long outstanding checks. The procedures surrounding the reconciliation process should include the investigation of long outstanding checks to determine proper reporting and compliance with state statute related to unclaimed funds.

Effect: Because of the failure to investigate and resolve long outstanding checks the City could misstate assets and liabilities in the financial statements and violate state statute related to unclaimed funds.

Cause: Lack of total understanding of all procedures that should be included in the reconciliation process.

Recommendation: Include procedures in the bank reconciliation process to investigate and resolve long outstanding checks.

Management response: Management agrees with finding and will establish procedures to investigate and resolve long outstanding checks.

2012-7 Returned check reconciliation

Condition: The returned check receivable detail is not periodically reconciled to the general ledger control account.

Context: Internal controls should be in place that provide reasonable assurance that all receivable general ledger accounts are reconciled to detail reports on a timely basis.

Effect: Because of the failure to require the returned checks receivable detail to be reconciled to the general ledger, errors or other irregularities could remain undetected for extended periods of time, and result in inaccurate financial reporting.

Cause: Adequate procedures are not in place to ensure return check detail and general ledger reporting agree.

2012-7 Returned check reconciliation (continued)

Recommendation: Establish procedures to reconcile return checks receivable detail to the general ledger control account on a monthly basis.

Management response: Management agrees with finding and will establish procedures to assure that returned checks details are balanced to the general ledger at least monthly.

2012-8 Utility revenue deposits

Condition: Utility bank deposits are made on a weekly basis.

Context: Internal controls should be in place to ensure that bank deposits are made on a timely basis, generally daily.

Effect: Failure to deposit on a timely basis could result in an unnecessary risk that cash (currency and checks) will be stolen or lost and that the City's cash on hand be used for improper purposes (including, but not limited to, cashing personal checks of employees or customers).

Cause: Lack of attention to making timely deposits.

Recommendation: Establish procedures to ensure that all bank deposits of the City are made on a timely basis, preferably daily.

Management response: Management agrees with finding and will establish procedures require the daily deposit of all receipts of the City.

2012-9 Re-reads for meter reads are "called" in to utility billing clerk

Condition: Re-reads for meter reads are called into the utility billing clerk and not adequately documented.

Context: Procedures should be in place to ensure that all adjustments to meter reading are properly documented.

Effect: This condition could lead to unsubstantiated or fictitious meter readings and improper billing.

Cause: Re-reads usually occur when the "Usage Variance Report" indicates an unusual usage for the month. City personnel then re-read the meter to determine whether the initial reading was correct. When this occurs the City personnel calls in the re-read rather than documenting the reading in writing.

2012-9 Re-reads for meter reads are "called" in to utility billing clerk (continued)

Recommendation: Establish procedures to ensure that adequate documentation is maintained for accounts identified for re-reads per examination of the Usage Variance Report. Any changes in the initial meter reading should be documented in writing with appropriate management approval.

Management response: Management agrees with finding and will establish procedures to require approval of all meter reading changes.

2011-10 Compensated absences maintenance - segregation of duties (Repeat Finding)

Condition: There is a lack of oversight in the maintenance of unused compensated absences.

Context: Internal controls should be in place to provide oversight in the area of compensated absences. One person maintains this schedule manually without any independent oversight.

Effect: This condition could result in significant errors or fraud in the accrual and calculation of vacation and sick leave that is available. During our audit, at least two errors were noted where employees received more accrued time than they were entitled to.

Cause: Lack of independent oversight in this area.

Recommendation: Establish procedures to ensure the calculations of compensated absences are reviewed by an independent person.

Management response: Management agrees with finding and will establish procedures to provide adequate review of compensated absences calculations.