CITY OF GUYTON, GEORGIA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2013

City of Guyton, Georgia
Audit of Financial Statements
For the Year Ended June 30, 2013

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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, each major fund and the aggregate remaining fund information of City of Guyton, Georgia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Guyton, Georgia, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 35 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Management has omitted the management's discussion and analysis as supplementary information as required by the Government Accounting Standards Board. The absence of this supplementary information does not modify our opinion on the basic financial statements referred to above. We have applied certain limited procedures to the presented 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.

Other Information

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 financial statements and other schedules and 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 financial statements and other schedules and the Schedule of Projects Constructed with Special Local Option Sales Tax Proceeds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and other schedules and the Schedule of Projects Constructed with Special Local Option Sales Tax Proceeds are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 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* in considering City of Guyton, Georgia's internal control over financial reporting and compliance.

Carter Hodges & Company, P.C.

Rincon, Georgia
February 14, 2014

City of Guyton, Georgia
Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	$ 1,008,318	$ 212,096	$ 1,220,414
Receivables:			
Accounts		76,032	76,032
Taxes	53,273		53,273
Intergovernmental	45,394		45,394
Interfund	136,206	(136,206)	
Prepaid items	27,804	8,728	36,532
Restricted assets - cash	5,697,702		5,697,702
Deferred charges - loan costs		231,698	231,698
Capital assets:			
Nondepreciable capital assets	199,901	3,556,275	3,756,176
Depreciable capital assets, net	1,772,999	5,029,349	6,802,348
Total assets	8,941,597	8,977,972	17,919,569
Liabilities			
Current liabilities:			
Accounts payable	36,227	127,265	163,492
Accrued salaries and wages	519		519
Accrued interest payable	4,419	137,411	141,830
Unearned revenue		415,800	415,800
Compensated absences payable	8,304	1,347	9,651
Notes payable	9,991	110,000	119,991
Capital leases payable	25,132		25,132
Long-term liabilities: (Note 11)			
Notes payable (net of current portion)		9,250,000	9,250,000
Discount on notes payable (net of amortization)		(156,781)	(156,781)
Capital leases payable (net of current portion)	110,134		110,134
Compensated absences payable (net of current portion)	5,536	898	6,434
Total liabilities	200,262	9,885,940	10,086,202
Net Position			
Net investment in capital assets	1,827,643	3,735,179	5,562,822
Restricted for:			
Capital projects	4,775,575		4,775,575
Debt service	967,135		967,135
Public safety	54,740		54,740
Unrestricted	1,116,242	(4,643,147)	(3,526,905)
Total net position	$ 8,741,335	$ (907,968)	$ 7,833,367

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

City of Guyton, Georgia
Statement of Activities
For the Year Ended June 30, 2013

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	$ 197,851	$ 26,371			$ (171,480)		$ (171,480)
Other governmental services	123,397				(123,397)		(123,397)
Public safety							
Police	207,830	36,756			(171,074)		(171,074)
Fire	124,025	31,760	$ 145,780	$ 139,102	192,617		192,617
Public works							
Streets and lanes	212,694			105,770	(106,924)		(106,924)
Sanitation	110,856	112,269			1,413		1,413
Water and sewer				65,083	65,083		65,083
Parks and recreation	63,885			38,748	(25,137)		(25,137)
Interest	8,036				(8,036)		(8,036)
Total governmental activities	1,048,574	207,156	145,780	348,703	(346,935)	$ 0	(346,935)
Business-type activities:							
Water and sewer	762,449	635,211				(127,238)	(127,238)
Total - primary government	$ 1,811,023	$ 842,367	$ 145,780	$ 348,703	(346,935)	(127,238)	(474,173)
General revenues							
Property taxes					75,863		75,863
Local option sales tax					219,479		219,479
Franchise taxes					86,227		86,227
Motor vehicle and title ad valorem tax					7,761		7,761
Real estate transfer tax					902		902
Intangible tax					2,736		2,736
Alcohol taxes					37,294		37,294
Insurance premium taxes					83,897		83,897
Investment earnings					1,007	751	1,758
Miscellaneous					36,687		36,687
Total general revenues					551,853	751	552,604
Transfers					(379,085)	379,085	0
Total general revenues and transfers					172,768	379,836	552,604
Change in net position					(174,167)	252,598	78,431
Net position beginning of year					8,915,502	(1,160,566)	7,754,936
Net position end of year					$ 8,741,335	$ (907,968)	$ 7,833,367

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

City of Guyton, Georgia
Balance Sheet
Governmental Funds
June 30, 2013

	General	Special Revenue Fund - Fire	Capital Projects Fund SPLOST	Capital Projects Fund Construction Trust	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents						
Unrestricted	$ 958,126	$ 50,192				$ 1,008,318
Restricted			$ 377,793	$ 4,352,774	$ 967,135	5,697,702
Receivables						
Taxes	59,073					59,073
Intergovernmental						
County			20,291			20,291
State			25,103			25,103
Interfund	136,682					136,682
Prepaid items	20,636	7,168				27,804
Total assets	$ 1,174,517	$ 57,360	$ 423,187	$ 4,352,774	$ 967,135	$ 6,974,973
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities						
Accounts payable	$ 33,697	$ 2,144	$ 386			$ 36,227
Accrued salaries and wages	519					519
Interfund		476				476
Total liabilities	34,216	2,620	386	$ 0	$ 0	37,222
Deferred inflows of resources	20,008					20,008
Total liabilities and deferred inflows of resources	54,224	2,620	386	0	0	57,230
Fund balances						
Nonspendable - prepaid items	20,636					20,636
Restricted for:						
Capital projects			422,801	4,352,774		4,775,575
Debt service					967,135	967,135
Public safety		54,740				54,740
Unassigned	1,099,657					1,099,657
Total fund balances	1,120,293	54,740	422,801	4,352,774	967,135	6,917,743
Total liabilities, deferred inflows of resources and fund balance	$ 1,174,517	$ 57,360	$ 423,187	$ 4,352,774	$ 967,135	$ 6,974,973

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 Position
June 30, 2013

Total governmental fund balances		$ 6,917,743
Amounts reported for governmental activities in the statement of net position 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	$ 20,008	
Allowance for doubtful accounts	(5,800)	14,208
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	$ 3,525,704	
Less accumulated depreciation	(1,552,804)	1,972,900
Accrued interest on long-term debt is not reported at the fund financial reporting level, but is reported at the government-wide reporting level.		(4,419)
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	$ (9,991)	
Capital leases payable	(135,266)	
Compensated absences	(13,840)	(159,097)
Net position of governmental activities		$ 8,741,335

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, 2013

	General	Special Revenue Fund - Fire	Capital Projects Fund SPLOST	Capital Projects Fund - Construction Trust	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	$ 529,905					$ 529,905
Licenses and permits	26,371					26,371
Intergovernmental	184,158	$ 146,580	$ 163,745			494,483
Charges for services	112,269	31,760				144,029
Fines and forfeitures	36,756					36,756
Investment income	451	30		$ 443	$ 83	1,007
Miscellaneous	28,615	8,072				36,687
Total revenues	918,525	186,442	163,745	443	83	1,269,238
Expenditures						
Current:						
General government						
Administration	211,114					211,114
Other governmental services	123,397					123,397
Public safety						
Police	205,574					205,574
Fire		103,981				103,981
Public works						
Streets and lanes	151,584					151,584
Sanitation	110,856					110,856
Parks and recreation	38,722					38,722
Capital Outlays			32,429			32,429
Debt service:						
Principal	15,411	111,408				126,819
Interest and fiscal charges	1,854	5,618		1,000		8,472
Total expenditures	858,512	221,007	32,429	1,000	0	1,112,948
Excess (deficit) of revenues to expenditures	60,013	(34,565)	131,316	(557)	83	156,290
Other financing uses						
Transfers out - water and sewer			(62,625)	(113,327)	(203,133)	(379,085)
Net change in fund balances	60,013	(34,565)	68,691	(113,884)	(203,050)	(222,795)
Fund balances -						
Beginning of year	1,060,280	89,305	354,110	4,466,658	1,170,185	7,140,538
End of year	$ 1,120,293	$ 54,740	$ 422,801	$ 4,352,774	$ 967,135	$ 6,917,743

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, 2013

Net change in fund balances - total governmental funds		$ (222,795)
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	$ (145,376)	
Capital outlay	81,412	(63,964)
Property taxes in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Deferred at 6/30/2013	$ 20,008	
Deferred at 6/30/2012	(35,754)	
Allowance for doubtful accounts at 6/30/2013	(5,800)	
Allowance for doubtful accounts at 6/30/2012	5,800	(15,746)
Interest expense on long-term debt reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds.		
Liability at 6/30/2013	$ (4,419)	
Liability at 6/30/2012	4,855	436
Repayment of debt principal is an expenditure in the governmental funds but the repayment reduces liabilities in the statement of net assets		126,819
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 6/30/2013	$ (13,840)	
Compensated absences at 6/30/2012	14,923	1,083
Change in net position of governmental activities		$ (174,167)

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

City of Guyton, Georgia
Statement of Net Position
Proprietary Funds
June 30, 2013

	Water and Sewer
Assets	
Current assets:	
Cash and cash equivalents	$ 212,096
Receivables - accounts	76,032
Prepaid expenses	8,728
Total current assets	296,856
Noncurrent assets:	
Deferred charges - loan costs	231,698
Capital assets:	
Nondepreciable capital assets	3,556,275
Depreciable capital assets, net	5,029,349
Total noncurrent assets	8,817,322
Total assets	9,114,178
Liabilities	
Current Liabilities	
Accounts payable	127,265
Accrued interest payable	137,411
Interfund payable	136,206
Unearned revenue	415,800
Compensated absences payable	1,347
Notes payable	110,000
Total current liabilities	928,029
Long-term liabilities:	
Compensated absences payable (net of current portion)	898
Notes payable (net of current portion)	9,250,000
Discount on notes payable (net of amortization)	(156,781)
Total long-term liabilities	9,094,117
Total liabilities	10,022,146
Net Position	
Net investment in capital assets	3,735,179
Unrestricted	(4,643,147)
Total net position	$ (907,968)

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

City of Guyton, Georgia
Statement of Revenues,
Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2013

	Water and Sewer
Operating revenues	
Charges for services	$ 485,667
Connection fees	104,639
Miscellaneous	44,905
Total operating revenues	635,211
Operating expenses	
Salaries	69,922
Payroll taxes	12,552
Professional fees	24,400
Utilities	25,148
Sewerage treatment	104,832
Maintenance - repairs	2,254
Supplies	10,259
Postage	3,671
Chlorine	5,122
Insurance	14,263
Miscellaneous	13,524
Depreciation	145,717
Total operating expenses	431,664
Operating income	203,547
Non-operating revenues (expenses)	
Investment earnings	751
Interest expense and fiscal fees	(322,510)
Amortization of deferred loan costs	(8,275)
Total non-operating revenues (expenses)	(330,034)
Loss before transfers	(126,487)
Interfund transfers	
Transfer from SPLOST fund	62,625
Transfer from debt service trust fund	203,133
Transfer from construction trust fund	113,327
Total interfund transfers	379,085
Change in net position	252,598
Net position beginning of year	(1,160,566)
Net position end of year	$ (907,968)

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, 2013

	Water and Sewer
Increase (Decrease) in Cash and Cash Equivalents	
Cash flows from operating activities	
Cash received from customers	$ 566,719
Cash payments to employees for personal services	(85,264)
Cash payments for goods and services	(172,828)
Net cash provided by operating activities	308,627
Cash flows from noncapital financing activities	
Interfund balances	9,171
Cash flows from capital and related financing activities	
Interfund transfers	379,085
Principal paid on notes	(100,000)
Interest and fiscal fees paid on debt	(417,145)
Payments for capital acquisitions	(131,787)
Net cash used for capital and related financing activities	(269,847)
Cash flows from investing activities	
Investment earnings	751
Net increase in cash and cash equivalents	48,702
Cash and cash equivalents beginning of year	163,394
Cash and cash equivalents end of year	$ 212,096

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, 2013

(continued)

	Water and Sewer
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 203,547
Adjustments:	
Depreciation and amortization	145,717
Decrease in assets	
Accounts receivable	808
Prepaid expense	526
Increase (decrease) in liabilities:	
Accounts payable	30,119
Unearned revenue	(69,300)
Compensated absences payable	(2,790)
Net cash provided by operating activities	$ 308,627

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 position 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 position 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 the 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 position 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 of capital projects under the Special Local Option Sales Tax referendum.

The Construction Trust Capital Projects Fund – This fund is used to account for financial resources to be used for the acquisition or construction of a new waste water treatment facility.

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 position, 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 position. 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 position. The statements of changes in fund net position 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.

Unearned Revenue - Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

On both the government-fund financial statements and the government-wide financial statements, revenues are deferred for grants and entitlements received before the eligibility requirements are met (e.g., cash advances).

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.

Note 2 - Summary of Significant Accounting Policies (continued)

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, 2013.

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 position, 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, 2013, 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.

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 position 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 position and in the enterprise funds' statement of net position.

Note 2 - Summary of Significant Accounting Policies (continued)

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	
Office 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.

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."

Note 2 - Summary of Significant Accounting Policies (continued)

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.

Debt Premiums, Discounts and Issuance Costs - On the government-wide statement of net position and the proprietary fund type statement of net position, 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 position."

Fund Balance – Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

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

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.

Note 2 - Summary of Significant Accounting Policies (continued)

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

Fund Balance Flow Assumptions - It is the City's policy to consider restricted fund balance to have been used before any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, it is the City's policy to use fund balance in the following order: committed, assigned and then unassigned.

Net Position - Net position represent the difference between assets and liabilities. The net position component, "net investment in capital assets, 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 position amount also is adjusted by any bond issuance deferral amounts. Net position is reported as restricted when there are limitations imposed on its 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. The balance of net position is reported as unrestricted.

Net Position Flow Assumptions - In order to report net position as a restricted - net position and an unrestricted - net position in the government-wide and proprietary fund financial statements, the City has established a flow assumption policy. It is the City's policy to use restricted - net position first before using unrestricted - net position.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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., $17,265 for the general fund and $117,026 for the fire fund) 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 water and sewer fund totaling $907,968. 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 - Restatement of Prior Year Fund Balance and Net Position

During 2013, the City determined that the Construction Trust Fund, Debt Service Trust Fund and the Debt Service Reserve Trust Fund should be reported as a governmental fund types. In the prior year, these funds were reported as enterprise funds. The following is a summary of the restatement of beginning fund balance and net position.

Increase governmental fund type (governmental activity)/decrease proprietary fund type(business type activity):	
Capital projects fund	
Construction Trust Fund	$ 4,466,658
Debt service funds	
Debt service trust fund	423,079
Debt service reserve trust	747,106
	1,170,185
Total restatement	$ 5,636,843

Note 5 - 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, 2013, the government is not exposed to custodial credit risk.

Note 6 - Receivables

Receivables at June 30, 2013, 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 7 - 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 2013 property taxes were levied on August 28, 2012. Property tax bills were mailed on September 14, 2012, and were due November 15, 2012. The lien date is November 15, 2012.

Note 8 - Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2013, was as follows:

	Balance 6/30/2012	Additions	Deductions	Reclass-ifications	Balance 6/30/2013
Governmental activities:					
Capital assets not being depreciated:					
Land	$ 186,010	$ 16,000		$ (2,109)	$ 199,901
	186,010	16,000	$ 0	(2,109)	199,901
Depreciable capital assets:					
Buildings	827,378	16,892		(531)	843,739
Machinery and equipment	455,449	47,512		3,351	506,312
Vehicles	562,864				562,864
Furniture & fixtures	32,758	1,008			33,766
Office equipment	36,004			1,589	37,593
Infrastructure	1,343,830			(2,300)	1,341,530
Total depreciable capital assets	3,258,283	65,412	0	2,109	3,325,804
Total capital assets	3,444,293	81,412	0	0	3,525,705
Accumulated depreciation:					
Buildings	197,948	21,178			219,126
Machinery and equipment	398,365	24,701			423,066
Vehicles	424,592	37,658			462,250
Furniture & fixtures	31,996	508			32,504
Office equipment	34,127				34,127
Infrastructure	320,401	61,331			381,732
Total accumulated depreciation	1,407,429	145,376	0	0	1,552,805
Governmental activities capital assets, net	$ 2,036,864	$ (63,964)	$ 0	$ 0	$ 1,972,900

Governmental activities depreciation expense:	
General government	$ 8,270
Public safety - police	18,678
Public safety - fire	34,999
Public works - streets	59,050
Parks and recreation	24,379
Total governmental activities depreciation expense	$ 145,376

Note 8 - Capital Assets (continued)

Capital asset activity for business-type activities for the year ended June 30, 2013, was as follows:

	Balance 6/30/2012	Additions	Deductions	Reclass-ifications	Balance 6/30/2013
Business-type activities:					
Capital assets not being depreciated:					
Land and rights	$ 2,127,513				$ 2,127,513
Construction in progress	1,216,700	$ 212,062			1,428,762
Total capital assets not being depreciated	3,344,213	212,062	$ 0	$ 0	3,556,275
Depreciable capital assets:					
Improvements - not building	6,787,225				6,787,225
Machinery and equipment	386,918	11,263		(4,246)	393,935
Office equipment		3,897		4,246	8,143
Total depreciable capital assets	7,174,143	15,160	0	0	7,189,303
Total capital assets	10,518,356	227,222	0	0	10,745,578
Accumulated depreciation:					
Improvements - not building	1,729,858	131,742			1,861,600
Machinery and equipment	284,379	13,452		(2,451)	295,380
Office equipment		523		2,451	2,974
Total accumulated depreciation	2,014,237	145,717	0	0	2,159,954
Water and sewer capital assets, net	$ 8,504,119	$ 81,505	$ 0	$ 0	$ 8,585,624

Note 9 - Interfund Balances and Transfers

Interfund balances at June 30, 2013, 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 $136,206.

Note 9 - Interfund Balances and Transfers (continued)

Interfund transfers for the year ended June 30, 2013, consisted of the following.

Transfer from SPLOST Fund to the Water and Sewer Fund for qualified water and sewer capital additions paid for by the SPLOST Fund.	$	62,625
Transfer from the Construction Trust Fund to the Water and Sewer Fund for qualified waste water treatment plant expenditures paid for by the Construction Trust Fund.	$	113,327
Transfer from the Water and Sewer Fund to the Debt Service Fund to provide funds to meet debt service requirements.	$	314,012
Transfer from the Debt Service Fund to the Water and Sewer Fund to make debt service payments due in current year.	$	517,145

Note 10 - Deferred Inflows of Resources

In addition to liabilities, the governmental funds balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element represents additions to assets that apply to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The portion of property taxes that are not available for used (not received within 60 days subsequent to year end) are reported as deferred inflows of resources in the governmental funds balance sheet. This element is not present in the government-wide statement of position.

Note 11 - Long-Term Liabilities

Governmental Activities

General Obligation Debt

General obligation debt at June 30, 2013, 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.	$	9,991

Annual debt service requirements to amortize the general obligation debt outstanding as of June 30, 2013, follow:

Year	Principal	Interest	Total
2014	$ 9,991	$ 195	$ 10,186

Note 11 - Long-Term Liabilities (continued)

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.

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 $779 (cost of $46,701 less accumulated depreciation of $45,922). 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, 2013, follow:

Year	Principal	Interest	Total
2014	$ 9,337	$ 393	$ 9,730

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. This capital lease was paid off in the current year.

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 $13,436 (cost of $33,590 less accumulated depreciation of $20,154). 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, 2013, follow:

Year	Principal	Interest	Total
2014	$ 6,708	$ 827	$ 7,535
2015	6,973	562	7,535
2016	7,248	287	7,535
Total	$ 20,929	$ 1,676	$ 22,605

Note 11 - 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 $86,400 (cost of $108,000 less accumulated depreciation of $21,600). 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, 2013, follow:

Year	Principal	Interest	Total
2014	$ 9,087	$ 3,329	$ 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	$ 104,999	$ 18,780	$ 111,745

Business Type Activities

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, 2013, debt service requirements to maturity are as follows:

Year	Principal	Interest	Total
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	65,000	410,320	475,320
2019-2023	415,000	2,025,415	2,440,415
2024-2028	1,560,000	1,865,658	3,425,658
2029-2033	2,255,000	1,468,505	3,723,505
2034-2038	2,815,000	904,367	3,719,367
2039-2041	2,035,000	198,480	2,233,480
Total	$ 9,360,000	$ 8,525,350	$ 17,885,350

Note 11 - 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, 2013:

	Outstanding 6/30/2012	Additions	Reductions	Outstanding 6/30/2013	Amounts due in one year
Governmental activities					
Notes payable					
Bank of America	$ 24,237		$ 14,246	$ 9,991	$ 9,991
Capital leases payable					
Branch Bank and Trust	18,295		8,958	9,337	9,337
Branch Bank and Trust	97,162		97,162	0	
Branch Bank and Trust	27,382		6,453	20,929	6,708
Branch Bank and Trust	105,000			105,000	9,087
Compensated absences	14,923	$ 10,824	11,907	13,840	8,304
Total governmental activities	$ 286,999	$ 10,824	$ 138,726	$ 159,097	$ 43,427
Business-type activities					
Water & Sewer Refunding & Improvement Bonds - "Series 2011 Bonds"	$ 9,460,000		$ 100,000	$ 9,360,000	$ 110,000
Compensated absences	5,035	$ 3,539	6,329	2,245	1,347
Total business-type activities	$ 9,465,035	$ 3,539	$ 106,329	$ 9,362,245	$ 111,347

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 water and sewer bonds fund are financed from income derived from the operation of the water and sewer system.

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 12 - Major Customer

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

Note 13 - 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 10.7% 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.

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%
1/1/2013	313,993	349,091	89.9%	35,098	251,495	14.0%

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

Note 13 - Pension (continued)

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
2012	24,029	24,029	100.0%	0

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

Note 14 - Net Investment in Capital Assets

Net investment in capital assets on the government-wide statement of net position as of June 30, 2013, are as follows:

	Governmental Activities	Business Type Activities
Cost of capital assets	$ 3,525,705	$ 10,745,578
Less accumulated depreciation	1,552,805	2,159,954
Book value	1,972,900	8,585,624
Less capital related debt		
Gross debt	145,257	9,360,000
Less discount on notes payable (net of amortization)		156,781
Less bond proceeds held in escrow for sewer system expansion		4,352,774
	145,257	4,850,445
Net investment in capital assets	$ 1,827,643	$ 3,735,179

Note 15 - 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 16 - 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 17 - 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.

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, 2013

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Taxes	$ 525,270	$ 544,740	$ 529,905	$ (14,835)
Licenses and permits	20,600	26,306	26,371	65
Intergovernmental	190,306	214,238	184,158	(30,080)
Charges for services	110,100	110,100	112,269	2,169
Fines and forfeitures	24,910	31,981	36,756	4,775
Investment earnings	8,100	8,100	451	(7,649)
Miscellaneous	12,950	30,035	28,615	(1,420)
Total revenues	892,236	965,500	918,525	(46,975)
Expenditures				
Current:				
General government				
Administration	165,078	213,238	211,114	2,124
Other governmental services	250,691	203,428	123,397	80,031
Public safety - police	178,296	223,110	222,839	271
Public works				
Streets and lanes	149,260	158,973	151,584	7,389
Sanitation	118,500	119,360	110,856	8,504
Parks and recreation	30,411	47,391	38,722	8,669
Total expenditures	892,236	965,500	858,512	106,988
Excess of revenues to expenditures	$ 0	$ 0	60,013	$ 60,013
Fund balance beginning of year			1,060,280	
Fund balance end of year			$ 1,120,293	

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, 2013

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Intergovernmental revenues	$ 145,780	$ 145,780	$ 146,580	$ 800
Charges for service	28,680	31,761	31,760	(1)
Investment income	300	300	30	(270)
Miscellaneous	500	8,868	8,072	(796)
Total revenues	175,260	186,709	186,442	(267)
Expenditures				
Public Safety	175,260	331,131	221,007	110,124
Deficit of revenues to expenditures	0	(144,422)	(34,565)	109,857
Other financing sources				
Proceeds from capital lease		105,000	0	(105,000)
Total other financing sources	0	105,000	0	(105,000)
Net change in fund balances	$ 0	$ (39,422)	(34,565)	$ 4,857
Fund balance beginning of year			89,305	
Fund balance end of year			$ 54,740	

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 $117,026 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, 2013 and 2012

	2013	2012
Assets		
Cash and cash equivalents	$ 958,126	$ 894,353
Receivables:		
Taxes	59,073	76,031
Interfund balances	136,682	127,511
Prepaid items	20,636	25,428
Total assets	$ 1,174,517	$ 1,123,323
Liabilities, Deferred Inflows of Resources and Fund Balances		
Liabilities		
Accounts payable	$ 33,697	$ 26,770
Accrued salaries and wages	519	519
Total liabilities	34,216	27,289
Deferred inflows of resources - property taxes	20,008	35,754
Total liabilities and deferred inflows of resources	54,224	63,043
Fund balances		
Nonspendable - prepaid items	20,636	25,428
Unassigned	1,099,657	1,034,852
Total fund balances	1,120,293	1,060,280
Total liabilities and fund balances	$ 1,174,517	$ 1,123,323

City of Guyton, Georgia
General Fund
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance
For the Years Ended June 30, 2013 and 2012

	2013	2012
Revenues		
Taxes	$ 529,905	$ 531,113
Licenses and permits	26,371	21,003
Intergovernmental	184,158	193,728
Charges for services	112,269	110,376
Fines and forfeitures	36,756	23,400
Investment income	451	8,428
Miscellaneous	28,615	36,802
Total revenues	918,525	924,850
Expenditures		
Current:		
General government		
Administration	211,114	166,605
Other governmental services	123,397	111,414
Public safety		
Police	205,574	192,739
Fire		
Public works		
Streets and lanes	151,584	116,445
Sanitation	110,856	94,696
Parks and recreation	38,722	18,540
Debt Service:		
Principal	15,411	14,803
Interest	1,854	2,462
Total expenditures	858,512	717,704
Excess of revenues to expenditures	60,013	207,146
Other financing uses		
Transfers out - water and sewer		(5,319)
Total other financing uses	0	(5,319)
Net change in fund balance	60,013	201,827
Fund balances beginning of year	1,060,280	858,453
Fund balances end of year	$ 1,120,293	$ 1,060,280

City of Guyton, Georgia
Fire Fund
Comparative Balance Sheet
June 30, 2013 and 2012

	2013	2012
Assets		
Cash and cash equivalents	$ 50,192	$ 83,187
Prepaid expenses	7,168	6,594
Total assets	$ 57,360	$ 89,781
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$ 2,144	
Interfund	476	$ 476
Total liabilities	2,620	476
Fund balance		
Restricted for public safety	54,740	89,305
Total liabilities and fund balance	$ 57,360	$ 89,781

City of Guyton, Georgia
Fire Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balance
For the Years Ended June 30, 2013 and 2012

	2013	2012
Revenues		
Intergovernmental revenues	$ 146,580	$ 162,280
Charges for service	31,760	29,945
Investment income	30	51
Miscellaneous	8,072	
Total revenues	186,442	192,276
Expenditures		
Current:		
Public Safety	103,981	165,570
Debt service:		
Principal	111,408	59,699
Interest	5,618	6,567
Total expenditures	221,007	231,836
Deficit of revenues to expenditures	(34,565)	(39,560)
Other financing sources		
Proceeds from sale of assets		4,822
Proceeds from capital lease		105,000
Total other financing sources	0	109,822
Net change in fund balance	(34,565)	70,262
Fund balance - beginning of year	89,305	19,043
Fund balance - end of year	$ 54,740	$ 89,305

City of Guyton, Georgia
SPLOST Capital Projects Fund
Comparative Balance Sheet
June 30, 2013 and 2012

	2013	2012
Assets		
Cash and cash equivalents	$ 377,793	$ 334,375
Receivables - intergovernmental		
County	20,291	30,942
State - grant	25,103	25,103
Total assets	$ 423,187	$ 390,420
Liabilities and Fund Balance		
Liabilities		
Accounts payable	$ 386	$ 36,310
Fund Balance		
Restricted for capital projects	422,801	354,110
Total liabilities and fund balance	$ 423,187	$ 390,420

City of Guyton, Georgia
SPLOST Capital Projects Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balance
For the Years Ended June 30, 2013 and 2012

	2013	2012
Revenues		
Intergovernmental		
County	$ 139,813	$ 189,621
State - grant	23,932	101,331
Investment income		17
Total revenues	163,745	290,969
Expenditures		
Capital Outlays:		
Public works	17,485	95,227
Parks and recreation	14,944	79,867
Total expenditures	32,429	175,094
Excess of revenues over expenditures	131,316	115,875
Other financing uses		
Transfers out - water and sewer	(62,625)	(400,006)
Net change in fund balance	68,691	(284,131)
Fund balance beginning of year	354,110	638,241
Fund balance end of year	$ 422,801	$ 354,110

City of Guyton Georgia
Combining Balance Sheet
Nonmajor Governmental Funds - Debt Service Funds
June 30, 2013

	Debt Service Trust	Debt Service Reserve Trust	Total Nonmajor Governmental Funds
Assets			
Restricted cash and cash equivalents	$ 219,976	$ 747,159	$ 967,135
Liabilities			
Liabilities	0	0	0
Fund Balance			
Restricted for debt service	$ 219,976	$ 747,159	$ 967,135

City of Guyton, Georgia

Combining Schedule of Revenues, Expenses and Changes in Fund Balance

Nonmajor Governmental Funds - Debt Service Funds

For the Year Ended June 30, 2013

	Debt Service Trust	Debt Service Reserve Trust	Total Nonmajor Governmental Funds
Revenues			
Investment earnings	$ 30	$ 53	$ 83
Expenditures	0	0	0
Excess of revenues to expenditures	30	53	83
Other financing sources (uses)			
Transfer from water and sewer fund to debt service when due	314,012		314,012
Transfer to water and sewer to fund debt service payments	(517,145)		(517,145)
Total other financing sources (uses)	(203,133)	0	(203,133)
Net change in fund balance	(203,103)	53	(203,050)
Fund balance beginning of year	423,079	747,106	1,170,185
Fund balance end of year	$ 219,976	$ 747,159	$ 967,135

City of Guyton, Georgia
Water and Sewer Fund
Comparative Schedule of Net Position
June 30, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents - unrestricted	$ 212,096	$ 163,394
Receivables - accounts	76,032	76,840
Prepaid expenses	8,728	9,254
Total current assets	296,856	249,488
Noncurrent assets:		
Deferred charges - loan costs	231,698	239,973
Capital assets:		
Nondepreciable capital assets	3,556,275	3,344,213
Depreciable capital assets, net	5,029,349	5,159,906
Total noncurrent assets	8,817,322	8,744,092
Total assets	9,114,178	8,993,580
Liabilities		
Current Liabilities:		
Accounts payable	127,265	97,146
Accrued interest payable	137,411	138,286
Interfund payable	136,206	127,035
Unearned revenue	415,800	485,100
Compensated absences payable	1,347	3,021
Notes payable	110,000	100,000
Total current liabilities	928,029	950,588
Long-term liabilities:		
Compensated absences payable (net of current portion)	898	2,014
Notes payable (net of current portion)	9,250,000	9,360,000
Discount on notes payable (net of amortization)	(156,781)	(158,456)
Total long-term liabilities	9,094,117	9,203,558
Total liabilities	10,022,146	10,154,146
Net Position		
Invested in capital assets, net of related debt	3,735,179	3,546,162
Unrestricted	(4,643,147)	(4,706,728)
Total net Position	$ (907,968)	$ (1,160,566)

City of Guyton, Georgia
Water and Sewer Fund
Comparative Schedule of Revenues,
Expenses and Changes in Net Position
For the Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues		
Charges for services	$ 485,667	$ 470,414
Connection fees	104,639	23,205
Miscellaneous	44,905	49,138
Total operating revenues	635,211	542,757
Operating expenses		
Salaries	69,922	75,749
Payroll taxes	12,552	11,506
Professional fees	24,400	8,190
Utilities	25,148	20,679
Sewerage treatment	104,832	70,167
Maintenance - repairs	2,254	7,401
Supplies	10,259	8,799
Postage	3,671	3,275
Chlorine	5,122	2,911
Insurance	14,263	13,061
Miscellaneous	13,524	21,455
Amortization		11,110
Depreciation	145,717	141,415
Total operating expenses	431,664	395,718
Operating income	203,547	147,039
Non-operating revenues (expenses)		
Investment earnings	751	1,168
Interest expense	(322,510)	(301,207)
Amortization of deferred loan costs	(8,275)	(8,275)
Community Development Block Grant		152,864
Total non-operating revenues (expenses)	(330,034)	(155,450)
Loss before transfers	(126,487)	(8,411)
Interfund transfers		
Transfer from general fund		5,319
Transfer from SPLOST fund	62,625	12,758
Transfer from debt service trust fund	203,133	114,727
Transfer to/from construction trust fund	113,327	(5,364,434)
Total interfund transfers	379,085	(5,231,630)
Change in net position	252,598	(5,240,041)
Net position beginning of year	(1,160,566)	4,079,475
Net position end of year	$ (907,968)	$ (1,160,566)

City of Guyton, Georgia
Schedule of Projects Constructed with
Special Purpose Local Option Sales Tax Proceeds
For the Year Ended June 30, 2013

	Original Estimated Cost	Revised Estimated Cost	Prior Years	Current Year	Total	Percentage Complete
2006 Effingham County SPLOST						
Streets	$ 488,000	$ 383,000	$ 100,556	$ (6,447)	$ 94,109	24.57%
Recreation	244,000	128,751	57,085	14,944	72,029	55.94%
Water and sewerage	488,000	500,758	500,758		500,758	100.00%
Total	$ 1,220,000	$ 1,012,509	$ 658,399	$ 8,497	$ 666,896	
Funds remaining at June 30, 2013					$ 345,613	
2012 Effingham County SPLOST						
Roads, streets and bridges	$ 513,864	$ 513,864			$ 0	0.00%
Public safety	26,352	26,352			0	0.00%
Recreation	250,344	250,344			0	0.00%
Water and sewer	527,040	527,040		$ 62,625	62,625	11.88%
Total	$ 1,317,600	$ 1,317,600	$ 0	$ 62,625	$ 62,625	
Funds remaining at June 30, 2013					$ 77,188	

The "negative" current year expenditures for streets resulted from the determination that expenses paid with local SPLOST funds in a prior year for capital road improvements were reimbursed from a grant from the State of Georgia in the current year.

Reconciliation of current year disbursements:

Total disbursements per the Schedule of Revenues, Expenditures and Changes in Fund Balances	$ 95,054
Intergovernmental grant revenues from State of Georgia	(23,932)
	$ 71,122

CAINES, HODGES & COMPANY, P.C.
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INDEPENDENT AUDITORS' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Guyton, Georgia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Guyton, Georgia's basic financial statements and have issued our report thereon dated February 14, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 2013-01, 2013-02 and 2013-04 through 2013-08 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 accompanying schedule of findings and responses at 2013-03, 2013-09 and 2013-10 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Guyton, Georgia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

City of Guyton, Georgia's Response to Findings

City of Guyton, Georgia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Guyton, Georgia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Cairns, Hodges & Company, P.C.

Rincon, Georgia
February 14, 2014

NONCOMPLIANCE
None

INTERNAL CONTROL

2013-01 Lack of segregation of duties (REPEAT FINDING)

Condition: There is a lack of segregation of duties in various areas of duties performed by 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, reconciling cash, and approving adjustments to customer accounts. 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

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.

2013-02 Bank account reconciliations (REPEAT FINDING)

Condition: All bank accounts 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 recurrence.

Cause: Failure to follow the City's procedures requiring the timely reconciling of accounts.

2013-02 Bank account reconciliations (continued)

Recommendation: Enforce 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.

2013-03 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 is carrying long outstanding checks as reconciling items. 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. This process has been initiated but has not yet been completed.

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: Previous lack of understanding of all procedures that should be included in the reconciliation process.

Recommendation: Continue procedures in the bank reconciliation process to investigate and resolve long outstanding checks and resolve those long outstanding checks currently on the bank reconciliations.

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

2013-04 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 that all utility receivable general ledger accounts are reconciled to detail accounts receivable aging reports on a timely basis.

2013-04 Accounts receivable - utilities (continued)

Effect: Because of the failure to require the accounts receivable accounts to be reconciled to the accounts receivable detail, 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 the accounts receivable general ledger control account to the accounts receivable detail.

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

2013-05 Manual corrections to payment history report (REPEAT FINDING)

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

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

Cause: Lack of attention to providing appropriate supporting documentation for adjustments and to proper recording 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 that all adjustments are made through the utility billing system and are properly documented.

2013-06 Daily receipt reports not reconciled to deposit

Condition: Discrepancies between the daily Payment History Report and the cash collected are not reconciled in a timely manner.

Context: Daily Payment History Reports should be reconciled to the actual cash collections on a daily basis. Discrepancies should be investigated before the close of each business day.

Effect: Failure to timely reconcile discrepancies between the daily Payment History Report and cash collections increases the risk of undetected fraudulent activity and reporting.

Cause: Lack of timely and proper investigation of discrepancies between the daily Payment History Report and cash collections.

Recommendation: Establish procedures to ensure that all discrepancies between the Payment History Report and cash collections are resolved and thoroughly documented each day before the close of business.

Management response: Management agrees with finding, and will establish procedures to ensure that Payment History Reports are reconciled to cash collections daily.

2013-07 Utility revenue deposits

Condition: Utility bank deposits are made with inconsistent timing.

Context: Deposits should be made daily.

Effect: Failure to deposit on a timely basis and to reconcile the cash deposited to the cash collected could increase the risk that cash (currency and checks) will be stolen or lost and that the City's cash on hand will be used for improper purposes (including, but not limited to, cashing personal checks of employees or customers). General management oversight regarding the reconciliation of deposits to cash collection reports (Payment History Reports) is impeded due to the combination of multiple days' or partial days' deposits.

Cause: Lack of attention to making timely deposits.

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

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

2013-08 Inconsistent issuance of pre-numbered receipts to customers

Condition: The practice of issuing pre-numbered receipts to customers is inconsistent. Additionally, customer accounts are not updated in the utility billing software in the course of completion or immediately upon completion of the transaction. This finding aggravates problems related to reconciling utility posting activity per the Payment History Report to actual cash collections. (See **2013-06**)

Context: Customer accounts should be updated during the execution of customer payment transactions, and an employee-signed pre-numbered receipt should be issued to the customer for each counter transaction. Preferable would be the issuance of automated computer-generated receipts upon the posting of customer payments to the utility billing software.

Effect: This condition could result in significant errors or fraud concerning the handling of cash (check or currency) receipts for payments on customer accounts.

Cause: Failure to update the customer account in the course of, or immediately upon, completing the transaction and lack of consistency in issuing pre-numbered receipts.

Recommendation: Establish procedures to ensure that customer account payments are posted in the course of completing the transaction and that an employee-signed pre-numbered receipt is issued to the customer for all payments received at the counter.

Management response: Management agrees with finding and will establish procedures to require that customer payments be posted during the execution of each transaction and that signed pre-numbered receipts be issued for all account payments.

2013-09 Re-reads for meter reads are "called" in to utility billing clerk (REPEAT FINDING)

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 readings 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.

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.

2013-10 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 errors or fraud in the calculation and accrual of available vacation and sick leave.

Cause: Lack of independent oversight in this area.

Recommendation: Establish procedures to ensure that 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.