CITY OF HAHIRA, GEORGIA

FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2011

CITY OF HAHIRA
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FOR THE YEAR ENDED DECEMBER 31, 2011

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VALENTI, RACKLEY
& ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Council
City of Hahira, Georgia

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the remaining fund information of the City of Hahira, Georgia ("the City") as of and for the year ended December 31, 2011, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the 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 remaining fund information of the City of Hahira as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 23, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, budgetary comparison information and the schedule of retirement plan funding progress are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. Management has elected not to include the Management's Discussion and Analysis. We have applied certain limited procedures to the budgetary comparison information and schedule of retirement plan funding progress, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the City's basic financial statements. The Individual Fund Schedules and the One Percent Special Purpose Local Option Sales Tax Project Cost Schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Hahira, Georgia. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

Valenti, Rackley & Associates, LLC

Valenti, Rackley & Associates, LLC
Certified Public Accountants

May 23, 2012

CITY OF HAHIRA
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	$ 329,637	$ 459,253	$ 788,890
Certificates of deposit	242,707	158,134	400,841
Accounts receivable	302,012	89,635	391,647
Prepaid expenses	11,294	5,911	17,205
Inventory	-	17,174	17,174
Internal balances	247,112	(247,112)	-
Restricted cash	424,715	261,812	686,527
Capital assets:			
Land	185,866	230,897	416,763
Other capital assets, net of accumulated depreciation	2,290,497	5,807,817	8,098,314
Total assets	4,033,840	6,783,521	10,817,361
LIABILITIES			
Accounts payable and accrued expenses	123,465	71,672	195,137
Water deposits	-	68,677	68,677
Long-term liabilities:			
Compensated absences payable	26,921	9,718	36,639
Due within one year	17,596	79,909	97,505
Due in more than one year	37,653	2,444,942	2,482,595
Total liabilities	205,635	2,674,918	2,880,553
NET ASSETS			
Invested in capital assets, net of related debt	2,421,114	3,513,863	5,934,977
Restricted for capital projects	427,383	-	427,383
Restricted for water/sewer operations/debt	-	594,740	594,740
Unrestricted	979,708	-	979,708
Total net assets	$ 3,828,205	$ 4,108,603	$ 7,936,808

See accompanying notes to the basic financial statements.

CITY OF HAHIRA
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
					Primary Government		
Function/Programs:	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
General government	$ 245,914	$ 24,387	$ -	$ 498,419	$ 276,892		$ 276,892
Judicial	4,500	-	-	-	(4,500)		(4,500)
Public safety	688,908	168,778	-	116,766	(403,364)		(403,364)
Public works	187,993	-	-	313,218	125,225		125,225
Health and welfare	13,959	-	6,994	-	(6,965)		(6,965)
Culture and recreation	61,217	-	-	-	(61,217)		(61,217)
Housing and development	10,920	-	-	-	(10,920)		(10,920)
Interest on general long-term debt	3,308	-	-	-	(3,308)		(3,308)
Total governmental activities	1,216,719	193,165	6,994	928,403	(88,157)		(88,157)
Business-type activities:							
Water and sewer	862,085	891,598	-	-	-	29,513	29,513
Sanitation	230,080	236,627	-	-	-	6,547	6,547
Total business-type activities	1,092,165	1,128,225	-	-	-	36,060	36,060
Total primary government	$ 2,308,884	$ 1,321,390	$ 6,994	$ 928,403	(88,157)	36,060	(52,097)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					448,045	-	448,045
Sales and use taxes					366,957	-	366,957
Business taxes					138,987	-	138,987
Investment earnings					5,640	5,274	10,914
Gain on disposal of capital assets					336	-	336
Miscellaneous					35,413	-	35,413
Transfers					(211,798)	211,798	-
Total general revenues and transfers					783,580	217,072	1,000,652
Change in net assets					695,423	253,132	948,555
Net assets - beginning					3,132,782	3,855,471	6,988,253
Net assets - ending					$ 3,828,205	$ 4,108,603	$ 7,936,808

See accompanying notes to the basic financial statements.

CITY OF HAHIRA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General Fund	Capital Projects Fund SPLOST VI	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash:				
Unrestricted	$ 329,637	$ -	$ -	$ 329,637
Restricted	-	422,271	2,444	424,715
Total cash	329,637	422,271	2,444	754,352
Certificates of deposit	242,707	-	-	242,707
Receivables:				
Taxes	173,660	-	-	173,660
Intergovernmental	41,654	83,917	-	125,571
Other	2,781	-	-	2,781
Prepaid insurance	11,294	-	-	11,294
Interfund balances	247,945	-	-	247,945
Total assets	$ 1,049,678	$ 506,188	$ 2,444	$ 1,558,310
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenses	$ 28,901	$ 80,416	$ -	$ 109,317
Intergovernmental payable	14,148	-	-	14,148
Deferred revenue	20,974	-	-	20,974
Interfund balances	-	833	-	833
Total liabilities	64,023	81,249	-	145,272
Fund balances:				
Nonspendable	11,294	-	-	11,294
Restricted	-	424,939	2,444	427,383
Unassigned	974,361	-	-	974,361
Total fund balances	985,655	424,939	2,444	1,413,038
Total liabilities and fund balances	$ 1,049,678	$ 506,188	$ 2,444	$ 1,558,310

See accompanying notes to the basic financial statements.

CITY OF HAHIRA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
DECEMBER 31, 2011

Fund Balance - Total Governmental Funds	$1,413,038
Amounts reported for governmental activities in the statement of net assets are different because:	
Governmental funds only report liabilites that will be liquidated with current assets. Compensated absences payable, however, which will not be liquidated with current assets, are not liabilites of the governmental funds but are liabilities of the government-wide financial statements.	(26,921)
Long-term debt is not reported in governmental activities because it is not expected to be liquidated with expendable available financial resources but is reported in the government-wide financial statements.	(55,249)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	20,974
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,476,363
Net assets of governmental activities	$3,828,205

See accompanying notes to the basic financial statements.

CITY OF HAHIRA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General Fund	Capital Projects Fund SPLOST VI	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	$ 450,069	$ -	$ -	$ 450,069
Sales and use	366,957	-	-	366,957
Business	138,987	-	-	138,987
Licenses and permits	24,387	-	-	24,387
Intergovernmental	11,522	495,122	15,002	521,646
Fines and forfeitures	168,778	-	-	168,778
Investment earnings	5,640	-	12	5,652
Miscellaneous	26,225	12,500	-	38,725
Total revenues	1,192,565	507,622	15,014	1,715,201
EXPENDITURES				
Current:				
General government	211,805	-	9,560	221,365
Judicial	4,500	-	-	4,500
Public safety	617,304	110,438	1,800	729,542
Public works	165,183	84,027	3,642	252,852
Health and welfare	13,959	-	-	13,959
Culture and recreation	53,275	-	-	53,275
Housing and development	10,920	-	-	10,920
Total expenditures	1,076,946	194,465	15,002	1,286,413
Excess (deficiency) of revenues over (under) expenditures	115,619	313,157	12	428,788
OTHER FINANCING SOURCES (USES)				
Transfers:				
Transfers out	-	(211,798)	-	(211,798)
Total other financing sources and uses	-	(211,798)	-	(211,798)
Net change in fund balances	115,619	101,359	12	216,990
Fund balances - beginning	870,036	323,580	2,432	1,196,048
Fund balances - ending	$ 985,655	$ 424,939	$ 2,444	$ 1,413,038

See accompanying notes to the basic financial statements.

CITY OF HAHIRA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Net change in fund balances - total governmental funds	$	216,990
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 and reported as depreciation expense. This is the amount by which capital outlays ($194,122) exceeded depreciation ($141,172) in the current period.		52,950
Non-cash contributions of capital assets are not recorded as revenues in the governmental funds since they do not provide current financial resources. However, non-cash contributions of capital assets are reported in the statement of activities.		413,739
Governmental funds only report compensated absense expense if the expense has been paid in the current year or will be paid with current funds. However, on the statement of activities the change in the liability is reflected as program expense. This is the amount of the change in compensated absences payable from the beginning of the year to the end of the year.		(79)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the decrease in deferred revenue over prior year.		(2,024)
Governmental funds do not report disposals of capital assets because it is not a use of current financial resources, but disposals are reported in the statements of activities.		(2,976)
Repayment of debt is a use of current financial resources in the governmental funds, but the repayment of debt decreases liabilities in the statement of activities.		16,823
Change in net assets of governmental activities	$	695,423

See accompanying notes to the basic financial statements.

CITY OF HAHIRA
STATEMENT OF NET ASSETS
PROPRIETARY FUND – ENTERPRISE FUND
DECEMBER 31, 2011

	Water, Sewer and Sanitation Fund
ASSETS	
Current assets:	
Cash:	
Unrestricted	$ 459,253
Restricted	261,812
Total cash	721,065
Certificates of deposit	158,134
Accounts receivable (net)	89,635
Prepaid insurance	5,911
Inventory	17,174
Total current assets	991,919
Noncurrent assets:	
Capital assets:	
Land	230,897
Buildings	23,246
Vehicles and equipment	232,891
Utility system and equipment	9,255,251
Less accumulated depreciation	(3,703,571)
Total noncurrent assets	6,038,714
Total assets	7,030,633
LIABILITIES	
Current liabilities:	
Accounts payable	53,781
Accrued interest	17,891
Interfund balances	247,112
Water deposits	68,677
Current portion:	
Note payable	22,935
Bonds payable	56,974
Total current liabilities	467,370
Noncurrent liabilities:	
Compensated absences	9,718
Note payable, less current portion	303,193
Bonds payable, less current portion	2,141,749
Total noncurrent liabilities	2,454,660
Total liabilities	2,922,030
NET ASSETS	
Invested in capital assets, net of related debt	3,513,863
Restricted for water/sewer operations and debt	594,740
Total net assets	$ 4,108,603

See accompanying notes to the basic financial statements.

CITY OF HAHIRA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND – ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Water, Sewer and Sanitation Fund
OPERATING REVENUES	
Charges for services:	
Water and sewer	$ 865,880
Sanitation	236,627
Other	25,718
Total operating revenues	1,128,225
OPERATING EXPENSES	
Depreciation	272,859
Landfill/contracted sanitation services	230,080
Personnel services	222,260
Utilities	96,561
Supplies and other expenses	36,911
Technical services	32,777
Repairs and maintenance	29,260
Insurance	19,010
Professional fees	15,085
Fuel	15,001
Travel	407
Total operating expenses	970,211
Operating income	158,014
NONOPERATING REVENUES (EXPENSES)	
Interest income	5,274
Interest expense	(121,954)
Total nonoperating revenues (expenses)	(116,680)
Income (loss) before contributions	41,334
TRANSFERS	
Transfer in	211,798
Total transfers	211,798
Change in net assets	253,132
Total net assets - beginning	3,855,471
Total net assets - ending	$ 4,108,603

See accompanying notes to the basic financial statements.

CITY OF HAHIRA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND – ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Water, Sewer and Sanitation Fund
CASH FLOW FROM OPERATING ACTIVITIES	
Receipts from customers	$ 1,131,828
Internal activities - receipts from other funds	77,670
Payments to employees (or for their benefit) for services provided	(222,755)
Payments to suppliers for goods or services	(478,051)
Net cash provided (used) by operating activities	508,692
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfer in	211,798
Purchase of capital assets	(211,258)
Net proceeds from sale of capital assets	-
Principal paid on capital debt	(76,840)
Interest paid on capital debt	(122,699)
Net cash provided (used) by capital and related financing activities	(198,999)
CASH FLOWS FROM INVESTING ACTIVITIES	
Certificate of deposit reinvestment	(2,967)
Interest income	5,274
Net cash provided by investing activities	2,307
Net increase (decrease) in cash and cash equivalents	312,000
Balances - beginning	409,065
Balances - ending	$ 721,065
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	$ 158,014
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	272,859
Change in assets and liabilities:	
Receivables, net	2,502
Prepaid expenses	1,080
Due to/from other funds	77,670
Deposits	1,101
Accounts payable and accrued expenses	(4,534)
Net cash provided by operating activities	$ 508,692

See accompanying notes to the basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements present the City of Hahira, Georgia, (the primary government) which operates under a mayor-council form of government. The City's major operations in addition to general administrative services include public safety (police and fire protection), public works (highways and streets), sanitation, water and sewer, health and welfare, culture and recreation.

The City of Hahira's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies, established in GAAP and used by the City, are discussed below.

A. Reporting Entity

The Governmental Accounting Standards Board sets forth criteria for determining the reporting entity. Organizations legally separate from the City of Hahira, Georgia, would be included in the financial statements of City of Hahira, Georgia, if the criteria of financial accountability were met as defined by Governmental Accounting Standards Board Statement Number 14 or if exclusion of the entity would cause the City's financial statements to be misleading or incomplete.

The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is a fiscal dependency by the organization on the City

Based upon these criteria the financial statements of the City contain no component units.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements – Government-wide Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police and fire protection, highways and streets, health and welfare, culture and recreation and general administrative services are classified as governmental activities. The City's water sewer and sanitation fund is classified as a business activity. There are no fiduciary funds, nor component units that are fiduciary in nature, included.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resources measurement focus, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Restricted assets are liquid assets (generated from revenues and not bond proceeds) that have a third party (statutory, bond covenant, or granting agency) limitation on their use. The City would typically use restricted assets first, as appropriate opportunities arise, but reserve the right to selectively defer the use thereof to a future project or replacement equipment acquisition.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions (general government, public safety, public works, etc.) and business activities (water, sewer and sanitation fund). The functions are also supported by general government revenues (taxes, investment earnings, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (general government, public safety, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (taxes, investment earnings, etc.).

The government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activity.

C. Basic Financial Statements – Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. The governmental funds employ the current financial resources measurement focus. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column in the fund financial statements. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for determination of major funds.

The City's major funds are the General Fund, SPLOST VI Capital Project Fund, and the Water, Sewer and Sanitation Enterprise Fund.

The following fund types are used by the City:

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

a. General Fund - is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

b. Capital Projects Funds

The City has four capital projects funds:

Special Purpose Local Option Sales Tax (SPLOST) IV - used to account for special local option sales taxes IV (1998 issue) received and restricted to use for qualifying capital expenditures.

Special Purpose Local Option Sales Tax (SPLOST) V - used to account for special local option sales taxes V (2002 issue) received and restricted to use for qualifying capital expenditures.

Special Purpose Local Option Sales Tax (SPLOST) VI - used to account for special local option sales taxes VI (2007 issue) received and restricted to use for qualifying capital expenditures.

Community Development Block Grant -- used to account for grant receipts and expenditures from the Community Development Block Grant. For the year ended December 31, 2011, there were no reportable amounts.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Proprietary Fund:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flows. Goods or services from such activities provided to outside parties are accounted for in enterprise funds. The generally accepted accounting principles applicable are similar to businesses in the private sector.

Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities. Nonoperating revenues and expenses include subsidies, interest expense from financing and investment earnings resulting from nonexchange transactions or auxiliary activities.

The following is a description of the proprietary fund of the City:

Water, Sewer and Sanitation Enterprise Fund - used to account for the revenues and related expenses of providing water, sewer and sanitation services to the City's residents.

D. Measurement Focus and Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurement made regardless of the measurement focus applied.

1. Government-wide and Proprietary Fund Financial Statement:

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Governmental Fund Financial Statements:

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. The City's definition of "available" means collectible within one year. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

E. Financial Statement Amounts

1. Cash and Equivalents

Cash shown on the balance sheets and statements of cash flows includes amounts in demand deposits and short-term investments with a maturity date less than three months from the date acquired by the City.

2. Investments

The City is limited by state law to the following investments: obligations of the State of Georgia, other states, or the U. S. Government; obligations fully insured by the U. S. Government or any agency thereof; obligations of any corporation of the U. S. Government; prime bankers' acceptance; the local government investment pool established by state law; repurchase agreements; and obligations of other political subdivisions of the State of Georgia.

3. Receivables and Property Taxes

Accounts receivable are recorded in the governmental funds for taxes receivable and amounts due from other governments. The accounts receivable for property taxes – real property are recorded net of the associated allowance for doubtful accounts in the general fund.

Taxes on real estate, motor vehicles, intangibles, real estate transfer and mobile homes are collected by the county tax collector and remitted to the City. The City bills and collects all other tax revenues. Georgia statutes do not provide a maximum millage rate which may be levied.

Tax revenues are recognized during the period in which they are levied. An allowance is established for delinquent taxes to the extent their collectability is questionable. Taxes collected during the current period and within sixty days thereafter are considered available to finance current operations.

The property tax rate for 2011 was $5.380 per $1,000 of assessed valuation, and current tax collection for the year then ended was 89.42% of the tax levied.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The full year property tax calendar is as follows:

Assessment date	January 1
Assessors submit returns to tax collector	July 1
Levy date	September 1
Tax collector mails annual tax bills	September 15
Due date of taxes, other than motor vehicles	November 15
Execution (lien) date for unpaid taxes	November 16

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the governmental activities column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant, and equipment.

Generally, assets with an initial estimated useful life of more than one year and have an original cost of $5,000 or more for infrastructure and $2,000 or more for other than infrastructure are capitalized. Assets purchased with SPLOST proceeds with a cost of less than $2,000 are also capitalized. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are listed below:

Buildings, improvements, water system	10 - 40 years
Infrastructure	40 – 50 years
Machinery and equipment	5 - 20 years

GASBS No. 34 requires the City to report and depreciate infrastructure assets. The City has elected not to report major general infrastructure assets retroactively, but began reporting newly acquired infrastructure assets effective January 1, 2004. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City.

5. Interfund Activity

Interfund activity is reported as loans, as services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receipts and/or payments to or from other governmental units included in the reporting entity of the City are not reported as transfers. They are classified according to the purpose for which the receipt or payment has been made.

The principal purpose of the City's interfund transfers is to transfer water and sewer system related capital assets purchased by the SPLOST Capital Project Funds to the Water, Sewer and Sanitation Fund.

The principal purpose of interfund balances is to record the amount of reimbursement due from the Water, Sewer and Sanitation Fund for expenditures paid by the General Fund.

6. Revenues

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Revenues of the governmental funds susceptible to accrual are property taxes, sales tax and alcoholic beverage tax. Subsidies and grants to general or special revenue funds, which finance either capital or current operations, are reported as non-operating revenue based on GASBS No. 33. In applying GASBS No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

Program revenues reported on the statement of activities are: licenses and permits, fines and forfeitures, nutritional services to the elderly and operating and capital grants and contributions.

7. Expenditures

Expenditures are recognized when the related fund liability is incurred. Prepaid expenses are recorded when an expense is incurred but benefits are for a subsequent period.

8. Inventories

Significant materials on hand, if any, are shown as inventory. Inventory in the Water, Sewer and Sanitation Fund is typically comprised of water meters, pipe, pipe fittings, repair parts and related supplies and is valued at cost (first-in, first-out). The cost of other materials and supplies, including gasoline and fuel, are charged to operations using the purchase method of accounting.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. Compensated Absences and Employee Benefits

Compensated Absences:

The City allows full-time, permanent employees to accumulate unused annual leave and sick leave to a maximum of 160 hours. Upon termination, up to 120 hours of accumulated annual leave is payable. Upon termination or retirement, only those employees employed before December 31, 1985 are entitled to be compensated for sick leave.

Vacation leave is accrued as a liability as the benefits are earned by the employee when the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or other means. Sick leave is accrued as a liability as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees' termination or retirement.

Compensated absences are recorded as liabilities in the applicable government-wide, business-type activities or proprietary fund type statement of net assets. Only current amounts payable for employees terminated or retired at year end are recorded in the governmental funds.

Retirement Benefits:

The City maintains a non-contributory retirement plan (refer to Note 8 for additional plan information).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10. Fund Balances and Fund Equity

Fund Balances. 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 government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

1. Nonspendable – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.
2. Restricted – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the entity or through external restriction imposed by creditors, grantors or laws or regulations of other governments.
3. Committed – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the Mayor and Council through the adoption of a resolution. The Mayor and Council may also modify or rescind the commitment.
4. Assigned – Fund balances are reported as assigned when amounts are constrained by the Mayor and Council's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution the Mayor and Council can authorize the Mayor or City Manager to assign fund balances.
5. Unassigned – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion.

Flow Assumption. When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balances in the following order: (a) committed, (b) assigned, (c) unassigned.

Fund Equity. Contributed capital is recorded in the proprietary fund when the City receives grants from federal, state or private sources designed for the specific activity. These contributions are combined with retained earnings or losses from operations of the enterprise activity.

NOTE 2 – CASH, CERTIFICATES OF DEPOSIT, CUSTODIAL RISK AND INTEREST RATE RISK

Cash and certificates of deposit are as follows:

Cash	Carrying Amount	Bank Balance
Governmental activities:		
General fund		
Deposits	$ 329,562	$ 292,638
Petty cash	75	-
SPLOST IV fund	2,444	4,243
SPLOST VI fund	422,271	449,118
Total governmental activities	754,352	745,999
Business-type activities:		
Water, sewer and sanitation fund		
Deposits	720,990	768,733
Petty cash	75	-
Total business-type activities	721,065	768,733
Total cash	$ 1,475,417	$ 1,514,732
Certificates of Deposit		
Governmental activities	$ 242,707	$ 242,707
Business-type activities	158,134	158,134
Total certificates of deposit	$ 400,841	$ 400,841

Custodial Credit Risk - Custodial risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has no custodial risk policy. Of the above carrying amount, all funds are collateralized by securities or insured by FDIC insurance.

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rate risk. However the City has made no investments that would subject it to interest rate risk.

Restricted Cash

Restricted cash at year consists of the following:

Governmental activities. Cash in the amounts of $2,444 and $422,271 in the SPLOST IV fund and SPLOST VI fund, respectively, totaling $424,715, is restricted for specific capital outlay projects.

Business-type activities. Cash in the enterprise fund of $193,135 is restricted by bond covenants and $68,677, totaling $261,812, is restricted for payment of water fund customer deposits.

NOTE 3 – RECEIVABLES AND ALLOWANCE FOR BAD DEBT

Receivables are detailed below:

	Governmental Activities	Business-type Activities	Total
Receivables:			
Taxes:			
Real property:			
Current	$ 27,274	$ -	$ 27,274
Delinquent	10,330	-	10,330
Less allowance for bad debt	(3,000)	-	(3,000)
Franchise	133,671	-	133,671
Alcoholic beverage taxes	5,385	-	5,385
Total taxes receivable	173,660	-	173,660
Intergovernmental:			-
Local option sales and use tax	29,860	-	29,860
Special purpose local option sales tax	83,917	-	83,917
Other intergovernmental	11,794	-	11,794
Total intergovernmental receivables	125,571	-	125,571
Water, sewer and sanitation charges:			
Billed	-	94,454	94,454
Less allowance for bad debt	-	(4,819)	(4,819)
Total water, sewer and sanitation charges receivable	-	89,635	89,635
Other receivables:			
Insurance reimbursement	2,781	-	2,781
Total other receivables	2,781	-	2,781
Total receivables	$ 302,012	$ 89,635	$ 391,647

NOTE 4 - INTERFUND BALANCES AND TRANSFERS

Interfund balances and transfers consist of the following:

	Interfund Balances			Transfers*		
	Receivables	Payables	Net	In	Out	Net
Governmental activities:						
General Fund:						
Enterprise fund	$ 247,112	$ -	$247,112	$ -	$ -	$ -
SPLOST VI	833	-	833	-	-	-
SPLOST VI:					-	
General fund	-	(833)	(833)	-	-	-
Enterprise fund	-	-	-	-	(211,798)	(211,798)
Total governmental activities	247,945	(833)	247,112	-	(211,798)	(211,798)
Business-type activities:						
Enterprise Fund:						
General fund	-	(247,112)	(247,112)	-	-	-
SPLOST VI	-	-	-	211,798	-	211,798
Total business-type activities	-	(247,112)	(247,112)	211,798	-	211,798
Total	$ 247,945	$(247,945)	$ -	$211,798	$(211,798)	$ -

* Transfers consist of capital assets with a cost of $211,258 purchased by the SPLOST VI fund and reimbursement of $540 for a capital assets recorded as a payable and capitalized in the prior year in the Water, Sewer and Sanitation fund.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Beginning Balance	Additions	Retirements	Transfer In (Out)	Ending Balance
Governmental activities:					
Capital assets not being depreciated					
Land	$ 145,866	$ 40,000	$ -	$ -	$ 185,866
Total capital assets not being depreciated	145,866	40,000	-	-	185,866
Capital assets being depreciated					
Buildings	658,997	360,000	-		1,018,997
Infrastructure	1,512,648	325,327	-	(211,258)	1,626,717
Equipment and vehicles	1,071,402	93,792	(48,192)	-	1,117,002
Total assets being depreciated	3,243,047	779,119	(48,192)	(211,258)	3,762,716
Less accumulated depreciation for:					
Buildings	(211,329)	(16,400)	-	-	(227,729)
Infrastructure	(331,276)	(44,841)	-	-	(376,117)
Equipment and vehicles	(833,658)	(79,931)	45,216	-	(868,373)
Total accumulated depreciation	(1,376,263)	(141,172)	45,216	-	(1,472,219)
Total capital assets being depreciated, net	1,866,784	637,947	(2,976)	(211,258)	2,290,497
Governmental activities capital assets, net	$2,012,650	$ 677,947	$ (2,976)	$(211,258)	$2,476,363
Business-type activities:					
Capital assets not being depreciated					
Land	$ 230,897	$ -	$ -	$ -	$ 230,897
Total capital assets not being depreciated	230,897	-	-	-	230,897
Capital assets being depreciated					
Buildings	23,246	-	-	-	23,246
Utility system and equipment	9,043,993	-	-	211,258	9,255,251
Vehicles and equipment	232,891	-	-	-	232,891
Total assets being depreciated	9,300,130	-	-	211,258	9,511,388

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Additions	Retirements	Transfer In (Out)	Ending Balance
Less accumulated depreciation for:					
Buildings	(13,820)	(378)	-	-	(14,198)
Utility system and equipment	(3,234,248)	(259,421)	-	-	(3,493,669)
Vehicles and equipment	(182,644)	(13,060)	-	-	(195,704)
Total accumulated depreciation	(3,430,712)	(272,859)	-	-	(3,703,571)
Total capital assets being depreciated, net	5,869,418	(272,859)	-	211,258	5,807,817
Total business-type activities capital assets net	$6,100,315	$(272,859)	$ -	$ 211,258	$6,038,714

Depreciation expense was charged to divisions as follows:

Governmental activities:	
General government	$ 34,136
Public safety	77,584
Public works	21,928
Culture and recreation	7,524
Total depreciation expense - governmental activities	$ 141,172
Business-type activities	
Water, sewer and sanitation fund	$ 272,859
Total depreciation expense - business-type activities	$ 272,859

Non-cash contributions

The City received contributions of land and a building from a citizen, with an appraised value of $400,000, and resurfacing of a road by the State of Georgia through the LMIG program, with a cost of $13,739. Accordingly, non-cash contributions have been reported in the government-wide statements and the assets capitalized.

NOTE 6 – LONG-TERM DEBT

Governmental Activities

Capital lease payable to Federal Signal Leasing on July 7, 2004 collateralized by a fire truck with a cost of $158,592. The capital lease is payable in ten annual installments of $20,131, including interest at 4.59% per annum through 2014.

The gross amount of assets recorded under capital lease is $158,592, with accumulated depreciation of $118,944 for use by the public safety department.

Business-type Activities

Business-type activities long-term debt consists of the following:

Note Payable - GEFA

Note payable to the Georgia Environmental Facilities Authority Revolving Loan Fund to fund water and sewer improvements in the original amount of $549,619 payable in quarterly installments of $8,115, including interest at 3% through November 1, 2023.

Water and Sewer Revenue Bonds

Revenue bonds payable consists of the following:

Water and sewer revenue bonds payable constitute special obligations secured by a lien on and pledge of the revenues of the water and sewer system. The revenue collateralizes the bonds payable to the United States Department of Agriculture Rural Development and the special funds established by the ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses and second to establish reserve funds for the repayment of bond obligations and to make replacements, additions, extensions, and improvements to the system. The ordinances contain provisions requiring the City to establish rates sufficient to pay operating and maintenance cost and maximum annual bond obligations. Provisions also apply to the issuance of additional parity bonds.

1972 Series. Bond payable to the United States Department of Agriculture Rural Development in the original amount of $125,000, payable in annual installments of $3,000 to $7,000 per annum, including interest at 5% through January 1, 2012. The bonds were issued to finance the extension of water and sewer lines.

1991A Series. Bond payable to the United States Department of Agriculture Rural Development in the original amount of $787,000, payable in annual installments of $51,483, including interest at 5.875% through October 16, 2031. The bonds were issued to update and improve the water and sewer system.

1991B Series. Bond payable to the United States Department of Agriculture Rural Development in the original amount of $775,100, payable in annual installments of $45,171, including interest at 5% through October 15, 2031. The bonds were issued to update and improve the water and sewer system.

2001 Series. Bond payable to the United States Department of Agriculture Rural Development in the original amount of $1,160,504, payable in monthly installments of $5,223, including interest at 4.5% through November 7, 2041. The bonds were issued to update and improve the water and sewer system.

NOTE 6 – LONG-TERM DEBT (CONTINUED)

Governmental and business-type activities long-term debt consists of the following:

	Beginning Balance 12/31/2010	Additions	Repayments	Ending Balance 12/31/2011	Due in One Year
Governmental activities:					
Capital Lease					
Federal Signal Leasing	$ 72,072	$ -	$ (16,823)	$ 55,249	$ 17,596
Total governmental activities	$ 72,072	$ -	$ (16,823)	$ 55,249	$ 17,596
Business-type activities:					
GEFA	$ 348,388	$ -	$ (22,260)	$ 326,128	$ 22,935
Water and sewer bonds:					
1972 Series	14,000	-	(7,000)	7,000	7,000
1991A Series	615,370	-	(15,380)	599,990	16,234
1991B Series	579,170	-	(16,210)	562,960	17,017
2001 Series	1,044,763	-	(15,990)	1,028,773	16,723
Total bonds	2,253,303	-	(54,580)	2,198,723	56,974
Total business-type activities	$2,601,691	$ -	$ (76,840)	$2,524,851	$ 79,909

Total interest cost incurred in the current year was as follows:

Governmental activities:	
Public safety	$ 3,308
Business-type activities:	
Water, sewer and sanitation	$ 121,954

Maturities of governmental long-term debt are as follows:

Year	Principal	Interest	Total
2012	$ 17,596	$ 2,535	$ 20,131
2013	18,403	1,728	20,131
2014	19,250	885	20,135
Total	$ 55,249	$ 5,148	$ 60,397

NOTE 6 – LONG-TERM DEBT (CONTINUED)

Maturities of business-type activities long-term debt are as follows:

	GEFA Note Payable			Water and Sewer Revenue Bonds		
Year	Principal	Interest	Total	Principal	Interest	Total
2012	$ 22,935	$ 9,527	$ 32,462	$ 56,974	$ 109,706	$ 166,680
2013	23,631	8,832	32,463	52,547	106,784	159,331
2014	24,348	8,115	32,463	55,254	104,077	159,331
2015	25,087	7,376	32,463	58,101	101,230	159,331
2016	25,848	6,615	32,463	61,097	98,234	159,331
2017-2021	141,490	20,825	162,315	356,190	440,463	796,653
2022-2026	62,789	2,137	64,926	458,356	338,296	796,652
2027-2031	-	-	-	601,248	206,444	807,692
2032-2036	-	-	-	225,065	88,315	313,380
2037-2041	-	-	-	273,891	31,642	305,533
Total	$ 326,128	$ 63,427	$ 389,555	$ 2,198,723	$ 1,625,191	$ 3,823,914

The general fund will be utilized to liquidate the above governmental activities long-term debt and the enterprise fund will be utilized to liquidate the above business-type activities long-term debt.

Compensated absences payable is as follow:

	Beginning Balance 1/1/2011	Earned	Taken	Ending Balance 12/31/2011	Current Portion
Governmental activities	$ 26,842	$ 20,309	$ 20,230	$ 26,921	-
Business-type activities	10,213	5,146	5,641	9,718	-
Total	$ 37,055	$ 25,455	$ 25,871	$ 36,639	$ -

The general fund and water, sewer and sanitation fund will be used to liquidate the above liabilities.

NOTE 7 – FUND BALANCES AND NET ASSETS

Nonspendable - Fund balance of $11,294 in the governmental funds is in nonspendable form because it is allocated to prepaid insurance.

Restricted – Fund balances of $424,939 in the capital projects fund and $2,444 in the other governmental funds, totaling $427,383, in the governmental funds are restricted for capital projects financed with Special Local Option Sales Tax Fund (SPLOST) proceeds.

Restricted – Net assets of $594,740 in the Water, Sewer and Sanitation Enterprise Fund, are restricted by bond ordinances for use as collateral to secure the City's revenue bonds payable.

NOTE 8 – RETIREMENT BENEFITS

Plan Description

The City is a participating member of the Georgia Municipal Employees Benefit System (GMEBS), a noncontributory agent multiple-employer defined benefit public employer retirement system that acts as a common investment and administrative agent for governmental entities in the State of Georgia. The plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The plan is administered by Georgia Municipal Association. Benefit provisions and all other requirements are established by state statute. Plan features, including benefit provisions, are established by the plan Board of Trustees. Georgia Municipal Association issues a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained from the Georgia Municipal Association, 201 Pryor Street S.W., Atlanta, Georgia 30303-3606.

Recommended Contribution

The GMEBS Board of Trustees has adopted an actuarial funding policy for the determination of annual contributions and the systematic funding of liabilities arising under the plan. The annual minimum contribution is the sum of 1) the normal cost (including administrative expenses), 2) the closed level dollar amortization of the unfunded actuarial accrued liability over a period that ranges from 10 years to 30 years based on the funding policy adopted by GMEBS Board of Trustees, and 3) interest on these amounts from the valuation date to the date contributions are paid (assumed monthly). The total level dollar amortization must be within a corridor of the 10-year and the 30-year amortization of the unfunded (surplus) actuarial accrued liability.

The plan is subject to minimum funding standards of the Public Retirement System Standards Law (Georgia Code Section 47-20-10).

Annual Pension Cost and Contribution Made

The annual pension costs for the year ended December 31, 2011 was $33,550. The City made contributions totaling $33,550 to the plan during 2011.

NOTE 8 – RETIREMENT BENEFITS (CONTINUED)

Actuarial Assumptions

Valuation date	July 1, 2011
Actuarial cost method	Projected Unit Credit
Amortization method	Closed level dollar for remaining unfunded liability
Remaining amortization period	Remaining amortization period varies for the bases, with a net effective amortization period of 10 years
Asset valuation method	Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than market value at end of year. The actuarial value is adjusted, if necessary, to be within 50% of market value for 2009, 44% of market value for 2010, 38% of market value for 2011, 32% of market value for 2012, 26% of market value for 2013, and 20% of market value for 2014 and later years.
Actuarial Assumptions:	
Net investment rate of return	7.75%
Projected salary increases	3.50% plus age and service based merit increases
Cost of living adjustments	0%
Membership of the Plan	
Retirees and beneficiaries	7
Terminated plan members entitled to, but not yet receiving benefits	5
Active plan members	18
Total	30

The significant actuarial assumptions used to compute the actuarial accrued liability and the annual recommended contribution of the plan meet the Actuarial Standards of Practice No. 4, Measuring Pension Obligations, establishing generally accepted actuarial principles and practices.

NOTE 8 – RETIREMENT BENEFITS (CONTINUED)

Information regarding the funded status of the plan is provided below:

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded (Surplus) Actuarial Liability (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)]/(c)
7/1/2011	$ 502,259	$ 582,983	$ 80,724	86.15%	$ 506,072	15.95%

The Schedule of Retirement Plan Funding Progress following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Five Year Trend Information

Fiscal Year End	Annual Pension Costs	Percentage of APC Contributed	Pension Obligation
2011	$ 33,550	100%	$ -
2010	$ 39,313	100%	$ -
2009	$ 21,744	100%	$ -
2008	$ 19,446	100%	$ -
2007	$ 13,702	100%	$ -

NOTE 9 –EXPENDITURES EXCEEDED BUDGET

Expenditures exceeded budget in the public works department and the health and welfare department by $1,464 and $1,482, respectively.

NOTE 10 – RISK FINANCING ACTIVITY

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member of the Georgia Interlocal Risk Management Agency (GIRMA). This membership allows the City to share liability, crime, motor vehicle, and property damage risks. There was no significant reduction of insurance coverage from the prior year. No losses in excess of insurance coverage have occurred in the last three years.

Chapter 85 of Title 36 of the Official Code of Georgia Annotated authorizes Georgia municipalities to form interlocal risk management agencies. The Georgia Interlocal Risk Management Agency (GIRMA) is a municipal interlocal risk management agency to function as an unincorporated nonprofit instrumentality of its member municipalities. GIRMA establishes and administers one or more group self insurance funds and a risk management service to prevent or lessen the incidence and severity of casualty and property losses occurring in the operation of municipal government. The responsibilities of GIRMA are to defend and protect, in accordance with the member government contract and related coverage descriptions, any member of GIRMA against liability or loss.

The City's deductible limit is $1,000 per occurrence. The City files all claims with GIRMA. GIRMA bills the City for any risk of loss over the deductible.

The City is also a member of the GMA Workers Compensation Self Insurance Fund (GMA). This Fund operates under the authority of OCGA 34-9-150.

The responsibility of the Fund is to defend, in the name of and on behalf of the members, any suits or other proceedings which may at any time be instituted against them on account of injuries or death within the purview of the Workers' Compensation Law of Georgia, or on the basis of employer's liability, including suits or other proceedings alleging such injuries and demanding compensation therefore, although such suits, other proceedings, allegations or demands be wholly groundless, false or fraudulent. The Fund is also responsible for paying all costs taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense. Coverage provides up to a maximum of $100,000 for each worker's compensation claim. There is no deductible under this Fund.

Responsibilities of the City regarding GIRMA or GMA are as follows:

To pay all contributions, assessments or other sums due at such times and in such amounts as shall be established.

To allow GIRMA or GMA and its agents, reasonable access to all facilities of the City and all records, including but not limited to financial records, which relate to the purposes of GIRMA or GMA.

To allow attorneys appointed to represent the City in investigation, settlement discussions and all levels of litigation arising out of any claim made against the City within the scope of loss protection furnished by the Fund or Funds established by GIRMA or GMA.

To assist and cooperate in the defense and settlement of claims against the City.

NOTE 11 – CONTINGENCIES - COMMITMENTS

The City, in conjunction with cities and counties in a ten county South Georgia area are members of the Southern Georgia Regional Commission (SGRC). Membership in a regional commission (RC) is automatic for each municipality and county in the state. The official Code of Georgia Section 50-8-34 (Georgia Planning Act of 1989) provides for the organizational structure of the RCs. Each county and municipality in the state is required by law to pay minimum annual dues to an RC. The RC board membership includes the Chief elected official of each county and the chief elected official of each municipality. The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RCs as "public agencies and instrumentalities of their members". Georgia laws also provide that the member governments are liable for any debts or obligations of an RC beyond resources (O.C.G.A. 50-8-39.1). Separate financial statements are available from the Southern Georgia Regional Commission, Valdosta, Georgia. Management does not believe the SGRC is currently experiencing fiscal stress that could put a financial burden on the City.

In prior years, the City has received monies through various federal and state grants. These programs are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agencies for expenses disallowed under the terms of the grants. Management believes that the City will not incur significant losses on possible grant disallowances

NOTE 12 – RELATED ORGANIZATION

The Housing Authority of the City of Hahira, Georgia is registered with the Department of Community Affairs (DCA) as a local government authority and is administered by the National Housing Authority. The mayor of the City appoints members to sit on the board of directors of the Authority. However, the City provides no financial support and is not obligated in any manner for the Authority.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HAHIRA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts Original and Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget
Budgetary adjusted fund balance, January 1	$ 870,036	$ 870,036	$ -
Resources (inflows):			
Taxes:			
Property:			
Real property	275,000	262,534	(12,466)
Personal property	19,000	22,587	3,587
Intangible/transfer	13,000	4,727	(8,273)
Franchise	146,250	160,221	13,971
Sales and use:			
Local option	305,000	312,276	7,276
Beer and wine	45,000	54,681	9,681
Business	108,000	138,987	30,987
Licenses and permits	16,250	24,387	8,137
Intergovernmental	-	11,522	11,522
Fines and forfeitures	210,000	168,778	(41,222)
Investment earnings	8,000	5,640	(2,360)
Miscellaneous	29,500	26,225	(3,275)
Amounts available for appropriation	2,045,036	2,062,601	17,565
Charges to appropriation (outflows):			
General government			
Direct			
Personnel services	119,442	124,979	5,537
Operating expenditures	99,867	86,826	(13,041)
Capital outlay	-	-	-
Total general government	219,309	211,805	(7,504)
Judicial			
Direct			
Personnel services	7,500	4,500	(3,000)
Total judicial	7,500	4,500	(3,000)

See accompanying note to budgetary comparison schedule.

CITY OF HAHIRA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts Original and Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget
Public safety			
Direct			
Personnel services	464,964	442,683	(22,281)
Operating expenditures	212,980	169,835	(43,145)
Capital outlay	-	4,786	4,786
Total public safety	677,944	617,304	(60,640)
Public works			
Direct			
Personnel services	61,869	71,390	9,521
Operating expenditures	101,850	93,793	(8,057)
Capital outlay	-	-	-
Total public works	163,719	165,183	1,464
Health and welfare			
Direct			
Personnel services	6,000	7,047	1,047
Operating expenditures	6,477	6,912	435
Total health and welfare	12,477	13,959	1,482
Culture and recreation			
Direct			
Personnel services	36,051	35,003	(1,048)
Operating expenditures	17,850	18,272	422
Total culture and recreation	53,901	53,275	(626)
Housing and development			
Direct			
Personnel services	16,750	2,869	(13,881)
Operating expenditures	23,400	8,051	(15,349)
Total housing and development	40,150	10,920	(29,230)
Total charges to appropriations	1,175,000	1,076,946	(98,054)
Budgetary fund balance, December 31	$ 870,036	$ 985,655	$115,619

See accompanying note to budgetary comparison schedule.

CITY OF HAHIRA
SCHEDULE OF RETIREMENT PLAN FUNDING PROGRESS
LAST FIVE YEARS
DECEMBER 31, 2011

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded (Surplus) Actuarial Liability (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)]/(c)
7/1/2011	$ 502,259	$ 582,983	$ 80,724	86.15%	$ 506,072	15.95%
7/1/2010	$ 458,176	$ 548,361	$ 90,185	83.55%	$ 471,890	19.11%
5/1/2009	$ 338,482	$ 509,313	$ 170,831	66.46%	$ 495,592	34.47%
5/1/2008	$ 467,776	$ 494,128	$ 26,352	94.67%	$ 455,459	5.79%
5/1/2007	$ 451,105	$ 464,001	$ 12,896	97.22%	$ 410,607	3.14%

NOTE A - BUDGETS

The City's Finance Ordinance requires the governing authority to adopt budgets for all governmental fund types (general and special revenue funds). An annual budget is also prepared for the City's enterprise fund. Budgets for capital projects fund are adopted on a total project basis rather than on an annual basis. The annual budgets are prepared in accordance with the basis of accounting utilized by that fund. The legal level of budgetary control is the department level.

The budget may be amended by the Mayor and Council during or after the public hearing except that no amendment shall be effective with a public hearing if (1) a new item of appropriation is added in excess of one percent of the total amount of appropriations stated in the initially approved budget, (2) there is an increase or decrease in any item of appropriations by more than 10%, or (3) there is an increase in appropriations requiring an increase in taxes by more than 5%. Notice of hearings on budget amendments must be advertised at least three days prior to the date set for the hearing.

In October 2004, the City Finance Ordinance was amended to provide that: (1) the budget shall state the objectives and services to be provided in a clear general summary for each department, (2) each departmental budget shall include totals for the categories of: salaries and wages, supplies, contracted services and capital outlays, (3) the general fund budget includes designated sections for revenues, debt service, and capital expenditures, (4) the total proposed expenditures shall not exceed the total anticipated revenues.

Department managers may transfer appropriations in any fund among the various accounts within a department with certain restrictions. Transfers within a department, which increase salaries, require approval of the City Council. Any increase in appropriation for any fund or department within a fund requires approval of the City Council. Except for appropriations for capital expenditures, all appropriations, to the extent not expended or encumbered, lapse at the close of the period for which the appropriation was budgeted. Appropriations for capital expenditures continue in effect until the purpose for which it was made has been accomplished or abandoned. Capital appropriations are deemed abandoned after three years when there has been no disbursement or encumbrance of the appropriation.

The Mayor and Council advertise and conduct public hearings on the proposed budget in accordance with ordinances and state law requirements. The budget for the year ended December 31, 2011 was adopted by the council on October 7, 2010.

Expenditures exceeded budget in the public works department and the health and welfare department by $1,464 and $1,482, respectively.

NOTE B - BUDGET - TO - ACTUAL RECONCILIATION

An explanation of the difference between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles are as follows:

	General Fund
Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 2,062,601
Differences - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(870,036)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 1,192,565
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 1,076,946
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 1,076,946

COMBINING AND INDIVIDUAL FUND SCHEDULES

CITY OF HAHIRA
COMBINING SCHEDULE OF ASSETS, LIABILITIES AND FUND BALANCE
OTHER GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	Capital Projects Funds		Total Other Governmental Funds
	SPLOST IV	SPLOST V	
ASSETS			
Cash:			
Restricted	$ 2,444	$ -	$ 2,444
Total assets	$ 2,444	$ -	$ 2,444
FUND BALANCE			
Fund balance:			
Reserved	$ 2,444	$ -	$ 2,444
Total fund balance	2,444	-	2,444
Total fund balance	$ 2,444	$ -	$ 2,444

CITY OF HAHIRA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Capital Projects Funds		Total Other Governmental Funds
	SPLOST IV	SPLOST V	
REVENUES			
Intergovernmental	$ 3,642	$ 11,360	$ 15,002
Investment earnings	12	-	12
Total revenues	3,654	11,360	15,014
EXPENDITURES			
Capital outlays			
General government	-	9,560	9,560
Public safety	-	1,800	1,800
Public works	3,642	-	3,642
Total expenditures	3,642	11,360	15,002
Excess of revenues over expenditures	12	-	12
Fund balances - beginning	2,432	-	2,432
Fund balances - ending	$ 2,444	$ -	$ 2,444

CITY OF HAHIRA
BUDGETARY COMPARISON SCHEDULE – SPLOST IV CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Project-Length Budgeted Amounts Original and Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget
Budgetary fund balance, January 1	$ 2,432	$ 2,432	$ -
Resources (inflows):			
Intergovernmental revenue	3,642	3,642	-
Interest income	-	12	12
Amounts available for appropriation	6,074	6,086	12
Charges to appropriation (outflows):			
Capital outlay	3,642	3,642	-
Total charges to appropriations	3,642	3,642	-
Budgetary fund balance, December 31	$ 2,432	$ 2,444	$ 12

An explanation of the difference between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles follows:

Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 6,086
Differences - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(2,432)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances	$ 3,654
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 3,642
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances	$ 3,642

CITY OF HAHIRA
BUDGETARY COMPARISON SCHEDULE – SPLOST V CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Project-Length Budgeted Amounts Original and Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget
Budgetary fund balance, January 1	$ -	$ -	$ -
Resources (inflows):			
Intergovernmental	139,424	11,360	(128,064)
Amounts available for appropriation	139,424	11,360	(128,064)
Charges to appropriation (outflows):			
Capital outlay	139,424	11,360	(128,064)
Total charges to appropriations	139,424	11,360	(128,064)
Budgetary fund balance, December 31	$ -	$ -	$ -

CITY OF HAHIRA
BUDGETARY COMPARISON SCHEDULE – SPLOST VI CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Project-Length Budgeted Amounts Original and Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget
Budgetary fund balance, January 1	$ 323,580	$ 323,580	$ -
Resources (inflows):			
Intergovernmental:			
SPLOST	2,912,615	479,563	(2,433,052)
Grants	-	28,059	28,059
Amounts available for appropriation	3,236,195	831,202	(2,404,993)
Charges to appropriation (outflows):			
Capital outlay	2,885,895	174,334	(2,711,561)
Debt service	350,300	20,131	(330,169)
Capital outlay/transfer out	-	211,798	211,798
Total charges to appropriations	3,236,195	406,263	(2,829,932)
Budgetary fund balance, December 31	$ -	$ 424,939	$ 424,939

An explanation of the difference between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles follows:

Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 831,202
Differences - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(323,580)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances	$ 507,622
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 406,263
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(211,798)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances	$ 194,465

STATE COMPLIANCE SECTION

CITY OF HAHIRA
ONE PERCENT SPECIAL PURPOSE SALES TAX
PROJECT COST SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011

Project	Original Estimated Cost	Revised Estimated Cost	Expenditures			Estimated Percent Completed
			Prior Years	Current Period	Total	
SPLOST IV - 1998 Issue						
Referendum Expenditures:						
Road, street and bridge projects		$ 365,000	$ 412,323	$ 3,642	$ 415,965	
Renovation, construction and improvements to public facilities and equipment for City Hall and the Fire Station		138,000	266,795		266,795	
Construction and improvement to water and sewer facilities		460,000	488,421	-	488,421	
Construction and improvements of public facilities and equipment for environmental protection		210,625	-	-	-	
Totals	$ 1,175,000	$ 1,173,625	$ 1,167,539	$ 3,642	$ 1,171,181	99.79%

CITY OF HAHIRA
ONE PERCENT SPECIAL PURPOSE SALES TAX
PROJECT COST SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011

Project	Original Estimated Cost	Revised Estimated Cost	Expenditures: Prior Years	Expenditures: Current Period	Expenditures: Total	Estimated Percent Completed
SPLOST V - 2002 Issue						
Referendum Expenditures:						
Road, street and bridge projects	$ 400,000	$ 371,208	$ 250,051	$ -	$ 250,051	
Other capital outlay projects:						
Purchase, renovation, construction and improvements to public facilities and equipment consisting of the City Hall and Fire Station			178,591	11,360	189,951	
Construction and improvements and equipment for water and sewer facilities			373,293	-	373,293	
Purchase, renovation, construction and improvements of public facilities and equipment for environmental protection			-	-	-	
Total other capital outlay projects	590,000	570,151	551,884	11,360	563,244	
Totals	$ 990,000	$ 941,359	$ 801,935	$ 11,360	$ 813,295	86.40%

CITY OF HAHIRA
ONE PERCENT SPECIAL PURPOSE SALES TAX
PROJECT COST SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011

Project	Original Estimated Cost	Revised Estimated Cost	Expenditures: Prior Years	Reclassify*	Current Period	Total	Estimated Percent Completed
SPLOST VI - 2007 Issue							
Referendum Expenditures:							
Construction and improvements to:							
Road, street and bridge projects	$ 650,000	$ -	$ 37,105	$ -	$ 84,027	$ 121,132	
Water and sewer facilities	1,950,000	-	929,517	-	211,798	1,141,315	
Construction of, improvements to and major capital equipment for:							
Community center facilities	600,000	-	-	-	-	-	
Police: facilities, computer equipment communication equipment and vehicles	250,000	-	38,383	-	53,806	92,189	
Firefighting: facilities, computer equipment, training facilities, vehicles and equipment	200,000	-	82,680	(66,393)	36,501	52,788	
Retirement of previously incurred general obligation debt	350,300	-	-	66,393	20,131	86,524	
Totals	$4,000,300	$ -	$1,087,685	$ -	$ 406,263	$ 1,493,948	37.35%

Prepared on the accrual basis of accounting.

* Prior payments on previously issued debt secured by a fire truck have been reclassified.

FEDERAL COMPLIANCE SECTION

VALENTI, RACKLEY
& ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Mayor and Council
City of Hahira, Georgia

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the remaining fund information of the City of Hahira, Georgia ("the City") as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

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.

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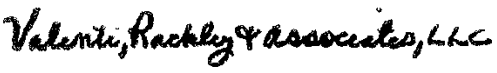
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 11-02.

We noted certain matters that we reported to management of the City in a separate letter dated May 23, 2012.

This report is intended solely for the information and use of the Mayor and Council, management, federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Valenti, Rackley & Associates, LLC
Certified Public Accountants

May 23, 2012

CITY OF HAHIRA, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2011

11-01

Condition: Inadequate segregation of accounting duties among personnel.

Cause: Limited staff size and resources.

Effect: Certain functions are not segregated including collection/deposit of cash and recording of cash receipts and general ledger; cash receipts/disbursements and preparation of bank reconciliations; accounts payable and recording of general ledger and payroll processing and general ledger due to limited staff size. Errors, intentional or otherwise, and fraud could occur in the processing of financial transactions and preparation of financial statements.

Recommendation: We recommend that increased management oversight of the accounting function be utilized to mitigate risk.

Management Response: Management concurs with this finding. See management's Corrective Action Plan separately submitted.

11-02

Condition: Budgets are a legal spending limit at the department level. Expenditures exceeded budget in two departments of the general fund.

Cause: Expenditures were not limited to budgeted amounts.

Effect: Expenditures exceeded budget in the public works department and the health and welfare department by $1,464 and $1,482, respectively.

Recommendation: We recommend that expenditures be held to the legally adopted limit.

Management Response: See management's Corrective Action Plan separately submitted.

CITY OF HAHIRA, GEORGIA
STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2011

Audit Reference Number	
10-01	Uncorrected in current year and recited as 11-01.
10-02	Corrected in current year.