CITY OF HEPHZIBAH, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2014

CITY OF HEPHZIBAH, GEORGIA
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2014

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Hawkins & McNair
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the City Commission
City of Hephzibah, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Hephzibah, Georgia, (City) as of and for the year ended June 30, 2014, 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.

Auditor's 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.

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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, and each major fund of the City as of June 30, 2014, 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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic 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. Our opinion on the basic financial statements in not affected by this missing information. Accounting principles generally accepted in the United States of America require that the budgetary comparison information in section D, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2014, 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 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 the City's internal control over financial reporting and compliance.

Hawkins & McNair, CPAs
Winder, Georgia
October 20, 2014

City of Hephzibah, Georgia
Management's Discussion and Analysis
Fiscal year ended June 30, 2014

The Management's Discussion and Analysis (MD&A) section is omitted in this presentation.

City of Hephzibah, Georgia
Statement of Net Position
As of June 30, 2014
(dollars are in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 14,942	$ 342	$ 15,284	$ -
Accounts receivable, net	36	48	84	-
Interest, dividends, and royalties receivable	-	-	-	-
Internal Balances	-	-	-	-
Receivables from other governments	69	-	69	-
Prepaids	22	19	41	-
Restricted assets: (current)				
Cash and cash equivalents	-	-	-	-
Investments	-	-	-	-
Capital assets:				
Land and construction in progress	1,159	110	1,269	-
Other capital assets, net of accumulated depreciation	1,141	1,781	2,922	-
Total assets	**$ 17,369**	**$ 2,300**	**$ 19,669**	**$ -**
LIABILITIES				
Accounts payable	$ 10	$ 7	$ 17	$ -
Wages and benefits payable	-	-	-	
Payable to component units	-	-	-	-
Bonds payable - current	-	-	-	-
Notes, lease obligations, and estimated claims payable, current	-	-	-	-
Customer Deposits	-	45	45	-
Liabilities payable from restricted assets	-	-	-	-
Payable to primary government, non-current	-	-	-	-
Intergovernmental payable	-	-	-	-
Notes, lease obligations, and estimated claims payable, non-current	-	-	-	-
Bonds payable, non-current	-	-	-	-
Total liabilities	**$ 10**	**$ 52**	**$ 62**	**$ -**
NET POSITION				
Invested in capital assets	$ 2,300	$ 1,891	$ 4,191	$ -
Restricted for:				
Debt service	-	-	-	-
Unrestricted	15,059	357	15,416	-
Total net position	**$ 17,359**	**$ 2,248**	**$ 19,607**	**$ -**

See accompanying notes to financial statements.

City of Hephzibah, Georgia
Statement of Activities
Year Ended June 30, 2014
(dollars are in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Primary government:					
Governmental activities:					
General government	$ 552	$ 43	$ -	$ 2,355	$ 1,846
Public Safety:					
Police	296	54	-	-	(242)
Fire	471	-	-	-	(471)
Municipal Court	26	-	-	-	(26)
Cemetery	-	14	-	-	14
Public works	152	-	-	-	(152)
Total governmental activities	$ 1,497	$ 111	$ -	$ 2,355	$ 969
Business-type activities:					
Water/Sewer	$ 561	$ 391	$ -	$ -	$ (170)
Total business-type activities	561	391	-	-	(170)
Total primary government	$ 2,058	$ 502	$ -	$ 2,355	$ 799

See accompanying notes to financial statements.

City of Hephzibah, Georgia
Statement of Activities (Continued)
Year Ended June 30, 2014
(dollars are in thousands)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Change in Assets:			
Net (expense) revenue	$ 969	$ (170)	$ 799
General revenues:			
Taxes:			
Sales taxes	$ 776	$ -	$ 776
Insurance Premium Tax	207	-	207
Alcoholic Beverage Taxes	65	-	65
Franchise taxes (fees)	176	-	176
Other taxes	2	-	2
Unrestricted investment income	22	2	24
Miscellaneous	1,273	24	1,297
Total general revenues	$ 2,521	$ 26	$ 2,547
Transfers In/Out	**(47)**	**47**	**-**
Change in net position	**3,443**	**(97)**	**3,346**
Net position—beginning	**13,916**	**2,345**	**16,261**
Net position—ending	**$ 17,359**	**$ 2,248**	**$ 19,607**

See accompanying notes to financial statements.

City of Hephzibah, Georgia
Balance Sheet--Governmental Funds
As of June 30, 2014
(dollars are in thousands)

	General	SPLOST Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	$ 2,396	$ 7,820	$ -	$ 10,216
Investments in C/Ds	4,716	-	-	4,716
Accounts receivables	36	-	-	36
Interest receivable	-	-	-	-
Due from other funds	-	-	-	-
Receivable from other Governments	61	8	-	69
Prepaids	22	-	-	22
Total assets	**$ 7,231**	**$ 7,828**	**$ -**	**$ 15,059**
LIABILITIES and FUND BALANCES				
LIABILITIES				
Accounts Payable	$ 10	$ -	$ -	$ 10
Wages and benefits payable	-	-	-	-
Due to other funds	-	-	-	-
Payable to component units	-	-	-	-
Interest payable	-	-	-	-
Deferred revenue	-	-	-	-
Liabilities payable from restricted assets:				
Accounts payable	-	-	-	-
Other	-	-	-	-
Total liabilities	**$ 10**	**$ -**	**$ -**	**$ 10**
FUND BALANCES				
Nonspendable	$ -	$ -	$ -	$ -
Prepaid expense	22	-	-	22
Restricted for:				
Capital projects	-	7,828	-	7,828
Unassigned	7,199	-	-	7,199
Total fund balances	**7,221**	**7,828**	**-**	**15,049**
Total liabilities and fund balances	**$ 7,231**	**$ 7,828**	**$ -**	**$ 15,059**

See accompanying notes to financial statements.

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
(dollars are in thousands)
June 30, 2014

CITY OF HEPHZIBAH, GEORGIA

Total fund balance – total governmental funds	$ 15,059
Amounts reported for *governmental activities* in the statement of net position are different because:	
Capital assets of $ 3,795, net of accumulated depreciation of ($ 1,495), are not financial resources and, therefore, are not reported in the funds. See Note III.A.4. for additional detail.	$ 2,300
Net position of governmental activities.	$ 17,359

See accompanying notes to financial statements.

City of Hephzibah, Georgia
Statement of Revenues, Expenditures,
and Changes in Fund Balances
--Governmental Funds
Year Ended June 30, 2014
(dollars in thousands)

	General	Capital Project (SPLOST) Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Sales tax	$ 776	$ -	$ -	$ 776
Insurance Premium	207	-	-	207
Alcoholic Beverage Taxes	65	-	-	65
Other taxes:				
Intangible	2	-	-	2
Franchise taxes (fees)	176	-	-	176
Licenses and permits	33	-	-	33
Fines and forfeitures	54	-	-	54
Investment income	22	9	-	31
Intergovernmental	44	2,302	-	2,346
Cemetery Income	14	-	-	14
Other	10	-	-	10
Total revenues	**$ 1,403**	**$ 2,311**	**$ -**	**$ 3,714**
EXPENDITURES				
Current:				
General government	$ 379	$ -	$ -	$ 379
Public safety:				
Police	308	-	-	308
Fire	472	-	-	472
Municipal Court	26	-	-	26
Public Works	152	-	-	152
Cemetery	-	-	-	-
Debt services:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital Outlay	-	133	-	133
Total expenditures	**$ 1,337**	**$ 133**	**$ -**	**$ 1,470**
Excess (deficiency) of revenues over (under) expenditures	**$ 66**	**$ 2,178**	**$ -**	**$ 2,244**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	-	-	-
Transfers to other funds	-	(47)	-	(47)
Capital financing	-	-	-	-
Sale of capital assets	-	-	-	-
Premium on bonds	-	-	-	-
Long-term debt issued	-	-	-	-
Net other financing sources (uses)	-	(47)	-	(47)
Net change in fund balances	**$ 66**	**$ 2,131**	**$ -**	**$ 2,197**
Fund balances, beginning	**7,155**	**5,697**	**-**	**12,852**
Fund balances, ending	**$ 7,221**	**$ 7,828**	**$ -**	**$ 15,049**

See accompanying notes to financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
year ended June 30, 2014
(dollars are in thousands)

CITY OF HEPHZIBAH, GEORGIA

Net change in fund balances- total governmental funds	$ 2,197
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 and reported as depreciation expense. This is the amount by which capital outlay of $ 1,351 exceeded depreciation of $ (105) in the current period.	$ 1,246
Change in net position of governmental activities.	$ 3,443

See accompanying notes to financial statements.

City of Hephzibah, Georgia
Statement of Net Position
Proprietary Funds
June 30, 2014
(dollars in thousands)

	Water/Sewer	Total Enterprise Funds
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 342	$ 342
Accounts receivable, net	48	48
Due from other funds	-	-
Prepaids	19	19
Total current assets	**409**	**409**
Restricted assets (current)		
Cash and cash equivalents	$ -	$ -
Total restricted assets (current)	-	-
Non-current assets:		
Capital assets:		
Land and construction in progress	$ 110	$ 110
Other capital assets, net of accumulated depreciation	1,781	1,781
Total non-current assets	1,891	1,891
Total assets	**2,300**	**2,300**
LIABILITIES		
Current Liabilities		
Accounts payable	$ 7	$ 7
Due to other funds	-	-
Customer Deposits	45	45
Total current liabilities	**52**	**52**
Liabilities payable from restricted assets:		
Bond interest payable, current	$ -	$ -
Bonds payable, current	-	-
Total liabilities payable from restricted assets	-	-
Non-current liabilities:		
Bond payable, non-current	$ -	$ -
Total non-current liabilities	-	-
Total liabilities	**52**	**52**
NET POSITION		
Invested in capital assets	$ 1,891	$ 1,891
Restricted for debt service	-	-
Unrestricted (deficit)	357	357
Total net position	**$ 2,248**	**$ 2,248**

See accompanying notes to financial statements.

City of Hephzibah, Georgia
Statement of Revenues, Expenses,
and Changes in Fund Net Position
Proprietary Funds
June 30, 2014
(dollars are in thousands)

	Water/Sewer	Total Enterprise Funds
OPERATING REVENUES		
Charges for services:		
Water charges	$ 353	$ 353
Sewer Charges	38	38
Internal service charges	-	-
Total charges for service	391	391
Total operating revenues	391	391
OPERATING EXPENSES		
Personal services	161	161
Maintenance, operations, and contractual services	204	204
Materials, supplies, and other	104	104
Depreciation	92	92
Total operating expenses	561	561
Operating income (loss)	(170)	(170)
NON-OPERATING REVENUE (EXPENSES)		
Grant income	-	-
Investment income	2	2
Interest on bonds, notes and lease obligations	-	-
Amortization	-	-
Payments from component units	-	-
Other revenue (expenses)	24	24
Total non-operating revenue (expenses)	26	26
Income (loss) before contributions and transfers	(144)	(144)
Capital contributions from developers	-	-
Capital contributions, other	-	-
Transfers from other funds	47	47
Transfers to other funds	-	-
Change in net position	(97)	(97)
Total net position, beginning	2,345	2,345
Total net position, ending	$ 2,248	$ 2,248

See accompanying notes to financial statements.

City of Hephzibah, Georgia
Statement of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents
Proprietary Funds
June 30, 2014
(dollars are in thousands)

	Water/Sewer	Total Enterprise Funds
Cash flows from operating activities:		
Cash received from customers	$ 384	$ 384
Cash payments to suppliers for goods and services	(164)	(164)
Cash payments to employees	(161)	(161)
Payments for internal services	-	-
Other operating revenues	-	-
Net cash provided (used) by operating activities	**$ 59**	**$ 59**
Cash flows from non-capital financing activities:		
Receipts under interfund loan agreements	$ -	$ -
Payments under interfund loan agreements	-	-
Operating grants received	-	-
Transfers from other funds	-	-
Transfers to other funds	-	-
Payments from component units	-	-
Net cash provided (used) by non-capital financing activities	**$ -**	**$ -**
Cash flows from capital and related financing activities:		
Principal paid on bonds, notes, and lease obligations	$ -	$ -
Acquisition of capital assets	(82)	(82)
Interest paid on bonds, notes, and lease obligations	-	-
Proceeds from sale of assets	-	-
Capital contributions	47	47
Capital grants received	-	-
Net cash provided (used) by capital and related financing activities	**$ (35)**	**$ (35)**
Cash flows from investing activities:		
Purchase of investments	$ -	$ -
Proceeds from sale of investments	-	-
Interest earned	2	2
Net cash provided (used) by investing activities	**2**	**2**
Net increase (decrease) in cash and cash equivalents	(92)	(92)
Cash and cash equivalents at beginning of year	434	434
Cash and cash equivalents at end of year	**$ 342**	**$ 342**

See accompanying notes to financial statements.

City of Hephzibah, Georgia
Statement of Cash Flows
Increase (Decrease) in Cash and
Cash Equivalents
Proprietary Funds
June 30, 2014
(dollars are in thousands)

	Water/Sewer	Total Enterprise Funds
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ (170)	$ (170)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	92	92
Non-cash operating revenue (expenses)	-	-
Non-operating revenue (expenses)	24	24
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(7)	(7)
(Increase) decrease in due from other funds	-	-
(Increase) decrease in prepaids	(2)	(2)
Increase (decrease) in accounts payable	2	2
Increase (decrease) in due to other funds	2	2
Increase (decrease) in customer deposits	-	-
Increase (decrease) in liabilities payable from restricted assets	-	-
Total adjustments	111	111
Net cash provided (used) by operating activities	**$ (59)**	**$ (59)**
Non-cash investing, capital, and financing activities:		
Net increase (decrease) in fair value of investments	$ -	$ -
Deferred interest expense on revenue bonds	-	-
Capital assets contributed by developers	-	-
Lessee improvements	-	-
Total non-cash investing, capital, and financing activities	$ -	$ -

See accompanying notes to financial statements.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. A. INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of the City of Hephzibah (City) are discussed in subsequent sections of this Note. The remainders of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2014.

I. B. FINANCIAL REPORTING ENTITY - BASIS OF PRESENTATION

I. B. 1. COMPONENT UNITS

Hephzibah operates under a City Commission form of government and provides the following services: Public Safety, Streets, Sanitation, and General and Administrative services. In addition the City operates two water systems and one sewer system. The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships). The City does not have any component units.

I. B. 2. RELATED ORGANIZATIONS

-NONE-

I. B. 3. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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 excluding fiduciary funds and component units that are fiduciary in nature, such as employee pension plans. The primary government and component units are presented separately within the 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 City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

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, fines and forfeitures and other charges to user of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers.

These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund Financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns of non-major funds.

I. B. 4. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless the conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or with in funds).

Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Pension trust funds recognize employer and participant contributions in the period in which contributions are due and the City has made a formal commitment to provide the contributions. Retirement benefits are recognized when due and payable in accordance with the terms of the plan. See Note VI.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation debt principal and interest which are reported as expenditure in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.
See Note III. A. 2.for related information.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and deprecation of capital assets.

Other revenues and expenses are classified as non-operating in the financial statements. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. See Note III. A.3. for information describing restricted assets.

Allocation of Indirect Expenses

The City does not allocate indirect expenses primarily comprised of central governmental services to operating functions and programs benefiting from those services

I. B. 5. FUND TYPES AND MAJOR FUNDS

The City reports the following major governmental funds:

General Fund – reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

SPLOST Fund – established as a capital projects fund to account for the City's Special Purpose Local Option Sales Tax Revenue and the use of those funds.

There are no none-major governmental funds.

Proprietary Funds

The City reports the following major enterprise funds:

Water/sewer – accounts for water and sewer operations.

During the current year, the City combined the operations of Hephzibah water and sewer with that of Oakridge water to create one system.

Other Fund Types

-NONE-

I. C. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY

I. C. 1. CASH AND INVESTMENTS

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Cash deposits are reported at carrying amount which reasonably estimates fair value.

I. C. 2. INVENTORIES AND PREPAIDS

Inventories are not recorded by the City. Purchases of supplies (maintenance, office, etc.) are charged to expense when increased. Prepaids record payments to vendors that benefit future reporting periods and are reported on the consumption basis. Prepaids are similarly reported in government-wide and fund financial statements.

I. C. 3. CAPITAL ASSETS, DEPRECIATION, AND AMORTIZATION

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective fund and combining component units' financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with cost of $100 or more as purchase and construction outlays occur.

The cost of normal maintenance and repairs that do not add to the asset value of materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	15-25
Water lines	10-12
Sewer lines	20
Improvements, other than building	5-30
Equipment	5-20
Furniture and fixtures	5-10
Vehicles	3
Water Tanks	40
Well/Pumps	12
Infrastructure	20

I. C. 4. CAPITALIZED INTEREST

Interest costs are capitalized when incurred by proprietary funds and similar component units on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

I. C. 5. LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND DISCOUNT/PREMIUMS

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. Bond issuance cost, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

I. C. 6. FUND EQUITY

The governmental fund financial statements report restricted fund balance for amounts not available for appropriation or legally restricted for specified purposes.

I. D. REVENUES, EXPENDITURES, AND EXPENSES

I. D. 1. LEASE REVENUE

-NONE-

I. D. 2. COMPENSATED ABSENCES

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time, permanent employees to specified maximums. Generally, employees are entitled to a percentage of their sick leave balance and all accrued vacation leave upon termination. The City does not record a liability for accumulated vacation and sick leave.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

II.A. DEFICIT NET POSITION

Primary Government *(in thousands)*

The following deficit retained earnings balances existed at June 30, 2014.

-NONE-

II. B. BUDGETARY INFORMATION

II. B. 1. BUDGET POLICY AND PRACTICE

Each year the City Clerk, with the help and input of department supervisors, prepares a proposed budget for consideration by the City Commission.

Generally, 60 days prior to the beginning of the new fiscal year, the City holds a budget hearing seeking comments and fielding questions for citizens. A second budget hearing is held 30 days prior to the beginning of the New Year, at which time the City Commission examines changes to the original proposed budget and approves a final budget.

II. B. 2. BASIS OF BUDGETING

The budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department, which is the legal level of control. "Legal level of control" means the lowest level of budgetary detail at which a local government's management or budget officer may not reassign resources with out approval of the governing authority. The legal level of control shall be, at a minimum, expenditures for each department for each fund for which a budget is required. This does not preclude the governing authority of a local government from establishing a legal level of control at a more detailed level of budgetary control that the minimum required legal level of control. Expenditures may not exceed appropriations at this level. All budget revisions at this level are subject to final review by the City Commission. Within these control levels, management may transfer appropriations without Commission approval subject to dollar amount limitations.

The City was over budget by approximately $ 50,000 in General Government, and $ 15,000 in Police.

The City adopted budgets for the general and capital projects fund on a basis which approximates generally accepted accounting principles (GAAP).

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS

III. A. ASSETS

III. A. 1. DEPOSITS AND INVESTMENTS *(in thousands)*

Deposits (includes certificates of deposit)

It is the City's policy for deposits to be 110 percent secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. The City's deposits are categorized to give an indication of the level of risk assumed by the City at fiscal year-end.

The categories are described as follows:

Category 1 – Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent on the City's name.

Category 3 – Uncollateralized.

Deposits (in thousands), categorized by level of risk, are:

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Primary Government					
Governmental Activities					
General Fund	2,419	-0-	-0-	2,419	2,396
SPLOST Fund	7,820	-0-	-0-	7,820	7,820
	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Business-type Activities					
Water/Sewer	347			347	342
Total deposits	10,586			10,586	10,558

Investments

Generally, the City's investing activities are managed under the custody of the City Commission Chairman. Investing is performed in accordance with investment policies complying with state statutes and the City Charter. City funds may be invested in: (1) direct obligations of the United States government, its agencies or instrumentalities to the payment of which the full faith and credit of the government of the United States is pledged, or obligations to the payment of which the full faith and credit of the State of Georgia is pledged; (2) obligations of the Government National Mortgage Association, Federal National Mortgage Association, or Federal home Loan Mortgage Corporation, or any Federal farm credit bank, Federal land bank or Federal home loan

bank notes or bonds; (3) collateralized or insured certificates of deposit and other evidences of deposits at banks, savings banks, savings and loan associations and credit unions located in the City when secured by appropriate collateral; (4) repurchase agreements that have underlying collateral of direct obligations or obligations of the Unites States government, its agencies and instrumentalities, (5) money market funds regulated by the Securities and Exchange Commission and which investments consist of the authorized (domestic securities) and restrictions as specified in state law; (6) State and Local Government Series (SLGS); and (7) City direct debt obligations for which an ad valorem tax may be levied or bonds issued by a public trust of which the City is a beneficiary and judgments rendered against the City by a court of record, provided it is a prudent investment. The City had no such investments at June 30, 2014.

III. A. 2. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUE

Enterprise Receivables, Uncollectible Accounts, and Deferred Revenue

Significant receivables include amounts due from customers primarily for utility services and the lease agreements for the Water Tank Antenna. These receivables are due within one year. Certain Enterprise funds reports accounts receivables net of allowance for uncollectibles accounts and revenues net of uncollectibles. The allowance amount is estimated using accounts receivable past due more than 60 to 90 days, depending upon the fund. Related amounts are shown in the following table (in thousands):

	Major Enterprise Funds	
	Water/Sewer	Total
Unrestricted accounts receivable	$ 86	$ 86
Restricted accounts receivable	-	-
Total accounts receivable, gross	$ 86	$ 86
Less: allowance for uncollectible accounts	38	38
Net accounts receivable	$ 48	$ 48

Property Taxes Receivables, Deferred Revenue, and Property Tax Calendar

The City does not receive property taxes.

III. A. 3. RESTRICTED ASSETS

Certain enterprise fund and similar component unit assets are restricted for construction funded through long-term debt and Federal grant revenues. Reserved retained earnings generally include the excess of assets over certain liabilities restricted for the debt service on revenue bonds and capital projects.

III. A. 4. CAPITAL ASSETS

Changes in Capital Assets

The following table provides a summary of changes in capital assets (in thousands):

	CAPITAL ASSETS, NOT DEPRECIATED		CAPITAL ASSETS, DEPRECIATED			
Primary Government	Land	Construction in Progress	Water System	Improvements and Buildings	Furniture, Machinery and Equipment	Total
Governmental Activities						
Balance, June 30, 2013	$ 751	$ -	$ -	$ 210	$ 1,494	$ 2,455
Increases	399	8	-	729	204	1,340
Decreases	-	-	-	-	-	-
Balance, June 30, 2014	$ 1,150	$ 8	$ -	$ 939	$ 1,698	$ 3,795
Accumulated Depreciation						
Balance, June 30, 2013	$ -	$ -	$ -	$ 115	$ 1,276	$ 1,391
Increases	-	-	-	20	84	104
Decreases	-	-	-	-	-	-
Balance, June 30, 2014	$ -	$ -	$ -	$ 135	$ 1,360	$ 1,495
Governmental Activities						
Capital Assets, Net	$ 1,150	$ 8	$ -	$ 804	$ 338	$ 2,300
Business-type Activities						
Balance, June 30, 2013	$ 79	$ -	$ 3,159	$ 44	$ 328	$ 3,610
Increases	-	30	19	-	33	82
Decreases	-	-	-	-	-	-
Balance, June 30, 2014	$ 79	$ 30	$ 3,178	$ 44	$ 361	$ 3,692
Accumulated Depreciation						
Balance, June 30, 2013	$ -	$ -	$ 1,409	$ 31	$ 269	$ 1,709
Increases	-	-	76	1	15	92
Decreases	-	-	-	-	-	-
Balance, June 30, 2014	$ -	$ -	$ 1,485	$ 32	$ 284	$ 1,801
Business-type Activities						
Capital Assets, Net	$ 79	$ 30	$ 1,693	$ 12	$ 77	$ 1,891
Primary Government						
Capital Assets, Net	$ 1,229	$ 38	$ 1,693	$ 816	$ 415	$ 4,191

Commitments

Construction projects included in governmental activities are substantially funded with Special Purpose Local Option Sales Tax.

Depreciation Expense

Depreciation expense was charged to functions of the primary government as follow (in thousands):

Governmental Activities		**Business-type Activities**	
General Government	$ 35	Water/Sewer	$ 92
Cemetery	-	Total	$ 92
Police	37		
Fire	32		
Total	$ 104		

III. B. LIABILITIES

III. B. 1. LEASE COMMITMENTS AND NOTES PAYABLE

Capital Leases and Notes Payable (dollars in thousands)

The City had no capital leases or other notes payable at June 30, 2014.

Operating Leases

III. B. 2. LONG-TERM DEBT

Prior Year Defeasance of Debt

In prior years, certain outstanding bonds were defeased by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the financial statements. At June 30, 2014, the following bonds are considered defeased:

Issuing Entity	Reporting Entity	Purpose	Bond	Defeased
Town of Hephzibah	Water Fund	Water System	1967	$73,000

III. B. 3. RISK MANAGEMENT – CLAIMS AND JUDGEMENTS

The City is exposed to various risks of loses related to torts, thefts, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

All significant programs are covered by commercial insurance and no significant changes have occurred in coverage during the past three years. During the year ended June 30, 2014, the City has no claims. The City is not aware of any claims which the City is liable for which were outstanding and unpaid at June 30, 2014. No provisions have been made in the financial statements for the year ended June 30, 2014 for any estimate of potential unpaid claims.

Pursuant to Title 34, Chapter 9, Article 5 of the Official Code of Georgia Annotated, the City of Hephzibah became a member of the Georgia Municipal Association of Workers' Compensation Fund. The effective date of membership was March 1, 1988. The liability of the Fund for employees of any imposed by applicable state laws against the employer for compensation and/or employer's liability.

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 deaths within the preview 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 or compensation therefore, although such suits, other proceedings, allegations or demands be wholly groundless, false or fraudulent. The Fund is to pay all costs taxed against members in any legal proceeding defending by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

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

The City joined the Georgia Interlocal Risk Management Agency which allows the City to share liability, crime, motor vehicle and property damage risks.

Chapter 85 Title 36 of the Official Code of Georgia Annotated authorities 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. GIRMA is 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 must participate at all times in at least one fund which is established by GIRMA. Other responsibilities of the City are as follows:

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

--To select a person to serve as a member representative.

--To allow GIRMA and its agent's 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.

--To allow attorneys appointed by GIRMA 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.

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

--To furnish full cooperation and GIRMA's attorneys. claims adjusters, Service Company, and any agent, employee officer or independent contractor of GIRMA relating to the purposes of GIRMA.

--To follow all loss reduction and prevention procedures established by GIRMA.

--To furnish to GIRMA such budget, operating and underwriting information as may be requested.

--To report as promptly as possible, and in accordance with any Coverage Description issued, all incidents which could result in GIRMA or any Fund established by GIRMA being required to pay a claim for loss or injuries to municipal property or injuries to persons or property when such loss or injury is within the scope of the protection of a Fund or Funds in which the City participates.

--The City retains the first $1,000 of each risk of loss in the form of a deductible. The City files all claims with GIRMA. GIRMA bills the City for any risk of loss up to the $ 1,000 deductible

--The basis for estimating the liabilities for unpaid claim is "IBNR" established by an actuary.

--During the year ended June 30, 2014, the City paid 0 claims. The City has not complied a record of the claims paid up to the $ 1,000 deductible for the prior years. The City is not aware of any claims which the City is liable for (up to the $ 1,000) which were outstanding and unpaid at June 30, 2014. No provisions have been made in the financial statements for the year ended June 30, 2014 for any estimate of potential unpaid claims.

III. C. BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

III. C. 1. RECEIVABLES AND PAYABLES

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-portion of interfund loans).

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

The City had no receivables and payables within the reporting entity at fiscal year-end.

III. C. 2. TRANSFERS AND PAYMENTS

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement. The City's policy is to repay any internal balance in the following year. For the current year, the City showed the following transfers (in thousands):

	Transfers In	Transfers Out
SPLOST Fund	-0-	47
Water/Sewer Fund	47	-0-
	47	47

IV. JOINTLY GOVERNED ORGANIZATION AND JOINT VENTURE

IV. A. JOINTLY GOVERNED ORGANIZATION

-NONE-

IV. B. JOINT VENTURE

Under Georgia law, the City, in conjunction with other cities and counties in the area, is a member of the Central Savannah River Regional Commission (RC) and is required to pay annual dues thereto. Membership in an RC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organization structure of the RC in Georgia. The RC 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 RC. Separate financial statements may be obtained from:

Central Savannah River Regional Commission
P.O. Box 2800
Augusta, GA 30914-2800

V. RETIREMENT PLANS

The City participates in the Social Security Administration, and the State of Georgia Police Officer's Annuity Program. Both plans are administered by others, are separate legal entities, and are not included in the City's financial statements.

The City also participated in the Georgia Municipal Employees Benefit System (GMEBS), a defined benefit pension plan, as authorized by resolution of the City Council. This system is administered by the Georgia Municipal Association, is a separate legal entity and is not included in the City's financial statements. This plan is included in the report of the GMEBS, a copy of which may be obtained from the Georgia Municipal Association.

Ten year historical trend information is presented in separately issued reports by the Administrator of this plan, which provides information about progress made in accumulating sufficient assets to pay benefits when due. This plan is an agent multiple-employer plan covering substantially all the employees of the City, including elected and appointed members of the City's government. Employees are eligible for participation after one year of service and the plan provides for normal and early retirement at age 65 and 55 respectively. The City makes all contributions to the plan; employees are not obligated to make any contributions. The City's total payroll for the current year was $ 599,053 with $ 474,932 being the amount covered payroll for purposes of this plan. The plan is subject to minimum funding standards of the Public Retirement System Standards Law (Georgia Code Section (47-20-10). During the current fiscal year, the City made contributions in the amount of $ 53,687.

a. Funded Status

The table below sets forth requires supplementary information to be disclosed in the schedule of funding progress. The items presented are based on the January 1, 2014 actuarial valuation:

- Actuarial value of assets $ 474,386

  * Method used in calculation: roll forward prior year's actuarial value with contributions, disbursements, and expected return on investments, plus 10% of investment gains (losses) during 10 prior years.

▪ actuarial accrued liability	$ 637,088
▪ funded ratio	74.5%
▪ total unfunded actuarial liability (funding excess)	$ 162,702
▪ annual covered payroll	$ 474,932
▪ ratio of unfunded (excess) to annual covered payroll	34.3%

b. Significant Actuarial Assumptions

The significant actuarial assumptions used to compute the actuarial accrued liability and the annual recommended contribution of the plan meets the Actuarial Standard Practice No. 4, Measuring Pension Obligations, establishing generally accepted actuarial principles and practices. The current valuations are:

- Rate of Return	7.75% per year
- Projected Salary Increases for:	
-Inflation	3.5% per year
-Merit or Seniority	0.5% per year
-Post Retirement Benefit Increases	N/A

c. Effect of Plan Changes of the Actuarial Accrued Liability

The effect on the actuarial accrued liability of any current-year changed in actuarial assumptions or benefit provisions is

- The plan provisions valued and the actuarial assumptions are the same as those used in the preceding valuation.

d. Funding Policy and Annual Contributions

The funding policy for the plan is to contribute an amount equal to the recommended contribution in each year. The recommended contribution meets the guidelines for calculating an annual required contribution set forth in Paragraphs 9-10 of Statement No. 27. These contributions are determined under the projected unit credit actuarial cost method and the asset valuation method for developing the actuarial value of assets.

The period and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years from 1994 and current changes in the funded 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 amortization periods, if applicable, are closed for this plan year.

e. Effect of Plan Changes on Recommended Contributions

The effect on the recommended contributions of any current-year changes in actuarial assumptions, benefit provisions or actuarial funding method is:

- The plan provisions valued and the actuarial assumptions and cost methods are the same as those used to determine the contribution requirement for the proceeding year.

f. Three-year historical trend.

	January 1, 2014	January 1, 2013	January 1, 2012
Actuarial Accrued Liability	$ 637,088	$ 611,019	$ 576,501
Actuarial value of assets	$ 474,386	$ 442,531	$ 412,108
% of actuarial accrued liability	74.4%	72.4%	71.5%
Unfunded actuarial Liability (Surplus)	$ 162,702	$ 168,488	$ 164,393
% of covered payroll	34.3%	39.2%	38.2%
Annual Pension Cost	$ 53,687	$ 47,577	$ 47,006
% of annual pension cost contributed	100%	100%	100%
Annual Covered Payroll	$ 474,932	$ 429,845	$ 429,981
Net pension obligation	-0-	-0-	-0-

Present Value of Accrued Plan Benefits (On-going Basis)

	January 1, 2014 Number of Participants	January 1, 2014 Present Value of Benefits
Vested Benefits of Retired Participants and Beneficiaries currently receiving payments	6	$ 323,592
Other Vested Benefits Terminated vested participants	6	$ 51,359
Active participants	10	$ 182,150
Total present Value of Vested Benefits	22	$ 557,101
Nonvested Benefits	4	$ 15,175
Total Present value of Accrued Plan Benefits	26	$ 572,276
Unfunded Present Value of Accrued Plan Benefits (Surplus)		$ 125,245
Funded Percentage		78.11%

VI. RELATED PARTY TRANSACTIONS

The City was not involved in any related party transaction during the fiscal year June 30, 2014.

VII. CONTINGENCIES

VII. A. LITIGATION

The City is party to various legal proceeding which normally occurs in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City.

VII. B. FEDERAL AND STATE GRANTS

In the normal course of operations, the City receives grant fund from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

City of Hephzibah, Georgia
General Fund
Schedule of Revenues, Expenditures, Encumbrances,
and Changes in Fund Balances--
Budget and Actual (GAAP Budgetary Basis)
Year Ended June 30, 2014
(dollars are in thousands)

	Original Budget	Revised Budget	Total Actual	Variance
REVENUES				
Taxes:				
Sales Tax	$ 720	$ 800	$ 776	$ (24)
Insurance Premium Taxes	200	200	207	7
Alcoholic Beverage Taxes	72	72	65	(7)
Other Taxes	1	1	2	1
Total taxes	993	1,073	1,050	(23)
Licenses and permits:				
Licenses	30	30	30	-
Permits	6	6	3	(3)
Franchise taxes (fees)	182	182	176	(6)
Other fees	-	-	-	-
Total licenses and permits	218	218	209	(9)
Fines and forfeitures	40	40	54	14
Investment income	20	20	22	2
Intergovernmental	30	44	44	-
Rental Income	24	12	-	(12)
Cemetery	5	5	14	9
Other	-	-	10	10
Total revenues before prior year fund balance	1,330	1,412	1,403	(9)
Prior year fund balances				
Appropriated for current year budget	7,155	7,155	7,155	-
Reappropriated for prior year encumbrances	-	-	-	-
Total revenues and prior year fund balances	$ 8,485	$ 8,567	$ 8,558	$ (9)

City of Hephzibah, Georgia
General Fund
Schedule of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances--
Budget and Actual (GAAP Budgetary Basis)
Year Ended June 30, 2014
(dollars are in thousands)

	Original Budget	Revised Budget	Total Actual	Variance
EXPENDITURES AND ENCUMBRANCES				
General government:				
Personal services	$ 63	$ 63	$ 58	$ 5
Supplies	11	11	7	4
Other services and charges	211	155	267	(112)
Capital outlay	100	253	200	53
Total general government	385	482	532	(50)
Public safety:				
Police/Court				
Personal services	293	254	202	52
Other services and charges	42	29	93	(64)
Supplies	24	24	22	2
Capital outlay	20	12	17	(5)
Fire:				
Personal services	410	405	399	6
Other services and charges	47	49	52	(3)
Supplies	12	11	15	(4)
Capital outlay	20	11	5	6
Total public safety	868	795	805	(10)
Expenditures and encumbrances related to prior year budgets (2)	-	-	-	-
Total expenditures and encumbrances	1,253	1,277	1,337	(60)
Excess of revenues over expenditures and encumbrances	$ 7,232	$ 7,290	$ 7,221	$ (69)

City of Hephzibah, Georgia
General Fund
Schedule of Revenues, Expenditures, Encumbrances,
and Changes in Fund Balances--
Budget and Actual (GAAP Budgetary Basis)
Year Ended June 30, 2014
(dollars are in thousands)

	Original Budget	Revised Budget	Total Actual	Variance
OTHER FINANCING SOURCES (USES)				
Transfers from other funds:				
Grants Management Fund	$ -	$ -	$ -	$ -
Capital Project	-	-	-	-
Sanitation	-	-	-	-
Total transfers from other funds	-	-	-	-
Transfers to other funds:				
General government:				
Non-departmental:				
Sanitation	-	-	-	-
Grants Management Fund	-	-	-	-
Risk Management Fund	-	-	-	-
Capital Projects Fund	-	-	-	-
Total transfers to other funds	-	-	-	-
Excess of revenues and other sources over expenditures, encumbrances, and other uses	**7,232**	**7,290**	**7,221**	**(69)**
Fund balances, beginning (-GAAP budgetary basis)	**7,155**	**7,155**	**7,155**	**-**
Less prior year fund balances (1)	(7,155)	(7,155)	(7,155)	-
Fund balance, ending (GAAP budgetary basis)	**$ 7,232**	**$ 7,290**	**$ 7,221**	**$ (69)**

(1) The General Fund budget included $ 7,155 thousand in fund balance carried over from prior years. It is not a revenue of the current period, but is presented as revenue only for budgetary reporting purposes. Beginning budgetary fund balance has been reduced for prior year fund balance to reflect the budgetary ending fund balance projected.

See accompanying notes to financial statements.

City of Hephzibah, Georgia
Notes to the Required Supplementary Information
For the Year Ended June 30, 2014

Note 1 – Budgetary Information

Budgets for the general fund are adopted on a basis that is consistent with accounting principles generally accepted in the United States as applied to governments.

Hawkins & McNair
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF SPECIAL PURPOSE LOCAL OPTION SALES TAX

October 20, 2014

To the Honorable Chairman and City Commission
City of Hephzibah, Georgia

We have audited the accompanying Schedule of Special Purpose Local Option Sales Tax for the City of Hephzibah, Georgia for the year ended June 30, 2014. This schedule is the responsibility of the City of Hephzibah, Georgia's management. Our responsibility is to express an opinion on the Schedule of Special Purpose Local Option Sales Tax 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 Schedule of special Purpose Local Option Sales Tax is free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the Schedule of Special Purpose Local Option Sales Tax. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Schedule of Special Purpose Local Option Sales Tax. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Schedule of Special Purpose Local Option Sales Tax was prepared for the purpose of complying with the Official Code of Georgia Annotated, 48-8-121 on the modified accrual basis as described in Note 1.B.4. and is not intended to be a complete presentation of the City of Colbert, Georgia's revenues and expenditures.

In our opinion, the Schedule of Special Purpose Local Option Sales Tax referred to above presents fairly, in all material respects, the original estimated cost, the current estimated cost, and the current and prior year expenditures for each project in the City of Hephzibah, Georgia's resolution or ordinance calling for the tax for the year ended June 30, 2014, in conformity with accounting principles generally accepted in the United States of America.

Hawkins & McNair, CPAs

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CITY OF HEPHZIBAH, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH
SPECIAL SALES TAX PROCEEDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	ORIGINAL ESTIMATED COST	CURRENT ESTIMATED COSTS	EXPENDITURES PRIOR YEARS	EXPENDITURES CURRENT YEAR	EXPENDITURES TOTAL	ESTIMATED PERCENTAGE OF COMPLETION
SPLOST IV						
Roadway Improvements	$ 984,395	$ 984,395	$ 1,007,492	$ -	$ 1,007,492	100%
City Hall Renovation	85,000	85,000	76,626	-	76,626	91%
Drainage	60,419	100,000	93,985	-	93,985	94%
Equipment	120,000	300,000	254,349	-	254,349	84%
Waterworks Expansion	9,000	900,000	912,678	-	912,678	100%
Administrative Costs	-	150,000	144,898	-	144,898	97%
Total SPLOST IV	**1,258,814**	**2,519,395**	**2,490,028**	**-**	**2,490,028**	**98%**
SPLOST V						
New Well	148,000	148,000	218,008	-	218,008	100%
New Water Tank	860,000	860,000	915,335	-	915,335	100%
Supporting Water Lines	240,000	240,000	132,414	-	132,414	55%
Park-Murphy/Reynolds Streets	15,000	15,000	-	-	-	0%
Fire Ladder/Pumper Truck	391,000	391,000	116,387	23,807	140,194	36%
Police Vehicles/Equipment	360,000	360,000	56,442	11,252	67,694	19%
Water Department Vehicles/Equipment	155,000	155,000	-	-	-	0%
Paving	230,000	230,000	-	97,690	97,690	42%
Sewer Expansion	2,000,000	2,000,000	486,229	-	486,229	24%
City Hall Expansion	94,000	94,000	-	-	-	0%
Tractor/Supporting Equipment	51,000	51,000	2,792	-	2,792	5%
Fire/Admin Building Project	-	2,200,000	337,891	-	337,891	15%
Total SPLOST V	**4,544,000**	**6,744,000**	**2,265,498**	**132,749**	**2,398,247**	**36%**
SPLOST VI						
New Pump House	180,000	180,000	-	-	-	0%
Sewerage Expansion	3,259,000	3,259,000	-	-	-	0%
City Cemetery Expansion	675,000	675,000	235,048	-	235,048	35%
Site Prep.-Fire Station	150,000	150,000	-	-	-	0%
Rescue/Brush Fire Truck	80,000	80,000	-	-	-	0%
Police Vehicle	60,000	60,000	64,970	-	64,970	100%
Radio Equipment Upgrade	20,000	20,000	20,000	-	20,000	100%
Total SPLOST VI	**4,424,000**	**4,424,000**	**320,018**	**-**	**320,018**	**7%**
Total	**$ 10,226,814**	**$ 13,687,395**	**$ 5,075,544**	**$ 132,749**	**5,208,293**	**38%**

Hawkins & McNair
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Chairman and City Commission
City of Hephzibah, 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, and each major fund of City of Hephzibah, Georgia, (City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 20, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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.*

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.

Hawkins & McNair, CPAs
Winder, Georgia
October 20, 2014