CITY OF MCRAE, GEORGIA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2011



HILLIARD & MILTON, LLC
Certified Public Accountants
Certified Internal Auditors
Certified Government Auditing Professionals

CITY OF MCRAE, GEORGIA
FINANCIAL STATEMENTS

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FINANCIAL STATEMENTS

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I. FINANCIAL SECTION

- **INDEPENDENT AUDITOR'S REPORT**
- **BASIC FINANCIAL STATEMENTS**

HILLIARD & MILTON, LLC
A Professional Services Firm of:
Certified Public Accountants
Certified Government Auditing Professionals
Certified Internal Auditors

Partners:
David Hilliard, CPA
Chris Milton, CPA, CIA, CGAP

18 S. Third Ave.
McRae, GA 31055

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council
City of McRae, Georgia

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of McRae, Georgia, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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, business-type activities, each major fund and the aggregate remaining fund information of the City of McRae, Georgia, 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 our report dated May 8, 2012, on our consideration of the City of McRae, Georgia's internal control structure over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City of McRae, Georgia did not present the Management's Discussion and Analysis for the year ended December 31, 2011 required by the Government Accounting Standards Board. The omission of the Management's Discussion and Analysis does not affect the conclusion regarding the fair presentation of the financial statements.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 33 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 or economic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of McRae, Georgia's financial statements as a whole. The combining and individual fund financial statements and schedules and supplementary schedules are presented for purposes of additional analysis and are not a required part of the financial statements. These statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

In the conduct of our audit, we verified and tested expenditures of each project constructed or under construction, which were identified in the resolution or ordinance calling for imposition of the special sales and use tax authorized by OCGA, Section 48-8-110. The accompanying Schedule of Special Purpose Local Option Sales Tax on page 37 lists each project and contains the information required by OCGA, Section 48-8-121. In our opinion this Schedule presents fairly the original estimated cost of each project, expenditures incurred and the estimated percentage of completion of each project through December 31, 2011 and in our opinion, are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Hilliard & Milton, LLC

McRae, Georgia

May 8, 2012

CITY OF MCRAE, GEORGIA
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 1,639,502	$ 643,756	$ 2,283,258
Taxes receivable -			
net of uncollectible accounts	151,738	-	151,738
Mortgage receivable	132,684	-	132,684
Other receivables	640,347	86,635	726,982
Internal balances	374,695	(374,695)	-
Prepaids	19,100	5,000	24,100
Other assets	1,868	-	1,868
Capital assets:			
Nondepreciable	-	519,656	519,656
Depreciable, net	1,201,067	6,686,572	7,887,639
Total assets	$ 4,161,001	$ 7,566,924	$ 11,727,925
LIABILITIES			
Accounts payable	$ 31,779	$ 10,502	$ 42,281
Other accrued liabilities	7,165	26,074	33,239
Noncurrent liabilities:			
Due within one year -			
Notes payable	-	216,740	216,740
Due in more than one year -			
Notes payable	-	2,479,826	2,479,826
Total liabilities	38,944	2,733,142	2,772,086
NET ASSETS			
Invested in capital assets, net			
of related debt	1,201,067	4,509,662	5,710,729
Restricted for -			
Capital projects	965,149	-	965,149
Unrestricted	1,955,841	324,120	2,279,961
Total net assets	4,122,057	4,833,782	8,955,839
Total liabilities and net assets	$ 4,161,001	$ 7,566,924	$ 11,727,925

The accompanying Notes to Financial Statements are an integral part of these statements.

CITY OF MCRAE, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions
Primary government:			
Governmental activities:			
General government	$ 353,059	$ 280,897	$ -
Public safety	1,105,314	15,126	-
Public works	966,776	302,487	-
Health and welfare	6,718	-	-
Culture and recreation	40,106	-	-
Housing and development	14,657	3,068	-
Total governmental activities	2,486,630	601,578	-
Business-type activities -			
Water and sewer	1,088,822	1,109,400	-
Total business-type activities	1,088,822	1,109,400	-
Total primary government	$ 3,575,452	$ 1,710,978	$ -
General revenues:			
Property taxes			
Franchise taxes			
Local option sales taxes			
Hotel Motel tax			
Alcoholic beverage taxes			
Insurance premium taxes			
Interest income			
Miscellaneous			
Total general revenues			
Change in net assets			
Net assets - beginning			
Net assets - ending			

Program Revenues	Net (Expense) Revenue and Changes in Net Assets		
	Primary Government		
Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
$ -	$ (72,162)	$ -	$ (72,162)
13,565	(1,076,623)	-	(1,076,623)
223,299	(440,990)	-	(440,990)
-	(6,718)	-	(6,718)
-	(40,106)	-	(40,106)
2,107	(9,482)	-	(9,482)
238,971	(1,646,081)	-	(1,646,081)
-	-	20,578	20,578
-	-	20,578	20,578
$ 238,971	(1,646,081)	20,578	(1,625,503)
	954,693	-	954,693
	255,742	-	255,742
	267,824	-	267,824
	11,009	-	11,009
	71,786	-	71,786
	269,230	-	269,230
	10,496	5,799	16,295
	57,325	94,291	151,616
	1,898,105	100,090	1,998,195
	252,024	120,668	372,692
	3,870,033	4,713,114	8,583,147
	$ 4,122,057	$ 4,833,782	$ 8,955,839

The accompanying Notes to Financial Statements are an integral part of these statements.

CITY OF MCRAE, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 1,427,180	$ 212,322	$ 1,639,502
Taxes receivable -			
net of uncollectible accounts	151,738	-	151,738
Mortgage receivable	-	132,684	132,684
Other receivables	620,204	20,143	640,347
Due from other funds	374,695	-	374,695
Prepaids	19,100	-	19,100
Other assets	1,868	-	1,868
Total assets	$ 2,594,785	$ 365,149	$ 2,959,934
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 31,779	$ -	$ 31,779
Other accrued liabilities	7,165	-	7,165
Deferred revenue	697,838	-	697,838
Total liabilities	736,782	-	736,782
Fund Balances:			
Nonspendable	19,100	-	19,100
Restricted	-	365,149	365,149
Assigned	600,000	-	600,000
Unassigned	1,238,903	-	1,238,903
Total fund balances	1,858,003	365,149	2,223,152
Total liabilities and fund balances	$ 2,594,785	$ 365,149	$ 2,959,934

The accompanying Notes to Financial Statements are an integral part of these statements.

CITY OF MCRAE, GEORGIA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2011

Amounts reported for governmental activities in the statement of net assets are different because:		
Total governmental fund balance (page 5)		$ 2,223,152
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.		
Cost of capital assets	$ 2,354,367	
Less accumulated depreciation	(1,153,300)	1,201,067
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		697,838
Net assets of governmental activities (page 3)		$ 4,122,057

The accompanying Notes to Financial Statements are an integral part of these statements.

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

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	$ 1,815,542	$ 11,009	$ 1,826,551
Charges for services	326,366	-	326,366
Licenses and permits	33,657	-	33,657
Intergovernmental	13,565	225,406	238,971
Fines and forfeitures	227,572	-	227,572
Interest income	10,496	3,275	13,771
Other income	64,657	-	64,657
Total revenues	2,491,855	239,690	2,731,545
EXPENDITURES			
Current:			
General government	340,467	7,332	347,799
Public safety	1,048,613	-	1,048,613
Public works	892,009	-	892,009
Health and welfare	5,496	-	5,496
Culture and recreation	40,106	-	40,106
Housing and development	8,873	5,784	14,657
Capital outlay:			
Public works	124,380	-	124,380
Total expenditures	2,459,944	13,116	2,473,060
Net change in fund balances	31,911	226,574	258,485
Fund balances, beginning	1,826,092	138,575	1,964,667
Fund balances, ending	$ 1,858,003	$ 365,149	$ 2,223,152

The accompanying Notes to Financial Statements are an integral part of these statements.

CITY OF MCRAE, GEORGIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Amounts reported for governmental activities in the statement of activities (page 4) are different because:		
Net change in fund balances - total governmental funds (page 7)		$ 258,485
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.		
Capital outlay	$ 124,380	
Depreciation expense	(145,282)	(20,902)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		14,441
Change in net assets of governmental activities (page 4)		$ 252,024

The accompanying Notes to Financial Statements are an integral part of these statements.

CITY OF MCRAE, GEORGIA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2011

	Business-Type Activity - Enterprise Fund
	Water and Sewer
ASSETS	
Current assets:	
Cash	$ 643,756
Accounts receivable, net	86,635
Prepaids	5,000
Total current assets	735,391
Noncurrent assets -	
Capital assets:	
Land, nondepreciable	519,656
Buildings and plant, depreciable	10,416,338
Machinery and equipment, depreciable	410,183
Less - accumulated depreciation	(4,139,949)
Capital assets, net	7,206,228
Total assets	$ 7,941,619
LIABILITIES	
Current liabilities:	
Accounts payable	$ 10,502
Other accrued liabilities	26,074
Due to other funds	374,695
Current portion of long-term debt	216,740
Total current liabilities	628,011
Long-term liabilities -	
Long-term debt	2,479,826
Total liabilities	3,107,837
NET ASSETS	
Net assets:	
Invested in capital assets, net of related debt	4,509,662
Unrestricted net assets	324,120
Total net assets	4,833,782
Total liabilities and net assets	$ 7,941,619

The accompanying Notes to Financial Statements are an integral part of these statements.

CITY OF MCRAE, GEORGIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2011

	Business-Type Activity - Enterprise Fund
	Water and Sewer
OPERATING REVENUES	
Sewerage charges	$ 521,108
Water charges	572,731
Late fees	9,011
Cut on fees	6,550
Other revenue	94,291
Total operating revenues	1,203,691
OPERATING EXPENSES	
Personnel services	241,019
Employee benefits	88,579
Repairs and maintenance	36,587
Depreciation	280,190
Supplies and materials	48,452
Professional fees	38,245
Utilities	173,870
Other operating	45,872
Rent	3,324
Insurance	14,477
Total operating expenses	970,615
Operating income	233,076
NON-OPERATING REVENUES (EXPENSES)	
Investment income	5,799
Interest expense	(118,207)
Total non-operating revenues, net	(112,408)
Change in net assets	120,668
Net assets, beginning	4,713,114
Net assets, ending	$ 4,833,782

The accompanying Notes to Financial Statements are an integral part of these statements.

CITY OF MCRAE, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
DECEMBER 31, 2011

	Business-Type Activity - Enterprise Fund Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 1,200,613
Cash paid to suppliers for goods and services	(439,926)
Cash paid to employees for services	(241,019)
Net cash provided by operating activities	519,668
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(64,100)
Principal paid on long-term debt	(207,279)
Interest and fees paid on long-term debt	(120,337)
Net cash used for capital and related financing activities	(391,716)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income on investments	5,799
Net cash provided by investing activities	5,799
Net increase in cash	133,751
Cash, beginning	510,005
Cash, ending	$ 643,756
Classifed as:	
Current assets	$ 643,756
Restricted assets	-
	$ 643,756
Reconciliation of income from operations to net cash provided by operating activities:	
Income from operations	$ 233,076
Depreciation	280,190
Change in accounts payable	9,480
Change in accounts receivable	(3,078)
Net cash provided by operating activities	$ 519,668

The accompanying Notes to Financial Statements are an integral part of these statements.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of McRae, Georgia (City) was chartered in 1874 and operates under a mayor-council form of government and provides the following services as authorized by its charter; general administration services, public safety (police and fire), public works, health and welfare, culture and recreation, and housing and development. The City also operates a public utility (water and sewer) for the incorporated and the immediate surrounding areas.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board ("FASB") issued after November 30, 1989 are not applied in the preparation of the financial statements of the business-type activities and enterprise funds in accordance with an election made by the City under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

A. Reporting Entity

In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The City has no potential component units that should be considered for inclusion in the reporting entity. Principal body excluded is the McRae Housing Authority, a related organization, since independent boards or authorities have been created and charged with operational responsibilities.

B. Joint Ventures

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an on-going financial responsibility. The City participates in the following joint venture:

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Heart of Georgia Altamaha Regional Commission – Under Georgia law, the City, in conjunction with other cities and counties in the region, is a member of the Heart of Georgia, Altamaha Regional Commission (RC) and is required to pay annual dues thereto. During its year ended December 31, 2010, the City paid $5,059 in such dues. Membership in a RC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the RC of 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 a RC. Separate financial statements may be obtained from:

Heart of Georgia Altamaha Regional Commission
5405 Oak Street
Eastman, Georgia 31023

C. Basic Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. 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, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, etc.), which are otherwise being supported by general government revenues (property and other taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. Program revenues include revenues from fines and forfeitures, licenses and permits fees, service assessments, and charges for services. The 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 revenues (property or other taxes, intergovernmental revenues, interest income, etc.).

This government-wide focus is more on the substantiality of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The governmental funds statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the City's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following the statement which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

D. Basis of Presentation

The financial transactions of the City are recorded in individual funds. 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. The various funds are reported by generic classification within the financial statements.

The City reports the following major governmental fund:

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.

The City reports the following non-major governmental fund:

SPLOST Capital Projects Fund accounts for 1% sales tax proceeds required to be used for capital outlay for infrastructure enhancement purposes as authorized by local referendum.

CDBG Revolving Loan Fund accounts for CDBG Redevelopment Funds received as part of the City's efforts to leverage investments in commercial, downtown and industrial redevelopment and revitalization projects.

Hotel Motel Tax Fund accounts for the revenues and expenditures related to the 5% hotel/motel tax levied by the City. This 5% tax provides funds for the promotion of tourism as provided by O.C.G.A. 48-13-51.

The City reports the following major proprietary fund:

Water and Sewer Fund was established for the control of the operating revenue and expenses of the water distribution system and sewerage processing plants.

Non-Current Governmental Assets/Liabilities:

GASB Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments,* eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the government-wide Statement of Net Assets.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Internal Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are any net residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances.

E. 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 measurements made, regardless of the measurement focus applied.

The government-wide financial statements and the 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 when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Grants and similar items are recognized a revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other requirements have been met.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and as deferred revenue by the recipient.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Propriety funds employ the economic resources measurement focus. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and service. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

F. Assets, Liabilities, and Net Assets

1. ***Cash and Cash Equivalents*** - include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

   State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and obligations of the other political subdivisions of the State of Georgia.

   Investments are reflected following the guidance for investment valuations provided by GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investments in non-negotiable certificates of deposit are stated using a cost-based measure.

2. ***Restricted assets*** - are set aside and classified as restricted on the balance sheet because their use is limited by applicable ordinances. If an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted assets will be applied first with any unrestricted assets used if necessary. As of December 31, 2010, no restricted assets existed for the City.

3. ***Short-term Interfund Receivables/Payables*** - During the course of operations, numerous transactions may occur between individual funds for goods provided or services rendered. The purpose of the interfund balances is to account for those transactions that have not been settled as of the financial statement date. These receivables and payables are classified as "due from other funds" or "due to other funds" on the respective fund's balance sheet and as internal balances on the statement of net assets. All interfund balances shown are expected to be settled within one year.

4. ***Accounts Receivable and Taxes Receivable*** - Accounts receivable and taxes receivable, are shown net of an allowance for uncollectible accounts. The allowance for general government accounts receivable is derived from the age of the individual receivable with age categories ranging from 30 days past due to five years past due, and applicable uncollectible percentages ranging from 3% to 100% of the accounts receivable in that category.

   Utility service accounts receivable reported in the funds are reported net of an allowance for uncollectible amounts. The uncollectible amounts are based on collection experience and a review of the status of existing receivables.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5. ***Interfund Transactions*** - The City has two types of interfund transactions.

- Services rendered transactions are accounted for as revenues and expenditures in the funds involved.

- Operating appropriations/subsidies are accounted for as transfers in the funds involved.

Intrafund transfers, except interfund services provided and used and reimbursements, are reported as transfers in or out in the funds involved as other financing sources. However, as a general rule recorded intrafund revenues and expenditures have been eliminated in the GAAP-basis government wide financial statements.

6. ***Prepaid Items*** - Payments made to vendors for services that will benefit periods beyond December 31, 2011, are recorded as prepaid items.

7. ***Inventories*** – On the government-wide financial statements, inventories, as applicable, are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used (i.e., the consumption method).

On the fund financial statements, inventories of governmental funds, as applicable, are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as expenditures in the governmental fund types when consumed.

8. ***Capital Assets*** - Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized in the government-wide financial statements to the extent the City's capitalization threshold of $5,000 is met. Other costs incurred for repairs and maintenance are expensed as incurred. The City's infrastructure consists of roads, bridges and water and sewer lines.

Depreciation on capital assets is calculated on the straight-line basis over the estimated useful lives of the respective assets as follows:

• Buildings and plant	30 - 40 years
• Machinery and equipment	5 - 20 years
• Infrastructure	15 - 25 years

9. ***Compensated Absences*** - The City does not record vacation pay until such benefits are paid. The City's policy is to allow all employees to carryover one (1) week unused accrued vacation at the fiscal year-end. The City does not recognize unused sick pay as a liability, because it does not meet the criteria for accrual. The cost of vacation and sick pay benefits exercised during the current year have been included in expenditures/expenses of the statements.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

10. ***Long-term Obligations*** - In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. As applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

11. ***Fund Equity:***

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net assets".

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

- **Nonspendable** - fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (ie., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

- **Restricted** - fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments

- **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 City Council through the adoption of a resolution. The City Council also may modify or rescind the commitment.

- **Assigned** - fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purpose, but are neither restricted nor committed. Through resolution, the City Council has authorized the City Clerk to assign fund balances.

- **Unassigned** - fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

Net assets – represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any borrowing used (ie., the amount that the City has spent) for the acquisition, construction or improvement of those assets. Net assets are reported as restricted as described in the fund balance section above. All other net assets are reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

12. ***Management Estimates*** **-** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budget Policy and Budgetary Data

Budget Policy

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except capital project funds, which adopt a project-length budget. The budget resolution reflects the total of each department's appropriation in each fund.

The governmental funds budgets are adopted on a basis consistent with GAAP. The budget may be revised or changed during the year with the approval of the Mayor and City Council. Budgetary amounts are not formally integrated into fund general ledgers, and all annual appropriations lapse at year end.

Encumbrance accounting, under which purchase orders, contract and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not utilized by the City. Accordingly, encumbrances outstanding at year end are not reported as reservations of fund balances nor do they constitute expenditures or liabilities. General accepted accounting principles do not require encumbrance accounting.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

A summary of the City's deposits and investments at December 31, 2011 follows:

Account Balances	
Petty cash	$ 895
Demand deposits	1,591,207
Certificates of deposit	691,156
	$ 2,283,258

Ownership of Funds	
Primary Government	
Governmental funds:	
Cash and cash equivalents	$ 1,639,502
Proprietary funds:	
Cash and cash equivalents	643,756
Total reporting entity	$ 2,283,258

Custodial Credit Risk is the risk that in the event of a bank failure, the City's deposits (in excess of FDIC insurance) may not be returned to us.

***Deposits**:*

The City's deposits at year-end were entirely covered by federal depository insurance or by collateral held by the City's custodial banks in the City's name.

Investments:

Interest Rate Risk is the risk that changes in interest rates will adversely affect the value of an investment. 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 rates.

Credit Risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The City has no investment policy that would further limit its investment choices from those authorized and listed in Note IF1.

III. DETAILED NOTES ON ALL FUNDS

B. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. The City levied the 2011 taxes of 10.396 mills on October 14, 2011 payable on December 20, 2011. City property tax revenues are recognized when received unless collection is made within 60 days of year-end, in which case the subsequent collections are recognized at year-end.

Property taxes receivable are recorded in the General Fund. At year end, receivables represent delinquent taxes. Delinquent taxes not paid within 60 days of year end are recorded as deferred revenue.

C. Receivables

Receivables at December 31, 2011, consisted of taxes, mortgage and customers (billings for user charges) arising from services provided.

	Receivable	Allowance	Net
General Fund:			
Taxes receivable	$ 162,738	$ (11,000)	$ 151,738
Customers	631,204	(11,000)	620,204
SPLOST -			
Other	20,143	-	20,143
CDBG Revolving Loan Fund -			
Mortgage	132,684	-	132,684
Total governmental activities	946,769	(22,000)	924,769
Water and Sewer -			
Customers	128,635	(42,000)	86,635
Total business-type activities	128,635	(42,000)	86,635
Total	$ 1,075,404	$ (64,000)	$ 1,011,404

During 2010, the City loaned to a private for-profit entity $138,449 from the CDBG Revolving Loan Fund for the purpose of acquiring and restoring a building to be used as a medical facility. The loan is to be paid back to the City of McRae, Georgia in monthly installments of $956 beginning March 1, 2011 and continuing through March 1, 2026. The note bears an interest rate of 3.0%.

III. DETAILED NOTES ON ALL FUNDS

D. Interfund Receivables and Payables

A summary of individual interfund receivable and payable balances at December 31, 2011 follows:

	Payable to:
Payable from -	General Fund
Water and sewer fund	$ 374,695

E. Transfers

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; to move unrestricted revenues collected in the funds to finance various programs accounted for in other fund in accordance with budgetary authorizations; and to segregate money for anticipated capital projects.

The voter referendum which created the SPLOST Fund authorized a portion of the SPLOST proceeds to be used for water and sewer improvements. From time to time, such expenditures of the SPLOST Fund for water and sewer improvements are reported as a transfer out of the SPLOST Fund to the Water and Sewer Fund. Therefore, the water and sewer improvements are reported in the Water and Sewer Fund.

The City had no transfers during the year ended December 31, 2011.

III. DETAILED NOTES ON ALL FUNDS

F. Capital Assets

Capital asset activity for the year ended December 31, 2011 was as follows:

Governmental Activities:	Balance 12/31/2010	Additions	Retirements	Balance 12/31/2011
Capital assets, being depreciated:				
Buildings and improvements	$ 872,492	$ -	$ -	$ 872,492
Machinery and equipment	1,224,691	124,380	-	1,349,071
Infrastructure	132,804	-	-	132,804
Total capital assets being depreciated	2,229,987	124,380	-	2,354,367
Less accumulated depreciation for:				
Buildings and improvements	324,340	27,066	-	351,406
Machinery and equipment	680,270	109,362	-	789,632
Infrastructure	3,408	8,854	-	12,262
Total accumulated depreciation	1,008,018	145,282	-	1,153,300
Total capital assets, being depreciated, net	1,221,969	(20,902)	-	1,201,067
Governmental activities capital assets, net	$ 1,221,969	$ (20,902)	$ -	$ 1,201,067
Business-type Activities:				
Capital assets, not being depreciated -				
Land	$ 519,656	$ -	$ -	$ 519,656
Total capital assets not being depreciated	519,656	-	-	519,656
Capital assets, being depreciated:				
Buildings and plant	10,416,338	-	-	10,416,338
Machinery and equipment	346,083	64,100	-	410,183
Total capital assets being depreciated	10,762,421	64,100	-	10,826,521
Less accumulated depreciation for:				
Buildings and improvements	3,601,039	258,348	-	3,859,387
Machinery and equipment	258,720	21,842	-	280,562
Total accumulated depreciation	3,859,759	280,190	-	4,139,949
Total capital assets, being depreciated, net	6,902,662	(216,090)	-	6,686,572
Business-type activities capital assets, net	$ 7,422,318	$ (216,090)	$ -	$ 7,206,228

III. DETAILED NOTES ON ALL FUNDS

Depreciation expense was charged to functions / programs as follows:

Governmental Activities:	
General government and administration	$ 12,592
Public safety	56,701
Public works	74,767
Health and welfare	1,222
Total depreciation expense - governmental activities	$ 145,282
Business-type Activities -	
Water and sewer	$ 280,190
Total depreciation expense - business-type activities	$ 280,190

G. Long-term Obligations

The following is a summary of changes in long-term obligations of the City for the year ended December 31, 2011:

	Beginning Balance	Additions	Payments/ Retirements	Ending Balance	Current Portion	Long-term Portion
Business-type Activities:						
GEFA note 86-016-WQ	$ 156,606	$ -	$ (54,342)	$ 102,264	$ 57,280	$ 44,984
GEFA note 99-L95WJA	1,964,793	-	(94,171)	1,870,622	98,168	1,772,454
GEFA note 99-L95WJA	782,446	-	(58,766)	723,680	61,292	662,388
Business-type Activities - long-term liabilities	$ 2,903,845	$ -	$ (207,279)	$ 2,696,566	$ 216,740	$ 2,479,826

Note Payable – GEFA #86-016-WQ

During fiscal year 1993 the City was awarded a loan from the Georgia Environmental Facilities Authority (GEFA) for the purpose of making water and wastewater system improvements in the amount of $756,461. The loan calls for quarterly installments of $15,394 beginning October 1, 1993 at 5.30% per annum. The final payment is scheduled for July 1, 2013.

III. DETAILED NOTES ON ALL FUNDS

The annual requirements to amortize the remaining balance as of December 31, 2011, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2012	$ 57,280	$ 4,294	$ 61,574
2013	44,984	1,197	46,181
	$ 102,264	$ 5,491	$ 107,755

Note Payable – GEFA #99-L95WJA

During fiscal year 2006 the City was awarded a loan from the Georgia Environmental Facilities Authority (GEFA) for the purpose of making water and wastewater system improvements in the amount of $2,362,423. The loan calls for quarterly installments of $43,757 beginning April 1, 2006 at 4.19% per annum. The final payment is scheduled for January 1, 2026.

The annual requirements to amortize the remaining balance as of December 31, 2011, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2012	$ 98,168	$ 76,862	$ 175,030
2013	102,347	72,683	175,030
2014	106,703	68,327	175,030
2015	111,244	63,786	175,030
2016	115,980	59,050	175,030
2017-2021	658,281	216,867	875,148
2022-2026	677,899	65,710	743,609
	$ 1,870,622	$ 623,285	$ 2,493,907

Note Payable – GEFA #99-L95WJ

During fiscal year 2002 the City was awarded a loan from the Georgia Environmental Facilities Authority (GEFA) for the purpose of making water and wastewater system improvements in the amount of $1,173,113. The loan calls for quarterly installments of $22,753 beginning February 1, 2003 at 4.24% per annum. The final payment is scheduled for August 1, 2021.

III. DETAILED NOTES ON ALL FUNDS

The annual requirements to amortize the remaining balance as of December 31, 2011, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2012	$ 61,292	$ 29,719	$ 91,011
2013	63,932	27,079	91,011
2014	66,687	24,324	91,011
2015	69,559	21,452	91,011
2016	72,555	18,456	91,011
2017-2021	389,655	42,615	432,270
	$ 723,680	$ 163,645	$ 887,325

H. Fund Equity

Fund Balances:

... ***Nonspendable*** – The following fund balances are nonspendable because they are allocated to:

General fund –	
Prepaids	$ 19,100

... ***Restricted*** – The following fund balances are restricted for:

Capital Projects Funds -	
SPLOST –	
used to account for capital project financed with SPLOST	$ 223,632
Special Revenue Funds -	
CDBG Revolving Loan Fund –	
used to account for CDBG Redevelopment Funds received as part of the City's redevelopment and revitalization projects	141,517
	$ 365,149

... ***Assigned*** – The following fund balances are assigned to:

General fund –	
to be used for capital outlay purposes of the City	$ 600,000

III. DETAILED NOTES ON ALL FUNDS

Net Assets:

Invested in capital assets, net of related debt reported on the government-wide statement of net assets as of December 31, 2011 are as follows:

	Governmental Activities	Business-Type Activities
Invested in capital assets, net of related debt		
Cost of capital assets	$ 2,354,367	$ 11,346,177
Less accumulated depreciation	(1,153,300)	(4,139,949)
Book value	1,201,067	7,206,228
Less capital related debt	-	(2,696,566)
Invested in capital assets, net of related debt	$ 1,201,067	$ 4,509,662

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year ending December 31, 2011, the City was covered by general liability insurance through Trident Insurance Services. The City was also covered by worker's compensation insurance through Lion Insurance Company.

B. Contingencies and Other

Grant contingencies - The City has received Federal and state grant monies for specific purposes that are subject to review and audit by grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Based upon prior experience, City management believes such disallowances, if any, will not be significant.

Other contingencies and pending litigation - Certain claims, suits, and complaints arising in the ordinary course of operations have been filed or are pending against the City. In the opinion of the City's management, all such matters are adequately covered by insurance, or if not so covered are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of the City if disposed of unfavorably.

IV. OTHER INFORMATION

C. Hotel Motel Lodging Tax

The City has levied a 5% hotel motel tax under the provisions of O.C.G.A. 48-13-51. The code section provides that the City shall expend for the purpose of promoting tourism, conventions, and trade shows a percentage of the total taxes collected under this code section which is not less than the percentage of such tax collections expended for such purposes during the immediately preceding fiscal year. During 2011, the City received $11,009 in hotel motel taxes. The City distributes 40% of the tax receipts to the Pioneer Arts and Historical Society of Telfair County, Georgia on a quarterly basis and expends the remaining 60% for general government purposes. For the year ended December 31, 2011, the City has complied with the expenditures requirements of code section 48-13-51.

D. Peace Officers' Annuity and Benefit Fund

The police officers are covered under a pension plan, which requires that a certain percentage of fines be remitted on a monthly basis to the pension plan before the payment of any costs or other claims.

E. Retiree Life Insurance Program

The City offers its retired employees $10,000 of term life insurance through the Georgia Municipal Association. The life insurance is a continuation of the insurance provided with health insurance for current employees. The benefit provisions and obligation to contribute are established by approval of the City. Once an active employee retires, the City begins to pay the premium to continue the life insurance for each retired employee. The only employee requirement for insurance coverage is to be a current City employee when retiring. The City has the right to establish and amend the benefit provisions of the plan. The current charges for each employee is $3.50 per month, per year and the City covered seven employees for twelve months during 2011 for a total payment of $294. An additional employee is covered but a waiver of premium is in force due to disability. The City expenses the payment within the department the former employee worked.

F. Pension Plan

1. Plan Description

The City contributes to the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer public employee retirement system that acts as an investment and administrative agent for cities and municipalities in Georgia. The City has the right to establish and amend the benefit provisions of the plan. These amendments become effective once approved by the Board of Trustees of GMEBS. The plan is a defined benefit plan.

IV. OTHER INFORMATION

All full-time employees of the City are eligible to participate after being employed for one year working at least 30 hours per week. Benefits fully vest after five (5) years of service. Employees who retire at or after age sixty-five (65) with five (5) years of credited service or after attainment of age fifty-five (55) with ten (10) years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to a percentage of their average monthly earnings as defined in the plan for each year of credit service. The system also provides death and disability benefits. GMEBS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Georgia Municipal Employees Benefit System, 201 Pryor Street-SW, Atlanta, Georgia 30303.

Current membership in the GMEBS is comprised of the following:

Group	July 1, 2010
Retirees and beneficiaries currently receiving benefits	24
Vested terminated employees	21
Active employees:	
Vested	22
Nonvested	13
Total membership in the plan	80

2. Funding Policy

The City is required to contribute based on actuarial funding policy. The annual recommended contribution is the sum of 1) the normal cost (including administrative expenses), 2) the closed level dollar amortization of the unfunded actuarial accrued liability (initial unfunded actuarial accrued liability over 30 years from 1981 and changes in the unfunded actuarial liability over 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods from the end of the year during which such changes arise, and 3) interest on these amounts from the valuation date to the date contributions are paid. These amortization periods, if applicable, are closed for this plan year. The inflation rate assumption for the City of McRae, Georgia is assumed to be the same rate as the current year cost of living adjustments.

Plan provisions and contribution requirements are established by state statute and may be amended by the State. Employees are not required to contribute to the fund.

3. Annual Pension Cost

For 2010, the City's annual pension cost of $119,095, for GMEBS was equal to the City's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the entry age normal actuarial cost method. The significant actuarial assumptions used to compute the actuarial accrued liability and the annual recommended contribution of the plan meet the Actuarial Standard of Practice No. 4, *Measuring Pension Obligations*, establishing generally accepted actuarial principles and practices.

IV. OTHER INFORMATION

The development of the recommended contribution follows:

	Year Beginning July 1, 2011
Total normal cost	$ 74,390
Administrative expenses	9,848
Expected employee contributions	-
Employer normal cost	84,238
Payment on unfunded/(surplus) actuarial accrued liability	30,494
Full funding credit	-
Recommended contribution	114,732
Adjustment to fiscal year	4,363
Total recommended contribution, adjusted for timing	$ 119,095
Recommended contribution as a percentage of expected payroll	9.76%

4. Basis of Valuation

Current 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 11 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 the market value at end of year. The actuarial value is adjusted, if necessary, to be within 50% of market value for 2009, 44% for 2010, 38% for 2011, 32% for 2012, 26% for 2013 and 20% for later years
Actuarial assumptions:	
Annual return on invested plan assets	7.75%
Projected annual salary increases	3.5% plus age and service based merit increases
Expected annual inflation	0.0%

IV. OTHER INFORMATION

5. Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [b-a)/c]
7/1/2011	2,013,627	2,237,672	224,045	89.99%	1,199,432	18.68%

The schedule of funding progress immediately following the notes to 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.

6. Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual City Contribution	Percentage of APC Contributed	Net Pension Obligation
12/31/2009	$ 106,514	$ 106,514	100.00%	$ -
12/31/2010	$ 107,634	$ 107,634	100.00%	$ -
12/31/2011	$ 119,095	$ 119,095	100.00%	$ -

CITY OF MCRAE, GEORGIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
GEORGIA MUNICIPAL EMPLOYEES BENEFIT SYSTEM

	7/1/2011	7/1/2010	10/1/2009
Actuarial Accrued Liability (AAL) Entry Age (b)	$ 2,237,672	$ 2,070,284	$ 1,956,932
Actuarial Value of Assets (a)	2,013,627	1,924,590	1,696,426
Unfunded AAL (funding excess) (UAAL) (b-a)	$ 224,045	$ 145,694	$ 260,506
Funded Ratio (a/b)	89.99%	92.96%	86.69%
Covered Payroll (c)	$ 1,199,432	$ 1,109,039	$ 928,892
UAAL as a Percentage of Covered Payroll ((b-a)/c)	18.68%	13.14%	28.04%

CITY OF MCRAE, GEORGIA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original Budget	Budget As Amended	Actual	Variance with Final Budget - Over (Under)
REVENUES				
Taxes	$ 1,679,700	$ 1,967,250	$ 1,815,542	$ (151,708)
Charges for services	324,825	333,725	326,366	(7,359)
Licenses and permits	37,050	40,100	33,657	(6,443)
Intergovernmental	250,000	15,000	13,565	(1,435)
Fines and forfeitures	204,715	224,270	227,572	3,302
Interest income	10,000	14,000	10,496	(3,504)
Other income	12,500	60,450	64,657	4,207
Total revenues	2,518,790	2,654,795	2,491,855	(162,940)
EXPENDITURES				
Current:				
General government:				
Legislative	36,372	30,351	28,200	(2,151)
Executive	114,537	117,354	118,010	656
Elections	3,610	3,357	3,000	(357)
General administration	185,403	165,150	156,275	(8,875)
Judicial	24,292	36,611	34,982	(1,629)
	364,214	352,823	340,467	(12,356)
Public safety:				
Police	804,700	766,808	746,305	(20,503)
Fire	600,930	312,282	294,152	(18,130)
Other protection	845	8,405	8,156	(249)
	1,406,475	1,087,495	1,048,613	(38,882)
Public works:				
Public works administration	44,357	46,346	45,267	(1,079)
Highways and streets	542,315	430,946	417,636	(13,310)
Solid waste and recycling	439,963	418,954	413,722	(5,232)
Maintenance and shop	2,065	2,665	2,497	(168)
Cemetary	16,225	13,225	12,887	(338)
	1,044,925	912,136	892,009	(20,127)
Health and welfare:				
Health	8,580	5,530	5,083	(447)
Community services	1,520	420	413	(7)
	10,100	5,950	5,496	(454)
Culture and recreation:				
Recreation	35,525	34,775	34,659	(116)
Library	5,450	5,450	5,447	(3)
	40,975	40,225	40,106	(119)
Housing and development:				
Protective inspection	7,550	5,400	5,400	-
Planning and zoning	950	200	158	(42)
Economic development and assistance	14,000	7,500	3,315	(4,185)
	22,500	13,100	8,873	(4,227)
Capital outlay :				
Public works administration	-	17,000	16,987	(13)
Highways and streets	8,000	7,000	6,399	(601)
Solid waste and recycling	-	101,330	100,994	(336)
	8,000	125,330	124,380	(950)
Total expenditures	2,897,189	2,537,059	2,459,944	(77,115)
Excess of revenues over expenditures	$ (378,399)	$ 117,736	31,911	$ (85,825)
Fund balances, beginning			1,826,092	
Fund balances, ending			$ 1,858,003	

See Independent Auditor's Report.

CITY OF MCRAE, GEORGIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011

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1. Schedule of Funding Progress - Georgia Municipal Employee Benefit System

The schedule of funding progress 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.

2. Budgetary Policy

The budget is prepared by City management using generally accepted accounting principles. The budget is then adopted by ordinance of the City Council, as required by generally accepted accounting principles.

The level of budgetary control (the level at which expenditures may not exceed appropriations) is at the department level with the following provisions:

- The City Administrator may transfer funds from one object or purpose to another within the same department.
- The City council may amend the budget by motion during the fiscal year.

Formal budgetary integration is employed as a management control device during the year for all budgeted funds.

3. Excess of Expenditures Over Appropriations in Individual Funds

During the year ended December 31, 2011, no expenditures materially exceeded appropriations in any functions.

CITY OF MCRAE, GEORGIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	Capital Projects SPLOST	Special Revenue CDBG Revolving Loan Fund	Special Revenue Hotel Motel Tax Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	$ 203,489	$ 8,833	$ -	$ 212,322
Other receivables	20,143	-	-	20,143
Mortgage receivable	-	132,684	-	132,684
Total assets	$ 223,632	$ 141,517	$ -	$ 365,149
LIABILITIES AND FUND BALANCES				
Liabilities -				
Accounts payable	$ -	$ -	$ -	$ -
Fund balances:				
Restricted	223,632	141,517	-	365,149
Unassigned	-	-	-	-
Total fund balances	223,632	141,517	-	365,149
Total liabilities and fund balances	$ 223,632	$ 141,517	$ -	$ 365,149

The accompanying Notes to Financial Statements are an integral part of these statements.

CITY OF MCRAE, GEORGIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Capital Projects	Special Revenue		Total Nonmajor
	SPLOST	CDBG Revolving Loan Fund	Hotel Motel Tax Fund	Governmental Funds
REVENUES				
Intergovernmental	$ 223,299	$ 2,107	$ -	$ 225,406
Taxes	-	-	11,009	11,009
Interest income	207	3,068	-	3,275
Total revenues	223,506	5,175	11,009	239,690
EXPENDITURES				
Current:				
General government	-	-	7,332	7,332
Housing and development	-	2,107	3,677	5,784
Total expenditures	-	2,107	11,009	13,116
Net change in fund balances	223,506	3,068	-	226,574
Fund balances - beginning	126	138,449	-	138,575
Fund balances - ending	$ 223,632	$ 141,517	$ -	$ 365,149

The accompanying Notes to Financial Statements are an integral part of these statements.

CITY OF MCRAE, GEORGIA
SCHEDULE OF EXPENDITURES OF
SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Project Description Per SPLOST Referendum	Original Estimated Cost	Expenditures			Estimated Percentage of Completion
		Prior Years	Current Year	Total	
2009 SPLOST:					
Streets	$ 303,200	$ -	$ -	$ -	0.00%
Downtown revitalization	303,200	-	-	-	0.00%
Water and sewer	303,200	-	-	-	0.00%
	$ 909,600	$ -	$ -	$ -	

CITY OF MCRAE, GEORGIA
CDBG REVOLVING LOAN FUND
PROJECT COST SCHEDULE
SOURCE AND APPLICATION OF FUNDS SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011

PROJECT COST SCHEDULE

Program Activity	Activity No.	Latest Approved Budget CDBG Funds	Expenditures Prior Years	Expenditures Current Year	Expenditures Total	Variance
Grant No. 09rd-x-134-2-5208						
ED - Acquisition	E-17C-00	$ 50,000	$ 50,000	$ -	$ 50,000	-
ED - Assistance to Private For-profit Entities	E-18A-00	88,449	88,449	-	88,449	-
Administration	A-21A-00	8,307	6,200	2,107	8,307	-
		$ 146,756	$ 144,649	$ 2,107	$ 146,756	$ -

SOURCE AND APPLICATION OF FUNDS SCHEDULE

Total fiscal year 2010 CDBG funds awarded to recipient:	$ 146,756
Total amount drawndown by recipient from DCA (cumulative):	$ 146,756
Less: CDBG funds expended by recipient (cumulative):	(146,756)
Amount of fiscal year 2010 CDBG funds held by recipient at year end:	$ -

See Independent Auditor's Report.

CITY OF MCRAE, GEORGIA
CDBG REVOLVING LOAN FUND
SCHEDULE OF PROGRAM LOANS
FOR THE YEAR ENDED DECEMBER 31, 2011

Grant No. 09rd-x-134-2-5208

Total CDBG grant award	$ 146,756
Prior year funds advanced	144,649
Current year funds advanced	2,107
Total grant funds advanced	146,756
Prior year program expenditures	144,649
Current year program expenditures	2,107
Total program expenditures	146,756
Funds available after expenditures	-
Prior years program income	-
Current year program income	8,833
Funds available for disposition / lending	$ 8,833

Program Activity and Related Projects:	Authorized Loans
Direct assistance to private for-profit entity:	
Direct loans to local business for creation of area jobs and building rehabilitation	$ 138,449
Prior years repayment of principal	-
Current year repayment of principal	(5,765)
Mortgage loan balance outstanding	$ 132,684

See Independent Auditor's Report.

II. REPORTS REQUIRED BY GOVERNMENTAL AUDITING STANDARDS

HILLIARD & MILTON, LLC
A Professional Services Firm of:
Certified Public Accountants
Certified Government Auditing Professionals
Certified Internal Auditors

Partners:
David Hilliard, CPA
Chris Milton, CPA, CIA, CGAP

18 S. Third Ave.
McRae, GA 31055

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 Honorable Mayor, City Council and Management
City of McRae, Georgia

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of McRae, Georgia, as of and for the year ended December 31, 2011, which collectively comprise the City of McRae, Georgia's basic financial statements and have issued our report thereon dated May 8, 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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2011-1 that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

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

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

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

Hilliard & Milton, LLC

McRae, Georgia

May 8, 2012

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

Section I – Summary of Auditor's Results

Financial Statements:

Type of report issued on the financial statements -	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements noted?	No

Section II – Financial Statement Findings:

The following conditions were disclosed for the year ended December 31, 2011:

Audit Finding

2011-1 Lack of segregation of duties

The audit fieldwork disclosed that the City does not have adequate segregation of duties. It was noted that many of the day to day activities are performed by the same employees.

This overlapping of duties presents a situation where unauthorized use of assets could occur and not be detected on a timely basis.

We recommend management continually exercise alert supervision of employees in order to protect the assets of the City

Management's Response:

We realize that with limited personnel adequate segregation of duties is not possible. Therefore, to mitigate this we exercise alert supervision over all employees.

COUNCILMEMBERS
Sarah J. Bowen
Fred Crawford
Charles Mathis
Vergilene McDonald
Martha Ann Mullis
David Neal

City of McRae

Chartered 1874

P.O. BOX 157
McRAE, GEORGIA 31055

JUNE D. BRADFIELD
Mayor

GRETA S. DAVIDSON
City Clerk/Administrator

CITY HALL
25 South First Avenue
Phone:(229) 868-6051
Fax: (229) 868-2747

May 11, 2012

Georgia Department of Audits and Accounts
Nonprofit and Local Government Audits Division
270 Washington Street, S.W., Room 1-156
Atlanta, Georgia 30334-8400

Dear Sir or Madam:

The following is the corrective action plan for the City of McRae, Georgia for the year ended December 31, 2011. We are in concurrence with the findings and/or recommendations noted in the report. With regards to:

Item 2011-1 – Inadequate Segregation of Duties:

We realize that with limited personnel adequate segregation of duties is not possible. Currently, there are not sufficient funds to hire additional personnel needed to obtain a proper segregation of duties in the City's operations. Due to the current circumstances, management exercises alert supervision over all employees in order to protect the assets of the City of McRae, Georgia.

Sincerely

Greta S. Davidson

Greta Davidson
City Clerk / Manager