CITY OF MCRAE, GEORGIA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2012



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

CITY OF MCRAE, GEORGIA
FINANCIAL STATEMENTS

TABLE OF CONTENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

Page(s)

I. FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT 1-2

BASIC FINANCIAL STATEMENTS:
- **Government-wide Financial Statements:**
  - Statement of Net Position 3
  - Statement of Activities 4
- **Fund Financial Statements:**
  - **Governmental Funds:**
    - Balance Sheet - Governmental Funds 5
    - Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position 6
    - Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds 7
    - Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities - Governmental Funds 8
  - **Proprietary Fund:**
    - Statement of Net Position - Proprietary Fund 9
    - Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund 10
    - Statement of Cash Flows - Proprietary Fund 11
- **Notes to Financial Statements** 12-33

REQUIRED SUPPLEMENTARY INFORMATION:
- Schedule of Funding Progress - Georgia Municipal Employee Benefit System 34
- Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual – General Fund 35-36
- Notes to Required Supplementary Information 37

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES:
- Combining Balance Sheet – Nonmajor Governmental Funds 38
- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds 39

SUPPLEMENTARY SCHEDULE -
- Schedule of Expenditures of Special Purpose Local Option Sales Tax Proceeds 40
- CDBG Capital Projects Fund – Project Cost Schedule 41
- CDBG Capital Projects Fund – Source and Application of Funds Schedule 41
- CDBG Revolving Loan Fund – Schedule of Program Loans 42

CITY OF MCRAE, GEORGIA
FINANCIAL STATEMENTS

TABLE OF CONTENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

Page(s)

II. REPORTS REQUIRED BY GOVERNMENTAL AUDITING STANDARDS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards* 43-44
Schedule of Findings and Responses..... 45

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of McRae, Georgia as of December 31, 2012, 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

The City of McRae, Georgia did not present the Management's Discussion and Analysis for the year ended December 31, 2012 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 pages 35-36 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.

Other Information

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2013, 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.

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 40 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, 2012 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 3, 2013

CITY OF MCRAE, GEORGIA
STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 1,898,613	$ 687,241	$ 2,585,854
Taxes receivable -			
net of uncollectible accounts	625,417	-	625,417
Mortgage receivable	124,568	-	124,568
Other receivables	670,560	85,826	756,386
Internal balances	374,695	(374,695)	-
Prepaids	23,249	5,051	28,300
Other assets	2,211	-	2,211
Capital assets:			
Nondepreciable	735,052	678,013	1,413,065
Depreciable, net	1,140,935	6,409,725	7,550,660
Total assets	5,595,300	7,491,161	13,086,461
LIABILITIES			
Accounts payable	6,619	1,120	7,739
Other accrued liabilities	7,209	23,790	30,999
Noncurrent liabilities:			
Due within one year -			
Notes payable	23,367	211,263	234,630
Due in more than one year -			
Notes payable	1,066,325	2,268,617	3,334,942
Total liabilities	1,103,520	2,504,790	3,608,310
NET POSITION			
Net investment in capital assets	786,295	4,607,858	5,394,153
Restricted for -			
Capital projects	1,274,506	-	1,274,506
Unrestricted	2,430,979	378,513	2,809,492
Total net position	$ 4,491,780	$ 4,986,371	$ 9,478,151

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, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions
Primary government:			
Governmental activities:			
General government	$ 416,045	$ 261,547	$ -
Public safety	1,140,793	10,324	-
Public works	940,181	301,872	-
Health and welfare	8,764	-	-
Culture and recreation	36,651	-	-
Housing and development	12,669	3,918	-
Total governmental activities	2,555,103	577,661	-
Business-type activities -			
Water and sewer	1,144,912	1,112,007	-
Total business-type activities	1,144,912	1,112,007	-
Total primary government	$ 3,700,015	$ 1,689,668	$ -
General revenues:			
Property taxes			
Franchise taxes			
Local option sales taxes			
Hotel Motel tax			
Alcoholic beverage taxes			
Insurance premium taxes			
Interest income			
Miscellaneous			
Transfers			
Total general revenues and transfers			
Change in net position			
Net position - beginning			
Net position - ending			

Program Revenues	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
$ -	$ (154,498)	$ -	$ (154,498)
108,465	(1,022,004)	-	(1,022,004)
463,045	(175,264)	-	(175,264)
-	(8,764)	-	(8,764)
-	(36,651)	-	(36,651)
-	(8,751)	-	(8,751)
571,510	(1,405,932)	-	(1,405,932)
-	-	(32,905)	(32,905)
-	-	(32,905)	(32,905)
$ 571,510	(1,405,932)	(32,905)	(1,438,837)
	965,041	-	965,041
	279,759	-	279,759
	279,332	-	279,332
	13,824	-	13,824
	72,790	-	72,790
	285,967	-	285,967
	7,830	3,927	11,757
	29,469	23,210	52,679
	(158,357)	158,357	-
	1,775,655	185,494	1,961,149
	369,723	152,589	522,312
	4,122,057	4,833,782	8,955,839
	$ 4,491,780	$ 4,986,371	$ 9,478,151

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

CITY OF MCRAE, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 1,394,479	$ 504,134	$ 1,898,613
Taxes receivable - net of uncollectible accounts	625,417	-	625,417
Mortgage receivable	-	124,568	124,568
Other receivables	624,756	45,804	670,560
Due from other funds	374,695	-	374,695
Prepaids	23,249	-	23,249
Other assets	2,211	-	2,211
Total assets	$ 3,044,807	$ 674,506	$ 3,719,313
LIABILITIES			
Accounts payable	$ 6,619	$ -	$ 6,619
Other accrued liabilities	7,209	-	7,209
Total liabilities	13,828	-	13,828
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	441,461	-	441,461
Unavailable revenue - fines	585,081	-	585,081
Unavailable revenue - other	4,375	-	4,375
Total deferred inflows of resources	1,030,917	-	1,030,917
FUND BALANCES			
Nonspendable	23,249	-	23,249
Restricted	-	674,506	674,506
Assigned	600,000	-	600,000
Unassigned	1,376,813	-	1,376,813
Total fund balances	2,000,062	674,506	2,674,568
Total liabilities, deferred inflows of resources, and fund balances	$ 3,044,807	$ 674,506	$ 3,719,313

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 POSITION
DECEMBER 31, 2012

Amounts reported for governmental activities in the statement of net position are different because:		
Total governmental fund balance (page 5)		$ 2,674,568
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.		
Cost of capital assets	$ 3,193,030	
Less accumulated depreciation	(1,317,043)	1,875,987
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.		1,030,917
Long-term liabilities, such as compensated absences and capital leases are not due and payable in the current period and, therefore, are not reported in the funds.		(1,089,692)
Net position of governmental activities (page 3)		$ 4,491,780

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, 2012

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	$ 1,545,862	$ 13,824	$ 1,559,686
Charges for services	346,465	-	346,465
Licenses and permits	38,646	-	38,646
Intergovernmental	108,465	463,045	571,510
Fines and forfeitures	191,829	-	191,829
Interest income	7,830	4,669	12,499
Other income	37,903	-	37,903
Total revenues	2,277,000	481,538	2,758,538
EXPENDITURES			
Current:			
General government	403,453	8,434	411,887
Public safety	1,077,087	-	1,077,087
Public works	853,958	-	853,958
Health and welfare	7,542	-	7,542
Culture and recreation	36,651	-	36,651
Housing and development	7,279	5,390	12,669
Capital outlay:			
Public safety	833,443	-	833,443
Public works	5,220	-	5,220
Total expenditures	3,224,633	13,824	3,238,457
Excess of revenues over expenditures	(947,633)	467,714	(479,919)
OTHER FINANCING SOURCES (USES)			
Loan proceeds	1,089,692	-	1,089,692
Transfer in (out)	-	(158,357)	(158,357)
Total other financing sources (uses)	1,089,692	(158,357)	931,335
Net change in fund balances	142,059	309,357	451,416
Fund balances, beginning	1,858,003	365,149	2,223,152
Fund balances, ending	$ 2,000,062	$ 674,506	$ 2,674,568

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, 2012

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)		$ 451,416
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	$ 838,663	
Depreciation expense	(163,743)	674,920
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Unavailable revenue at December 31, 2012	$ 1,030,917	
Unavailable revenue at December 31, 2011	(697,838)	333,079
The issuance of long-term debt (e.g. bonds, leases), provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(1,089,692)
Change in net position of governmental activities (page 4)		$ 369,723

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

CITY OF MCRAE, GEORGIA
STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2012

	Business-Type Activity - Enterprise Fund
	Water and Sewer
ASSETS	
Current assets:	
Cash	$ 687,241
Accounts receivable, net	85,826
Prepaids	5,051
Total current assets	778,118
Noncurrent assets -	
Capital assets:	
Land, nondepreciable	519,656
Construction in progress, nondepreciable	158,357
Buildings and plant, depreciable	10,416,338
Machinery and equipment, depreciable	417,132
Less - accumulated depreciation	(4,423,745)
Capital assets, net	7,087,738
Total assets	7,865,856
LIABILITIES	
Current liabilities:	
Accounts payable	1,120
Other accrued liabilities	23,790
Due to other funds	374,695
Current portion of long-term debt	211,263
Total current liabilities	610,868
Long-term liabilities -	
Long-term debt	2,268,617
Total liabilities	2,879,485
NET POSITION	
Net investment in capital assets	4,607,858
Unrestricted	378,513
Total net position	$ 4,986,371

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 POSITION
PROPRIETARY FUND
DECEMBER 31, 2012

	Business-Type Activity - Enterprise Fund
	Water and Sewer
OPERATING REVENUES	
Sewerage charges	$ 526,421
Water charges	569,339
Late fees	9,697
Cut on fees	6,550
Other revenue	23,210
Total operating revenues	1,135,217
OPERATING EXPENSES	
Personnel services	263,134
Employee benefits	100,020
Repairs and maintenance	58,809
Depreciation	283,796
Supplies and materials	43,937
Professional fees	53,975
Utilities	181,968
Other operating	30,319
Rent	4,913
Insurance	15,395
Total operating expenses	1,036,266
Operating income	98,951
NON-OPERATING REVENUES (EXPENSES)	
Investment income	3,927
Interest expense	(108,646)
Total non-operating revenues, net	(104,719)
Income (loss) before transfers	(5,768)
Transfer in	158,357
Change in net position	152,589
Net position, beginning	4,833,782
Net position, ending	$ 4,986,371

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, 2012

	Business-Type Activity - Enterprise Fund Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 1,136,026
Cash paid to suppliers for goods and services	(498,769)
Cash paid to employees for services	(263,134)
Net cash provided by operating activities	374,123
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfer in from CDBG capital projects fund	158,357
Acquisition and construction of capital assets	(165,306)
Principal paid on long-term debt	(216,686)
Interest and fees paid on long-term debt	(110,930)
Net cash used for capital and related financing activities	(334,565)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income on investments	3,927
Net cash provided by investing activities	3,927
Net increase in cash	43,485
Cash, beginning	643,756
Cash, ending	$ 687,241
Classifed as:	
Current assets	$ 687,241
Restricted assets	-
	$ 687,241
Reconciliation of income from operations to net cash provided by operating activities:	
Income from operations	$ 98,951
Depreciation	283,796
Change in prepaids	(51)
Change in accounts payable	(9,382)
Change in accounts receivable	809
Net cash provided by operating activities	$ 374,123

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

B. Reporting Entity

The City of McRae, Georgia (City) 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.

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.

C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise fund. Separate financial statements are provided for governmental funds and proprietary funds.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Capital Projects Fund accounts for CDBG funds received by the City which are required to be used for capital outlay for water and sewer plant improvements.

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.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources.* The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The government-wide 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 as revenue as soon as all eligibility requirements imposed by the provider have been met.

The 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, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

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.

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 position are available, restricted assets will be applied first with any unrestricted assets used if necessary. As of December 31, 2012, 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 position. 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 enterprise fund is 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.

5. ***Prepaid Items*** - Payments made to vendors for services that will benefit periods beyond December 31, 2012 are recorded as prepaid items.

6. ***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.

7. ***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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

8. Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused vacation that will be paid to employees at the end of the year. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The City has no item that qualifies for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue,* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues primarily from two sources: property taxes and fines and forfeitures. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

10. Fund Equity:

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

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- **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.

11. Net position flow assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted - net position is applied.

12. Fund balance flow assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

13. 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.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. The City levied the 2011 taxes of 9.895 mills on November 16, 2012 payable on January 20, 2013. 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 unavailable revenue.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. 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 nonoperating revenues and expenses.

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 is adopted on a departmental basis and is amended by the governing board on a periodic basis as required by changing conditions. The budgeted amounts shown represent the final amended budget. It has been restructured in order to conform to the structure of the actual data, which is presented in a form to provide the greatest economic meaning to the data. All appropriations lapse at the end of each fiscal 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 ACTIVITIES AND FUNDS

A. Deposits and Investments

A summary of the City's deposits and investments at December 31, 2012 follows:

Account Balances	
Petty cash	$ 895
Demand deposits	1,633,527
Certificates of deposit	951,432
	$ 2,585,854

Ownership of Funds	
Primary Government	
Governmental funds -	
Cash and cash equivalents	$ 1,898,613
Proprietary funds -	
Cash and cash equivalents	687,241
Total reporting entity	$ 2,585,854

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

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 I. F.

B. Receivables

Receivables at December 31, 2012, consisted of taxes, accounts (billings for user charges), and intergovernmental receivables arising from services provided.

	Receivable	Allowance	Net
General Fund:			
Taxes receivable	$ 636,417	$ (11,000)	$ 625,417
Customers	633,756	(9,000)	624,756
SPLOST -			
Other	45,804	-	45,804
CDBG Revolving Loan Fund -			
Mortgage	124,568	-	124,568
Total governmental activities	1,440,545	(20,000)	1,420,545
Water and Sewer -			
Customers	119,826	(34,000)	85,826
Total business-type activities	119,826	(34,000)	85,826
Total	$ 1,560,371	$ (54,000)	$ 1,506,371

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

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%.

C. Interfund Receivables and Payables

A summary of individual interfund receivable and payable balances at December 31, 2012 follows:

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

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. These amounts also include balances of working capital loans made between funds which the City expects to collect in subsequent years.

The amounts payable to the general fund relate to working capital loans made to the water and sewer fund.

D. Transfers

A summary of fund transfers for the year ended December 31, 2012 follows:

Transfer out -	Transfer in - Water and Sewer Fund
CDBG Capital Projects Fund	$ 158,357

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.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

E. Capital Assets

Capital asset activity for the year ended December 31, 2012 was as follows:

Governmental Activities:	Balance 12/31/2011	Additions	Retirements	Balance 12/31/2012
Capital assets, not being depreciated -				
Construction in progress	$ -	$ 735,052	$ -	$ 735,052
Total capital assets not being depreciated	-	735,052	-	735,052
Capital assets, being depreciated:				
Buildings and improvements	872,492	-	-	872,492
Machinery and equipment	1,349,071	103,611	-	1,452,682
Infrastructure	132,804	-	-	132,804
Total capital assets being depreciated	2,354,367	103,611	-	2,457,978
Less accumulated depreciation for:				
Buildings and improvements	351,406	27,065	-	378,471
Machinery and equipment	789,632	127,824	-	917,456
Infrastructure	12,262	8,854	-	21,116
Total accumulated depreciation	1,153,300	163,743	-	1,317,043
Total capital assets, being depreciated, net	1,201,067	(60,132)	-	1,140,935
Governmental activities capital assets, net	$ 1,201,067	$ 674,920	$ -	$ 1,875,987
Business-type Activities:				
Capital assets, not being depreciated -				
Land	$ 519,656	$ -	$ -	$ 519,656
Construction in progress	-	158,357	-	158,357
Total capital assets not being depreciated	519,656	158,357	-	678,013
Capital assets, being depreciated:				
Buildings and plant	10,416,338	-	-	10,416,338
Machinery and equipment	410,183	6,949	-	417,132
Total capital assets being depreciated	10,826,521	6,949	-	10,833,470
Less accumulated depreciation for:				
Buildings and improvements	3,859,387	258,348	-	4,117,735
Machinery and equipment	280,562	25,448	-	306,010
Total accumulated depreciation	4,139,949	283,796	-	4,423,745
Total capital assets, being depreciated, net	6,686,572	(276,847)	-	6,409,725
Business-type activities capital assets, net	$ 7,206,228	$ (118,490)	$ -	$ 7,087,738

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

Depreciation expense was charged to functions / programs as follows:

Governmental Activities:	
General government and administration	$ 12,592
Public safety	63,706
Public works	86,223
Health and welfare	1,222
Total depreciation expense - governmental activities	$ 163,743
Business-type Activities -	
Water and sewer	$ 283,796
Total depreciation expense - business-type activities	$ 283,796

F. Long-term Obligations

The following is a summary of changes in long-term obligations of the City for the year ended December 31, 2012:

	Beginning Balance	Additions	Payments/ Retirements	Ending Balance	Current Portion	Long-term Portion
Governmental activities:						
USDA note payable #1	$ -	$ 715,067	$ -	$ 715,067	$ 8,501	$ 706,566
USDA note payable #2	-	315,000	-	315,000	3,745	311,255
USDA note payable #3	-	14,625	-	14,625	2,728	11,897
USDA note payable #4	-	45,000	-	45,000	8,393	36,607
Governmental activities - long-term liabilities	$ -	$ 1,089,692	$ -	$ 1,089,692	$ 23,367	$ 1,066,325
Business-type activities:						
GEFA note 86-016-WQ	$ 102,264	$ -	$ (57,280)	$ 44,984	$ 44,984	$ -
GEFA note 99-L95WJA	1,870,622	-	(98,124)	1,772,498	102,347	1,670,151
GEFA note 99-L95WJA	723,680	-	(61,282)	662,398	63,932	598,466
Business-type Activities - long-term liabilities	$ 2,696,566	$ -	$ (216,686)	$ 2,479,880	$ 211,263	$ 2,268,617

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

USDA Note Payable #1

During fiscal year 2012 the City obtained a loan from the U.S. Department of Agriculture (USDA) for the purpose of purchasing and renovating a building for use by the public safety departments in the amount of $1,037,500. As of December 31, 2012, $715,067 of the available loan was disbursed to the City. The loan calls for an interest only payment due May 21, 2013 followed by monthly installments of $4,680 beginning June 21, 2013 at 3.375% per annum. The final payment is scheduled for May 21, 2042.

The annual requirements to amortize the remaining balance as of December 31, 2012, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2013	$ 8,501	$ 38,212	$ 46,713
2014	15,093	23,614	38,707
2015	15,611	23,096	38,707
2016	16,082	22,625	38,707
2017	16,697	22,010	38,707
2018-2022	92,412	101,124	193,536
2023-2027	109,378	84,158	193,536
2028-2032	129,431	64,105	193,536
2033-2037	153,246	40,290	193,536
2038-2042	158,616	12,341	170,957
	$ 715,067	$ 431,575	$ 1,146,642

USDA Note Payable #2

During fiscal year 2012 the City obtained a loan from the U.S. Department of Agriculture (USDA) for the purpose of purchasing and renovating a building for use by the public safety departments in the amount of $315,000. The loan calls for an interest only payment due May 21, 2013 followed by monthly installments of $1,421 beginning June 21, 2013 at 3.375% per annum. The final payment is scheduled for May 21, 2042.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

The annual requirements to amortize the remaining balance as of December 31, 2012, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2013	$ 3,745	$ 16,833	$ 20,578
2014	6,649	10,402	17,051
2015	6,877	10,174	17,051
2016	7,084	9,967	17,051
2017	7,355	9,696	17,051
2018-2022	40,710	44,548	85,258
2023-2027	48,185	37,073	85,258
2028-2032	57,017	28,241	85,258
2033-2037	67,507	17,751	85,258
2038-2042	69,871	5,433	75,304
	$ 315,000	$ 190,118	$ 505,118

USDA Note Payable #3

During fiscal year 2012 the City obtained a loan from the U.S. Department of Agriculture (USDA) for the purpose of purchasing a police vehicle for use by the police department in the amount of $14,625. The loan calls for annual installments of $3,240 beginning September 28, 2013 at 3.5% per annum. The final payment is scheduled for September 28, 2017.

The annual requirements to amortize the remaining balance as of December 31, 2012, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2013	$ 2,728	$ 512	$ 3,240
2014	2,824	416	3,240
2015	2,922	318	3,240
2016	3,025	215	3,240
2017	3,126	110	3,236
	$ 14,625	$ 1,571	$ 16,196

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

USDA Note Payable #4

During fiscal year 2012 the City obtained a loan from the U.S. Department of Agriculture (USDA) for the purpose of purchasing a vehicle for use by the highways and streets department in the amount of $45,000. The loan calls for annual installments of $9,968 beginning September 28, 2013 at 3.5% per annum. The final payment is scheduled for September 28, 2017.

The annual requirements to amortize the remaining balance as of December 31, 2012, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2013	$ 8,393	$ 1,575	$ 9,968
2014	8,687	1,281	9,968
2015	8,991	977	9,968
2016	9,305	663	9,968
2017	9,624	337	9,961
	$ 45,000	$ 4,833	$ 49,833

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.

The annual requirements to amortize the remaining balance as of December 31, 2012, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2013	$ 44,984	$ 1,197	$ 46,181
	$ 44,984	$ 1,197	$ 46,181

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

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, 2012, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
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	120,916	54,114	175,030
2018-2022	686,300	188,850	875,150
2023-2026	529,008	39,612	568,620
	$ 1,772,498	$ 546,422	$ 2,318,920

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.

The annual requirements to amortize the remaining balance as of December 31, 2012, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
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	75,682	15,329	91,011
2017-2021	313,983	27,285	341,268
	$ 662,398	$ 133,925	$ 796,323

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

G. Fund Equity

Fund Balances:

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

General fund –	
Prepaids	$ 23,249

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

Capital Projects Funds -	
SPLOST –	
used to account for capital project financed with SPLOST	$ 529,071
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	145,435
	$ 674,506

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

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

Net Position:

Net investment in capital assets reported on the government-wide statement of position as of December 31, 2012 are as follows:

	Governmental Activities	Business-Type Activities
Net investment in capital assets		
Cost of capital assets	$ 3,193,030	$ 11,511,483
Less accumulated depreciation	(1,317,043)	(4,423,745)
Book value	1,875,987	7,087,738
Less capital related debt	(1,089,692)	(2,479,880)
Net investment in capital assets	$ 786,295	$ 4,607,858

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, 2012, 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.

C. 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:

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, 2012, the City paid $5,740 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

IV. OTHER INFORMATION

D. 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 2012, the City received $13,824 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, 2012, the City has complied with the expenditures requirements of code section 48-13-51.

E. 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.

F. 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 2012 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. The City has not adopted GASB Statement No. 45 relating to its OPEB as it is deemed immaterial to the financial statements taken as a whole.

G. 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, 2012
Retirees and beneficiaries currently receiving benefits	25
Vested terminated employees	21
Active employees:	
Vested	22
Nonvested	14
Total membership in the plan	82

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 $112,740, for GMEBS was equal to the City's required and actual contributions. The required contribution was determined as part of the July 1, 2012 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, 2012
Total normal cost	$ 68,769
Administrative expenses	9,949
Expected employee contributions	-
Employer normal cost	78,718
Payment on unfunded/(surplus) actuarial accrued liability	29,892
Full funding credit	-
Recommended contribution	108,610
Adjustment to fiscal year	4,130
Total recommended contribution, adjusted for timing	$ 112,740
Recommended contribution as a percentage of expected payroll	9.79%

4. **Basis of Valuation**

Current valuation date -	July 1, 2012
Actuarial cost method -	Projected Unit Credit
Amortization method -	Closed level dollar for remaining unfunded liability
Remaining amortization period -	Remaining amortization period varies for the bases, with a net effective amortization period of 10 years
Asset valuation method -	Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than 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]
7/1/2012	2,077,016	2,287,587	210,571	90.80%	1,131,882	18.60%

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
12/31/2010	$ 107,634	$ 107,634	100.00%	$ -
12/31/2011	$ 119,095	$ 119,095	100.00%	$ -
12/31/2012	$ 112,740	$ 112,740	100.00%	$ -

CITY OF MCRAE, GEORGIA

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

	7/1/2012	7/1/2011	7/1/2010
Actuarial Accrued Liability (AAL) Entry Age (b)	$ 2,287,587	$ 2,237,672	$ 2,070,284
Actuarial Value of Assets (a)	2,077,016	2,013,627	1,924,590
Unfunded AAL (funding excess) (UAAL) (b-a)	$ 210,571	$ 224,045	$ 145,694
Funded Ratio (a/b)	90.80%	89.99%	92.96%
Covered Payroll (c)	$ 1,131,882	$ 1,199,432	$ 1,109,039
UAAL as a Percentage of Covered Payroll ((b-a)/c)	18.60%	18.68%	13.14%

CITY OF MCRAE, GEORGIA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Original Budget	Budget As Amended	Actual	Variance with Final Budget - Over (Under)
REVENUES				
Taxes	$ 1,795,150	$ 1,470,050	$ 1,545,862	$ 75,812
Charges for services	323,325	322,775	346,465	23,690
Licenses and permits	30,150	38,700	38,646	(54)
Intergovernmental	250,000	109,500	108,465	(1,035)
Fines and forfeitures	192,500	221,975	191,829	(30,146)
Interest income	10,000	7,850	7,830	(20)
Other income	17,500	29,750	37,903	8,153
Total revenues	2,618,625	2,200,600	2,277,000	76,400
EXPENDITURES				
Current:				
General government:				
Legislative	33,682	60,267	59,747	(520)
Executive	120,687	120,952	116,605	(4,347)
Elections	250	2,412	2,300	(112)
General administration	181,999	167,103	165,601	(1,502)
Judicial	59,643	59,473	59,200	(273)
	396,261	410,207	403,453	(6,754)
Public safety:				
Public safety facility	-	8,150	7,874	(276)
JAG grant expenditures	-	11,500	11,203	(297)
Police	746,918	763,514	763,269	(245)
Fire	560,708	287,158	287,029	(129)
Other protection	845	7,735	7,712	(23)
	1,308,471	1,078,057	1,077,087	(970)
Public works:				
Public works administration	46,378	48,695	48,420	(275)
Highways and streets	499,854	366,084	360,281	(5,803)
Solid waste and recycling	475,656	452,194	427,861	(24,333)
Maintenance and shop	2,510	1,610	1,581	(29)
Cemetary	13,550	16,100	15,815	(285)
	1,037,948	884,683	853,958	(30,725)

See Independent Auditor's Report.

CITY OF MCRAE, GEORGIA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Original Budget	Budget As Amended	Actual	Variance with Final Budget - Over (Under)
Health and welfare:				
Health	6,619	7,208	7,112	(96)
Community services	1,450	450	430	(20)
	8,069	7,658	7,542	(116)
Culture and recreation:				
Recreation	31,000	31,205	31,204	(1)
Library	5,450	5,450	5,447	(3)
	36,450	36,655	36,651	(4)
Housing and development:				
Protective inspection	7,300	3,776	3,714	(62)
Planning and zoning	750	-	-	-
Economic development and assistance	12,000	9,065	3,565	(5,500)
	20,050	12,841	7,279	(5,562)
Capital outlay :				
Public safety facility	-	737,000	735,052	(1,948)
Police	-	65,650	65,586	(64)
Fire	-	32,805	32,805	-
Highways and streets	-	5,220	5,220	-
	-	840,675	838,663	(2,012)
Total expenditures	2,807,249	3,270,776	3,224,633	(46,143)
Excess of revenues over expenditures	(188,624)	(1,070,176)	(947,633)	122,543
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	991,750	1,089,692	-
Total other financing sources (uses)	-	991,750	1,089,692	-
Net change in fund balances	$ (188,624)	$ (78,426)	142,059	$ 122,543
Fund balances, beginning			1,858,003	
Fund balances, ending			$ 2,000,062	

See Independent Auditor's Report.

CITY OF MCRAE, GEORGIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012

---

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, 2012, no expenditures exceeded appropriations in any functions.

CITY OF MCRAE, GEORGIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	Capital Projects		Special Revenue		Total
	SPLOST	CDBG	CDBG Revolving Loan Fund	Hotel Motel Tax Fund	Nonmajor Governmental Funds
ASSETS					
Cash and cash equivalents	$ 483,267	$ -	$ 20,867	$ -	$ 504,134
Other receivables	45,804	-	-	-	45,804
Mortgage receivable	-	-	124,568	-	124,568
Total assets	$ 529,071	$ -	$ 145,435	$ -	$ 674,506
LIABILITIES					
Accounts payable	$ -	$ -	$ -	$ -	$ -
FUND BALANCES					
Restricted:					
Capital projects	529,071	-	-	-	529,071
Redevelopment	-	-	145,435	-	145,435
Tourism promotion	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balances	529,071	-	145,435	-	674,506
Total liabilities and fund balances	$ 529,071	$ -	$ 145,435	$ -	$ 674,506

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, 2012

	Capital Projects		Special Revenue		Total
	SPLOST	CDBG	CDBG Revolving Loan Fund	Hotel Motel Tax Fund	Nonmajor Governmental Funds
REVENUES					
Intergovernmental	$ 304,688	$ 158,357	$ -	$ -	$ 463,045
Taxes	-	-	-	13,824	13,824
Interest income	751	-	3,918	-	4,669
Total revenues	305,439	158,357	3,918	13,824	481,538
EXPENDITURES					
Current:					
General government	-	-	-	8,434	8,434
Housing and development	-	-	-	5,390	5,390
Total expenditures	-	-	-	13,824	13,824
Excess of revenues over expenditures	305,439	158,357	3,918	-	467,714
OTHER FINANCING SOURCES (USES)					
Transfer in (out)	-	(158,357)	-	-	(158,357)
Total other financing sources (uses)	-	(158,357)	-	-	(158,357)
Net change in fund balances	305,439	-	3,918	-	309,357
Fund balances - beginning	223,632	-	141,517	-	365,149
Fund balances - ending	$ 529,071	$ -	$ 145,435	$ -	$ 674,506

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, 2012

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 CAPITAL PROJECTS FUND
PROJECT COST SCHEDULE
SOURCE AND APPLICATION OF FUNDS SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012

PROJECT COST SCHEDULE

Program Activity	Activity No.	Latest Approved Budget CDBG Funds	Expenditures Prior Years	Expenditures Current Year	Expenditures Total	Variance
Grant No. 11p-x-134-2-5353						
Water facilities	P-03J-01	$ 258,235	$ -	$ 131,888	$ 131,888	$ 126,347
Sewer facilities	P-03J-02	192,790	-	5,469	5,469	187,321
Administration	A-21A-00	27,500	-	21,000	21,000	6,500
Contingencies	C-022-00	21,475	-	-	-	21,475
		$ 500,000	$ -	$ 158,357	$ 158,357	$ 341,643

SOURCE AND APPLICATION OF FUNDS SCHEDULE

Total fiscal year 2011 CDBG funds awarded to recipient:	$ 500,000
Total amount drawndown by recipient from DCA (cumulative):	$ 158,357
Less: CDBG funds expended by recipient (cumulative):	(158,357)
Amount of fiscal year 2011 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, 2012

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

Total CDBG grant award	$ 146,756
Prior year funds advanced	146,756
Current year funds advanced	-
Total grant funds advanced	146,756
Prior year program expenditures	146,756
Current year program expenditures	-
Total program expenditures	146,756
Funds available after expenditures	-
Prior years program income	3,068
Current year program income	3,918
Funds available for disposition / lending	$ 6,986
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	(5,765)
Current year repayment of principal	(8,116)
Mortgage loan balance outstanding	$ 124,568

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of McRae, Georgia, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of McRae, Georgia's basic financial statements, and have issued our report thereon dated May 3, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City McRae, Georgia 's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of McRae, Georgia's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of McRae, Georgia'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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2012-1 that we consider to be a significant deficiency.

Compliance and Other Matters

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

City of McRae, Georgia's Response to Findings

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

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.

Hilliard & Milton, LLC

McRae, Georgia

May 3, 2013

CITY OF MCRAE, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012:

Audit Finding

2012-1 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.