CITY OF MIDWAY, GEORGIA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2011

CITY OF MIDWAY

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Independent Auditors' Report

June 8, 2012

Honorable Mayor
and members of the City Council
City of Midway
Midway, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund and the aggregate remaining fund information of the City of Midway (the City) 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 basic financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund and the aggregate remaining fund information of the City as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 8, 2012 our consideration of the City of Midway's internal control over financial reporting and our tests 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 has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was performed for the purpose of forming an opinion on the financial statements of the City taken as a whole. The accompanying financial information listed as supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Holland, Henry, & Bromley, LLP
Savannah, Georgia

CITY OF MIDWAY
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 183,952	$ 408,818	$ 592,770
Certificate of deposit	33,714	59,368	93,082
Receivables			
Miscellaneous		3,288	3,288
Water customers, net		88,101	88,101
Accounts receivable, net	371,469		371,469
Prepaid insurance	8,531	6,066	14,597
Nondepreciable capital assets	10,092	308,947	319,039
Depreciable capital assets (net where applicable)	208,130	4,604,901	4,813,031
Total Assets	$ 815,888	$ 5,479,489	$ 6,295,377
LIABILITIES			
Accounts payable	$ 20,321	$ 32,219	$ 52,540
Accrued bond interest		8,719	8,719
Accrued expenses	3,043	2,028	5,071
Current portion of long-term liabilities		76,235	76,235
Due to other funds	(431,799)	431,799	-
Notes payable		248,887	248,887
Leases payable		153,243	153,243
Customer deposits		94,857	94,857
Long-term liabilities		2,021,035	2,021,035
Total liabilities	(408,435)	3,069,022	2,660,587
NET ASSETS			
Invested in capital assets, net of related debt	218,222	2,414,448	2,632,670
Restricted for:			-
Debt service	-	248,893	248,893
Nonspendable	8,531		8,531
Hotel Motel	21,540		21,540
Unrestricted	976,030	(252,874)	723,156
Total net assets	$ 1,224,323	$ 2,410,467	$ 3,634,790

(The accompanying notes are an integral part of these financial statements.)

CITY OF MIDWAY
STATEMENT OF ACTIVITES
FOR THE YEAR ENDED DECEMBER 31, 2011

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Total
Primary government							
Governmental activities:							
General Government	$ 231,882	$ 143,322			$ (88,560)		$ (88,560)
Public safety	464,261	208,200	$ 12,000		(244,061)		(244,061)
Streets and sanitation	160,434	100,057			(60,377)		(60,377)
Tourism	915				(915)		(915)
Interest	14				(14)		(14)
Total governmental activities	857,506	451,579	12,000	-	(393,927)	-	(393,927)
Business-type activities							
Water and sewer	880,275	792,238	104,238			$ 16,201	16,201
Total business-type activities	880,275	792,238	104,238	-	-	16,201	16,201
Total primary government	$ 1,737,781	$ 1,243,817	$ 116,238	$ -	$ (393,927)	$ 16,201	$ (377,726)
General revenues:							
Taxes:							
Sales taxes					$ 155,968		$ 155,968
Franchise taxes					149,611		149,611
Other taxes					78,821		78,821
Miscellaneous					8,519		8,519
Interest revenue					2,994	$ 1,233	4,227
Total general revenues					395,913	1,233	397,146
Change in net assets					1,986	17,434	19,420
Net assets - beginning					1,222,337	2,393,033	3,615,370
Net assets - ending					$ 1,224,323	$ 2,410,467	$ 3,634,790

(The accompanying notes are an integral part of these financial statements.)

CITY OF MIDWAY

BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 161,591	$ 22,361	$ 183,952
Certificate of deposit	33,714		33,714
Receivables:			
Other funds	432,620		432,620
Accounts receivable, net	371,469		371,469
Prepaid expenses	8,531		8,531
Total assets	$ 1,007,925	$ 22,361	$ 1,030,286
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 20,466		$ 20,466
Deferred revenue	250,201		250,201
Accrued expenses	2,898		2,898
Due to other funds	-	$ 821	821
Total liabilities	273,565	821	274,386
Fund balances:			
Nonspendable	8,531		8,531
Restricted:			-
Hotel Motel		21,540	21,540
Unassigned	725,829		725,829
Total fund balances	734,360	21,540	755,900
Total liabilities and fund balances	$ 1,007,925	$ 22,361	

Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in government activities are not financial resources and, therefore, are not reported in the fund.	218,222
Other long-term assets are not available to pay for the current period expenditures, and, therefore, are deferred in the funds.	250,201
Interfund receivables and payables between governmental funds are reported on the fund balance sheet but eliminated on the government-wide statement of net assets.	
Interfund receivable	821
Interfund payable	(821)
Net assets of governmental activities	$ 1,224,323

(The accompanying notes are an integral part of these financial statements.)

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

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	$ 483,884	$ 2,052	$ 485,936
Intergovernmental grants	12,000		12,000
Licenses and permits	32,306		32,306
Sanitation fees	79,277		79,277
Fines and forfeitures	203,427		203,427
Interest revenue	2,928	66	2,994
Miscellaneous	8,719	-	8,719
Total revenues	822,541	2,118	824,659
EXPENDITURES			
Current			
General government	242,726		242,726
Public safety	460,007		460,007
Streets and sanitation	160,434		160,434
Tourism		821	821
Debt Services:			
Principal	1,970		1,970
Interest	14		14
Capital Outlay	-	-	-
Total Expenditures	865,151	821	865,972
Excess revenues over expenditures	(42,610)	1,297	(41,313)
Other financing sources			
Proceeds from disposal of capital assets	-	-	-
Total other financing sources	-	-	-
Net changes in fund balance	(42,610)	1,297	(41,313)
Fund balances - beginning	776,970	20,243	797,213
Fund balances - ending	$ 734,360	$ 21,540	$ 755,900

(The accompanying notes are an integral part of these financial statements.)

CITY OF MIDWAY

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

Net changes in Fund Balance - Total Governmental Funds	$	(41,313)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated lives as depreciation.		
Depreciation		(21,266)
Capital outlay		27,762
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		34,833
The issuance of long-term debt (i.e.. 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. The amount is the net effect of these differences in the treatment of long-term debt and related items.		1,970
	$	1,986

(The accompanying notes are an integral part of these financial statements.)

CITY OF MIDWAY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	$ 441,000	$ 438,000	$ 483,884	$ 45,884
Licenses and permits	17,120	43,120	32,306	(10,814)
Intergovernmental grants	12,000	12,000	12,000	-
Sanitation fees	90,000	90,000	79,277	(10,723)
Fines and forfeitures	250,000	224,000	203,427	(20,573)
Probation	45,000	11,114	-	(11,114)
Interest revenue	1,585	1,500	2,928	1,428
Miscellaneous	7,500	7,500	8,719	1,219
Total revenues	864,205	827,234	822,541	(4,693)
EXPENDITURES				
General government	242,239	244,238	242,726	1,512
Public safety	480,282	394,251	484,007	(89,756)
Streets and sanitation	138,700	139,700	160,434	(20,734)
Capital Outlay	25,000	58,278	-	58,278
Debt Services:				
Principal	1,651	1,651	1,651	-
Interest	333	333	333	-
Total Expenditures	888,205	838,451	889,151	(50,700)
Excess revenues over expenditures	(24,000)	(11,217)	(66,610)	(55,393)
Other funding sources				
Repayment of loan	24,000	24,000	24,000	-
Net change in fund balances	$ -	$ 12,783	$ (42,610)	$ (55,393)
Fund balances - beginning			776,970	
Fund balances - ending			$ 734,360	

(The accompanying notes are an integral part of these financial statements.)

CITY OF MIDWAY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2011

ASSETS	
Cash	$ 408,818
Certificate of deposit	59,368
Receivables	
Miscellaneous, net	3,288
Water customer, net	88,101
Prepaid expenses	6,066
Total current assets	565,641
Nondepreciable capital assets	308,947
Depreciable capital assets (net where applicable)	4,604,901
Total capital assets	4,913,848
Total assets	$ 5,479,489
LIABILITIES	
Current liabilities:	
Accounts payable	$ 32,219
Accrued bond interest	8,719
Accrued payroll	2,028
Due to other funds	431,799
Notes payable	248,887
Current portion of long-term liabilities	76,235
Total current liabilities	799,887
Non-current liabilities:	
Customer deposits	94,857
Leases payable	153,243
Long-term liabilities	2,021,035
Total non-current liabilities	2,269,135
Total liabilities	3,069,022
Net Assets:	
Invested in capital assets, net of related debt	2,414,448
Restricted for debt services	248,893
Unrestricted	(252,874)
Total net assets	$ 2,410,467

(The accompanying notes are an integral part of these financial statements.)

CITY OF MIDWAY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUND

FOR THE YEAR ENDED DECEMBER 31, 2011

REVENUES	
Water system	$ 792,238
Total operating revenues	792,238
OPERATING EXPENSES	
Depreciation	255,485
Salaries and overtime	191,203
Repairs and maintenance	67,247
Utilities	65,130
Vehicle	30,414
Insurance	25,228
Contract labor	24,000
Payroll taxes	21,609
Pension	14,954
General supplies and material	14,518
Professional fees	14,044
Dues and fees	8,066
Office	6,686
Postage	4,945
Uniforms	4,204
Rental	2,588
Travel and training	2,460
Miscellaneous	1,143
Total operating expenses	753,924
Operating income	38,314
Non-operating revenue (expense):	
Intergovernmental grants	104,238
Interest income	1,233
Interest expense	(126,351)
Total non-operating revenue (expenses)	(20,880)
Net income	17,434
Net asssets - beginning of the year	2,393,033
Net assets - end of the year	$ 2,410,467

(The accompanying notes are an integral part of these financial statements.)

CITY OF MIDWAY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITES	
Cash received from customers and users	$ 792,238
Cash paid to suppliers	(276,884)
Cash paid to employees	(191,203)
Net cash provided by operating activities	324,151
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITES	
Decrease in due to general fund	(110,678)
Net cash used in noncapital financing activities	(110,678)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	(54,753)
Principal payments on debt	(73,497)
Borrowing on debt	586
Intergovernmental revenue	104,238
Interest payments	(126,351)
Net cash used in capital financing activities	(149,777)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned on time deposits	1,233
Net cash provided by investing activities	1,233
Increase in cash	64,929
Cash - beginning of the year	403,257
Cash - end of the year	$ 468,186
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 38,314
Adjustment to reconcile net loss to net cash provided by operating activities:	
Depreciation	255,485
Decrease in accounts receivable	4,896
Increase in accounts payable	16,896
Decrease in accrued interest	(208)
Increase in accrued payroll	978
Increase in customer water deposits	8,215
Increase in prepaid expenses	(425)
Net cash provided by operating activities	$ 324,151
Non-cash transactions:	
Capital activities	$ 9,688

(The accompanying notes are an integral part of these financial statements.)

NOTE 1 - THE REPORTING ENTITY

The City of Midway, Georgia (the City) was incorporated in the State of Georgia on August 3, 1925. The City is operated by a Mayor and City Council consisting of four (4) members who serve on a part-time basis and are elected to four (4) year terms. The City provides services in the following functions: General Government, public safety (fire and police), highway and streets, sanitation, planning and zoning, tourism, and water and sewer services.

The City has implemented the Governmental Accounting Standards Board (GASB) Statement 14, "The Financial Reporting Entity". Statement 14 applies at all levels to all state and local governments. The Statement applies to financial reporting by primary governments, governmental joint ventures, jointly governed organizations, and other stand-alone governments; and it applies to the separately issued financial statements of governmental component units. The financial reporting entity of (a) primary government, (b) organizations for which the primary government is financially accountable, and (c) primary 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 nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, a joint venture, a jointly governed organization, or another stand alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements.

In conformity with GASB Statement 14 there is no component unit that meets the criteria for component units requiring discrete presentation in the primary government financial reporting entity.

NOTE 2 - BASIS OF PRESENTATION

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the City). These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore, clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including taxes, are presented as general revenues.

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.

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 City's enterprise funds are charges to customers for sales and services. 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 on nonoperating revenues and expenses.

The City reports the following major funds:

General Fund – The General Fund is the general operating fund of the City. It is used to account for all revenues and expenditures which are not accounted for in other funds.

Water/Sewer Fund – The Water/Sewer Fund is used to account for operation and maintenance of the City's water and sewer system.

Additionally, the City reports the following fund types:

The special revenue fund accounts for revenue sources that are legally restricted to expenditures for specific purpose.

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

NOTE 3 - BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are generally recognized when they become measurable and available as net current assets. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, the phrase "available for exchange transactions" means expected to be received within 60 days of year-end. Revenues which are susceptible to accrual include (1) garbage collection fees and (2) interest, franchise taxes, sales taxes and intergovernmental revenues when received after the end of the accounting period so as to be both measurable and available.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid vacation, sick pay, and other employee benefits which are not accrued; (2) inventory type items which are expensed when purchased; and (3) principal and interest on general long-term debt which is recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. The flow of current financial resources measurement focus is used for all governmental funds.

Those revenues susceptible to accrual are franchise taxes, licenses, interest revenue and charges for services. Sales taxes collected and held by the state at year-end on behalf of the City are recognized as revenue. Fines and permits are not susceptible to accrual because they generally are not measurable until received in cash.

Proprietary Funds

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Unbilled water and sewer utility service receivables are recorded at year end.

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

GASB No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Governmental-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities and business type activities. Significantly, the statement of net assets will include noncurrent assets which were previously reported in the General Fixed Asset Account Group and the long-term liabilities previously reported in the General Long-Term Debt Account Group. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets.

Like the government-wide financial statements, all proprietary fund types are accounted for on a flow of economic resources management focus on both financial reporting levels.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgetary Data

1. Budgets are adopted for all governmental fund types. Prior to December 1, the Mayor submits to the Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Council holds a public hearing on the budget, giving notice thereof at least ten days in advance by publication in the official organ.
3. The budget is then revised and adopted or amended by the Council prior to December 31.
4. The budget so adopted may be revised during the year only by formal action of the Council in a regular meeting and no increase shall be made therein without provision also being made for financing same.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles.
6. The City amended the budget three times during the current year. All expenditures were approved by the City Council before funds were expended.
7. The level of control (level at which expenditures may not legally exceed the budget) is exercised by the Mayor and Council at the department level.

Encumbrances

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

Inventory

Inventory consists of expendable supplies held for consumption. The cost of these supplies on hand are considered immaterial to the balance sheets of the various funds and are not shown as assets of the funds nor is any portion of the fund balance reported as an expenditure when purchased.

Receivables

Accounts receivable of the Water and Sewer Fund are stated net of an allowance for doubtful accounts of $85,000.

Accounts receivable of the Governmental Fund are stated net of an allowance for doubtful accounts of $12,356.

Compensated absences and other employee benefits

Accumulated unpaid vacation, sick pay and other fringe benefits are not accrued since the amounts do not exceed a normal year's accumulation. These expenses are recorded as incurred.

Deficits

There were no material deficits in the City's funds as of December 31, 2011.

Deposits and investments

The City's cash and cash equivalents consists of cash on hand and on deposit with financial institutions. For purposes of reporting cash on the statement of net assets, the City considers all unrestricted highly liquid investments with original maturities of three months or less from the date of acquisition to be cash equivalents.

All investments are reported at fair value, which is based on quoted market prices.

The City is authorized by Georgia statutes to invest in the following:

1. Deposit accounts with eligible depository institutions,
2. Obligations of the State of Georgia or of other states,
3. Obligations issued by the United States government,
4. Obligations fully insured or guaranteed by the United States government or a United States government agency,
5. Obligations of any corporation of the United States government,
6. Prime banker's acceptances,
7. The local government investment pool established by Georgia Code Section 36-83-8,
8. Repurchase agreements, and
9. Obligations of other political subdivisions of the State of Georgia

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair value on the date received. For roads and bridges, the City will only capitalize infrastructure constructed after December 31, 2003.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Infrastructure	20 – 50
Buildings	20 – 50
Improvements	20 – 50
Machinery, equipment, furniture and vehicles	3 – 15
Systems in service	5 – 50
Other equipment	3 – 10

NOTE 5 - DEPOSITS AND INVESTMENTS

At year end, the carrying amount of the City's deposits was $592,770 and the certificates of deposit carrying amount was $93,082 for a total carrying amount of $685,852. The financial institution balance was $652,788 and $93,082 for cash deposits and certificates of deposit respectively for a total financial institution balance of $745,870, which was entirely insured or collateralized with securities held by the pledging financial institution's agent in the City's name.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to the City. The Official Code of Georgia Annotated (OCGA) Section 45-8-12 provides that there shall not be on deposit at any time in any depository for a time longer than ten days a sum of money which has not been secured by a surety bond, by guarantee of insurance, or by collateral. The aggregate of the face value of such surety bond and the market value of securities pledged shall be equal to not less than 110% of the public funds being secured after the deduction of the amount of depository insurance. The city has no custodial credit risk policy that would require additional collateral requirements.

The carrying amount of the City's deposits and certificates of deposit are classified as follows on the statement of net assets:

Cash and cash equivalents	$ 592,770
Certificates of deposit	93,082
Total	$ 685,852

Interest rate risk is the risk that changes in interest rates will adversely affect the fair 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 issuer or counterparty to an investment will not fulfill its obligations. State law governs the investment of retirement funds (OCGA 47-20-84) and limits investments to maximum concentrations by investment category (at cost). The City has no formal investment policy that would further limit its investment choices.

NOTE 6 - LITIGATION AND COMMITMENTS

At December 31, 2011, the City was involved in pending litigation with the Liberty County Development Authority. No asset or liability related to this claim has been recorded in the financial statements, as the outcome of the claim is uncertain.

NOTE 7 - STEWARDSHIP AND COMPLIANCE

The City participates in various federally and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

NOTE 8 - PENSION REQUIREMENTS

The City participates in the Georgia Municipal Employees Benefit System (GMEBS). The Board of Trustees of GMEBS has adopted an actuarial funding policy for determination of annual contributions and the systematic funding of liabilities arising under the plan. The plan is an agent multiple-employer defined benefit pension plan. The minimum annual contribution is required under Public Retirement Systems Law (Georgia Code Section 47-20-10). The primary benefit of the plan is to fund retirement for participant employees. Benefits are fully vested after 10 years of service. Participants become eligible to retire at 65, with 5 years of participation in the Plan. Upon eligibility to retire, participants are entitled to an annual benefit in the amount of 1.5% of final average earnings up to a participant's amount of covered compensation, multiplied by the participant's years of total credited service. These benefit provisions and all other requirements are established and amended by local ordinance. **The pension plan issues a stand-alone financial report.**

The GMEBS issues a publicly available financial report that includes financial statements and supplementary information. The report may be obtained by writing to:

Georgia Municipal Association
201 Pryor Street, SW
Atlanta, Georgia 30303-3606

Trend information

Year ending	Annual Pension Cost	% of APC Contributed	Net Pension Obligation
12/31/09	$ 31,155	100%	-
12/31/10	$ 44,863	100%	-
12/31/11	$ 35,064	100%	-

Annual pension cost for the year ended December 31, 2011 was $35,064, which equals the actual contribution. The required contribution rate of the City is 9.17% of the employee's salary. The employees are not required to make contributions. July 1, 2011 is the actuarial valuation date. On this date there was no actuarial accrued liability. The pension plan issues a stand-alone financial report.

Significant Actuarial Assumptions

The significant actuarial assumptions used to compute the actuarial accrued liability are the same as those used to compute the actuarial determined contribution requirements of the plan.

The significant actuarial assumptions used in the current valuation are:

Rate of return on investment	7.75% per year
Projected salary increases for	
inflation	3.5% per year
merit of seniority	Varies based on years of service
Post retirement benefit increases	Not applicable

Effect of Plan Changes on the Actuarial Accrued Liability

During 2011, the expected rate of return on investment and projected salary increases for inflation remained consistent with the corresponding rates for 2010. Projected salary increases based on merit of seniority were modified based on years of service. As a result, the actuarial accrued liability increased from $287,463 at July 1, 2010 to $323,123 at July 1, 2011.

Funding Policy and Annual Contributions

The funding policy for the plan is to contribute an amount equal to the recommended contribution in each year. These contributions are determined under the projected unit credit actuarial cost method. The period and related method for amortizing the initial unfunded actuarial accrued liability is 30 years from 1997 and current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods as a level dollar amount. The recommended contributions under this policy for 2011 are shown below:

Normal cost	
Plan benefits	$ 20,385
Administrative expenses	3,607
Recommended contribution	35,064
Covered payroll	382,377
Recommended contribution as a %	
Of covered payroll	9.17%

Effect of Plan Changes on Contribution Requirements

During 2011, the expected rate of return on investment was consistent with the return for 2010. The required contribution was decreased to 9.17% of employee pay from 12.10% in the previous year in order to achieve a 78.66% overall funded ratio.

Current Plan Membership

As of July 1, 2011, the current plan membership includes the following categories of participants:

Retirees and beneficiaries currently receiving benefits	5
Terminated employees entitled to benefits but not yet receiving them	1
Current active employees	
Vested	7
Nonvested	9
Total membership in the plan	22

Historical Trend Information

The table below sets forth required supplementary information to be disclosed in the plan's financial statements. The items presented are based on the July 1, 2011 actuarial valuation:

Market value of assets	$ 234,905
Actuarial accrued liability	323,123
Percentage funded	72.70%
Unfunded actuarial accrued liability (funding excess)	68,941
Annual covered payroll	382,377
Actuarial accrued liability as a percentage of covered payroll	84.50%

Fiscal Year Starting September 1	Actuarial Value of Assets	Actuarial Accrued Liability	% Funded	Unfunded Accrued Liability	Annual Covered Payroll	Actuarial Accrued Liability as a % of Covered Payroll
2009	194,160	275,907	70.4%	81,747	373,358	74%
2010	215,590	287,463	75.0%	71,873	364,443	79%
2011	254,182	323,123	78.7%	68,941	382,377	85%

Asset Data

GMEBS has supplied all asset data used in the valuation. The market value of assets is based on current values as of two months preceding the valuation date and is assumed to be current through that date.

Participant Data

The primary source of participant data for the current valuation is a census of all participants which was prepared by the employer through GMEBS. The data are typically collected by the employer two months prior to valuation date and assumed to be current through that date. Current payroll was $514,070. This pension plan issues a stand-alone report. Annual pension costs totaled $44,863.

The amortization period for the unfunded actuarial liability is open.

Actuarial Assumptions and Methods

Economic Assumptions

Interest rate	7.75%
Annual rates of increase in:	
Salaries	3.5%
Future Social Security Wage Bases	3.5%
Cost of living adjustment	N/A

Demographic Assumptions

Mortality	RP-2000 Combined Mortality Tables
Termination	See table below
Disability	50% of 1975 SSA study
Retirement	Employees: 65 with 5 years of service Officials: 65
Form of payment	Life annuity
Administrative expenses	$2,500 plus $45 per participant, plus .05% of the market value of the assets.

Age	Rate
20	.2580
30	.1560
40	.0945
50	.0585
60	--

Actuarial Methods

Normal Cost and Actuarial Accrued Liability	Projected Unit Credit
Actuarial Value of Assets	Sum of the actuarial value at the beginning of the year and the cash flow during the year plus the assumed investment return, adjusted by 10 percent 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 20% of market value.

NOTE 9 - PRIOR PERIOD ADJUSTMENTS

The City had no prior period adjustments for the year ended December 31, 2011.

NOTE 10 - DUE (TO) FROM OTHER FUNDS

At December 31, 2011, the following interfund payables and receivables existed:

General Fund:	
Due from Water and Sewer Fund	431,799
Due from Hotel Motel Fund	821
	432,620
Water Sewer Fund:	
Due to General Fund	(431,799)
Hotel Motel Fund:	
Due to General Fund	(821)

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. The City expects to pay all interfund balances within one year.

NOTE 11 - CAPITAL ASSETS OF GENERAL FUND

	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
Capital assets not being depreciated:				
Land	$ 10,092	-	-	$ 10,092
Total nondepreciable capital assets	10,092	-	-	10,092
Other capital assets:				
Building	218,185			218,185
Improvements	33,778			33,778
Vehicles	228,948	$ 17,012		245,960
Machinery and equipment	89,606	10,750		100,356
Infrastructure	74,747			74,747
Furniture and fixtures	4,137	-	-	4,137
Total other capital assets	649,401	27,762	-	677,163
Accumulated depreciation				
Building	95,068	3,184		98,252
Improvements	33,778			33,778
Vehicles	215,449	10,626		226,075
Machinery and equipment	87,579	2,473		90,052
Infrastructure	11,756	4,983		16,739
Furniture and fixtures	4,137	-	-	4,137
Total accumulated depreciation	447,767	21,266	-	469,033
TOTAL	$ 211,726	$ 6,496	$ -	$ 218,222

Depreciation expense:	
General government	$ 3,184
Public safety	13,099
Streets and sanitation	4,983
Total depreciation expense	$ 21,266

NOTE 12 - CAPITAL ASSETS OF PROPRIETARY FUND

	12/31/2010	Additions	Deletions	12/31/2011
Capital assets not being depreciated:				
Land	$ 308,947	$ -	$ -	$ 308,947
Other capital assets:				
Equipment and vehicles	396,834	64,441	(29,064)	432,211
Systems in service	7,316,784			7,316,784
Buildings	22,647	-	-	22,647
Total other capital assets	7,736,265	64,441	(29,064)	7,771,642
Accumulated depreciation:				
Equipment and vehicles	275,466	69,764	(19,376)	325,854
Systems in service	2,643,078	184,877		2,827,955
Buildings	12,088	844	-	12,932
Total accumulated depreciation	2,930,632	255,485	(19,376)	3,166,741
TOTAL	$ 5,114,580	$ (191,044)	$ (9,688)	$ 4,913,848

NOTE 13 - LONG-TERM DEBT

The following is a summary of transactions during the current year:

	Water & Sewer Fund Bonds	Water & Sewer Fund Notes Payable	Water & Sewer Fund Leases Payable	General Leases Payable
Debt outstanding December 31, 2010	$ 2,121,027	$ 248,301	$ 202,983	$ 1,970
Debt incurred during current year		586		
Debt paid during current year	(49,359)	-	(24,138)	(1,970)
Debt outstanding December 31, 2011	$ 2,071,669	$ 248,887	$ 178,844	$ -

The water and sewer fund notes payable consisted of one note payable to a local financial institution for financing for water and sewer extension and equipment. The interest rate was 4.00% per annum. The original loan amount was $248,887.

The City's long-term debt to maturity, including interest of $9,956, is as follows:

Year ending December 31, 2012	$ 258,842

The water and sewer fund leases payable consisted of one lease from Koch Financial Corporations for financing the new water sewer meter reading equipment. Interest rate is 6.06%. The original loan amount is $267,433. At December 31, 2011, $25,601 was current lease payable with $153,243 long term.

Revenue bonds

The resolutions under which the bond series were issued provide that principal and interest are to be paid solely from the revenues of the system, which are pledged for that purpose. The bonds were issued to finance water and sewer extension and equipment. The bonds outstanding at year end are as follows:

Serial Revenue Bonds	Original Issue	Interest Rate	Maturity	Bond payable
1975 series	$ 115,000	5.00%	2014	$ 19,000
1980 series	40,000	5.00%	2019	14,500
1996 A series	1,422,400	5.125%	2036	1,167,771
1996 B series	1,060,300	5.125%	2036	870,397
Total bonds				2,071,668
Less: current portion				50,633
Total long-term debt				$ 2,021,035

Revenue bonds debt service requirements to maturity are as follows:

Year	Principal	Interest	Totals
2012	$ 50,633	$ 106,021	$ 156,654
2013	52,898	103,382	156,280
2014	56,279	100,626	156,905
2015	52,286	97,694	149,980
2016	54,925	94,955	149,880
2017-2021	315,312	428,688	744,000
2022-2026	399,434	337,966	737,400
2027-2031	519,245	221,580	740,825
2032-2036	570,656	72,080	642,736
TOTAL	$ 2,071,668	$ 1,562,992	$ 3,634,660

Leases payable

Water & Sewer Fund leases payable payout is as follows:

Year	Principal	Interest	Totals
2012	$ 25,601	$ 10,838	$ 36,439
2013	27,153	9,286	36,439
2014	28,798	7,641	36,439
2015	30,543	5,896	36,439
2016	32,393	4,046	36,439
2017	34,356	2,082	36,438
TOTAL	$ 178,844	$ 39,789	$ 218,633

NOTE 14 - EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2011, the expenditures exceeded appropriation in public safety and streets & sanitation of the general fund by $89,756 and $20,734 respectively. The expenditures exceeded appropriation in tourism of the special revenue fund by $821. These over expenditures were funded by fund balance.

NOTE 15 - STATEMENT OF CASH FLOWS

As required by GASB statement No. 9, a statement of cash flows has been presented rather than a statement of changes in financial position for the proprietary fund. The amount of $468,186 is considered liquid.

NOTE 16 - PREPAID ITEMS

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year. The City had prepaid insurance and other expense as of December 31, 2011.

NOTE 17 - RISK MANAGEMENT

The government is exposed to various risks of losses related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Government has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Agency Property and Liability Insurance Fund and the Georgia Municipal Association Group Self-Insurance Workers Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for member local governments. As part of these risk pools, the Government is obligated to pay all contributions and assessments as prescribed by the pools, to cooperate with the pool's agents and attorneys, to follow loss reduction procedures established by the funds, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss. The Government is also to allow the pool's agents and attorneys to represent the Government in investigation, settlement discussions and all levels of litigation arising out of any claim made against the Government within the scope of loss protection furnished by the funds.

The Funds are to defend and protect the members of the funds against liability or loss as prescribed in the member government contract and in accordance with the worker's compensation law of Georgia. The funds are to pay all cost taxed against the members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

Settled claims in the past three years have not exceeded the coverage.

NOTE 18 - JOINT VENTURE

Under Georgia law, the City, in conjunction with other cities and counties in the nine counties and thirty cities, is a member of the Coastal Georgia Regional Commissions (CRC) and is required to pay annual dues thereto. Membership in a CRC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the CRC in Georgia. The CRC Board membership includes the chief elected official of each city and municipality of the area. OCGA 50-8-391 provides that the member governments are liable for any debts or obligations of a CRC. Separate financial statements may be obtained from:

Coastal Georgia Regional Commission
127 F Street
Brunswick, Georgia 31520

NOTE 19 - HOTEL/MOTEL LODGING TAX

The government has levied a 3% lodging tax. 40% of the tax is paid for tourism expenditures. A summary of the transactions for the year ended December 31, 2010 are as follows:

Revenue:	
Hotel/Motel taxes	$ 2,052
Expenditures:	
Tourism expenditures	$ 821
Percentage of expenditures to revenues	40%

NOTE 20 - SPLOST

During 2011, the City did not receive SPLOST funds.

NOTE 21 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 8, 2012, the date the financial statements were available to be issued.

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

	Hotel/Motel Tax Fund	Total Nonmajor Governmental Funds
ASSETS		
Cash	$ 22,361	$ 22,361
Receivable:		
Other funds		
Accounts receivable		
Prepaid insurance	-	-
Total assets	$ 22,361	$ 22,361
LIABILITIES AND FUND BALANCES		
Accounts payable		
Due to other funds	$ 821	$ 821
Total liabilities	821	821
Fund balances:		
Unreserved	21,540	21,540
Total fund balances	21,540	21,540
Total liabilities and fund balances	$ 22,361	$ 22,361

CITY OF MIDWAY

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2011

	Hotel/Motel Tax Fund	Total Nonmajor Governmental Funds
REVENUES		
Taxes	$ 2,052	$ 2,052
Interest	66	66
Total revenues	2,118	2,118
EXPENDITURES		
Current:		
Tourism	821	821
Capital outlay	-	-
Total Expenditures	821	821
Change in fund balance	1,297	1,297
Transfers in	-	-
Change in fund balance	1,297	1,297
Fund balances - beginning	20,243	20,243
Fund balances - ending	$ 21,540	$ 21,540

CITY OF MIDWAY

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

HOTEL/MOTEL TAX FUND

FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	$ 3,000	$ 3,000	$ 2,052	$ (948)
Interest revenue	85	85	66	(19)
Total revenues	3,085	3,085	2,118	(967)
EXPENDITURES				
Tourism	-	-	821	(821)
Total expenditures	-	-	821	(821)
Excess revenues over expenditures	3,085	3,085	1,297	(1,788)
Transfers in	-	-	-	-
Net change in fund balances	$ 3,085	$ 3,085	1,297	$ (1,788)
Fund balances - beginning			20,243	
Fund balances - ending			$ 21,540	

HOLLAND, HENRY & BROMLEY, LLP

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American Institute of
Certified Public Accountants

Georgia Society of
Certified Public Accountants

South Carolina Accociation of
Certified Public Accountants

Private Companies Pracice
Section Firms Division of
American Institute of
Certified Public Accountants

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

June 8, 2012

Honorable Mayor
and Members of City Council
City of Midway
Midway, Georgia

We have audited the basic financial statements of the governmental activities, the business-type activities and each major fund and the remaining fund information of the City of Midway as of and for the year ended December 31, 2011, and have issued our report thereon dated June 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the Unites 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 the City of Midway's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 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 identified any

deficiencies in internal controls over financial reporting that are considered to be material weaknesses, as defined above. We identified two deficiencies in internal controls over financial reporting, described in the accompanying schedule of findings and responses to be significant deficiencies, which are items 2011-1 and 2011-2. 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 the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City, in a separate letter dated June 8, 2012.

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

This report is intended solely for the information and use of the City of Midway, management, and federal awarding agencies and pass-through entities and is not intended to be used by anyone other than specified parties.

Holland, Henry, & Bromley, LLP
Savannah, Georgia

CITY OF MIDWAY, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended December 31, 2011

2011-1: Water Deposits

A complete detailed list of all water deposits outstanding is not maintained due to sub ledger records before 2006 not being properly updated. Additionally, due to manual entries water deposits are being duplicated when a customer relocates within the city because the terminated account is not properly removed from the ledger. Thus, there is not complete detailed support to ensure the liability for water deposits is properly stated.

City Response:
This matter has been ongoing but with the new accounting system it will be easier to complete correcting this very important issue. Things will be corrected easier for example the duplication of deposits was easily picked up during the audit and the auditors were informed. The following steps will be taken to correct this issue.
1. Water Department Staff will go over the complete list of deposit listed by Customer name and address and highlight all duplication and verify in the old system that it is duplication only.
2. This list will be passed to the Finance Officer for review with the City Clerk who is the former Water department supervisor and also with the Utility Manager to go over the water deposit customer list to identify people that may have moved and was reimbursed but not noted on the account, at that point contact the estate if they were not reimbursed.
3. Finance will than correct in the system by deleting all duplications, properly state all customer deposits that have been paid in the past but never noted to clean up this matter.

2011-2: Debt Payments

During 2011, principal payments on outstanding enterprise fund debt were not properly recorded against the outstanding debt balance. Instead, the payments were charged to expense, causing the outstanding debt balance and expenses to be overstated.

City Response:
The cities will move forward on the hiring of additional staff. This will allow for the need analytical time, segregation of duties, better control on the cities accounting input and finance duties .