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

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

CITY OF MILAN, GEORGIA
FINANCIAL STATEMENTS

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CITY OF MILAN, GEORGIA
FINANCIAL STATEMENTS

LIST OF ELECTED AND APPOINTED OFFICIALS

FOR THE YEAR ENDED DECEMBER 31, 2011

MEMBERS OF CITY COUNCIL

Freddie Doris, Jr.
Inez Douglas
Roy Selph
Glenda Taylor
Cricket Williamson

OFFICIALS

Jimmy Kirkland, Mayor
Jean Gray, Clerk
C. Michael Johnson, Attorney

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 Milan, 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 Milan, Georgia, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2012, on our consideration of the City of Milan, Georgia's internal control structure over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational or economic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In the conduct of our audit, we verified and tested expenditures of each project constructed or under construction, which were identified in the resolution or ordinance calling for imposition of the special sales and use tax authorized by OCGA, Section 48-8-110. The accompanying Schedule of Special Purpose Local Option Sales Tax on page 36 lists each project and contains the information required by OCGA, Section 48-8-121. In our opinion this Schedule presents fairly the original estimated cost of each project, expenditures incurred and the estimated percentage of completion of each project through December 31, 2011 and in our opinion, are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Hilliard & Milton, LLC

McRae, Georgia

February 17, 2012

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 75,245	$ 8,965	$ 84,210
Receivables, net of uncollectible accounts	18,104	16,909	35,013
Capital lease receivable, current	75,356	-	75,356
Prepaids	7,146	-	7,146
Temporarily restricted cash	-	7,518	7,518
Internal balances	4,000	(4,000)	-
Noncurrent assets:			
Capital lease receivable, non-current	162,477	-	162,477
Capital assets:			
Nondepreciable	186,746	51,015	237,761
Depreciable, net	1,221,543	3,528,437	4,749,980
Total assets	$ 1,750,617	$ 3,608,844	$ 5,359,461
LIABILITIES			
Current liabilities:			
Accounts payable	$ 4,063	$ 290	$ 4,353
Other accrued liabilities	4,163	-	4,163
Payables from restricted assets:			
Revenue bonds payable - current	-	39,965	39,965
Accrued interest payable	-	10,876	10,876
Noncurrent liabilities -			
Due within one year -			
Note payable	53,039	-	53,039
Due in more than one year:			
Note payable	21,598	-	21,598
Revenue bonds payable	-	1,585,672	1,585,672
Total liabilities	82,863	1,636,803	1,719,666
NET ASSETS			
Invested in capital assets, net of related debt	1,333,652	1,953,815	3,287,467
Restricted for:			
Capital projects	51,158	-	51,158
Debt service	74,637	7,518	82,155
Unrestricted	208,307	10,708	219,015
Total net assets	1,667,754	1,972,041	3,639,795
Total liabilities and net assets	$ 1,750,617	$ 3,608,844	$ 5,359,461

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

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

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions
Primary government:			
Governmental activities:			
General government	$ 252,507	$ 7,498	$ -
Public safety	84,891	27,538	102,081
Public works	115,933	-	-
Culture and recreation	12,048	-	-
Interest on long-term debt	4,551	-	-
Total governmental activities	469,930	35,036	102,081
Business-type activities -			
Water and sewer	337,359	144,839	-
Total business-type activities	337,359	144,839	-
Total primary government	$ 807,289	$ 179,875	$ 102,081

General revenues:
Local option sales taxes
Franchise taxes
Alcoholic beverage taxes
Insurance premium taxes
Other taxes
Interest income
Miscellaneous
Gain on dispositions of capital assets
Transfers
Total general revenues and transfers
Change in net assets
Net assets - beginning
Net assets - ending

Program Revenues	Net (Expense) Revenue and Changes in Net Assets		
	Primary Government		
Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
$ -	$ (245,009)	$ -	$ (245,009)
-	44,728	-	44,728
138,032	22,099	-	22,099
-	(12,048)	-	(12,048)
-	(4,551)	-	(4,551)
138,032	(194,781)	-	(194,781)
-	-	(192,520)	(192,520)
-	-	(192,520)	(192,520)
$ 138,032	(194,781)	(192,520)	(387,301)
	131,086	-	131,086
	29,587	-	29,587
	20,240	-	20,240
	32,833	-	32,833
	6,028	-	6,028
	13,849	-	13,849
	108,446	-	108,446
	5,108	-	5,108
	(98,403)	98,403	-
	248,774	98,403	347,177
	53,993	(94,117)	(40,124)
	1,613,761	2,066,158	3,679,919
	$ 1,667,754	$ 1,972,041	$ 3,639,795

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

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

	General	CDBG	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 38,468	$ -	$ 36,777	$ 75,245
Receivables, net of uncollectible accounts:	13,764	-	4,340	18,104
Due from other funds	-	-	10,041	10,041
Lease payments receivable, current	85,537	-	-	85,537
Prepaids	7,146	-	-	7,146
Lease payments receivable, non-current	171,073	-	-	171,073
Total assets	$ 315,988	$ -	$ 51,158	$ 367,146
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 4,063	$ -	$ -	$ 4,063
Due to other funds	6,041	-	-	6,041
Other accrued liabilities	4,163	-	-	4,163
Deferred revenue - lease principal	237,833	-	-	237,833
Deferred revenue - lease interest	18,777	-	-	18,777
Total liabilities	270,877	-	-	270,877
Fund balances:				
Nonspendable	7,146	-	-	7,146
Restricted	-	-	51,158	51,158
Unassigned	37,965	-	-	37,965
Total fund balances	45,111	-	51,158	96,269
Total liabilities and fund balances	$ 315,988	$ -	$ 51,158	$ 367,146

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

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

Amounts reported for governmental activities in the statement of net assets are different because:		
Total governmental fund balance (page 6)		$ 96,269
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.		
Cost of capital assets	$ 1,736,689	
Less accumulated depreciation	(328,400)	1,408,289
Capital lease receivable is not due and collectible in the current period. Since it is not available to pay current expenditures it is deferred in the funds.		237,833
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.		(74,637)
Net assets of governmental activities (page 4)		$ 1,667,754

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

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

	General	CDBG	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 219,774	$ -	$ -	$ 219,774
Licenses and permits	7,498	-	-	7,498
Intergovernmental	93,376	88,728	49,304	231,408
Fines and forfeitures	27,538	-	-	27,538
Lease revenue	71,689	-	-	71,689
Interest income	13,849	-	-	13,849
Other income	117,151	-	-	117,151
Total revenues	550,875	88,728	49,304	688,907
EXPENDITURES				
Current:				
General government	240,446	-	-	240,446
Public safety	68,167	-	-	68,167
Public works	107,500	-	-	107,500
Culture and recreation	5,972	-	-	5,972
Debt service:				
Principal	12,421	-	-	12,421
Interest	4,551	-	-	4,551
Capital outlay:				
General government	5,800	-	-	5,800
Public safety	46,360	-	-	46,360
Public works	7,149	92,290	-	99,439
Culture and recreation	8,120	-	-	8,120
Total expenditures	506,486	92,290	-	598,776
Excess of revenues over expenditures	44,389	(3,562)	49,304	90,131
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	41,980	-	-	41,980
Proceeds from capital asset dispositions	5,108	-	-	5,108
Transfers in (out), net	(90,283)	-	(8,120)	(98,403)
Total other financing sources (uses)	(43,195)	-	(8,120)	(51,315)
Net change in fund balances	1,194	(3,562)	41,184	38,816
Fund balances - beginning	43,917	3,562	9,974	57,453
Fund balances - ending	$ 45,111	$ -	$ 51,158	$ 96,269

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

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

Amounts reported for governmental activities in the statement of activities (page 4) are different because:		
Net change in fund balances - total governmental funds (page 8)		$ 38,816
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	$ 159,719	
Depreciation expense	(43,294)	116,425
The collection of capital lease payments receivable is reflected as revenue in the governmental funds, but the collection reduces the amount of the receivable in the Statement of Net Assets.		(71,689)
The issuance of long-term debt, 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.		
Issuance of long-term debt	$ (41,980)	
Principal repayments	12,421	(29,559)
Change in net assets of governmental activities (page 5)		$ 53,993

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

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

	Business-Type Activity - Enterprise Fund
	Water and Sewer
ASSETS	
Current assets:	
Cash	$ 8,965
Accounts receivable, net	16,909
Temporarily restricted cash	7,518
Total current assets	33,392
Noncurrent assets -	
Capital assets:	
Land, nondepreciable	51,015
Water system	1,208,198
Sewer system	4,015,269
Machinery and equipment, depreciable	24,704
Less - accumulated depreciation	(1,719,734)
Capital assets, net	3,579,452
Total assets	$ 3,612,844
LIABILITIES	
Current liabilities:	
Accounts payable	$ 290
Due to other funds	4,000
Total current liabilities	4,290
Current liabilities payable from restricted assets:	
Current portion of revenue bonds payable	39,965
Accrued interest payable	10,876
Total current liabilities payable from restricted assets	50,841
Long-term liabilities -	
Revenue bonds payable, net of current portion	1,585,672
Total long-term liabilities	1,585,672
Total liabilities	1,640,803
NET ASSETS	
Invested in capital assets, net of related debt	1,953,815
Restricted for revenue bonds	7,518
Unrestricted net assets	10,708
Total net assets	1,972,041
Total liabilities and net assets	$ 3,612,844

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

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

	Business-Type Activity - Enterprise Fund
	Water and Sewer
OPERATING REVENUES	
Charges for services	$ 144,839
Total operating revenues	144,839
OPERATING EXPENSES	
Personnel services	40,505
Employee benefits	2,834
Repairs and maintenance	21,347
Depreciation	105,892
Supplies and materials	11,653
Vehicle fuel and maintenance	8,651
Utilities	43,253
Insurance and bonds	10,152
Dues and subscriptions	1,593
Wastewater testing	6,651
Other operating	4,524
Total operating expenses	257,055
Operating income	(112,216)
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(80,304)
Total non-operating revenues, net	(80,304)
Transfer in	98,403
Change in net assets	(94,117)
Net assets, beginning	2,066,158
Net assets, ending	$ 1,972,041

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

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

	Business-Type Activity - Enterprise Fund
	Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 144,546
Cash paid to suppliers for goods and services	(110,754)
Cash paid to employees for services	(40,505)
Cash received from other funds	98,403
Net cash provided by operating activities	91,690
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on long-term debt	(38,042)
Interest and fees paid on long-term debt	(80,560)
Net cash used for capital and related financing activities	(118,602)
Net increase in cash	(26,912)
Cash, beginning	43,395
Cash, ending	$ 16,483
Classifed as:	
Current assets	$ 8,965
Restricted assets	7,518
	$ 16,483
Reconciliation of Income From Operations to Net Cash Provided by Operating Activities:	
Income from operations	$ (112,216)
Depreciation	105,892
Cash received from other funds	98,403
Change in accounts payable	(96)
Change in accounts receivable	(293)
Net cash provided by operating activities	$ 91,690

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Milan, 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, and culture and recreation. The City also operates a public utility (water and sewer) for the incorporated and the immediate surrounding areas.

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

A. Reporting Entity

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

B. Joint Ventures

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

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 (ARC) and is required to pay annual dues thereto. During its year ended December 31, 2010, the City paid $864 in such dues. Membership in a Regional Commission is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the Regional Commission of Georgia. The ARC 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 Regional Commission. Separate financial statements may be obtained from:

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

C. Basic Financial Statements

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

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

The net costs (by function or business-type activity) are normally covered by general revenues (property or other taxes, intergovernmental revenues, interest income, etc.).

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

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The City reports the following major governmental 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.

Community Development Block Grant (CDBG) Fund accounts for the construction and expansion of the water treatment facility. Governmental resources and grants will be used to finance this project.

The City reports the following non-major governmental fund:

Telfair SPLOST (2009) 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.

Dodge SPLOST (2008) 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.

The City reports the following major proprietary fund:

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

Non-Current Governmental Assets/Liabilities:

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

Internal Activity

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

E. Basis of Accounting

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

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

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

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

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

F. Assets, Liabilities, and Net Assets

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. ***Restricted assets*** - are set aside and classified as restricted on the balance sheet because their use is limited by applicable ordinances. If an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted assets will be applied first with any unrestricted assets used if necessary.

   As of December 31, 2011, the restricted assets of the City consisted of:

Water and sewer fund – restricted cash	$ 7,518

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

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

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

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

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

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

• Buildings	40 years
• Improvements	10-20 years
• Vehicles and equipment	3-12 years
• Infrastructure	30-40 years
• Water distribution system	50 years
• Sewer distribution system	50 years

9. ***Compensated Absences*** - The City does not record vacation pay until such benefits are paid. The City does not recognize unused sick pay as a liability, because it does not meet the criteria for accrual. The cost of vacation and sick pay benefits exercised during the current year have been included in expenditures/expenses of the statements.

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

11. Fund Equity:

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

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

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

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

- **Committed** - fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the adoption of a resolution. The City Council also may modify or rescind the commitment.

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

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

Flow assumption – when both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budget Policy and Budgetary Data

Budget Policy

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

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

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The individual departments which had expenditures in excess of appropriations are as follows:

	Expenditures	Appropriations	Variance
General fund:			
General government -			
General administration	$ 240,446	$ 160,130	$ (80,316)
Public works:			
Highways and streets	80,517	78,850	(1,667)
Solid waste and recycling	26,983	25,960	(1,023)
Debt service -			
Principal	12,421	-	(12,421)
Interest	4,551	-	(4,551)
Capital outlay	67,429	30,000	(37,429)

The City absorbed these excesses as a result of expenditures at other department levels not exceeding budgeted totals, revenues and available fund balance.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

Account Balances	
Petty cash	$ 230
Demand deposits	91,498
	$ 91,728

Ownership of Funds	
Primary Government	
Governmental funds:	
Cash and cash equivalents	$ 75,245
Proprietary funds:	
Cash and cash equivalents	8,965
Temporarily restricted cash	7,518
Total reporting entity	$ 91,728

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.

III. DETAILED NOTES ON ALL FUNDS

***Deposits**:*

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

Investments:

Interest Rate Risk is the risk that changes in interest rates will adversely affect the value of an investment. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

B. Receivables

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

	Receivable	Allowance	Net
General Fund:			
Sales tax	$ 12,219	$ -	$ 12,219
Beverage tax	1,545	-	1,545
Telfair SPLOST (2009) Fund -			
Intergovernmental	4,340	-	4,340
Total governmental activities	18,104	-	18,104
Water and Sewer -			
Customers	22,659	(5,750)	16,909
Total business-type activities	22,659	(5,750)	16,909
Total	$ 40,763	$ (5,750)	$ 35,013

III. DETAILED NOTES ON ALL FUNDS

C. Capital Lease Receivable

In January 2005, the City completed construction of an industrial building referred to as the tire plant project. The City began leasing the tire plant building in January 2005 under a ten year direct financing lease. This capital lease contains a $1 purchase option at the end of the ten year lease. The City will recover the cost of the building by receiving monthly payments of $4,746 for the first 42 months, and $7,128 for the remaining 78 months, including interest at the rate of 5%.

Based on management's assessment of the lessee's credit history, it has concluded that all lease payments receivable are collectible. As such, no allowance for uncollectible has been provided.

At December 31, 2011, minimum lease payments receivable are as follows:

Year Ending December 31,	Minimum Lease Payments Receivable	Principal	Interest
2012	$ 85,537	$ 75,356	$ 10,181
2013	85,537	79,212	6,325
2014	85,536	83,265	2,271
Total	256,610	237,833	18,777
Less - current portion	85,537	75,356	10,181
Noncurrent portion	$ 171,073	$ 162,477	$ 8,596

D. Interfund Receivables and Payables

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

	Payable to:		
Payable from:	Telfair SPLOST (2004)	Dodge SPLOST (2008)	Total
General Fund	$ 5,698	$ 343	$ 6,041
Water and sewer fund	-	4,000	4,000
	$ 5,698	$ 4,343	$ 10,041

III. DETAILED NOTES ON ALL FUNDS

As of December 31, 2011 the Telfair SPLOST fund had received funds from Telfair County Georgia in excess of the originally budgeted amounts called for in the 1999 and 2004 SPLOST resolutions of $4,084 and $2,706, respectively. During the year ended December 31, 2011, the total excess funds received of $6,790 has been reimbursed to Telfair County, Georgia. The Telfair SPLOST fund has reflected a due from General Fund of $5,698 for the portion of the reimbursement which was expended in prior years.

As of December 31, 2011, the Dodge SPLOST fund has an interfund receivable from the Water and Sewer fund in the amount of $4,000 for a transfer during the year ended December 31, 2010 relating to a project not specified in the original SPLOST resolution. The amount has therefore, been reflected as a liability in the Water and Sewer fund back to the Dodge SPLOST fund as of December 31, 2011. In addition, the Dodge SPLOST fund has an interfund receivable from the General fund in the amount of $343 due to an inadvertent deposit into General fund cash relating to SPLOST proceeds. The amount has therefore, been reflected as a liability in the General fund back to the Dodge SPLOST fund as of December 31, 2011.

E. Transfers

A summary of fund transfers for the year ended December 31, 2011 follows:

	Transfers In	Transfers Out
Governmental funds:		
General Fund	$ -	$ 90,283
Telfair SPLOST (2004) Fund	-	8,120
Proprietary fund -		
Water & Sewer Fund	98,403	-
Total	$ 98,403	$ 98,403

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 Telfair SPLOST (2004) Fund authorized a portion of the SPLOST proceeds to be used for water and sewer improvements. Such expenditures of the Telfair SPLOST (2004) 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 FUNDS

F. Capital Assets

Capital asset activity for the year ended December 31, 2010 was as follows:

Governmental Activities:	Balance 12/31/2010	Additions	Retirements / Transfers	Balance 12/31/2011
Capital assets, not being depreciated:				
Land	$ 33,746	$ -	$ -	$ 33,746
Land improvements	153,000	-	-	153,000
Construction in progress	428,225	-	(428,225)	-
Total capital assets not being depreciated	614,971	-	(428,225)	186,746
Capital assets, being depreciated:				
Buildings and improvements	714,761	13,920	-	728,681
Infrastructure	-	99,439	428,225	527,664
Machinery and equipment	270,388	46,360	(23,150)	293,598
Total capital assets being depreciated	985,149	159,719	405,075	1,549,943
Less accumulated depreciation for:				
Buildings and improvements	59,245	19,247	-	78,492
Infrastructure	-	6,765	-	6,765
Machinery and equipment	249,011	17,282	(23,150)	243,143
Total accumulated depreciation	308,256	43,294	(23,150)	328,400
Total capital assets, being depreciated, net	676,893	116,425	428,225	1,221,543
Governmental activities capital assets, net	$ 1,291,864	$ 116,425	$ -	$ 1,408,289

Depreciation expense was charged to functions / programs as follows:

Governmental Activities:	
General government and administration	$ 12,061
Public safety	16,724
Public works	8,433
Culture and recreation	6,076
Total depreciation expense - governmental activities	$ 43,294

III. DETAILED NOTES ON ALL FUNDS

	Balance 12/31/2010	Additions	Retirements	Balance 12/31/2011
Business-type Activities:				
Capital assets, not being depreciated -				
Land	$ 51,015	$ -	$ -	$ 51,015
Total capital assets not being depreciated	51,015	-	-	51,015
Capital assets, being depreciated:				
Machinery and equipment	24,704	-	-	24,704
Water system	1,208,198	-	-	1,208,198
Sewer system	4,015,269	-	-	4,015,269
Total capital assets being depreciated	5,248,171	-	-	5,248,171
Less accumulated depreciation for:				
Machinery and equipment	23,942	24,165	-	48,107
Water system	419,868	81,268		501,136
Sewer system	1,170,032	459	-	1,170,491
Total accumulated depreciation	1,613,842	105,892	-	1,719,734
Total capital assets, being depreciated, net	3,634,329	(105,892)	-	3,528,437
Business-type activities capital assets, net	$ 3,685,344	$ (105,892)	$ -	$ 3,579,452

Depreciation expense was charged to functions / programs as follows:

Business-type Activities -	
Water and sewer	$ 105,892
Total depreciation expense - business-type activities	$ 105,892

III. DETAILED NOTES ON ALL FUNDS

G. Long-term Obligations

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

	Beginning Balance	Additions	Payments/ Retirements	Ending Balance	Current Portion	Long-term Portion
Governmental-type Activities:						
Note payable #1	$ 45,078	$ -	$ (2,248)	$ 42,830	$ 42,830	$ -
Note payable #2	-	41,980	(10,173)	31,807	10,209	21,598
Governmental-type Activities - long-term liabilities	$ 45,078	$ 41,980	$ (12,421)	$ 74,637	$ 53,039	$ 21,598
Business-type Activities:						
Water revenue bonds:						
Series 1992	$ 552,470	$ -	$ (12,730)	$ 539,740	$ 13,490	$ 526,250
Series 1995A	693,086	-	(15,780)	677,306	16,504	660,802
Series 1995B	418,123	-	(9,532)	408,591	9,971	398,620
Business-type Activities - long-term liabilities	$ 1,663,679	$ -	$ (38,042)	$ 1,625,637	$ 39,965	$ 1,585,672

Note Payable #1

The general fund obtained a loan on January 10, 2009 from a financial institution in the amount of $50,000 to refinance short term debt for the purchase of a commercial building. During the year ended December 31, 2011, this loan was refinanced with another financial institution. This loan, secured by the commercial building and 1.81 acres of land, is due in monthly installments of $502 including interest at 5.25% and a final balloon payment due December 30, 2012. The annual requirements to amortize the remaining balance as of December 31, 2011, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2012	$ 42,830	$ 2,158	$ 44,988
	$ 42,830	$ 2,158	$ 44,988

III. DETAILED NOTES ON ALL FUNDS

Note Payable #2

The general fund obtained a loan on April 5, 2011 from a financial institution in the amount of $41,980 to purchase a police vehicle. This loan, secured by the vehicle, is due in annual installments of $11,451 including interest at 3.90%. The final payment is due November 30, 2014. The annual requirements to amortize the remaining balance as of December 31, 2011, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2012	$ 10,209	$ 1,242	$ 11,451
2013	10,607	844	11,451
2014	10,991	460	11,451
	$ 31,807	$ 2,546	$ 34,353

Water Revenue Bonds – Series 1992

On September 17, 1992, the City issued Water Revenue Bonds, Series 1992 in the amount of $690,300. Proceeds from this issue were used to construct the City's water system. This bond is paid in annual installments including interest at a rate of 5.625%. The annual requirements to amortize the remaining balance as of December 31, 2011, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2012	$ 13,490	$ 30,360	$ 43,850
2013	14,300	29,602	43,902
2014	15,160	28,797	43,957
2015	16,070	27,944	44,014
2016	17,030	27,041	44,071
2017-2021	101,790	119,628	221,418
2022-2026	136,210	87,353	223,563
2027-2031	182,270	44,164	226,434
2032	43,420	2,442	45,862
	$ 539,740	$ 397,331	$ 937,071

III. DETAILED NOTES ON ALL FUNDS

Water Revenue Bonds – Series 1995A

On August 15, 1995, the City issued Water Revenue Bonds, Series 1995A in the amount of $856,100. Proceeds from this issue were used to construct the City's sewage system. This bond is paid in monthly installments of $3,887 including interest at a rate of 4.50%. The annual requirements to amortize the remaining balance as of December 31, 2011, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2012	$ 16,504	$ 30,139	$ 46,643
2013	17,263	29,381	46,644
2014	18,056	28,588	46,644
2015	18,886	27,758	46,644
2016	19,753	26,891	46,644
2017-2021	113,241	119,979	233,220
2022-2026	141,754	91,466	233,220
2027-2031	177,447	55,773	233,220
2032-2035	154,402	13,092	167,494
	$ 677,306	$ 423,067	$ 1,100,373

Water Revenue Bonds – Series 1995B

On August 15, 1995, the City issued Water Revenue Bonds, Series 1995B in the amount of $516,000. Proceeds from this issue were used to construct the City's sewage system. This bond is paid in monthly installments of $2,346 including interest at a rate of 4.50%. The annual requirements to amortize the remaining balance as of December 31, 2011, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2012	$ 9,971	$ 18,181	$ 28,152
2013	10,429	17,723	28,152
2014	10,908	17,244	28,152
2015	11,409	16,743	28,152
2016	11,933	16,219	28,152
2017-2021	68,408	72,352	140,760
2022-2026	85,634	55,126	140,760
2027-2031	107,196	33,564	140,760
2032-2035	92,703	7,818	100,521
	$ 408,591	$ 254,970	$ 663,561

III. DETAILED NOTES ON ALL FUNDS

Water and sewer bonds issued to construct the City's water and sewer systems constitute special obligations of the City which are collateralized by a pledge of the net revenues of the water and sewer system. The bond ordinances provide that the revenue of the water and sewer system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds.

H. Fund Equity

Fund Balances:

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

General fund –	
Prepaids	$ 7,146

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

Capital Projects Funds:	
Telfair Special Purpose Local Option Sales Tax Fund (SPLOST) –	
used to account for capital project financed with SPLOST.	$ 39,996
Dodge Special Purpose Local Option Sales Tax Fund (SPLOST) –	
used to account for capital projects financed with SPLOST.	11,162
	$ 51,158

Net Assets:

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

	Governmental Activities	Business-Type Activities
Invested in capital assets, net of related debt		
Cost of capital assets	$ 1,736,689	$ 5,299,186
Less accumulated depreciation	(328,400)	(1,719,734)
Book value	1,408,289	3,579,452
Less capital related debt	(74,637)	(1,625,637)
Invested in capital assets, net of related debt	$ 1,333,652	$ 1,953,815

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. Commercial insurance coverage is carried in order to minimize exposure to such losses other than workers' compensation.

The City is also part of the Georgia Municipal Association Worker's compensation Self-Insurance Fund, a public entity risk pool currently operating as a common risk management and insurance program for members of local governments.

As part of these risk pools, the City 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 City is also to allow the pool's agents and attorneys to represent the City in investigation, settlement discussions and all levels of litigation arising out of any claim made against the City within the scope of loss protection furnished by the funds.

The Funds are to defend, in the name of and on behalf of the members, any suits or other proceeding which may at any time be instituted against them on account of injuries or death within the preview of the Workers' Compensation Law of Georgia, or on the basis of employer's liability, including suits or other proceedings alleging such injuries and demanding or groundless, false or fraudulent. The Fund is to pay all cost taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

IV. OTHER INFORMATION

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.

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

	Original Budget	Budget As Amended	Actual	Variance with Final Budget - Over (Under)
REVENUES				
Taxes	$ 280,470	$ 280,470	$ 219,774	$ (60,696)
Licenses and permits	14,600	14,600	7,498	(7,102)
Intergovernmental	8,000	8,000	93,376	85,376
Fines and forfeitures	27,500	27,500	27,538	38
Lease revenue	85,530	85,530	71,689	(13,841)
Interest income	200	200	13,849	13,649
Other income	64,300	64,300	117,151	52,851
Total revenues	480,600	480,600	550,875	70,275
EXPENDITURES				
Current:				
General government -				
General administration	160,130	160,130	240,446	80,316
	160,130	160,130	240,446	80,316
Public safety:				
Police	60,810	60,810	49,604	(11,206)
Fire	18,500	18,500	18,563	63
	79,310	79,310	68,167	(11,143)
Public works:				
Highways and streets	78,850	78,850	80,517	1,667
Solid waste and recycling	25,960	25,960	26,983	1,023
	104,810	104,810	107,500	2,690
Culture and recreation -				
Recreation	7,700	7,700	5,972	(1,728)
	7,700	7,700	5,972	(1,728)
Debt service:				
Principal	-	-	12,421	12,421
Interest	-	-	4,551	4,551
	-	-	16,972	16,972
Capital outlay				
General administration	-	-	5,800	5,800
Police	-	-	46,360	46,360
Highways and streets	30,000	30,000	7,149	(22,851)
Recreation	-	-	8,120	8,120
	30,000	30,000	67,429	37,429
Total expenditures	381,950	381,950	506,486	124,536
Excess of revenues over expenditures	98,650	98,650	44,389	(54,261)
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	-	-	41,980	41,980
Proceeds from capital asset dispositions	-	-	5,108	5,108
Transfers in (out), net	(60,000)	(60,000)	(90,283)	(30,283)
Total other financing sources (uses)	(60,000)	(60,000)	(43,195)	16,805
Net change in fund balances	38,650	38,650	1,194	(37,456)
Fund balances, beginning	43,917	43,917	43,917	-
Fund balances, ending	$ 82,567	$ 82,567	$ 45,111	$ (37,456)

See Independent Auditor's Report.

1. 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.

2. Excess of Expenditures Over Appropriations in Individual Funds

The individual departments which had expenditures in excess of appropriations are as follows:

	Expenditures	Appropriations	Variance
General fund:			
General government -			
General administration	$ 240,446	$ 160,130	$ (80,316)
Public works:			
Highways and streets	80,517	78,850	(1,667)
Solid waste and recycling	26,983	25,960	(1,023)
Debt service -			
Principal	12,421	-	(12,421)
Interest	4,551	-	(4,551)
Capital outlay	67,429	30,000	(37,429)

The City absorbed these excesses as a result of expenditures at other department levels not exceeding budgeted totals, revenues and available fund balance.

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

	Capital Projects		Total
	Telfair SPLOST (2009)	Dodge SPLOST (2008)	Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	$ 29,958	$ 6,819	$ 36,777
Receivables, net of uncollectible accounts:	4,340	-	4,340
Due from other funds	5,698	4,343	10,041
Total assets	$ 39,996	$ 11,162	$ 51,158
LIABILITIES AND FUND BALANCES			
Liabilities -	$ -	$ -	$ -
Fund balances -			
Restricted	39,996	11,162	51,158
Total fund balances	39,996	11,162	51,158
Total liabilities and fund balances	$ 39,996	$ 11,162	$ 51,158

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

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

	Capital Projects		Total
	Telfair SPLOST (2009)	Dodge SPLOST (2008)	Nonmajor Governmental Funds
REVENUES			
Intergovernmental	$ 48,116	$ 1,188	$ 49,304
Total revenues	48,116	1,188	49,304
EXPENDITURES			
Intergovernmental	-	-	-
Total expenditures	-	-	-
Excess of revenues over expenditures	48,116	1,188	49,304
OTHER FINANCING SOURCES (USES)			
Transfers out	(8,120)	-	(8,120)
Total other financing sources (uses)	(8,120)	-	(8,120)
Net change in fund balances	39,996	1,188	41,184
Fund balances - beginning	-	9,974	9,974
Fund balances - ending	$ 39,996	$ 11,162	$ 51,158

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

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

Project Description Per SPLOST Referendum	Original Estimated Cost	Amended Estimated Cost	Expenditures			Estimated Percentage of Completion
			Prior Years	Current Year	Total	
Telfair SPLOST (2009):						
Road and street projects	$ 70,560	$ 70,560	$ -	$ -	$ -	0.00%
Water and sewer projects	70,560	70,560	-	-	-	0.00%
Sidewalk projects	29,400	29,400	-	-	-	0.00%
Recreation projects	19,600	19,600	-	8,120	8,120	41.43%
Public safety/Fire safety projects	5,880	5,880	-	-	-	0.00%
	$ 196,000	$ 196,000	$ -	$ 8,120	$ 8,120	
Dodge SPLOST (2008):						
Streets and improvements, recreational facilities and equipment	$ 30,000	$ 30,000	$ -	$ -	$ -	0.00%
	$ 30,000	$ 30,000	$ -	$ -	$ -	

See Independent Auditor's Report.

CITY OF MILAN, GEORGIA
COMMUNITY DEVELOPMENT BLOCK GRANT
PROJECT COST AND SOURCE AND APPLICATION OF FUNDS SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2011

PROJECT COST SCHEDULE:

Program Activity	Activity No.	Latest Approved Budget CDBG Funds	Expenditures Prior Years	Expenditures Current Year	Expenditures Total	Variance
Grant No. 09p-x-134-2-5168						
Engineering	T-03k-00	$ 19,005	$ 19,005	$ -	$ 19,005	$ -
Streets	P-03k-01	122,916	90,361	32,555	122,916	-
Flood and drainage	P-03k-02	222,438	195,332	27,106	222,438	-
Water	P-03j-01	103,439	100,676	2,763	103,439	-
Administration	A-21a-00	29,866	-	29,866	29,866	-
		$ 497,664	$ 405,374	$ 92,290	$ 497,664	$ -

SOURCE AND APPLICATION OF FUNDS SCHEDULE:

Total fiscal year 2009 CDBG funds awarded to recipient::	$ 497,664
Total amount drawndown by recipient from DCA (cumulative):	497,664
Less: CDGB funds expended by recipient (cumulative):	(497,664)
Amount of fiscal year 2009 CDBG funds held by recipient at year end:	$ -

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 Milan, Georgia

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milan, Georgia, as of and for the year ended December 31, 2011, which collectively comprise the City of Milan, Georgia's basic financial statements and have issued our report thereon dated February 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2011-1, 2011-3 and 2011-4 to be material weaknesses.

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. We consider the deficiencies described in the accompany Schedule of Findings and Responses as item 2011-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Milan, Georgia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Responses as items 2011-3 and 2011-4.

City of Milan, Georgia's responses to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit City of Milan, Georgia's responses and, accordingly, we express no opinion on them.

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

Hilliard & Milton, LLC

McRae, Georgia

February 17, 2012

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

Section I – Summary of Auditor's Results

Financial Statements:

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

Section II – Financial Statement Findings:

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

Audit
Finding

2011-1 Lack of segregation of duties

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

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

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

Management's Response:

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

2011-2 Expenditures over appropriations

The audit fieldwork disclosed that the City over-expended funds in the general administration, highways and streets, solid waste and recycling, debt service - principal and interest and capital outlay. The City lacks budgetary controls to ensure that actual expenses do not exceed budgeted expenses.

It is recommended that the City review a budget versus actual on a monthly basis to prevent expenditures in excess of budgeted amounts.

Management's Response:

The City recognizes that maintaining appropriate budgetary controls on its expenditures is important in keeping costs below approved amounts and serves as a management tool in evaluating results of operations. In our efforts to continuously improve and to comply with the highest form of governmental accounting and financial reporting we have implemented a formal review process to compare actual to budgeted amounts on a monthly basis. Expenditures which will cause the City to go over budget will require prior approval of the City Council and an amended budget will be prepared.

2011-3 Water and Sewer Revenue Bond Reserve Accounts

The City has three water and sewer revenue bond issues. The related bond ordinances mandate the flow of funds into/out of the water and sewer enterprise fund and establish requirements for funding bond reserve accounts. At December 31, 2011, the City had $7,260 in the bond sinking fund, and $258 in the renewal and extension fund. Amounts held in these reserve accounts are substantially less than the bond ordinances mandate.

It is recommended the City budget for all current year amounts required to be paid into the reserve accounts. In addition, the City should continue to work with USDA to agree on a plan for funding prior years.

Management's Response:

We concur with this recommendation and have met with a representative from USDA and reached a verbal agreement for funding prior years. The City has made all payments required by this agreement; however, it will take a number of years to be fully funded.

2011-4 Commingling of SPLOST Funds

The audit field work disclosed that the Water and Sewer fund and General fund owes the SPLOST funds $4,000 and $6,041, respectively for capital projects not originally approved under the original SPLOST resolution.

We recommended the City reimburse the SPLOST funds for these transfers.

Management's Response:

We are aware of the requirement that SPLOST proceeds are to be used exclusively for the purposes specified in the resolution or ordinance calling for the imposition of the tax. Management will review expenditures on a monthly basis to ensure the City does not commingle SPLOST funds with other funds of the City. We will also reimburse the SPLOST funds during fiscal year ending December 31, 2012.