CITY OF MILAN, GEORGIA
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2013

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

CITY OF MILAN, GEORGIA
FINANCIAL STATEMENTS

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I. FINANCIAL SECTION

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

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

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

18 S. Third Ave.
McRae, GA 31055

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council
City of 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, 2013, which collectively comprise the City's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milan, Georgia as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
Required Supplementary Information

The City of Milan, Georgia did not present the Management's Discussion and Analysis for the year ended December 31, 2013 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 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational or economic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2014, 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.

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, 2013 and in our opinion, are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Hilliard & Milton, LLC

McRae, Georgia

May 2, 2014

CITY OF MILAN, GEORGIA
STATEMENT OF NET POSITION
DECEMBER 31, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 176,435	$ 9,938	$ 186,373
Receivables, net of uncollectible accounts	18,778	31,660	50,438
Capital lease receivable, current	83,265	-	83,265
Prepaids	6,454	-	6,454
Temporarily restricted cash	-	11,659	11,659
Noncurrent assets:			
Capital assets:			
Nondepreciable	186,746	567,841	754,587
Depreciable, net	1,284,491	3,340,905	4,625,396
Total assets	1,756,169	3,962,003	5,718,172
LIABILITIES			
Current liabilities:			
Accounts payable	42,264	2,675	44,939
Other accrued liabilities	5,078	-	5,078
Payables from restricted assets:			
Revenue bonds payable - current	-	44,124	44,124
Accrued interest payable	-	10,319	10,319
Noncurrent liabilities -			
Due within one year -			
Note payable	15,211	-	15,211
Due in more than one year:			
Note payable	31,736	-	31,736
Revenue bonds payable	-	1,499,559	1,499,559
Total liabilities	94,289	1,556,677	1,650,966
NET POSITION			
Net investment in capital assets	1,424,290	2,365,063	3,789,353
Restricted for:			
Capital projects	86,014	-	86,014
Debt service	46,947	11,659	58,606
Unrestricted	104,629	28,604	133,233
Total net position	$ 1,661,880	$ 2,405,326	$ 4,067,206

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, 2013

		Program Revenues	
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**
Primary government:			
Governmental activities:			
General government	$ 186,521	$ 8,065	$ -
Public safety	89,025	8,066	-
Public works	170,164	-	-
Culture and recreation	20,587	-	-
Interest on long-term debt	2,842	-	-
Total governmental activities	469,139	16,131	-
Business-type activities -			
Water and sewer	333,709	168,972	-
Total business-type activities	333,709	168,972	-
Total primary government	$ 802,848	$ 185,103	$ -

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

Program Revenues	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
$ -	$ (178,456)	$ -	$ (178,456)
29,134	(51,825)	-	(51,825)
575,114	404,950	-	404,950
-	(20,587)	-	(20,587)
-	(2,842)	-	(2,842)
604,248	151,240	-	151,240
-	-	(164,737)	(164,737)
-	-	(164,737)	(164,737)
$ 604,248	151,240	(164,737)	(13,497)
	114,693	-	114,693
	35,779	-	35,779
	17,503	-	17,503
	36,109	-	36,109
	15,159	-	15,159
	6,324	-	6,324
	198,883	9,295	208,178
	(612,751)	612,751	-
	(188,301)	622,046	433,745
	(37,061)	457,309	420,248
	1,698,941	1,948,017	3,646,958
	$ 1,661,880	$ 2,405,326	$ 4,067,206

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

CITY OF MILAN, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	General	CDBG	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 100,462	$ 54	$ 75,919	$ 176,435
Receivables, net of uncollectible accounts:	8,737	-	10,041	18,778
Lease payments receivable, current	85,537	-	-	85,537
Prepaids	6,454	-	-	6,454
Total assets	$ 201,190	$ 54	$ 85,960	$ 287,204
LIABILITIES				
Accounts payable	$ 42,264	$ -	$ -	$ 42,264
Other accrued liabilities	5,078	-	-	5,078
Total liabilities	47,342	-	-	47,342
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - lease principal	83,265	-	-	83,265
Unavailable revenue - lease interest	2,272	-	-	2,272
Total deferred inflows of resources	85,537	-	-	85,537
FUND BALANCES				
Nonspendable	6,454	-	-	6,454
Restricted - capital projects	-	54	85,960	86,014
Unassigned	61,857	-	-	61,857
Total fund balances	68,311	54	85,960	154,325
Total liabilities, deferred inflows of resources and fund balances	$ 201,190	$ 54	$ 85,960	$ 287,204

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 POSITION
DECEMBER 31, 2013

Amounts reported for governmental activities in the statement of net position are different because:		
Total governmental fund balance (page 5)		$ 154,325
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.		
Cost of capital assets	$ 1,915,425	
Less accumulated depreciation	(444,188)	1,471,237
Capital lease receivable is not due and collectible in the current period. Since it is not available to pay current expenditures it is reported as unavailable revenue - lease principal in the funds.		83,265
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.		(46,947)
Net position of governmental activities (page 3)		$ 1,661,880

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, 2013

	General	CDBG	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 219,243	$ -	$ -	$ 219,243
Licenses and permits	8,065	-	-	8,065
Intergovernmental	36,291	491,303	71,830	599,424
Fines and forfeitures	8,066	-	-	8,066
Lease revenue	79,212	-	-	79,212
Interest income	6,324	-	-	6,324
Other income	203,707	-	-	203,707
Total revenues	560,908	491,303	71,830	1,124,041
EXPENDITURES				
Current:				
General government	175,077	-	-	175,077
Public safety	64,802	-	-	64,802
Public works	150,800	-	-	150,800
Culture and recreation	13,970	-	-	13,970
Debt service:				
Principal	14,204	-	-	14,204
Interest	2,842	-	-	2,842
Capital outlay:				
Public safety	25,624	-	-	25,624
Public works	24,779	-	4,722	29,501
Total expenditures	472,098	-	4,722	476,820
Excess of revenues over expenditures	88,810	491,303	67,108	647,221
OTHER FINANCING SOURCES (USES)				
Transfers in (out), net	(87,925)	(491,249)	(33,577)	(612,751)
Total other financing sources (uses)	(87,925)	(491,249)	(33,577)	(612,751)
Net change in fund balances	885	54	33,531	34,470
Fund balances - beginning	67,426	-	52,429	119,855
Fund balances - ending	$ 68,311	$ 54	$ 85,960	$ 154,325

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, 2013

Amounts reported for governmental activities in the statement of activities (page 4) are different because:		
Net change in fund balances - total governmental funds (page 7)		$ 34,470
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	$ 55,125	
Depreciation expense	(61,648)	(6,523)
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 Position.		(79,212)
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 position.		
Issuance of long-term debt	$ -	
Principal repayments	14,204	14,204
Change in net position of governmental activities (page 4)		$ (37,061)

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

CITY OF MILAN, GEORGIA
STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2013

	Business-Type Activity - Enterprise Fund
	Water and Sewer
ASSETS	
Current assets:	
Cash	$ 9,938
Accounts receivable, net	31,660
Temporarily restricted cash	11,659
Total current assets	53,257
Noncurrent assets -	
Capital assets:	
Land, nondepreciable	51,015
Construction in progress, nondepreciable	516,826
Water system	1,208,198
Sewer system	4,041,144
Machinery and equipment, depreciable	24,704
Less - accumulated depreciation	(1,933,141)
Capital assets, net	3,908,746
Total assets	3,962,003
LIABILITIES	
Current liabilities:	
Accounts payable	2,675
Total current liabilities	2,675
Current liabilities payable from restricted assets:	
Current portion of revenue bonds payable	44,124
Accrued interest payable	10,319
Total current liabilities payable from restricted assets	54,443
Long-term liabilities -	
Revenue bonds payable, net of current portion	1,499,559
Total long-term liabilities	1,499,559
Total liabilities	1,556,677
NET POSITION	
Net investment in capital assets	2,365,063
Restricted for revenue bonds	11,659
Unrestricted	28,604
Total net position	$ 2,405,326

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 POSITION
PROPRIETARY FUND
DECEMBER 31, 2013

	Business-Type Activity - Enterprise Fund
	Water and Sewer
OPERATING REVENUES	
Charges for services	$ 168,972
Total operating revenues	168,972
OPERATING EXPENSES	
Personnel services	38,286
Employee benefits	2,929
Repairs and maintenance	28,560
Depreciation	107,278
Supplies and materials	6,710
Vehicle fuel and maintenance	5,352
Utilities	42,078
Insurance and bonds	9,624
Drinking water fees	2,095
Dues and subscriptions	200
Wastewater testing	5,685
Other operating	8,491
Total operating expenses	257,288
Operating income	(88,316)
NON-OPERATING REVENUES (EXPENSES)	
Other income	9,295
Interest expense	(76,421)
Total non-operating revenues, net	(67,126)
Transfer in	612,751
Change in net position	457,309
Net position, beginning	1,948,017
Net position, ending	$ 2,405,326

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, 2013

	Business-Type Activity - Enterprise Fund
	Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 158,801
Cash paid to suppliers for goods and services	(110,597)
Cash paid to employees for services	(38,286)
Net cash provided by operating activities	9,918
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	
Cash received from customers	9,295
Transfers in	87,925
Net cash provided for noncapital and related financing activities	97,220
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfers in	524,826
Acquisition and construction of capital assets	(516,826)
Principal paid on long-term debt	(41,990)
Interest and fees paid on long-term debt	(76,708)
Net cash used for capital and related financing activities	(110,698)
Net increase in cash	(3,560)
Cash, beginning	25,157
Cash, ending	$ 21,597
Classifed as:	
Current assets	$ 9,938
Restricted assets	11,659
	$ 21,597
Reconciliation of Income From Operations to Net Cash Provided by Operating Activities:	
Income from operations	$ (88,316)
Depreciation	107,278
Change in accounts payable	1,127
Change in accounts receivable	(10,171)
Net cash provided by operating activities	$ 9,918

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

B. Reporting Entity

The City of 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.

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

C. Basis of Presentation – Government-wide Financial Statements

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

D. Basis of Presentation – Fund Financial Statements

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

CDBG Fund accounts for CDBG funds received by the City which are required to be used for various capital outlay projects.

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.

Transportation SPLOST accounts for the 1% regional sales tax proceeds received as part of the Transportation Investment Act to be used for capital outlay for highway and street enhancement purposes.
The City reports the following major proprietary fund:

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

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

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

E. Measurement Focus and Basis of Accounting

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following the statement which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

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

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

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

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

   As of December 31, 2013, the restricted assets of the City consisted of:

Water and sewer fund – restricted cash	$ 11,659

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

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

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

5. ***Prepaid Items*** - Payments made to vendors for services that will benefit periods beyond December 31, 2013, are recorded as prepaid items.

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

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

• Buildings	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

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

9. Deferred Outflows/Inflows of Resources

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

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

10. Fund Equity:

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

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

11. Net position flow assumption

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

12. Fund balance flow assumptions

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budget Policy and Budgetary Data

Budget Policy

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

	Expenditures	Appropriations	Variance
General fund:			
Public safety -			
Police	$ 39,425	$ 36,022	$ (3,403)
Fire	25,377	23,770	(1,607)
Public works -			
Highways and streets	142,896	117,856	(25,040)
Culture and recreation -			
Recreation	13,970	8,900	(5,070)
Debt service -			
Principal	14,204	-	(14,204)
Interest	2,842	-	(2,842)
Capital outlay -			
Public safety	25,624	13,000	(12,624)

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 ACTIVITIES AND FUNDS

A. Deposits and Investments

A summary of the City's deposits and investments at December 31, 2013 follows:

Account Balances		
Petty cash	$	230
Demand deposits		197,802
	$	198,032

Ownership of Funds		
Primary Government		
Governmental funds -		
Cash and cash equivalents	$	176,435
Proprietary funds -		
Cash and cash equivalents		9,938
Temporary restricted cash		11,659
Total reporting entity	$	198,032

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

***Deposits**:*

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

Investments:

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

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

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

B. Receivables

Receivables at December 31, 2013, consisted of taxes, accounts (billings for user charges), and intergovernmental receivables arising from services provided.

	Receivable	Allowance	Net
General Fund:			
Sales tax	$ 7,653	$ -	$ 7,653
Beverage tax	1,084	-	1,084
Telfair SPLOST (2009) Fund - Intergovernmental	8,623	-	8,623
Dodge SPLOST (2008) Fund - Intergovernmental	499	-	499
Transportation SPLOST Fund - Intergovernmental	919	-	919
Total governmental activities	18,778	-	18,778
Water and Sewer - Customers	37,410	(5,750)	31,660
Total business-type activities	37,410	(5,750)	31,660
Total	$ 56,188	$ (5,750)	$ 50,438

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, 2013, minimum lease payments receivable are as follows:

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

Year Ending December 31,	Minimum Lease Payments Receivable	Principal	Interest
2014	$ 85,537	$ 83,265	$ 2,272
Total	85,537	83,265	2,272
Less - current portion	85,537	83,265	2,272
Noncurrent portion	$ -	$ -	$ -

D. Transfers

A summary of fund transfers for the year ended December 31, 2013 follows:

	Transfers In	Transfers Out
Governmental funds:		
General Fund	$ -	$ 87,925
Transportation SPLOST	-	491,249
Telfair SPLOST (2004) Fund	-	33,577
Proprietary fund -		
Water & Sewer Fund	612,751	-
Total	$ 612,751	$ 612,751

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 ACTIVITIES AND FUNDS

F. Capital Assets

Capital asset activity for the year ended December 31, 2013 was as follows:

Governmental Activities:	Balance 12/31/2012	Additions	Retirements / Transfers	Balance 12/31/2013
Capital assets, not being depreciated:				
Land	$ 33,746	$ -	$ -	$ 33,746
Land improvements	153,000	-	-	153,000
Construction in progress	-	-	-	-
Total capital assets not being depreciated	186,746	-	-	186,746
Capital assets, being depreciated:				
Buildings and improvements	728,681	-	-	728,681
Infrastructure	537,664	16,501	-	554,165
Machinery and equipment	407,209	38,624	-	445,833
Total capital assets being depreciated	1,673,554	55,125	-	1,728,679
Less accumulated depreciation for:				
Buildings and improvements	98,131	19,305	-	117,436
Infrastructure	20,487	13,998	-	34,485
Machinery and equipment	263,922	28,345	-	292,267
Total accumulated depreciation	382,540	61,648	-	444,188
Total capital assets, being depreciated, net	1,291,014	(6,523)	-	1,284,491
Governmental activities capital assets, net	$ 1,477,760	$ (6,523)	$ -	$ 1,471,237

Depreciation expense was charged to functions / programs as follows:

Governmental Activities:	
General government and administration	$ 11,444
Public safety	24,223
Public works	19,364
Culture and recreation	6,617
Total depreciation expense - governmental activities	$ 61,648

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

	Balance 12/31/2012	Additions	Retirements	Balance 12/31/2013
Business-type Activities:				
Capital assets, not being depreciated -				
Construction in progress	$ -	$ 516,826	$ -	$ 516,826
Land	51,015	-	-	51,015
Total capital assets not being depreciated	51,015	516,826	-	567,841
Capital assets, being depreciated:				
Water system	1,208,198	-	-	1,208,198
Sewer system	4,041,144	-	-	4,041,144
Machinery and equipment	24,704	-	-	24,704
Total capital assets being depreciated	5,274,046	-	-	5,274,046
Less accumulated depreciation for:				
Water system	582,979	24,164	(114,782)	492,361
Sewer system	1,170,613	82,994	162,530	1,416,137
Machinery and equipment	72,271	121	(47,748)	24,644
Total accumulated depreciation	1,825,863	107,279	-	1,933,142
Total capital assets, being depreciated, net	3,448,183	(107,279)	-	3,340,904
Business-type activities capital assets, net	$ 3,499,198	$ 409,547	$ -	$ 3,908,745

Depreciation expense was charged to functions / programs as follows:

Business-type Activities -	
Water and sewer	$ 107,278
Total depreciation expense - business-type activities	$ 107,278

III. DETAILED NOTES ON ALL ACTIVITIES AND 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, 2013:

	Beginning Balance	Additions	Payments/ Retirements	Ending Balance	Current Portion	Long-term Portion
Governmental-type Activities:						
Note payable #1	$ 39,526	$ -	$ (3,601)	$ 35,925	$ 4,189	$ 31,736
Note payable #2	21,625	-	(10,603)	11,022	11,022	-
Governmental-type Activities - long-term liabilities	$ 61,151	$ -	$ (14,204)	$ 46,947	$ 15,211	$ 31,736
Business-type Activities:						
Water revenue bonds:						
Series 1992	$ 526,250	$ -	$ (14,300)	$ 511,950	$ 15,160	$ 496,790
Series 1995A	660,802	-	(17,262)	643,540	18,056	625,484
Series 1995B	398,621	-	(10,428)	388,193	10,908	377,285
Business-type Activities - long-term liabilities	$ 1,585,673	$ -	$ (41,990)	$ 1,543,683	$ 44,124	$ 1,499,559

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. This loan, secured by the commercial building and 1.81 acres of land, is due in monthly installments of $508 including interest at 5.25% and a final balloon payment due January 1, 2016. The annual requirements to amortize the remaining balance as of December 31, 2013, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2014	$ 4,189	$ 1,911	$ 6,100
2015	4,232	1,868	6,100
2016	27,504	119	27,623
	$ 35,925	$ 3,898	$ 39,823

III. DETAILED NOTES ON ALL ACTIVITIES AND 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, 2013, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2014	$ 11,022	$ 428	$ 11,450
	$ 11,022	$ 428	$ 11,450

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, 2013, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2014	$ 15,160	$ 28,797	$ 43,957
2015	16,070	27,944	44,014
2016	17,030	27,041	44,071
2017	18,060	26,083	44,143
2018	19,140	25,067	44,207
2019-2023	114,360	107,833	222,193
2024-2028	153,050	71,570	224,620
2029-2032	159,080	23,034	182,114
	$ 511,950	$ 337,369	$ 849,319

III. DETAILED NOTES ON ALL ACTIVITIES AND 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, 2013, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2014	$ 18,056	$ 28,588	$ 46,644
2015	18,886	27,758	46,644
2016	19,753	26,891	46,644
2017	20,661	25,983	46,644
2018	21,610	25,034	46,644
2019-2023	123,884	109,336	233,220
2024-2028	155,077	78,143	233,220
2029-2033	194,126	39,094	233,220
2034-2035	71,487	2,719	74,206
	$ 643,540	$ 363,546	$ 1,007,086

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, 2013, including interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2014	$ 10,908	$ 17,244	$ 28,152
2015	11,409	16,743	28,152
2016	11,933	16,219	28,152
2017	12,481	15,671	28,152
2018	13,054	15,098	28,152
2019-2023	74,839	65,921	140,760
2024-2028	93,682	47,078	140,760
2029-2033	117,271	23,489	140,760
2034-2035	42,616	1,601	44,217
	$ 388,193	$ 219,064	$ 607,257

III. DETAILED NOTES ON ALL ACTIVITIES AND 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	$ 6,454

- ***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.	$ 65,041
Dodge Special Purpose Local Option Sales Tax Fund (SPLOST) –	
used to account for capital projects financed with SPLOST.	11,071
Transportation SPLOST – used to account for capital projects	
Financed with TSPLOST	9,848
	$ 85,960

Net Position:

Net investment in capital assets reported on the government-wide statement of position as of December 31, 2013 are as follows:

	Governmental Activities	Business-Type Activities
Net investment in capital assets		
Cost of capital assets	$ 1,915,425	$ 5,841,887
Less accumulated depreciation	(444,188)	(1,933,141)
Book value	1,471,237	3,908,746
Less capital related debt	(46,947)	(1,543,683)
Net investment in capital assets	$ 1,424,290	$ 2,365,063

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.

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.

C. Joint Ventures

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

IV. OTHER INFORMATION

Heart of Georgia Altamaha Regional Commission – Under Georgia law, the City, in conjunction with other cities and counties in the region, is a member of the Heart of Georgia Altamaha Regional Commission (RC) and is required to pay annual dues thereto. During its year ended December 31, 2013, the City paid $750 in such dues. Membership in a RC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the RC of Georgia. The RC Board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of a RC. Separate financial statements may be obtained from:

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

CITY OF MILAN, GEORGIA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Original Budget	Budget As Amended	Actual	Variance with Final Budget - Over (Under)
REVENUES				
Taxes	$ 228,200	$ 233,200	$ 219,243	$ (13,957)
Licenses and permits	8,900	8,900	8,065	(835)
Intergovernmental	90,250	198,250	36,291	(161,959)
Fines and forfeitures	8,000	8,000	8,066	66
Lease revenue	88,540	88,540	79,212	(9,328)
Interest income	200	200	6,324	6,124
Other income	242,050	225,100	203,707	(21,393)
Total revenues	666,140	762,190	560,908	(201,282)
EXPENDITURES				
Current:				
General government -				
General administration	180,280	215,410	175,077	(40,333)
	180,280	215,410	175,077	(40,333)
Public safety:				
Police	36,680	36,022	39,425	3,403
Fire	23,100	23,770	25,377	1,607
	59,780	59,792	64,802	5,010
Public works:				
Highways and streets	91,920	117,856	142,896	25,040
Solid waste and recycling	38,090	35,320	7,904	(27,416)
	130,010	153,176	150,800	(2,376)
Culture and recreation -				
Recreation	8,900	8,900	13,970	5,070
	8,900	8,900	13,970	5,070
Debt service:				
Principal	-	-	14,204	14,204
Interest	-	-	2,842	2,842
	-	-	17,046	17,046
Capital outlay				
General administration	-	-	-	-
Public safety	13,000	13,000	25,624	12,624
Highways and streets	30,000	30,000	24,779	(5,221)
Recreation	-	-	-	-
	43,000	43,000	50,403	7,403
Total expenditures	421,970	480,278	472,098	(8,180)
Excess of revenues over expenditures	244,170	281,912	88,810	(193,102)
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	-	-	-	-
Proceeds from capital asset dispositions	-	-	-	-
Transfers in (out), net	(60,000)	(60,000)	(87,925)	(27,925)
Total other financing sources (uses)	(60,000)	(60,000)	(87,925)	(27,925)
Net change in fund balances	184,170	221,912	885	(221,027)
Fund balances, beginning	67,426	67,426	67,426	-
Fund balances, ending	$ 251,596	$ 289,338	$ 68,311	$ (221,027)

See Independent Auditor's Report.

CITY OF MILAN, GEORGIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2013

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.

3. 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:			
Public safety -			
Police	$ 39,425	$ 36,022	$ (3,403)
Fire	25,377	23,770	(1,607)
Public works -			
Highways and streets	142,896	117,856	(25,040)
Culture and recreation -			
Recreation	13,970	8,900	(5,070)
Debt service -			
Principal	14,204	-	(14,204)
Interest	2,842	-	(2,842)
Capital outlay -			
Public safety	25,624	13,000	(12,624)

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, 2013

	Capital Projects			Total
	Telfair SPLOST (2009)	Dodge SPLOST (2008)	Transportation SPLOST	Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	$ 56,418	$ 10,572	$ 8,929	$ 75,919
Receivables, net of uncollectible accounts:	8,623	499	919	10,041
Total assets	$ 65,041	$ 11,071	$ 9,848	$ 85,960
LIABILITIES AND FUND BALANCES				
Liabilities -	$ -	$ -	$ -	$ -
Fund balances -				
Restricted - capital projects	65,041	11,071	9,848	85,960
Total fund balances	65,041	11,071	9,848	85,960
Total liabilities and fund balances	$ 65,041	$ 11,071	$ 9,848	$ 85,960

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, 2013

	Capital Projects			Total
	Telfair SPLOST (2009)	Dodge SPLOST (2008)	Transportation SPLOST	Nonmajor Governmental Funds
REVENUES				
Intergovernmental	$ 55,442	$ 6,540	$ 9,848	$ 71,830
Total revenues	55,442	6,540	9,848	71,830
EXPENDITURES				
Capital outlay:				
Public safety	-	-	-	-
Public works	4,722	-	-	4,722
Total expenditures	4,722	-	-	4,722
Excess of revenues over expenditures	50,720	6,540	9,848	67,108
OTHER FINANCING SOURCES (USES)				
Transfers out	(33,577)	-	-	(33,577)
Total other financing sources (uses)	(33,577)	-	-	(33,577)
Net change in fund balances	17,143	6,540	9,848	33,531
Fund balances - beginning	47,898	4,531	-	52,429
Fund balances - ending	$ 65,041	$ 11,071	$ 9,848	$ 85,960

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, 2013

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	$ 26,730	$ 4,722	$ 31,452	44.57%
Water and sewer projects	70,560	70,560	25,875	33,577	59,452	84.26%
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	$ 60,725	$ 38,299	$ 99,024	
Dodge SPLOST (2008):						
Streets and improvements, recreational facilities and equipment	$ 30,000	$ 30,000	$ 6,631	$ -	$ 6,631	22.10%
	$ 30,000	$ 30,000	$ 6,631	$ -	$ 6,631	

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, 2013

PROJECT COST SCHEDULE:

Program Activity	Activity No.	Latest Approved Budget CDBG Funds	Expenditures Prior Years	Expenditures Current Year	Expenditures Total	Variance
Grant No. 12p-x-134-2-5507						
Engineering	T-03J-00	$ 51,060	$ -	$ 49,528	$ 49,528	$ 1,532
Sewer facilities	P-03J-02	446,775	-	441,721	441,721	5,054
Contingencies	C-022-00	-	-	-	-	-
Administration	A-21A-00	-	-	-	-	-
		$ 497,835	$ -	$ 491,249	$ 491,249	$ 6,586

SOURCE AND APPLICATION OF FUNDS SCHEDULE:

Total fiscal year 2012 CDBG funds awarded to recipient::	$ 497,835
Total amount drawndown by recipient from DCA (cumulative):	491,303
Less: CDGB funds expended by recipient (cumulative):	(491,249)
Amount of fiscal year 2012 CDBG funds held by recipient at year end:	$ 54

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milan, Georgia, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City of Milan, Georgia's basic financial statements, and have issued our report thereon dated May 2, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City Milan, Georgia 's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Milan, Georgia's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Milan, Georgia's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 2013-1 and 2013-3 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 deficiency described in the accompany schedule of findings and responses as item 2013-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Milan, Georgia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2013-3.

City of Milan, Georgia's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hilliard & Milton, LLC

McRae, Georgia

May 2, 2014

CITY OF MILAN, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013:

Audit
Finding

2013-1 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.

2013-2 Expenditures over appropriations

The audit fieldwork disclosed that the City over-expended funds in the general administration, fire, highways and streets, and debt service - principal and interest. 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.

2013-3 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, 2013, the City had $11,401 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.

City of Milan

Jimmy Kirkland, Mayor

Cricket Williamson
Chad Puckett
Glenda Taylor
Freddie Dorris, Jr.
Robin Ussery

East Railroad St.
P.O. Box 87
Milan, GA 31060

City Clerk: Jean Gray

Phone 229-362-4290
Fax 229-362-4290

May 2, 2014

Georgia Department of Audits and Accounts
Local Government Audits
254 Washington Street, S.W., Suite 322
Atlanta, Georgia 30334-8400

Dear Sir or Madam:

The following is the corrective action plan for the City of Milan, Georgia for the year ended December 31, 2013. We are in concurrence with the findings and/or recommendations noted in the report. With regards to:

2013-1 –Lack of Segregation of Duties:

The audit field work disclosed that due to a limited number of personnel, overlapping of duties exists in the City's operations, primarily in the area of cash receipts and disbursements. We realize that with limited personnel adequate segregation of duties is not possible. Therefore, to mitigate this we will continue to exercise alert supervision of all employees.

2013-2 – Expenditures Over Appropriations:

The audit field work disclosed that the City over-expended funds in police, fire, highways and streets, recreation, debt service – principal and interest and capital outlay – public safety categories for the year ended December 31, 2013. 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 Mayor and Council with an amended budget being prepared and adopted.

2013-3 – Water and Sewer Revenue Bond Reserve:

The audit field work disclosed that the City is not in compliance with the reserve requirements of the bond ordinance. We concur with this finding and have met with a representative of the UDSA and reached a verbal agreement for funding prior years. The City has made all of the extra payments required by this agreement; however, it will take a number of years to be fully funded.

If you require additional information regarding these corrective plans of action, please contact Milan City Hall at 229-362-4290

Sincerely



Jimmy Kirkland
Mayor