CITY OF PAVO, GEORGIA

FINANCIAL STATEMENTS

FOR YEAR ENDED

DECEMBER 31, 2011

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SIMMONS, MILLS & SIMMONS P.C.

CERTIFIED PUBLIC ACCOUNTANTS
220 E. JACKSON ST.
P.O. BOX 1098
THOMASVILLE, GEORGIA 31799

229-226-2515
FAX# 229-226-2531

CHARLES R. SIMMONS, JR., CPA (1918-1986)
EDWIN A. SIMMONS, CPA
DARRELL J. MILLS, CPA
MICHAEL J. SIMMONS, CPA
R. FRED HESTER, CPA, CFP

MEMBERS AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Pavo, Georgia

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Pavo, Georgia (hereinafter referred to as "the City") as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Pavo, Georgia's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following two paragraphs (the third and fourth paragraphs), 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 the 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.

The City does not have adequate documentation of receipts and disbursements. Management was unable to find invoices requested and documentation of revenues received. Some of the accounting records were missing. As a result, we were unable to apply audit procedures sufficient to determine if governmental revenues and expenditures and business type revenues and expenses are free of material misstatement.

The City does not have adequate subsidiary ledgers or other records to support security deposits received from utility customers. As a result, we were unable to determine the appropriate year end balances for this account.

Because of the matters discussed in the third and fourth paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Pavo, Georgia as of and for the year ended December 31, 2011.

The City of Pavo, Georgia has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards,* we have issued our report dated, June 29, 2012, on our consideration of the City of Pavo, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 important for assessing the results of our audit.

Simmons, Mills & Simmons P.C.
Thomasville, Georgia

Simmons, Mills & Simmons P.C.

June 29, 2012

BASIC FINANCIAL STATEMENTS

CITY OF PAVO, GEORGIA
Government-wide Statement of Net Assets
December 31, 2011

	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and cash investments	$ 291,900	$ 17,129	$ 309,029
Restricted cash	-	5,000	5,000
Receivables (net of allowance for doubtful accounts):			
Taxes	35,139	-	35,139
Accounts	-	8,868	8,868
Intergovernmental receivable	16,764	399,244	416,008
Internal balances	-	-	-
Prepaid items	7,890	2,495	10,385
Capital assets:			
Land	34,854	-	34,854
Buildings	207,575	-	207,575
Equipment	199,252	11,937	211,189
Infrastructure	-	591,931	591,931
Construction in progress	-	23,681	23,681
Accumulated depreciation	(213,969)	(171,106)	(385,075)
Total assets	579,405	889,179	1,468,584
Liabilities:			
Accounts payable	10,279	4,318	14,597
Accrued liabilities	18,107	240	18,347
Customer deposits	-	17,793	17,793
Interest payable	1,111	-	1,111
Deferred revenue	841	404,244	405,085
Noncurrent liabilities:			
Due within one year	11,075	-	11,075
Due in more than one year	25,378	-	25,378
Total liabilities	66,791	426,595	493,386
Net assets:			
Invested in capital assets, net of related debt	191,259	456,443	647,702
Unrestricted (deficit)	82,930	6,141	89,071
Restricted for:			
Capital projects	232,370	-	232,370
Housing and development	6,055	-	6,055
Total net assets	$ 512,614	$ 462,584	$ 975,198

See accompanying notes to basic financial statements

CITY OF PAVO, GEORGIA
Government-wide Statement of Activities
Year Ended December 31, 2011

Program Activities	Expenses	Program Revenues: Fees, Fines and Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and changes in Net Assets: Governmental Activities	Net (Expenses) Revenues and changes in Net Assets: Business-type Activities	Net (Expenses) Revenues and changes in Net Assets: Total
Governmental activities:							
General government	$ 73,278	$ 50	$ -	$ 18,308	$ (54,920)	$ -	$ (54,920)
Judicial	1,551	-	-	-	(1,551)	-	(1,551)
Public safety	215,087	52,063	-	411	(162,613)	-	(162,613)
Public works	61,411	-	-	30,105	(31,306)	-	(31,306)
Cultural and recreational	15,727	-	3,390	-	(12,337)	-	(12,337)
Housing and development	315	-	1,184	-	869	-	869
Interest on long-term debt	1,634	-	-	-	(1,634)	-	(1,634)
Total governmental activities	369,003	52,113	4,574	48,824	(263,492)	-	(263,492)
Business-type activities:							
Water	137,576	70,664	-	9,000	-	(57,912)	(57,912)
Solid waste	38,158	55,558	-	-	-	17,400	17,400
Total business-type activities	175,734	126,222	-	9,000	-	(40,512)	(40,512)
Total government	$ 544,737	$ 178,335	$ 4,574	$ 57,824	$ (263,492)	$ (40,512)	$ (304,004)
General revenues:							
Taxes:							
Property taxes					$ 111,390	$ -	$ 111,390
Sales taxes					45,120	-	45,120
Business taxes					2,788	-	2,788
Other taxes					30,100	-	30,100
Franchise fees					36,424	-	36,424
Investment earnings					89	23	112
Gain on sale of capital assets					1,500	-	1,500
Miscellaneous					6,626	4,554	11,180
Transfers					5,150	(5,150)	-
Total general revenues and transfers					239,187	(573)	238,614
Change in net assets					(24,305)	(41,085)	(65,390)
Net assets - beginning					536,919	503,669	1,040,588
Net assets - ending					$ 512,614	$ 462,584	$ 975,198

See accompanying notes to basic financial statements

CITY OF PAVO, GEORGIA
Balance Sheet
Governmental Funds
December 31, 2011

	General Fund	SPLOST Fund	Hotel/Motel Tax Fund	Total Governmental Funds
Assets:				
Cash	$ 65,141	$ 221,031	$ 5,728	$ 291,900
Receivables (net of allowance for doubtful accounts):				
Taxes	35,139	-	-	35,139
Interfund balances	(2,515)	2,495	20	-
Intergovernmental receivables	7,613	8,844	307	16,764
Prepaid items	7,890	-	-	7,890
Total assets	$ 113,268	$ 232,370	$ 6,055	$ 351,693
Liabilities and fund balances:				
Liabilities:				
Accounts payable	$ 10,279	$ -	$ -	$ 10,279
Accrued liabilities	18,107	-	-	18,107
Deferred revenues	29,246	-	-	29,246
Total liabilities	57,632	-	-	57,632
Fund balances:				
Nonspendable:				
Prepaid items	7,890	-	-	7,890
Restricted for:				
Promotion of tourism	-	-	6,055	6,055
Capital projects funds	-	232,370	-	232,370
Unassigned	47,746	-	-	47,746
Total fund balances	55,636	232,370	6,055	294,061
Total liabilities and fund balances	$ 113,268	$ 232,370	$ 6,055	$ 351,693

See accompanying notes to basic financial statements

CITY OF PAVO, GEORGIA
Reconciliation of the Governmental Funds Balance Sheet to the Government - Wide Statement of Net Assets
Year Ended December 31, 2011

Total fund balances - total governmental funds		$ 294,061
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.		
Cost	$ 441,681	
Less accumulated depreciation	(213,969)	227,712
Deferred revenues for delinquent property taxes deferred in the governmental funds because they will not be received within sixty days of the City's year end.		28,405
To recognize interest accrual to year end on the General Fund notes payable.		(1,111)
Long-term liabilities are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet.		(36,453)
Net assets of governmental activities		$ 512,614

See accompanying notes to basic financial statements

CITY OF PAVO, GEORGIA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2011

	General Fund	SPLOST Fund	Hotel/Motel Tax Fund	Total Governmental Funds
Revenues:				
General property taxes	$ 139,737	$ -	$ -	$ 139,737
Sales and use taxes	45,120	-	-	45,120
Other taxes	30,100	-	-	30,100
Licenses and permits	2,788	-	-	2,788
Intergovernmental	2,451	48,413	1,184	52,048
Charges for services	50	-	-	50
Interest income	28	61	-	89
Contributions from private sources	1,350	-	-	1,350
Fines and forfeitures	52,063	-	-	52,063
Rental income	6,624	-	-	6,624
Miscellaneous revenues	2	-	-	2
Total revenues	280,313	48,474	1,184	329,971
Expenditures:				
Current:				
General government	71,024	-	-	71,024
Judicial	1,551	-	-	1,551
Public safety	183,623	-	-	183,623
Public works	57,365	1,151	-	58,516
Culture and recreation	10,916	683	-	11,599
Housing and development	-	-	315	315
Debt service:				
Principal	10,628	-	-	10,628
Interest and other charges	1,951	-	-	1,951
Capital outlay	-	-	-	-
Total expenditures	337,058	1,834	315	339,207
Excess (deficiency) of revenues over expenditures	(56,745)	46,640	869	(9,236)
Other Financing Sources (Uses):				
Transfers in (out)	5,150	-	-	5,150
Proceeds from capital asset disposition	1,500	-	-	1,500
Total other financing sources (uses)	6,650	-	-	6,650
Net change in fund balances	(50,095)	46,640	869	(2,586)
Fund balances - beginning	105,731	185,730	5,186	296,647
Fund balances - ending	$ 55,636	$ 232,370	$ 6,055	$ 294,061

See accompanying notes to basic financial statements

CITY OF PAVO, GEORGIA
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets
Year Ended December 31, 2011

Net change in fund balances - total government funds		$ (2,586)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		-
Repayment of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.		10,628
Accrued interest expense recorded for the government-wide statements.		317
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.		(40,740)
Because some property taxes will not be collected for several months after the Town's fiscal year ends, they are not considered "available" revenues in the governmental funds.		
Deferred taxes 12/31/11	$ 28,405	
Deferred taxes 12/31/10	20,329	8,076
Change in net assets of governmental activities		$ (24,305)

See accompanying notes to basic financial statements

CITY OF PAVO, GEORGIA
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
GAAP Basis
Year Ended December 31, 2011

	Budget			Variance with Final Budget
	Original	Final	Actual	Over (Under)
Revenues:				
General property taxes	$ 171,100	$ 174,700	$ 139,737	$ (34,963)
Sales and use taxes	42,000	45,000	45,120	120
Other taxes	35,000	29,500	30,100	600
Licenses and permits	4,000	4,000	2,788	(1,212)
Intergovernmental	2,000	8,000	2,451	(5,549)
Charges for services	-	-	50	50
Interest income	100	100	28	(72)
Contributions from private sources	-	-	1,350	1,350
Fines and forfeitures	71,500	75,000	52,063	(22,937)
Rental income	5,750	8,000	6,624	(1,376)
Miscellaneous revenues	5,500	8,746	2	(8,744)
Carryover of funds	-	-	-	-
Total revenues	336,950	353,046	280,313	(72,733)
Expenditures:				
Current:				
General government	60,026	78,778	71,024	(7,754)
Judicial	1,425	1,755	1,551	(204)
Public safety	194,458	189,704	183,623	(6,081)
Public works	56,837	61,860	57,365	(4,495)
Culture and recreation	12,954	11,370	10,916	(454)
Debt service:				
Principal	10,000	10,628	10,628	-
Interest and other charges	1,250	1,951	1,951	-
Capital outlay	-	-	-	-
Total expenditures	336,950	356,046	337,058	(18,988)
Excess (deficiency) of revenues over expenditures	-	(3,000)	(56,745)	(53,745)
Other financing sources (uses):				
Transfers in (out)	-	-	5,150	5,150
Proceeds from capital asset disposition	-	3,000	1,500	(1,500)
Total other financing sources (uses)	-	3,000	6,650	3,650
Excess (deficiency) of revenues and other financing and other uses	-	-	(50,095)	(50,095)
Fund balances - beginning	105,731	105,731	105,731	-
Fund balances - ending	$ 105,731	$ 105,731	$ 55,636	$ (50,095)

See accompanying notes to basic financial statements

CITY OF PAVO, GEORGIA
Statement of Net Assets
Proprietary Funds
December 31, 2011

	Water & Sanitation	Totals
Assets:		
Current assets:		
Cash	$ 17,129	$ 17,129
Restricted cash	5,000	5,000
Receivables (net where applicable of allowance for doubtful accounts):		
Accounts	8,868	8,868
Intergovernmental receivable	399,244	399,244
Prepaid items	2,495	2,495
Total current assets	432,736	432,736
Noncurrent assets:		
Capital assets:		
Equipment	11,937	11,937
Infrastructure	591,931	591,931
Construction in progress	23,681	23,681
Accumulated depreciation	(171,106)	(171,106)
Total capital assets, net of accumulated depreciation	456,443	456,443
Total assets	$ 889,179	$ 889,179
Liabilities:		
Current liabilities:		
Accounts payable	$ 4,318	$ 4,318
Accrued wages payable	240	240
Deferred revenues	404,244	404,244
Customer deposits	17,793	17,793
Total liabilities	426,595	426,595
Net Assets:		
Invested in capital assets, net of related debt	456,443	456,443
Unrestricted (deficiency)	6,141	6,141
Total net assets	$ 462,584	$ 462,584

See accompanying notes to basic financial statements

CITY OF PAVO, GEORGIA
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended December 31, 2011

	Water & Sanitation	Totals
Operating revenues:		
Charges for services - water	$ 70,664	$ 70,664
Charges for services - sanitation	55,558	55,558
Miscellaneous	4,554	4,554
Total operating revenues	130,776	130,776
Operating expenses:		
Personal services	42,591	42,591
Purchased/contracted services	83,680	83,680
Supplies	29,377	29,377
Depreciation	20,086	20,086
Total operating expenses	175,734	175,734
Income (loss) from operations	(44,958)	(44,958)
Non-operating revenues (expenses):		
Donated services	9,000	9,000
Interest income	23	23
Total non-operating revenues (expenses)	9,023	9,023
Transfer from other funds	(5,150)	(5,150)
Change in net assets	(41,085)	(41,085)
Net assets - beginning	503,669	503,669
Net assets - ending	$ 462,584	$ 462,584

See accompanying notes to basic financial statements

CITY OF PAVO, GEORGIA
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2011

	Water & Sanitation	Totals
Cash flows from operating activities:		
Cash received from customers	$ 133,325	$ 133,325
Cash payments to suppliers for goods and services	(115,460)	(115,460)
Cash payments to employees for services	(42,591)	(42,591)
Net cash provided (used) by operating activities	(24,726)	(24,726)
Cash flows from noncapital financing activities:		
Transfers from other funds	(5,150)	(5,150)
Cash flows from capital and related financing activities:		
Loan payments	-	-
Acquisition and construction of capital assets	(14,682)	(14,682)
Net cash provided (used) by capital and related financing activities	(14,682)	(14,682)
Cash flow from investing activities:		
Interest on cash and investments	23	23
Net increase (decrease) in cash and cash investments	(44,535)	(44,535)
Cash and cash investments, January 1	61,664	61,664
Cash and cash investments, December 31	$ 17,129	$ 17,129
Non-cash capital activities:		
Donated services received for construction in progress	$ 9,000	

See accompanying notes to basic financial statements

CITY OF PAVO, GEORGIA
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2011

	Water & Sanitation	Totals
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Income (loss) from operations	$ (44,958)	$ (44,958)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation and amortization	20,086	20,086
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	2,571	2,571
(Increase) decrease in prepaid items	668	668
Increase (decrease) in accounts payable	(1,775)	(1,775)
Increase (decrease) in accrued liabilities	(1,296)	(1,296)
Increase (decrease) in customer deposits payable	(22)	(22)
Net cash provided (used) by operating activities	$ (24,726)	$ (24,726)

See accompanying notes to basic financial statements

NOTES TO FINANCIAL STATEMENTS

(1) – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Pavo (the "City") was chartered in 1898. The City operates under a council/mayor form of government and provides the following services: public safety, highways and streets, recreation, public improvements and general and administrative services. In addition, the City operates public water and sanitation services for the incorporated and immediate surrounding areas.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

B. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Pavo has no component units.

Related organizations

The following is a list of related organizations for which the City of Pavo appoints one or more of the Board of Directors:

- South Georgia Regional Commission

(1) – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

B. Financial Reporting Entity

Joint ventures and jointly governed organizations

The City of Pavo, in conjunction with thirty-three cities or counties in the South Georgia area is members of the South Georgia Regional Commission (SGRC). Membership in an SGRC is automatic of each municipality and county in the state. The Official Code of Georgia Section 50-8-34 (Georgia Planning Act of 1989) provides for the organizational structure of the SGRCs. Each county and municipality in the state is required by law to pay minimum annual dues to the SGRC. The SGRC Board membership includes the chief elected official of each county and the chief elected official of each municipality. The county board members and municipal board members from the same county elect one member of the Board who is a resident (but not an elected or appointed official or employee of the County or municipality) to serve as the non-public Board member for a county.

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines SGRCs as "public agencies and instrumentalities of their members. Georgia laws also provide that the member governments are liable for any debts or obligations of an SGRC beyond its resources (O.C.G.A. 50-8-39.1).

Separately issued financial statements of the South Georgia Regional Commission are available at their administrative offices at 327 W. Savannah Ave., Valdosta, GA or by telephone at 229-333-5277.

C. Basis of Presentation

The government-wide financial statements (the statement of net asset and the statement of changes in net assets) report information on all of the activities of the City. The effect of Interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

(1) – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

C. Basis of Presentation

Fund Financial Statements:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements: all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental funds typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund –

General Fund is the main operating fund of the City. This fund is used to account for all financial resources and not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

SPLOST Fund –

The SPLOST Fund is a capital projects fund used to account for Special Purpose Local Option Sales Tax collected for Brooks and Thomas Counties. This sales tax is to be used for capital outlay as allowed by the Official Code of Georgia Annotated Section 48-8-111.

Hotel/Motel Tax Fund –

The Hotel/Motel Tax Fund is a special revenue fund used to account for Hotel/Motel tax received from Thomas County. This tax is to be used for the promotion of tourism in the City.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary funds:

Water and Sanitation Fund –

Water and Sanitation Fund is used to account for the provision of water and sanitation operation (garbage and trash collection), to the residents of the City. Activities of the fund include administration, operations and maintenance of the water system and billing and collection activities. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

(1) – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

- Committed
- Assigned
- Unassigned

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

(1) – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

E. Budgets

All budgets, except for the Enterprise Fund, are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the General Fund and the Enterprise Funds. Amounts presented for the General Fund are as amended by the City Council. All annual appropriations lapse at year end. A project-length budget was adopted for the Capital Projects Fund. An annualized budget was not adopted for the Hotel/Motel Tax Fund.

F. Cash and Investments

Cash includes amounts in demand deposits, passbook savings as well as certificates of deposits with a maturity date of three months or less. Cash equivalents are short term, highly liquid investments that can be converted to know amounts of cash.

The City's deposit policy limits deposit choices to checking accounts, money market accounts and certificates of deposits with local banks. All deposits are to be secured as required by state statutes. The state statute requires the deposits to be secured at an amount equal to the total deposits less FDIC insurance, then multiplied by 110 percent.

The City's investing is limited to investments complying with state statues. These investments are limited to obligations of state, obligations issued by the U.S. government, obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States, obligations of any corporation of the U.S. government investment pool established by state law and obligations of other political subdivisions of the State of Georgia.

G. Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent year, and the reserve for prepaid items has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

H. Inventories

Expendable supplies are recorded as expenditures at the time items are purchased. The City does not record inventories of supplies on the books. Any inventory of supplies at December 31, 2011 is considered immaterial.

I. Interfund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances".

J. Transactions Between Funds

Legally authorized transfers are treated as Interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

(1) – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

K. Capital Assets

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. General infrastructure assets acquired prior to July 1, 2003, are not reported in the basic financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to July 1, 2003. Improvements to capital assets are capitalized. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets are capitalized and the estimated useful lives are as follows:

	Life – Years	Threshold
Buildings	15-40	$ 15,000
Equipment	5-10	5,000
Vehicles	3-12	10,000
Improvements	7-15	5,000
System infrastructure	20-40	150,000

L. Compensated Absences

The City's policy does not allow employees to accumulate earned but unused vacation and sick pay benefits. At the end of the year, all earned but unused vacation and sick pay benefits are paid out to the employees at one fourth of their value. Therefore the City will not have an accrual of compensated absences.

M. 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. 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 the issue is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

(1) – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

N. Nature and Purpose of Reservations and Designations of Fund Equity

The fund equity reserves for prepaid items.

Designations of fund equity are not legally required segregations but are segregated for a specific purpose. As of December 31, 2011 the City does not have any designations of fund equity.

O. Government-wide and Proprietary Fund Net Assets

Government-wide and proprietary fund net assets are divided into three components:

Invested in capital assets, net of related debt – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

Restricted net assets – consist of net assets that are restricted by the City's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.

Unrestricted – all other net assets are reported in this category.

P. Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by a formal action by City Council.

Assigned – Amounts that are designated by the City Council for a particular purpose.

Unassigned – All amounts not included in other spendable classifications.

Q. Estimates

The presentation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

(2) – LEGAL COMPLIANCE – BUDGETS

The City normally follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At least four months prior to year end, the City clerk and department heads start working on the proposed operating budget for the forthcoming fiscal year.

2. Sixty days prior to year end, the City clerk submits to the City Council a proposed operating budget for the forthcoming fiscal year. The operating budget includes proposed expenditures and the means of financing them.

3. Public hearings are conducted to obtain taxpayer comments.

4. As close to year end as possible, usually 30 days prior to year end, the budget is legally adopted by the City Council and made part of the City's minutes.

5. Any changes to the City's budget must be approved by the City Council. The City Council approves all expenditures each month, regardless of amount.

6. Appropriations lapse at year end.

7. Budget amendments, as needed, are proposed by the City clerk and approved by the City Council.

Budget amounts are as originally adopted or as amended by the City Council. The City did not adopt an annualized budget for the Hotel/Motel Tax Fund.

The legal level of control (the level at which expenditures may not legally exceed appropriations) for each legally adopted annual operating budget is at the department level.

Excess of Expenditures over Appropriations

For the year ended December 31, 2011, expenditures did not exceed appropriations.

(3) – DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a deposit policy for custodial credit risk (Note 1F). As of December 31, 2011, all of the City's deposits were covered by either the Federal Depository Insurance Corporation (FDIC) or collateral pledged by the financial institution or a combination of the two.

As of yearend, the carrying amount of the City's bank balances totaled $314,029 and the bank balance totaled $359,325.

Investments

As of December 31, 2011 the City had no investments.

(4) - RECEIVABLES

The receivables as of December 31, 2011 for the City's individual major funds and non-major funds are as follows:

	General Fund	SPLOST Fund	Hotel/Motel Fund	Water & Sanitation Fund	Total
Receivables					
Taxes	$ 38,139	$ -	$ -	$ -	$ 38,139
Accounts	-	-	-	13,068	13,068
Intergovernmental	7,613	8,844	307	-	16,764
Gross receivables	45,752	8,844	307	13,068	67,971
Less: Allowance for doubtful accounts	3,000	-	-	4,200	7,200
Net total receivables	$ 42,752	$ 8,844	$ 307	$ 8,868	$ 60,771

Property taxes are levied as of September 19th on property values assessed as of January 1st. The bills were mailed on October 1st and are considered due upon receipt by the taxpayer; however, the actual due date is January 4th. After this date, the bill becomes delinquent and penalties and interest may be assessed.

(5) – RESTRICTED ASSETS

Restricted assets reported in the Water & Sewer fund are comprised of the following:

Cash – CDBG funds	$ 5,000

(5) – CAPITAL ASSETS

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

	Adjusted Balance Jan. 1	Additions	Deletions	Balance Dec. 31
Governmental Activities:				
Capital assets not being depreciated				
Land	$ 34,854	$ -	$ -	$ 34,854
Total capital assets not being depreciated	34,854	-	-	34,854
Capital assets, being depreciated				
Buildings and improvements	207,575	-	-	207,575
Equipment	233,583	-	34,331	199,252
Total capital assets being depreciated	441,158	-	34,331	406,827
Less accumulated depreciation for:				
Buildings and improvements	91,716	7,948	-	99,664
Equipment	115,844	32,792	34,331	114,305
Total accumulated depreciation	207,560	40,740	34,331	213,969
Total capital assets, being depreciated, net	233,598	(40,740)	-	192,858
Governmental activities capital assets, net	$ 268,452	$ (40,740)	$ -	$ 227,712
Business-type activities:				
Capital assets not being depreciated				
Construction in progress	$ -	$ 23,681	$ -	$ 23,681
Total capital assets not being depreciated	-	23,681	-	23,681
Capital assets being depreciated				
Infrastructure	$ 591,931	$ -	$ -	$ 591,931
Equipment	11,937	-	-	11,937
Total capital assets, being depreciated	603,868	-	-	603,868
Less accumulated depreciation for:				
Infrastructure	126,499	17,002	-	143,501
Equipment	24,521	3,084	-	27,605
Total accumulated depreciation	151,020	20,086	-	171,106
Business-type activities capital assets, net	$ 452,848	$ 3,595	$ -	$ 456,443

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental activities:	
General government	$ 2,253
Public safety	31,464
Public works	2,895
Culture and recreation	4,128
Total depreciation expense - Governmental activities	$ 40,740
Business-type activities:	
Water	$ 19,022
Sanitation	1,064
Total depreciation expense - Business-type activities	$ 20,086

(6) – LONG-TERM DEBT

At December 31, 2011, the City had the following notes payable:

	Governmental
Note payable USDA for the purchase of two police cars. Annual payments of $5,278 are due through May 22, 2013 at 4.375%. The note was issued on May 22, 2008 for $23,250.	$ 9,954
Note payable UDSA for the purchase of two police cars and a weather alert system. Annual payments of $7,301 are due through March 17, 2015 at 4%. The note was issued on March 17, 2010 for $32,500.	26,499
Total governmental long-term debt	$ 36,453

Annual debt service requirements to these notes payable as of December 31, 2011 follow:

	Governmental Activities		
Year	Principal	Interest	Total
2012	$ 11,075	$ 1,504	$ 12,579
2013	11,611	968	12,579
2014	6,750	551	7,301
2015	7,017	284	7,301
Totals	$ 36,453	$ 3,307	$ 39,760

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

	Balance January 1	Issues or Additions	Payments or Expenditures	Balance December 31	Due in One Year
Governmental Type Activities:					
Note payable - USDA	$ 14,581	$ -	$ 4,627	$ 9,954	$ 4,834
Note payable - USDA	32,500	-	6,001	26,499	6,241
Total governmental activities	47,081	-	10,628	36,453	11,075
Business-type Activites:					
Note payable - GMA	-	-	-	-	-
Total government	$ 47,081	$ -	$ 10,628	$ 36,453	$ 11,075

(7) – INTERFUND BALANCES AND TRANSFERS

Interfund receivables, payables and transfers for the year ended December 31, 2011 were as follows:

Fund	Interfund Receivables	Interfund Payables	Transfers In	Transfers Out
General Fund	$ -	$ 2,515	$ 5,150	$ -
SPLOST Fund	2,495	-	-	-
Hotel/Motel Fund	20	-	-	-
Water & Sanitation Fund	-	-	-	5,150
Totals	$ 2,515	$ 2,515	$ 5,150	$ 5,150

Interfund payables and receivables are due to restricted funds being spent for unapproved expenditures. These funds are to be repaid out of the General Fund. Transfers are used to move unrestricted revenue collected in one fund to finance various programs accounted for in other funds.

(8) – FUND BALANCES

The following is a summary of the fund balances for the governmental funds at December 31, 2011:

Nonspendable:	
Prepaid items - This is prepaid insurance in the general fund	$ 7,890
Restricted for construction of capital assets - This is net assets restricted by state law as follows:	
SPLOST Fund - Restricted by state law and Brooks County	78,611
SPLOST Fund - Restricted by state law and Thomas County	118,583
SPLOST Fund - Restricted by state law and the City of Thomasville for Recreation	35,176
Restricted for promotion of tourism:	
Hotel/Motel Tax Fund - Restricted by state law	6,055
Unassigned:	
This is the amount assigned in the general fund	47,746
Total fund balance	$ 294,061

(9) – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Agency (GIRMA) for property and liability insurance and the Workers' Compensation Self-Insurance Fund (WCSIF), public entity risk pools currently operating as common risk management and insurance programs for member local governments. The Georgia Municipal Association (GMA) administers both risk pools.

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 pools' 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 or loss. The City is also to allow the pools' 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.

(9) – RISK MANAGEMENT (CONT.)

The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member governments' contracts and in accordance with the workers' compensation laws of Georgia. The funds are to pay all cost taxed against members in any legal proceedings defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

The City has not compiled a record of the claims paid up to the applicable deductible for the prior or current fiscal year. The City is not aware of any claims which the City is liable for (up to the applicable deductible) which were outstanding and unpaid at December 31, 2011. No provisions have been made in the financial statements for the year ended December 31, 2011 for any estimated of potential unpaid claims.

The City carries a combined property, casualty, and crime coverage with the Georgia Interlocal Risk Management Agency (GIRMA).

Coverage's are as follows:

Coverage description – property:	
Building and contents	$4,774,293
Boiler & machinery	4,774,293
Automobile physical damage	Per application on file with GIRMA
Coverage description – casualty:	
General liability	600,000
Personal and advertising liability	600,000
Law enforcement liability	600,000
Automobile liability	600,000
Errors and omissions (Public officials) liability	600,000
Employee benefits liability	600,000
Coverage description – crime:	
Blanket Bond/Employee dishonesty	500,000
Forgery or alteration	500,000
Computer crime	500,000
Money and securities	500,000
Deductible:	
General liability	10,000
Law enforcement liability	10,000
Automobile liability	10,000
Errors and omissions (Public officials) liability	10,000
Employee benefits liability	10,000
Property	2,500
Boiler & machinery	2,500
Automobile physical damage	2,500
Crime	2,500
Coverage's subject to a retroactive date:	
(Unless stated otherwise in the coverage exceptions)	
Public officials liability	4/15/1988
Employee benefits liability	4/15/1988

Coverage is subject to all terms, conditions and internal limits as specified in the GIRMA member coverage agreement.

(10) - CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The City has stated that it is not involved in any lawsuit that will have a material effect on the financial condition of the City.

(11) – EMPLOYEE RETIREMENT SYSTEM

The City does not provide any retirement, pension, or profit sharing plan for its employees.

(12) – HOTEL/MOTEL LODGING TAX

Pursuant to an ordinance on June 27, 2005, January 1, 2006 Thomas County began levying a 5% lodging tax in accordance with O.C.G.A. 48-13-51 and expends 50% of the hotel/motel tax collections for the purpose of promoting tourism.

Thomas County paid the City of Pavo, Georgia $1,539 from their Hotel/Motel Tax Fund in 2011. The City spent $315 of this money towards promotion of tourism for the City of Pavo in 2011.

(13) – NEW GASB STANDARDS

In 2011, the City of Pavo, Georgia implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This standard is designed to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and clarifying the existing governmental fund type definitions.

OTHER FINANCIAL INFORMATION

SIMMONS, MILLS & SIMMONS P.C.

CERTIFIED PUBLIC ACCOUNTANTS
220 E. JACKSON ST.
P.O. BOX 1098
THOMASVILLE, GEORGIA 31799

229-226-2515
FAX# 229-226-2531

CHARLES R. SIMMONS, JR., CPA (1918-1986)
EDWIN A. SIMMONS, CPA
DARRELL J. MILLS, CPA
MICHAEL J. SIMMONS, CPA
R. FRED HESTER, CPA, CFP

MEMBERS AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMEDIN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and Members
of the City Council
City of Pavo, Georgia

We were engaged to audit the financial statements of the governmental activities, the business-type activities, and each major fund, of the City of Pavo, Georgia, as of and for the year ended December 31, 2011, which collectively comprise the City of Pavo, Georgia's basic financial statements and have issued our report thereon dated June 29, 2012. Except as discussed in the third and fourth paragraph of our report on the financial statements, 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 Pavo, Georgia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Pavo, Georgia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Pavo, 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 to be material weaknesses. 2011-1, 2011-2, 2011-3, 2011-4, 2011-5 and 2011-6.

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 finding and responses to be significant deficiencies. 2001-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Pavo, 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 finding and responses as item2010-1.

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

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

Simmons, Mills & Simmons P.C.
Thomasville, Georgia

Simmons, Mills & Simmons P.C.

June 29, 2012

Prior years findings and responses:

2001-2

Condition – The City has a deficiency in its control structure due to a lack of segregation of duties.

Effect – The City clerk performs many of the accounting functions which gives her the ability to control the financial records and reports.

Recommendation – The Mayor and City Council should closely monitor and approve the monthly financial activity.

Status – Our test determined that this condition still exists.

Views of responsible officials and planned correction actions – The City's management concurs with the finding. The Mayor and City Council will continue to closely monitor and approve the monthly financial activity.

2010-1

Condition – The City's expenditures exceeded appropriations at the legal level of control in the culture and recreation department of the general fund. The City also did not pass an annualized budget for the hotel/motel tax fund (special revenue fund) for the current year.

Criteria – Official Code of Georgia Annotated (O.C.G.A.) Section 36-81-3: Each unit of local government shall adopt and operate under an annual balanced budget for the general fund, each special revenue fund, and each debt service fund in use by the local government. Nothing contained in this code section shall preclude a local government from amending its budget so as to adapt to changing governmental needs during the budget period.

Recommendation – The City should review its financial statements in relation to the budget on a regular basis and amend the budget as needed throughout the year.The City also needs to pass an annualized budget for the hotel/motel tax fund.

Effect – Noncompliance with above statute.

Status – The culture and recreation department of the general fund's expenditures did not exceed appropriations during the current year. The City did not pass an annualized budget for the hotel/motel tax fund.

Views of responsible officials and planned correction actions – The City's management concurs with the finding. The City will adopt an annualized budget for the hotel/motel tax fund.

Current year findings and responses:

2011-1

Condition – The City did not have adequate documentation of receipts and disbursements. Management was unable to find all invoices requested or documentation of revenues received.

Criteria – This is a weakness in internal control.

Effect – This lack of documentation of revenues and expenditures is a scope limitation. As a result of this limitation we were unable to obtain proper documentation to determine appropriateness of expenditures or revenues.

Recommendation – The City should maintain proper documentation on all revenues and expenditures. This documentation should be filed in a manner that is easy to retrieve when requested.

Views of responsible officials and planned corrective actions – TheCity's management concurs with the finding. The City has recently hired a new City clerk. Management has instructed the clerk on proper record keeping.

2011-2

Condition – The City did not file or pay its payroll tax liability in a timely manner. Not paying payroll tax liabilities on a timely basis can cause excess penalties and interest to be incurred by the City. The clerk was recording payments on the general ledgers; however the funds never cleared the bank account. This clerk is no longer employed with the City.

Criteria – This is a weakness in internal controls.

Effect –The lack of filing the payroll returns in a timely manner and late payments resulted in large penalties and interest charged to the City as well as having a large payroll tax liability at year end.

Recommendation – The City Council should be more involved in the day to day operations of the City. The City should hire a new clerk that understands the bookkeeping and payroll aspects that are involved in running a local government. The City should provide training to the clerk to teach them how to properly record and pay payroll taxes.

Views of responsible officials and planned corrective actions – The City's management concurs with the finding. The City recently hired a new clerk and is in the process of training her under a probationary period.

Current year findings and responses:(Continued)

2011-3

Condition – The City does not have adequate subsidiary ledgers or other records to support water security deposits received from utility customers during the year.

Cause – The City clerk did not maintain or update the separate ledger for customer deposits in 2011.

Effect – The City does not have the ability to timely and correctly determine the security deposits amount payable to customers which results in a scope limitation.

Recommendation – The City needs to take the subsidiary ledger as of December 31, 2010 and update it for 2011 activity. Once the ledger is updated it needs to be kept up to date as part of the perpetual bookkeeping on the Water and Sanitation Fund.

Views of responsible officials and planned corrective actions – The City's management concurs with the finding. They will go back and record the 2011 and 2012 activity and update the ledger. The City's management anticipates having this list updated by December 31, 2012.

2011-4

Condition – Bank reconciliations were not performed properly or timely.

Cause – The bank accounts were not being reconciled properly back to the general ledger and it was not being done in a timely manner. Upon the clerk's dismissal, it was discovered that the clerk had a large amount of outstanding items listed on the bank reconciliations that never cleared the bank accounts.

Effect – The City's management was not able to rely on the accuracy of the City's bookkeeping or bank balances.

Recommendation – The City needs to hire a new clerk that has experience as a bookkeeper and can assist the City in maintaining current and accurate bank balances on their ledgers.

Views of responsible officials and planned corrective actions – The City's management concurs with the finding. The City recently hired a new clerk and is in the process of training her under a probationary period.

Current year findings and responses:(Continued)

2011-5

Condition – The clerk was not making timely deposits during the year.

Cause – The clerk was taking in receipts for the City and not making timely deposits of these funds into the bank accounts. These receipts were not being recorded on the general ledgers.

Effect – The lack of deposits was causing a shortfall of funds in the operating accounts and the clerk was not paying the City's current obligations. The clerk ended up with a large amount of cash and checks on hand in City Hall.

Recommendation – The City needs to hire a new clerk that has experience as a bookkeeper and can assist the City in maintaining current and accurate bank balances on their ledgers.

Views of responsible officials and planned corrective actions – The City's management concurs with the finding. The City recently hired a new clerk and is in the process of training her under a probationary period.

2011-6

Condition – The City does not have adequate internal controls to prepare and review its monthly bookkeeping reports. This allows for material misstatements to occur and not be detected.

Cause – The City clerk does not understand the use of the bookkeeping system in order to generate the proper reports that the Mayor and Council need to review.

Effect – The Council did not approve the monthly statements at the council meetings due to the fact that they were not reliable.

Recommendation – The City needs to hire a new clerk that has experience as a bookkeeper who can prepare monthly financial reports that are reliable.

Views of responsible officials and planned corrective actions – The City's management concurs with the finding. The City recently hired a new clerk and is in the process of training her under a probationary period.

City of Pavo

1010 E. Harris Street
Phone 229-859-2110

P. O. Box 157
Fax 229-859-2319

Pavo, GA. 31778
pavocity@windstream.net

June 29, 2012

Mr. Ed Blaha
Department of Audits and Accounts
270 Washington Street, S.W., Room 1-156
Atlanta, Ga.30334-8400

Re: City of Pavo
Year Ending December 31, 2011
Corrective Action Plan

Dear Mr. Blaha:

Enclosed is the City of Pavo's corrective action plan as required by Section 36-81-7 of the Official Code of Georgia Annotated. After reviewing this plan, I trust that you will find that it is in compliance with the above code. Please notify us of your decision.

Sincerely,

FWalker

Faye Walker
Mayor

The City of Pavo is an equal opportunity service provider and employer.

CITY OF PAVO, GEORGIA
CORRECTIVE ACTION PLAN
FOR YEAR ENDED DECEMBER 31, 2011

Finding/Recommendation:

The City does not have segregation of duties within its accounting system. The Mayor and the City Council should become more involved with the financial affairs and daily operations of the City.

Corrective Action Plan/Management Response:

We concur with this recommendation. The City cannot establish appropriate segregation of duties because it is not cost effective. The Mayor and City Council approves all invoices and reviews the monthly financial statements. We believe that a higher level of involvement with the financial affairs of the City by the Mayor and Council will help to overcome the weakness of no segregation of duties. We believe that this allows the City to comply with the audit recommendation.

Finding/Recommendation:

The City did not adopt an annualized budget for the Hotel/Motel tax fund (special revenue fund). Official Code of Georgia Annotated (O.C.G.A.) Section 36-81-3: Each unit of local government shall adopt and operate under an annual balanced budget for the general fund, each special revenue fund, and each debt service fund in use by the local government. Nothing contained in this code section shall preclude a local government from amending its budget so as to adapt to changing governmental needs during the budget period.The City should pass an annualized budget for the special revenue fund.

Corrective Action Plan/Management Response:

We concur with this recommendation. The City will adopt an annualized budget for the Hotel/Motel tax fund. We believe that this allows the City to comply with the audit recommendation.

Finding/Recommendation:

The City did not have adequate documentation of receipts and disbursements. Management was unable to find all invoices requested or documentation of revenues received. This lack of documentation of revenues and expenditures is a scope limitation. As a result of this limitation we were unable to obtain proper documentation to determine appropriateness of expenditures or revenues.The City should maintain proper documentation on all revenues and expenditures. This documentation should be filed in a manner that is easy to retrieve when requested.

Corrective Action Plan/Management Response:

We concur with this recommendation. The City has recently hired a new City clerk. Management has instructed the clerk on proper record keeping. We believe that this allows the City to comply with the audit recommendation.

CITY OF PAVO, GEORGIA
CORRECTIVE ACTION PLAN
FOR YEAR ENDED DECEMBER 31, 2011

Finding/Recommendation:

The City did not file or pay its payroll tax liability in a timely manner. Not paying payroll tax liabilities on a timely basis can cause excess penalties and interest to be incurred by the City. The clerk was recording payments on the general ledgers; however the funds never cleared the bank account. This clerk is no longer employed by the City.The City Council should be more involved in the day to day operations of the City. The City should hire a new clerk that understands the bookkeeping and payroll aspects that are involved in running a local government. The City should provide training to the clerk to teach them how to properly record and pay payroll taxes.

Corrective Action Plan/Management Response:

We concur with this recommendation. We have resolved the 2011 payroll returns and taxes. The City recently hired a new clerk and is in the process of training her under a probationary period. We believe that this allows the City to comply with the audit recommendation.

Finding/Recommendation:

The City does not have adequate subsidiary ledgers or other records to support water security deposits received from utility customers during the year. The City clerk did not maintain or update the separate ledger for customer deposits in 2011. The City needs to take the subsidiary ledger as of December 31, 2010 and update it for 2011 activity. Once the ledger is updated it needs to be kept up to date as part of the perpetual bookkeeping on the Water and Sanitation Fund.

Corrective Action Plan/Management Response:

We concur with this recommendation. We will go back and record the 2011 and 2012 activity and update the ledger. The City's management anticipates having this list updated by December 31, 2012. We believe that this allows the City to comply with the audit recommendation.

Finding/Recommendation:

The City's bank accounts were not being reconciled properly back to the general ledger and it was not being done in a timely manner. Upon the clerk's dismissal, it was discovered that the clerk had a large amount of outstanding items listed on the bank reconciliations that never cleared the bank accounts.The City's management was not able to rely on the accuracy of the City's bookkeeping or bank balances. The City needs to hire a new clerk that has experience as a bookkeeper and can assist the City in maintaining current and accurate bank balances on their ledgers.

Corrective Action Plan/Management Response:

We concur with this recommendation.The City recently hired a new clerk and is in the process of training her under a probationary period. She is being trained on the bank reconciliations as well as other bookkeeping matters. We believe that this allows the City to comply with the audit recommendation.

CITY OF PAVO, GEORGIA
CORRECTIVE ACTION PLAN
FOR YEAR ENDED DECEMBER 31, 2011

Finding/Recommendation:

The clerk was not making timely deposits during the year. The clerk was taking in receipts for the City and not making timely deposits of these funds into the bank accounts. These receipts were not being recorded on the general ledgers. The lack of deposits was causing a shortfall of funds in the operating accounts and the clerk was not paying the City's current obligations. The clerk ended up with a large amount of cash and checks on hand in City Hall. The City needs to hire a new clerk that has experience as a bookkeeper and can assist the City in maintaining current and accurate bank balances on their ledgers.

Corrective Action Plan/Management Response:

We concur with this recommendation. The City recently hired a new clerk and is in the process of training her under a probationary period.We believe that this allows the City to comply with the audit recommendation.

Finding/Recommendation:

The City does not have adequate internal controls to prepare and review its monthly bookkeeping reports. This allows for material misstatements to occur and not be detected. The City clerk does not understand the use of the bookkeeping system in order to generate the proper reports that the Mayor and Council need to review.The Council did not approve the monthly statements at the council meetings due to the fact that they were not reliable.

Corrective Action Plan/Management Response:

We concur with this recommendation.The City recently hired a new clerk and is in the process of training her under a probationary period.We believe that this allows the City to comply with the audit recommendation.

SIMMONS, MILLS & SIMMONS P.C.

CERTIFIED PUBLIC ACCOUNTANTS
220 E. JACKSON ST.
P.O. BOX 1098
THOMASVILLE, GEORGIA 31799

229-226-2515
FAX# 229-226-2531

CHARLES R. SIMMONS, JR., CPA (1918-1986)
EDWIN A. SIMMONS, CPA
DARRELL J. MILLS, CPA
MICHAEL J. SIMMONS, CPA
R. FRED HESTER, CPA, CFP

MEMBERS AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULES OF SPECIAL PURPOSE LOCAL OPTION SALES TAX

Honorable Mayor and Members
of the City Council
City of Pavo, Georgia

We have audited the accompanying Schedules of Special Purpose Local Option Sales Tax for the City of Pavo, Georgia for the year ended December 31, 2011. These schedules are the responsibility of the City of Pavo, Georgia's management. Our responsibility is to express an opinion on the Schedules of Special Purpose Local Option Sales Tax 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 Schedules of Special Purpose Local Option Sales Tax are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules of Special Purpose Local Option Sales Tax. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Schedules of Special Purpose Local Option Sales Tax. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Schedules of Special Purpose Local Option Sales Tax is prepared for the purpose of complying with the Official Code of Georgia Annotated, 48-8-121 on the modified accrual basis of accounting as described in Note 1 and is not intended to be a complete presentation of the City of Pavo's revenues and expenditures.

In our opinion, the Schedules of Special Purpose Local Option Sales Tax referred to above presents fairly, in all material respects, the original estimated cost, the current estimated cost, and the current and prior year expenditures for each project of the City of Pavo for the year ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Simmons, Mills & Simmons P.C.
Thomasville, Georgia

Simmons, Mills & Simmons P.C.

June 29, 2012

CITY OF PAVO, GEORGIA
Schedule of Special Purpose Local Option Sales Tax - Brooks County
Year Ended December 31, 2011

Project	Original Estimated Cost	Expenditures		
		Prior Years	Current Year	Total
Government buildings capital outlay	$ 140,000	$ 549	$ 683	$ 1,232
Totals	$ 140,000	$ 549	$ 683	$ 1,232

Note: Beginning 2009, Brooks County began collecting for Special Purpose Local Option Sales Tax referendum number 5. Special Purpose Local Option Sales Tax revenue received from Brooks County, Georgia for the year ended December 31, 2011 was $18,308.

CITY OF PAVO, GEORGIA
Schedule of Special Purpose Local Option Sales Tax - Brooks County
Year Ended December 31, 2011

Project	Original Estimated Cost	Revised Estimated Cost	Expenditures		
			Prior Years	Current Year	Total
Streets, roads & bridges	$ 12,439	$ 58,000	$ 25,194	$ -	$ 25,194
Improvements to City Hall	15,697	15,697	15,697	-	15,697
Improvements to water system	-	10,000	10,000	-	10,000
Equipment	-	16,303	15,054	-	15,054
Totals	$ 28,136	$ 100,000	$ 65,945	$ -	$ 65,945

CITY OF PAVO, GEORGIA
Schedule of Special Purpose Local Option Sales Tax - Thomas County
Year Ended December 31, 2011

Project	Original Estimated Cost	Revised Estimated Cost	Expenditures		
			Prior Years	Current Year	Total
Miscellaneous road projects	$ 90,000	$ 66,000	$ 110,032	$ -	$ 110,032
Equipment	-	25,000	13,554	1,151	14,705
Totals	$ 90,000	$ 91,000	$ 123,586	$ 1,151	$ 124,737

Note: Special Purpose Local Option Sales Tax revenue received from Thomas County, Georgia for the year ended December 31, 2011 was $30,105.

CITY OF PAVO, GEORGIA
Schedule of Special Purpose Local Option Sales Tax - Thomasville
Year Ended December 31, 2011

Project	Original Estimated Cost	Expenditures		
		Prior Years	Current Year	Total
Recreation facilities improvements	$ 64,900	$ 32,617	$ -	$ 32,617
Totals	$ 64,900	$ 32,617	$ -	$ 32,617

SIMMONS, MILLS & SIMMONS P.C.

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220 E. JACKSON ST.
P.O. BOX 1098
THOMASVILLE, GEORGIA 31799

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INDEPENDENT AUDITOR'S REPORT ON SCHEDULES OF SOURCE AND APPLICATION OF FUNDS AND SCHEDULE OF PROJECT COST APPLICABLE TO COMMUNITY DEVELOPMENT BLOCK GRANTS

We have audited the accompanying Schedules of Source and Application of Funds and Schedules of Project Costs as of December 31, 2011 and for the year then ended. These financial statements are the responsibility of Pavo, Georgia's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly the disposition and status of the Pavo, Georgia's Community Development Grant funds at December 31, 2011 for the year then ended in conformity with applicable financial reporting provisions of governmental regulations and accounting principles generally accepted in the United States of America.

This report covers Community Development Block Grant Number 10p-x-136-2-5328.

Simmons, Mills & Simmons P.C.
Thomasville, Georgia

Simmons, Mills & Simmons P.C.

June 29, 2012

CITY OF PAVO, GEORGIA
Community Development Block Grant
Source & Application of Funds Schedule
10p-x-136-2-5328
Year Ended December 31, 2011

Total grant	$	404,244
Less: Total funds drawn by recipient		5,000
Funds still available for grant resources	$	399,244
Cash on hand (overdraft), January 1, 2011	$	-
Total grant funds drawn and received by recipient during 2011		5,000
Less: Funds applied and expended to grant costs during 2011		-
Total program funds held by recipient at December 31, 2011	$	5,000

CITY OF PAVO, GEORGIA
Community Development Block Grant
Project Cost Schedule
10p-x-136-2-5328
Year Ended December 31, 2011

Program Activity	Activity Number	Approved Budget CDBG Funds	Accumulated Expenditures To Date CDBG Funds	Accumulated Expenditures To Date Other Funds	Grant Total Expenditures To Date	Questioned Costs
Contingencies - unprogramed funds	C-022-00	$ 20,600	$ -	$ -	$ -	$ -
Engineering - water improvements	T-03J-00	20,500	-	19,681	19,681	-
Water facilities	P-03J-01	338,900	-	-	-	
Administration	A-21A-00	24,244	-	4,000	4,000	-
Totals		$ 404,244	$ -	$ 23,681	$ 23,681	$ -