City of Pelham, Georgia

Financial Statements

For the Fiscal Year Ended June 30, 2011

CITY OF PELHAM, GEORGIA
For The Fiscal Year Ended June 30, 2011
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Perry L. Henry, LLC

Certified Public Accountant and Consultant

Perry L. Henry, CPA, CGFM, CFS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Pelham, Georgia as of and for the fiscal year ended June 30, 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 Pelham, Georgia's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the City of Pelham, Georgia as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012 on our consideration of the City of Pelham, Georgia's internal control over financial reporting and 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 should be read in conjunction with this report in considering the results of our audit.

The Budgetary Comparison Schedule (pages 40 through 41), are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City of Pelham, Georgia has not presented Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Pelham, Georgia's basic financial statements. The accompanying schedule of special purpose local option sales tax is presented for purposes of additional analysis as required by Georgia statutes (48-8-121 OCGA) and is not a required part of the financial statements of the City of Pelham, Georgia. Additionally, in the supplemental section, the combining and individual fund statements on pages 43 through 45 and the schedules on pages 46 through 49 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Pelham, Georgia. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Perry L. Henry, LLC

Perry L. Henry, LLC
Bainbridge, Georgia
October 26, 2012

City of Pelham, Georgia
Statement of Net Assets
June 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and Equivalents	$ 69,775	$ 369,536	$ 439,311	$ -
Receivables	437,709	158,005	595,714	
Internal Balances	1,396,887	(1,396,887)	-	-
Due from Other Governmental Agencies	40,673	87,000	127,673	167,826
Prepaid Expenses	19,070	5,997	25,067	-
Bond Issuance Cost	-	7,597	7,597	-
Capital Assets				
Land	456,141	673,651	1,129,792	-
Improvements other than buildings	2,692,437	9,268,787	11,961,224	-
Buildings	4,065,385	62,343	4,127,728	458,688
Machinery and equipment	1,291,713	194,826	1,486,539	-
Construction in progress	622,109	1,472,780	2,094,889	-
Less: Accumulated Depreciation	(2,740,014)	(4,872,343)	(7,612,357)	(57,335)
Total Capital Assets	6,387,771	6,800,044	13,187,815	401,353
Total Assets	8,351,885	6,031,292	14,383,177	569,179
LIABILITIES				
Accounts payable and accrued expenses	624,238	414,004	1,038,242	-
Due to other governmental agencies	167,826	-	167,826	127,673
Deferred Revenues	161,329	-	161,329	-
Short-term notes payable	788,953	-	788,953	-
Long-term liabilities				
Due within one year				
Bonds, capital leases and contracts	204,526	189,558	394,084	63,943
Accrued interest	-	22,079	22,079	-
Due in more than one year				
Bonds, capital leases and contracts	1,299,081	1,726,036	3,025,117	101,625
Compensated absences	83,517	11,425	94,942	-
Total Liabilities	3,329,470	2,363,102	5,692,572	293,241
NET ASSETS				
Invested in capital assets, net of related debt	4,884,164	4,884,450	9,768,614	235,785
Restricted for:				
Community Development Projects	5,612	-	5,612	-
Unrestricted	132,639	(1,216,260)	(1,083,621)	40,153
Total Net Assets	$ 5,022,415	$ 3,668,190	$ 8,690,605	$ 275,938

The notes to the financial statements are an integral part of this statement.

City of Pelham, Georgia
Statement of Activities
For the Fiscal Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Unit
Primary Government							
Governmental Activities							
General Government	$ 362,231	$ 888	$ -	$ (361,343)	$ -	$ (361,343)	
Judicial	81,473	179,799	-	98,326	-	98,326	
Public Safety	2,413,394	1,681,800	-	(731,594)	-	(731,594)	
Public Works	861,395	440,076	552,333	131,014	-	131,014	
Health, Welfare and Sanitation	44,757	97,500	-	52,743	-	52,743	
Culture and Recreation	106,595	-	-	(106,595)	-	(106,595)	
Housing and development	158,303	8,170	-	(150,133)	-	(150,133)	
Interest on Long-term debt	109,463	-	-	(109,463)	-	(109,463)	
Total governmental activities	4,137,611	2,408,233	552,333	(1,177,045)	-	(1,177,045)	
Business-type activities:							
Water	405,291	552,576	-	-	147,285	147,285	
Sewer	464,710	399,123	191,042	-	125,455	125,455	
Gas	331,721	394,207	-	-	62,486	62,486	
Telecommunications	34,039	-	-	-	(34,039)	(34,039)	
Total business-type activities	1,235,761	1,345,906	191,042	-	301,187	301,187	
Total primary government	$ 5,373,372	$ 3,754,139	$ 743,375	(1,177,045)	301,187	(875,858)	
Component Units							
Development Authority	$ 14,690	$ 53,791	$ -				$ 39,101
Total component units	$ 14,690	$ 53,791	$ -				39,101
General revenues:							
Taxes:							
Property taxes, levied for general purposes				$ 628,982	$ -	$ 628,982	-
Franchise taxes				214,447	-	214,447	-
Insurance premium tax				222,110	-	222,110	-
Alcoholic beverage tax				114,303	-	114,303	-
Other taxes				42,256	-	42,256	-
Unrestricted investment earnings				149	1,645	1,794	-
Miscellaneous				219,622	-	219,622	-
Special item - gain on sale of asset				6,723	-	6,723	-
Transfers				(123,163)	123,163	-	-
Total general revenues, special items, and transfers				1,325,429	124,808	1,450,237	-
Change in net assets				148,384	425,995	574,379	39,101
Net assets - beginning				4,874,031	3,242,195	8,116,226	236,837
Net assets - ending				$ 5,022,415	$ 3,668,190	$ 8,690,605	$ 275,938

The notes to the financial statements are an integral part of this statement.

City of Pelham, Georgia
Balance Sheet
Governmental Funds

June 30, 2011	General Fund	SPLOST Capital Project Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 69,776	$ -	$ -	$ 69,776
Taxes receivable, net	14,328	-	-	14,328
Due from other funds	1,465,375	-	-	1,465,375
Receivable from other governments	246,542	-	5,612	252,154
Other receivables	46,331	-	165,568	211,899
Total assets	$ 1,842,352	$ -	$ 171,180	$ 2,013,532
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 478,877	$ -	$ -	$ 478,877
Due to other funds	68,488	-	-	68,488
Payable to other governments	168,640	-	-	168,640
Deferred revenue	4,841	-	165,568	170,409
Accrued salaries & wages	18,687	-	-	18,687
Other payables	125,856	-	-	125,856
Short-term notes payable	788,953	-	-	788,953
Total liabilities	1,654,342	-	165,568	1,819,910
Fund balances:				
Restricted for:				
Community Development Projects	-	-	5,612	5,612
Unassigned	188,010	-	-	188,010
Total fund balances	188,010	-	5,612	193,622
Total liabilities and fund balances	$ 1,842,352	$ -	$ 171,180	$ 2,013,532

The notes to the financial statements are an integral part of this statement.

City of Pelham, Georgia
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2011

Total fund balance, governmental funds	$	193,622
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 this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		6,387,771
Payments for insurance in advance are reported as an expenditure of current financial resources in the period purchased in governmenal activities and therefore are not reported in the funds.		19,070
Some of the City's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds.		9,076
Some liabilities (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable) are not due and payable in the current period and are not included in the fund financial statements, but are included in the government-wide statements.		(1,587,124)
Net Assets of Governmental Activities in the Statement of Net Assets	$	5,022,415

The notes to the financial statements are an integral part of this statement.

City of Pelham, Georgia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

For the Fiscal Year Ended June 30, 2011	General Fund	SPLOST Capital Project Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	$ 867,700	$ -	$ -	$ 867,700
Sales and Miscellaneous Taxes	352,279	-	8,170	360,449
Fees and Fines	179,799	-	-	179,799
Licenses and Permits	54,393	-	-	54,393
Intergovernmental	-	552,333	-	552,333
Charges for Services	2,122,321	-	-	2,122,321
Investment Earnings	149	-	-	149
Contributions and Donations	7,264	-	-	7,264
Miscellaneous	262,630	-	-	262,630
Total revenues	3,846,535	552,333	8,170	4,407,038
EXPENDITURES				
Current:				
General Government	342,774	-	-	342,774
Judicial	82,521	-	-	82,521
Public Safety	2,351,423	-	-	2,351,423
Public Works	423,507	-	-	423,507
Health and Welfare	395,239	-	-	395,239
Culture and Recreation	88,616	-	-	88,616
Housing and Development	150,355	-	8,170	158,525
Capital Outlay:				
Public Safety	262	-	-	262
Public Works	-	4,441	-	4,441
Culture and Recreation	-	19,860	-	19,860
Debt Service:				
Principal	98,314	-	-	98,314
Interest and other charges	109,463	-	-	109,463
Total Expenditures	4,042,474	24,301	8,170	4,074,945
Excess (deficiency) of revenues over expenditures	(195,939)	528,032	-	332,093
OTHER FINANCING SOURCES (USES)				
Transfers in	979,561	-	-	979,561
Transfers out	(574,692)	(528,032)	-	(1,102,724)
Total other financing sources and uses	404,869	(528,032)	-	(123,163)
Net change in fund balances	208,930	-	-	208,930
Fund balances - beginning	(20,920)	-	5,612	(15,308)
Fund balances - ending	$ 188,010	$ -	$ 5,612	$ 193,622

The notes to the financial statements are an integral part of this statement.

City of Pelham, Georgia

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Fiscal Year Ended June 30, 2011

Net change in fund balances - total governmental funds:	$	208,930
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the asset's useful life. This results in the following adjustment:		
Capital outlay reported as expenditures		19,493
Depreciation expense during the current fiscal period		(202,797)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.		2,119
Some capital additions were financed through debt agreements. In governmental funds, a long-term debt agreement is considered a source of financing, but in the Statement of Net Assets, the debt is reported as a liability.		98,314
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, these are not reported as expenditures in governmental funds:		
Changes in deferred compensation		3,255
Governmental funds recognize expenditures for insurance using the purchases method. However, the Statement of Activities uses the consumption method and thus only the amount of insurance benefits consumed are recognized.		19,070
Change in net assets of governmental activities	$	148,384

The notes to the financial statements are an integral part of this statement.

City of Pelham, Georgia
Statement of Net Assets
Proprietary Funds
Business-type Activities-Enterprise Funds

June 30, 2011	Enterprise Funds: Water, Sewer, & Gas	Telecomm	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 72,254	$ -	$ 72,254
Accounts Receivable, net	154,978	3,026	158,004
Due from Other Funds	257,284	-	257,284
Receivables from Other Governments	87,000	-	87,000
Bond Issuance Cost, net of Amortization	7,597	-	7,597
Prepaid Expenses	5,997	-	5,997
Restricted Cash:			
Revenue Bond Covenant Accounts	297,283	-	297,283
Total Current Assets	882,393	3,026	885,419
Non-current Assets:			
Capital Assets:			
Land and Improvements	673,651	-	673,651
Utility System	8,942,220	326,567	9,268,787
Construction in Progress	1,472,780	-	1,472,780
Buildings	62,343	-	62,343
Equipment and Furniture	194,826	-	194,826
Less Accumulated Depreciation	(4,611,090)	(261,253)	(4,872,343)
Total Non-current Assets	6,734,730	65,314	6,800,044
Total Assets	7,617,123	68,340	7,685,463
LIABILITIES			
Current Liabilities:			
Accounts Payable	298,761	-	298,761
Accrued Interest Payable	22,079	-	22,079
Due to Other Funds	1,286,743	367,428	1,654,171
Customer Deposits	89,580	-	89,580
Other Accrued Expenses	25,663	-	25,663
Bonds, Notes and Loans Payable	189,558	-	189,558
Total Current Liabilities	1,912,384	367,428	2,279,812
Non-current Liabilities:			
Compensated Absences	11,425	-	11,425
Bonds, Notes and Loans Payable	1,726,036	-	1,726,036
Total Non-current Liabilities	1,737,461	-	1,737,461
Total Liabilities	3,649,845	367,428	4,017,273
NET ASSETS			
Invested in Capital Assets, net of Related Debt	4,819,136	65,314	4,884,450
Unrestricted	(851,858)	(364,402)	(1,216,260)
Total Net Assets	$ 3,967,278	$ (299,088)	$ 3,668,190

The notes to the financial statements are an integral part of this statement.

City of Pelham, Georgia
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Business-type Activities-Enterprise Funds

	Enterprise Funds		
For the Year Ended June 30, 2011	**Water, Sewer, & Gas**	**Telecomm**	**Total**
OPERATING REVENUES			
Charges for services	$ 1,345,905	$ -	$ 1,345,905
Total operating revenues	1,345,905	-	1,345,905
OPERATING EXPENSES			
Personal services	236,562	-	236,562
Contractual services	126,999	1,384	128,383
Repairs and maintenance	166,755	-	166,755
Other supplies and expenses	395,769	-	395,769
Depreciation	197,167	32,656	229,823
Total Operating Expenses	1,123,252	34,040	1,157,292
Operating income (loss)	222,653	(34,040)	188,613
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	1,646	-	1,646
Interest expense	(78,470)	-	(78,470)
Total non-operating revenue (expenses)	(76,824)	-	(76,824)
Income (loss) before contributions and transfers	145,829	(34,040)	111,789
Capital contributions	191,042	-	191,042
Transfers in	595,532	447	595,979
Transfers out	(472,816)	-	(472,816)
Change in net assets	459,587	(33,593)	425,994
Total net assets - beginning	3,507,691	(265,495)	3,242,196
Total net assets - ending	$ 3,967,278	$ (299,088)	$ 3,668,190

The notes to the financial statements are an integral part of this statement.

City of Pelham, Georgia
Statement of Cash Flows
Proprietary Funds
Business-type Activities-Enterprise Funds

For the Fiscal Year Ended June 30, 2011	Water, Sewer & Gas	Telecomm	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	$ 1,325,794	$ 155	$ 1,325,949
Payments to suppliers	(553,345)	(1,384)	(554,729)
Payments to employees	(236,562)	-	(236,562)
NET CASH PROVIDED BY OPERATING ACTIVITIES	535,887	(1,229)	534,658
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers to/from other funds	122,716	447	123,163
Loans from other funds, net	(316,953)	344	(316,609)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(194,237)	791	(193,446)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Grant proceeds	191,042	-	191,042
Interest income	1,646	-	1,646
Acquisition and construction of capital assets	(214,378)	-	(214,378)
Principal payments on note payable	(85,851)	-	(85,851)
Principal payments on revenue bonds	(21,350)	-	(21,350)
Interest paid	(78,470)	-	(78,470)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(207,361)	-	(207,361)
NET INCREASE IN CASH AND CASH EQUIVALENTS	134,289	(438)	133,851
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	235,248	438	235,686
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 369,537	$ -	$ 369,537

The notes to the financial statements are an integral part of this statement.

City of Pelham, Georgia
Statement of Cash Flows
Proprietary Funds
Business-type Activities-Enterprise Funds

For the Fiscal Year Ended June 30, 2011	Water, Sewer & Gas	Telecomm	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	$ 222,653	$ (34,040)	$ 188,613
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	197,167	32,656	229,823
(Increase) decrease in current assets			
Accounts receivable	(20,111)	155	(19,956)
Prepaid expenses	(5,997)	-	(5,997)
(Decrease) increase in current liabilities			
Accounts payable	144,858	-	144,858
Accrued liabilities	(8,745)	-	(8,745)
Deposits	6,062	-	6,062
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 535,887	$ (1,229)	$ 534,658

The notes to the financial statements are an integral part of this statement.

City of Pelham, Georgia
Statement of Fiduciary Assets and Liabilities
June 30, 2011

	Agency Fund
ASSETS	
Cash	$ 24,864
TOTAL ASSETS	$ 24,864
LIABILITIES	
Due to others	$ 24,864
TOTAL LIABILITIES	$ 24,864

The notes to the financial statements are an integral part of this statement.

Notes to Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Pelham was incorporated September 14, 1881, under the laws of the State of Georgia. The City is a municipal corporation governed by an elected mayor and eight-member council, with its fiscal operations monitored by the City Manager. The City provides a range of municipal services as authorized by its Charter including police and fire protection, public works (streets and waste collection), public improvements, water, sewer and gas services, telecommunication services and general administrative services. The accompanying financial statements present the City's primary government and component units for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Discretely presented component unit. The component unit column in the government-wide financial statements includes the financial data of the Pelham City Economic Authority. The Pelham City Economic Authority was established by the Mayor and City Council of Pelham on March 15, 2001. The Authority has seven members appointed by the Mayor and City Council to serve a four-year term. Once selected, the seven members of the Authority will elect members to serve as a Chairman and a Secretary/Treasurer. Although the Authority is a legally separate entity, the City has the ability to impose its will on the Authority. See section V Component unit for more details.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The City implemented a new reporting model as required by the Governmental Accounting Standards Board beginning July 1, 2003. The implementation of the new reporting model affects the comparability with all prior years' reports.

The government–wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity 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 service. Likewise, the primary government is reported separately from a legally separate component unit for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are clearly identifiable with a specific function or segment. 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government–wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund financial statements. 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.

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 collectable 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.

Property taxes, sales taxes, franchise taxes, alcoholic beverage taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *SPLOST Capital Projects Fund* is the fund used to account for all special purpose local option sales tax revenues as well as the specifically identified projects for which the SPLOST tax was established.

The government reports the following major proprietary funds:

The *Water*, *Sewer* and *Gas Fund* accounts for the activities of the government's water distribution system, sewage treatment plant, sewage pumping station and collection systems.

The *Telecommunications Fund* accounts for activities related to the government's operation of a wireless internet services system.

Additionally, the government reports the following fund types:

Agency funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). The City has two agency funds consisting of the Jail Fund and the Hand Trading Company Project Fund. Agency, which are reported using the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to November 30, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government–wide financial statements. Exceptions to this general rule are payments between the government's various funds related to charges resulting from services provided through actual operations. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 fund's principal ongoing operations. The principal operating revenue of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

1. Deposits and Investments

State statutes authorize the City and the Authority to invest in obligations of the State of Georgia or other states; 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; prime bankers acceptances; the local government investment pool established by Georgia law; repurchase agreements; and obligations of other political subdivisions of the State of Georgia; and additionally, certificates of deposits, NOW accounts and money market accounts of banks which have deposits insured by the Federal Deposit Insurance Corporation; provided, however, that portion of such investment shall be secured by direct obligations of the State of Georgia or the United States which are of a par value equal to 110 percent of funds on deposit at the institution. For the purpose of the Statement of Cash Flows, the City considers cash on hand, cash in demand deposits and certificates of deposit to be cash equivalents.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government–wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property tax receivable and trade accounts receivable in excess of 90 days plus a percentage of receivable balances less than 90 days comprise the allowance for uncollectibles.

Property taxes are levied as of October 20, 2010 on property values assessed as of January 1, 2010. The billing, representing the current year tax levy, was mailed October 20, 2010. The billings are considered past due 90 days after the billing date and penalties and interest are assessed. The applicable property is subject to lien after the billings are 90 days delinquent.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government–wide and fund financial statements of the proprietary funds. In the fund financial statements governmental funds record items as expenditures when purchased (purchases method) rather than when consumed.

4. Restricted Assets

Portions of the City's assets are subject to restrictions imposed by parties outside the government (such as creditors, grantors, contributors, laws or regulations of other governments). Self-imposed restrictions that can be removed as easily as imposed are not considered restrictions for financial reporting purposes; although, restrictions can be imposed by the City's constitutional provisions or by enabling legislation that are not easily removed. The City would typically use restricted assets first, as appropriate opportunities arise, but reserve the right to selectively defer the use thereof to a future project or replacement equipment acquisition.

5. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities column in the government–wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than $1,000 for vehicles and machinery and more than $5,000 for all other asset types (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Pursuant to GASB Statement 34, the City is not required to record and depreciate infrastructure assets (e.g. roads, sidewalks, bridges and similar items) acquired before the implementation date became effective. Infrastructure acquired prior to July 1, 2003 has not been recorded for governmental activities. GASB Statement 34 requires the reporting and depreciation of new infrastructure expenditures effective with the beginning of the implementation year (July 1, 2003).

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the general government during the current fiscal year was $109,463. Of these amounts, none were attributable to the cost of capital assets associated with construction projects.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	40 years
Machinery and equipment	7-10 years
Improvements other than building	20-50 years

6. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government–wide and proprietary fund financial statements. The City's annual leave policy allows an employee to earn and accumulate up to 240 hours. Also, those employees with over ten years of service can accumulate an additional eight hours for each year not to exceed 120 hours, and it will be paid to employees upon separation from City service. In governmental fund types, the cost of vacation benefits is recognized when payments are made to employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The General Fund has been used to liquidate compensated absences, unless associated with a specific proprietary fund in prior years.

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7. 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 debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Equity

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

Fund Balance – Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based on 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 (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

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

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

- *Assigned* – Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City's finance committee or the City's finance director 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 balance may be reported in all funds.

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

- Committed
- Assigned
- Unassigned

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

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Budgets are adopted for the General Fund, special revenue, and the proprietary funds on an annual basis. The budgets for the General and special revenue funds are adopted on a cash plus 30 days basis, which is not consistent with generally accepted accounting principles. Project-length budgets are adopted for the Capital Projects Fund. Budgets are prepared for the proprietary funds as a management control device; (non-GAAP) hybrid basis of accounting is used in preparing the proprietary fund budgets. All annual appropriations lapse at fiscal year-end.

The budget is prepared and submitted by the City Manager to the administrative committee for their consideration and approval prior to presentation to the full Council for adoption, which is required prior to commencement of the ensuing fiscal year. After the budget requests have been reviewed, a public hearing is held for public comment. After

the public hearing, a budget ordinance is adopted by the Mayor and Council. The City's policy for the legal level of budgetary control is at the individual department level. Only the Mayor and Council can amend the annual budget at the department level. Amendments that change the composition within a departmental budget can occur with the authorization of the City Manager.

Original budgeted amounts for the year ended June 30, 2011, were adopted by the City Council on May 17, 2010. The June 30, 2011 budget was amended on August 15, 2011.

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B. DEFICIT NET ASSETS

The Telecommunications enterprise fund had a deficit net assets balance of $ 299,088 as of June 30, 2011. As the fund continues marketing the new services offered by the City, new customers and adjustments to its fee structure will create sufficient revenues to alleviate the fund's deficit net assets balance.

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

All bank balances of deposits as of the balance sheet date are entirely insured or collateralized with securities held by the City or by its agent in the City's behalf.

Custodial Credit Risk – Deposits. This is the risk that in the event of a bank failure, the City's deposits may not be returned to it. All the City's deposits are covered by a combination of federal depository insurance and securities pledged by financial institutions as collateral to protect the deposits of the City as required under state law. Therefore, the City has no custodial credit risk for its deposits.

B. RECEIVABLES

All trade and property taxes receivables are shown net of allowance for uncollectibles.

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C. CAPITAL ASSETS

Primary Government

Governmental activities:	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated				
Land	$ 456,141	$ -	$ -	$ 456,141
Construction in progress	622,109	-	-	622,109
Total captial assets not being depreciated	1,078,250	-	-	1,078,250
Capital assets, being depreciated				
Buildings	4,065,385	-	-	4,065,385
Improvements, other than buildings	2,672,941	19,496	-	2,692,437
Machinery and equipment	1,291,713	-	-	1,291,713
Total captial assets, being depreciated	8,030,039	19,496	-	8,049,535
Less accumulated depreciation for				
Buildings	(832,606)	(96,955)	-	(929,561)
Improvements, other than buildings	(695,740)	(59,465)	-	(755,205)
Machinery and equipment	(1,008,871)	(46,377)	-	(1,055,248)
Total accumulated depreciation	(2,537,217)	(202,797)	-	(2,740,014)
Total capital assets, being depreciated, net	5,492,822	(183,301)	-	5,309,521
Governmental activities capital assets, net	$ 6,571,072	$ (183,301)	$ -	$ 6,387,771

Business-type activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated				
Land	$ 673,651	$ -	$ -	$ 673,651
Construction in progress	1,258,401	214,379	-	1,472,780
Total captial assets not being depreciated	1,932,052	214,379	-	2,146,431
Capital assets, being depreciated				
Buildings	62,343	-	-	62,343
Improvements, other than buildings	8,942,220	-	-	8,942,220
Machinery and equipment	521,393	-	-	521,393
Total captial assets, being depreciated	9,525,956	-	-	9,525,956
Less accumulated depreciation for				
Buildings	(32,024)	(1,343)	-	(33,367)
Improvements, other than buildings	(4,199,131)	(190,712)	-	(4,389,843)
Machinery and equipment	(411,365)	(37,768)	-	(449,133)
Total accumulated depreciation	(4,642,520)	(229,823)	-	(4,872,343)
Total capital assets, being depreciated, net	4,883,436	(229,823)	-	4,653,613
Business-type activities capital assets, net	$ 6,815,488	$ (15,444)	$ -	$ 6,800,044

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

Governmenal activities:		
General government	$	23,670
Public safety		74,497
Public works		60,277
Health and welfare		26,620
Culture and recreation		17,733
Total depreciation expense-governmental activities	$	202,797
Business-type activities:		
Water	$	91,089
Sewer		103,587
Gas		2,491
Telecommunications		32,656
Total depreciation expense-business-type activities	$	229,823

D. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2011, is as follows:

Due to/from other funds:

	Interfund Receivable (Due From)	Interfund Payable (Due To)
Governmental Funds		
General Fund	$ 1,286,743	$ -
General Fund	178,632	-
General Fund	-	68,488
Sub-total General Fund	1,465,375	68,488
Proprietary Funds		
Water, Sewer and Gas Fund	-	1,286,743
Water, Sewer and Gas Fund	68,488	-
Water, Sewer and Gas Fund	188,796	-
Telecommunications Fund	-	178,632
Telecommunications Fund	-	188,796
Sub-total Proprietary Funds	257,284	1,654,171
Totals	$ 1,722,659	$ 1,722,659

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D. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS-continued

Governmenal fund receivables-Major Funds	$ 1,465,375
Governmenal fund payables-Major Funds	(68,488)
Internal balances - Statement of Net Assets	$ 1,396,887
Proprietary fund receivables-Major Funds	$ 257,284
Proprietary fund payables-Major Funds	(1,654,171)
Internal balances - Statement of Net Assets	$ (1,396,887)

Due to/from balances are the result of short term borrowing between the funds. It is the City's intent to repay these interfund balances during the next fiscal year.

Interfund transfers:

	Transfer In			
Transfer Out	**General Fund**	**Major - Enterprise Funds - Telecom**	**Major Enterprise- Water, Sewer and Gas**	**Total**
General Fund	$ 507,192	$ -	$ 67,500	$ 574,692
SPLOST Capital Projects Fund	-	-	528,032	528,032
Major - Enterprise Funds - Water, Sewer and Gas	472,369	447	-	472,816
Totals	$ 979,561	$ 447	$ 595,532	$ 1,575,540

Transfers from the SPLOST Fund in the amount of $528,032 was for capital expenditures moved to the Water, Sewer & Gas Fund.

All other transfers were for normal general operating purposes.

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E. LONG-TERM DEBT

Capital Leases

Governmental Activities

The City entered into a capital lease agreement on December 21, 2007 with John Deere for $51,450 bearing interest at 4.5% to purchase a backhoe. Sixty monthly payments of $959 are due beginning February 1, 2008. At June 30, 2011, the balance of the capital lease outstanding was $19,183.

The City entered into a capital lease agreement on October 15, 2007 with the Bank of America for $1,254,524. This capital lease was to fund the purchase/construction of two phases for pods to house inmates. Monthly payments of $22,338 are due beginning May 15, 2008 and monthly payments of $1,920 are due beginning November 15, 2008. At June 30, 2009, the balance of the note outstanding was $1,038,151. On April 7, 2010 this note was assigned to Mooring Capital Fund, LLC under the same terms, with the renewal starting on January 1, 2010 and ending on December 31, 2010. On July 30, 2010 no payments had been made and Mooring declared all rental payments payable during the 2010 Renewal Term in the amount of $268,056 plus late fees in the amount of $3,623 to be due, thereby accelerating all amounts due in 2010 under the Lease Purchase Agreement. On the close of business on August 15, 2010, the City of Pelham, GA was in default under the Lease Purchase Agreement and owed Mooring $380,265 plus $11,608 in late charges. A forbearance was granted to the City of Pelham, GA with the terms of payments in the amount of $13,403 would be made beginning on August 31,2010 and the last payment occurring on January 31, 2011. Beginning February 15, 2011, the City of Pelham, GA will resume making payments of $22,338 to Mooring. All payments beginning August 31, 2010 will be applied in the following order: (i) attorneys' fees and other expenses related to collection efforts; (ii) late fees; (iii) outstanding interest; and (iv) principal. In addition the City of Pelham will pay Mooring $415,040, which is the balance due under the Lease Purchase Agreement, within fifteen (15) days of the expiration of the Lease Purchase Agreement. As of June 30, 2011 the principal balance due was $904,960.

Year ending June 30,	Principal	Interest
2012	$ 175,420	$ 195,416
2013	155,842	118,928
2014	177,842	90,214
2015	415,039	6,073
Totals	$ 924,143	$ 410,631

Revenue Bonds

Business-type Activities

The government also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The proceeds of the 1993A and 1993B Water and Sewer Revenue Bonds were used for the purpose of expanding the Water and Sewer system to provide additional services to new customers.

Revenue bonds outstanding at year-end are as follows:

$1,025,000 Water and Sewer Revenue Bonds, series 1993A, due in annual installments of varying amounts from January 11, 1994, through January 11, 2033, interest at 5%.	$ 786,320
$100,000 Water and Sewer Revenue Bonds, series 1993B, due in annual installments of varying amounts from January 11, 1994, through January 11, 2033, interest at 5%.	76,710
Total Revenue Bonds	$ 863,030

Revenue bond debt service requirements to maturity are as follows:

Year ending June 30,	Principal	Interest
2012	$ 22,413	$ 43,152
2013	23,534	42,031
2014	24,711	40,854
2015	25,947	39,619
2016	27,244	38,321
2017-2033	739,181	375,423
Totals	$ 863,030	$ 579,400

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Notes Payable

Governmental Activities

The City established a note on March 31, 2004 with the Bank of Camilla for $178,500 bearing interest at 3.8%. The proceeds of the debt were used to purchase a fire truck. Ten annual payments of $21,789 are due beginning November 10, 2004. At June 30, 2011, the balance of the note outstanding was $60,077.

Notes payable debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2012	$ 19,506	$ 2,283
2013	20,247	1,542
2014	20,324	890
	$ 60,077	$ 4,715

The City entered into a note on November 15, 2007 with Family Bank. The note is secured by the Pelham City Hall Building with an original balance of $550,000. At June 30, 2011, the balance of the note outstanding was $519,387 bearing an annual interest rate of 5%.

Notes payable debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2012	$ 9,600	$ 26,111
2013	10,099	25,612
2014	10,623	25,088
2015	11,174	24,537
2016	11,687	24,024
2017-2018	466,204	32,949
	$ 519,387	$ 158,321

The City established a note on March 1, 2009 with the Family Bank for $11,500 bearing interest at 4%. The debt was used to purchase a 2006 Ford Truck Econoline E350. On July 27, 2010 this note was paid off by a short term renewal into the Mental Health Building Note.

Business-type Activities

The City established a note on January 31, 2003 with the Georgia Environmental Facilities Authority for $462,640 bearing interest at 0%. The debt was used for the construction of a water tank. Seventy-eight quarterly payments of $5,931 are due beginning July 1, 2005. At June 30, 2011, the balance of the note outstanding was $320,290.

Notes payable debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest
2012	$ 23,725	$ -
2013	23,725	-
2014	23,725	-
2015	23,725	-
2016	23,725	-
2017-2025	201,665	-
Totals	$ 320,290	$ -

The City established a note on July 31, 2008 with the Georgia Environmental Facilities Authority for an amount up to $949,240 bearing interest at 4.10%. The debt was used for the build of an additional sprayfield. Two-hundred and forty-five monthly payments of $3,881 are due beginning May 1, 2010. At June 30, 2011, the balance of the note outstanding was $610,432.

Year Ending June 30	Principal	Interest
2012	$ 21,578	$ 24,996
2013	22,463	24,111
2014	23,384	23,190
2015	24,343	22,231
2016	25,341	21,233
2017-2031	493,323	166,467
	$ 610,432	$ 282,228

The City established a note on January 5, 2006 with the SunTrust Bank for $581,410 bearing interest at 4.84%. The debt was used for the rehabilitation of the sewer system. Seventy-two monthly payments of $9,338 are due beginning January 31, 2006. At June 30, 2011, the balance of the note outstanding was $121,842.

Notes payable debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest
2012	$ 121,842	$ 8,916
	$ 121,842	$ 8,916

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities					
Capital leases payable	$ 990,495	$ -	$ (66,352)	$ 924,143	$ 175,420
Notes payable	611,426	-	(31,962)	579,464	29,106
Compensated absences	86,772	55,840	(59,095)	83,517	-
Total long-term liabilties- Governmental Activities	$ 1,688,693	$ 55,840	$ (157,409)	$ 1,587,124	$ 204,526
Business-type activities					
Revenue bonds	$ 884,380	$ -	$ (21,350)	$ 863,030	$ 22,413
Notes payable	1,136,287	-	(83,723)	1,052,564	167,145
Compensated absences	7,730	5,718	(2,023)	11,425	-
Total long-term liabilties- Business-type Activities	$ 2,028,397	$ 5,718	$ (107,096)	$ 1,927,019	$ 189,558

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F. SHORT-TERM DEBT

Governmental Activities

The City refinanced the original construction note of the Mental Health Center on December 31, 2008. Interest payments are due monthly with the principal portion of the note with any remaining interest outstanding due on December 31, 2010. The note is secured by the Mental Health Center Building with an original balance of $645,000. At June 30, 2011, the balance of the note outstanding was $0 bearing an annual interest rate of 3.25%. This note was consolidated and renewed into a new note on July 27, 2010.

Tax Anticipation Notes

The City entered into a new tax anticipation note on April 17, 2008. The note is secured by the 2011 Tax Digest Revenue with the Bank of Camilla at an interest rate of 4.00%. The principal and interest are due by June 17, 2012. At June 30, 2011, the note had an outstanding balance of $7,735. The purpose of this loan is to help fund sewer system upgrades.

The City entered into a new tax anticipation note on January 16, 2009. The note is secured by the 2011 Tax Digest Revenue with the Pelham Banking Company at an interest rate of 4.00%. The principal and interest are due by December 31, 2010. At June 30, 2011, the note had an outstanding balance of $366,767. The purpose of this loan was for operating expenses.

The City entered into a new line of credit note on July 31, 2008 with the Family Bank at an interest rate of 4.00%. This note was renewed January 4, 2010. The principal and interest are due by January 4, 2011. At June 30, 2011, the note had an outstanding balance of $0. The purpose of this loan was for operating expenses. This note was consolidated and renewed into a new note on July 27, 2010.

The City refinanced and consolidated on July 27, 2010, the construction note of the Mental Health Center, the new line of credit and a long term loan on a Econoline Van. Principal and interest payments in the amount of $1,902 are due monthly starting October 19,2010. The note is secured by the Mental Health Center Building. At June 30, 2011, the balance of the note outstanding was $414,450 bearing an annual interest rate of 3.50%.

Changes in Short-term Liabilities

Short-term liability activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Short-term (excluding TANs)	$ 415,495	$ 420,710	$ (421,755)	$ 414,450
Tax anticipation notes	469,550	-	(95,047)	374,503
Total short-term liabilties- Governmental Activities	$ 885,045	$ 420,710	$ (516,802)	$ 788,953

G. RESTRICTED ASSETS

Enterprise Funds. Specific enterprise funds are required to be segregated as to use and are therefore identified as restricted assets.

The City of Pelham, Georgia's Water and Sewer Revenue Bond ordinance requires the establishment of a Sinking Fund to provide for the accumulation of resources to retire the Water and Sewer Revenue Bonds. The funding for the retirement of the bonds is provided from the operations of the Water and Sewer operations. The balance in the Sinking Fund at June 30, 2011 is $ 297,283.

Liabilities payable from restricted assets:

Current portion of bonds payable	$ 22,413
Interest payable	43,152
Total liabilities payable from restricted assets	$ 65,565

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IV. OTHER INFORMATION

A. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters, for which the City carries commercial insurance. The basis for estimating the liabilities for unpaid claims is "IBNR" established by an actuary.

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 June 30, 2011. No provisions have been made in the financial statements for the year ended June 30, 2011 for any estimate of potential unpaid claims.

B. SUBSEQUENT EVENTS

Four significant steps were taken after the 2011 fiscal year end in an effort to address the financial distress of the City and improve cash flows. First, the City had an audit of the utility rates completed by Georgia Rural Water. As a result the City is increasing utility rates to be more in line with other governments. In addition, the City has been seeking additional revenue streams with the most notable being the negotiations for the housing of federal inmates that if successful should generate additional revenues of approximately three million dollars. Next, the City hired a financial consultant to review the financials and as a result will be seeking to refinance City debt with a bond issue which is expected to greatly improve cash flows. Finally the City has increased the mill rate by 2 mills to increase revenues.

C. CONTINGENT LIABILITIES

Grants:

The City participates in Federal and State-assisted grant programs. These programs are subject to program compliance audits by the grantor or its representative. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Litigation:

The City Attorney represented that there are some pending or threatened litigations against the City, and additionally, some unasserted claims or assessments. At this time it would appear that none of these will have a negative material impact upon the City's financial statements.

For more information on compliance with laws and regulations, please refer to findings 2008-1, 2010-1, 2010-2, 2010-3, and 2010-5.
Intergovernmental Agreement:

On July 1, 2007, the City entered into an agreement with Mitchell County and The Joint Development Authority of Mitchell County and Pelham upon which the City pledged an annual sum not to exceed the equivalent of 2.5 mills of the ad valorem tax levied by Pelham on the real property within its boundaries with said payment or payments to be made only if the income generated by the operation of the Hand Trading Company Building by the JDA is not sufficient to service the debt secured by the Hand Trading Company Building property. The original amount of this note was 2 million dollars and revenues were not sufficient to make the payments for the 2011 fiscal year. The City made payments totaling $ 109,000 during the 2011 fiscal year.

D. COMMITMENTS

On November 1, 1993, the City of Pelham entered into a gas supply contract with the Municipal Gas Authority of Georgia. The term of the contract is twenty-five years provided that on December 31, 1995 and on each successive fifth anniversary thereafter through December 31, 2015, the Member may elect Resigning Member Status under the contract by providing written notice of such election to the Authority no later than the close of business on December 31 of the year preceding the year next preceding the applicable Option Date. Throughout the term of this contract, (1) the Authority shall administer on behalf of the Member each of its Existing Contracts and (2) the Authority shall use its best efforts to provide to the Member, either as principal or agent, and the Member shall purchase from or through the Authority, to the extent available from or through the Authority, any Gas Supply Requirements for its local distribution system in excess of the amounts provided under the Member's Existing Contracts. The Authority shall use its best efforts to arrange for the transportation of Gas Supplies to the City gate.
The Gas Authority may establish reserve funds from time to time under the terms of the Gas Supply Contract, and finds that it is in the best interest for the organization and its Members to establish the following reserve funds: the Rate Stabilization Reserve Fund– Southern Members ("the RSRF-Southern"), the Rate Stabilization Reserve Fund – South Georgia Members (the RSRF-SG") and the Rate Stabilization Reserve Fund – Transco Members (the RSRF-Transco"), collectively referred herein as the "RSR Funds". The intent of the RSR Funds is to provide the Gas Authority a means of reducing and smoothing its Member's costs that might otherwise increase substantially because of some unforeseen event. The RSR Funds may be used for the purpose of reducing, from time to time, Members' payment of their gas costs including, but not limited to, pipeline charges, MGAG project costs or spot gas purchases, as well as other extraordinary expenditures inappropriate to include in the Member's current annual system budgets. The Board of Directors shall determine the amount that should be maintained in the RSR Funds, with the maximum that shall be maintained capped at an aggregate maximum for all three RSR Funds of $15 Million.

All transfers to or from the RSR Funds will require Gas Authority Board approval, and any such transfer approved shall be made for all Members on the applicable pipeline. Withdrawals from the RSR Funds shall additionally require a 2/3 vote of approval by the membership (voting to be based on the member's pipeline contract demand quantities) and generally would be refunded to individual cities in the form of monthly billing credits.

The RSR Funds shall be established as subaccounts of the General Fund and records shall be maintained showing individual city amounts. Funding of the Member City amounts shall be based on the pricing policy allocation of refunds. The RSR Funds will be invested in investments permissible under the Gas Authority's investment policy and investment performance shall be monitored by the Audit and Finance Committee of the Board. Interest income earned on the RSR Funds shall be credited to each Member City's Board. Interest income earned on the RSR Funds shall be credited to each Member City's allocated portion of such RSR fund until the maximum aggregate level is reached and thereafter shall be refunded annually directly to the Member Cities.

In addition to any other amounts which may be required as a condition of becoming a Member of the Gas Authority, any new Member joining the Gas Authority following the effective date of this policy shall be required to make a contribution to the applicable RSE Fund in an amount equal to its pro-rata share of the applicable RSR Fund as then funded, calculated pursuant to this policy as if such new Member were in place at the time of such calculation. The timing and means of the funding of such a contribution shall be determined by the Board of the Gas Authority, and may be made over time from year-end refund amounts of such new Member or by such other means as the Board deems appropriate. Member Cities that elect Resigning Member Status under their respective Gas Supply Contracts may withdraw their portion of the applicable RSR Fund as then funded, including accrued interest, after such time as all related project liabilities under Supplemental Contracts and all obligations incurred by such Member City under the Gas Supply Contract have been satisfied and all other contractual obligations have been paid, including, but not limited to, gas supply costs, transportation charges and hedging payments. In the event a Resigning Member's payment obligations run sixty (60) days past due, the Gas Authority is authorized to draw on their RSR Fund account for payment on or after the sixty-first (61st) day after such due date.

E. JOINT VENTURES

Southwest Georgia Regional Commission. The City of Pelham, in conjunction with cities and counties in the fourteen (14) county Southwest Georgia area, is a member of the Southwest Georgia Regional Commission (RC). Membership in an RC is automatic for 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 RCs. Each county and municipality in the state is required by law to pay minimum annual dues to the RC. The RC 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 from a county.
The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RCs 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 RC beyond its resources. (O.C.G.A. 50-8-39)

Separate financial statements may be obtained: Southwest Georgia Regional Commission, P.O. Box 346, 30 West Broad Street, Camilla, Georgia 31730-0346.

F. RELATED ORGANIZATIONS

The City's officials are also responsible for appointing the members of the boards of other organizations; however, the City's accountability for the organizations does not extend beyond making appointments. The City Council appoints board members to the Housing Authority, Library Board and the Mitchell County Economic Development Authority.

G. PENSION PLAN

Plan Description. The City contributes to the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple employer public retirement system that acts as a common investment and administrative agent for cities, counties, authorities and agencies in the State of Georgia. The plan is also a defined benefit plan. Regular, full-time employees who work at least 30 hours per week may participate in the plan after completion of one year of continuous service. Normal retirement age is 65, provided the employee has at least 5 years of credited service. Early retirement is permitted between ages 55 and 65 provided the employee has at least 10 years of credited service. City employees who retire at or after normal retirement age with ten years of credited service are entitled to an annual retirement benefit payable for life. The monthly benefit is determined by first calculating the employee's average monthly earnings from the consecutive 5-year period prior to retirement in which earnings are the highest. The sum of 1% of the average monthly earnings which are less than or equal to the amount for covered compensation for the employee's year of birth and 1.75% of average monthly earnings in excess of the covered compensation is multiplied by the number of years of credited service at retirement age to calculate the dollar value of the monthly retirement benefit.

Also, the pension plan provides for death benefits and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance obligations to contribute are established by Council resolutions; amendments to the plan must also be authorized by resolution of the Council. Employees are not required to contribute to the plan. The Georgia Municipal Benefits System issues a publicly available financial report, which may be obtained by contacting Towers Perrin in Atlanta, Georgia. The funding policy for the plan is to contribute an amount equal to the recommended contribution each year. The recommended contribution meets the guidelines for

calculating an annual required contribution set forth in Paragraphs 9-10 of Statement No. 27. These contributions are determined under the projected unit credit actuarial cost method and the asset valuation method for developing the actuarial value of assets. The period, and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years from 1981 and current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods as a level dollar amount. These amortization periods, if applicable, are closed for this plan year. The current rate of contribution for the City is 10.43% of annual covered payroll.

Annual Pension Cost and Net Pension Obligation. The City has paid all required contributions, and therefore has no net pension obligation. The City pays the recommended pension contribution of $227,309 representing the annual pension cost on a monthly basis.

Fiscal Period Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1/1/2010	$ 150,984	100%	$ -
1/1/2010	$ 123,277	100%	$ -
3/1/2009	$ 227,309	100%	$ -
3/1/2008	$ 118,865	100%	$ -
3/1/2007	$ 98,285	100%	$ -
3/1/2006	$ 53,781	100%	$ -
3/1/2005	$ 66,083	100%	$ -
3/1/2004	$ 39,160	131%	$ -
3/1/2003	$ 30,087	100%	$ -

Significant actuarial assumptions. The significant actuarial assumptions used to compute the actuarial liability and the annual recommended contribution of the plan meet the Actuarial Standard of Practice No. 4, Measuring Pension Obligations, establishing generally accepted actuarial principles and practices.

The significant actuarial assumptions used in the current valuation, as of January 1, 2011 are:

Rate of return on investment	7.75% per year
Projected salary increases for Inflation	3.50% per year
Cost of living adjustment	3.50% per year

The plan computes the actuarial value of assets by using a roll forward of the prior year's actuarial value with contributions, disbursements, and expected return on investments, plus 10% of investment gains (losses) during the ten prior years. The annual required contribution for the current year was determined using the projected unit credit method.

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Unfunded AAL (UAAL) (1-2)	Funded Ratio (1/2)	Covered Payroll (3)	UAAL as a Percentage of Covered Payroll [(2-1)/3]
3/1/2003	$ 2,257,187	$ 1,870,032	$ 387,155	120.70%	$ 778,827	-49.71%
3/1/2004	$ 2,347,660	$ 1,996,307	$ 351,353	117.60%	$ 829,157	-42.37%
3/1/2005	$ 2,439,273	$ 2,341,411	$ 97,862	104.18%	$ 864,498	-11.32%
3/1/2006	$ 2,557,577	$ 2,379,146	$ 178,431	107.50%	$ 806,197	-22.13%
3/1/2007	$ 2,698,436	$ 2,766,134	$ (67,698)	97.55%	$ 1,121,977	6.03%
3/1/2008	$ 2,851,625	$ 3,012,417	$ (160,792)	94.66%	$ 1,284,641	12.52%
3/1/2009	$ 2,336,934	$ 3,203,776	$ (866,842)	72.94%	$ 1,262,370	68.67%
1/1/2010	$ 2,936,641	$ 3,044,428	$ (107,787)	96.46%	$ 1,309,991	8.23%
1/1/2011	$ 2,999,550	$ 3,305,975	$ (306,425)	90.73%	$ 1,422,615	21.54%

H. HOTEL/MOTEL LODGING TAX

The City of Pelham has levied a 5% lodging tax. A summary of the transactions for the year ending June 30, 2011 follows:

Lodging tax receipts	$ 8,170
Disbursement to the Pelham Chamber of Commerce for Promotion of tourism	(8,170)
Balance of lodging tax funds on hand at end of the year	$ -

The City of Pelham contracts with the Pelham Chamber of Commerce to promote tourism, conventions and trade shows, and provide economic development services for the City of Pelham. The Pelham Chamber of Commerce is contractually required to report to the City Council each month to verify that the Hotel/Motel Lodging Tax is expended in conformity with O.C.G.A. 48-13-51. The annual contract requires annual contributions to the Chamber of $21,000. The Hotel/Motel Lodging Tax receipts for the year ended June 30, 2011 represent 55% of the Chamber contract amount and expenditures of these receipts represented 100% of the total taxes collected during the fiscal period.

I. FUND EQUITY

Fund Balances:

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

Special Revenue Funds	
EIP - Used to account for community development projects.	$ 5,612
Total	$ 5,612

- ***Unassigned*** – The following fund balances are unassigned:

General Fund	
Fund Balance	$ 188,011
Total	$ 188,011

J. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The City was awarded a Department of Community Affairs grant (CDBG EIP 04q-x-101-2-3040) for $180,000 upon which it loaned $169,500 to the Pelham City Economic Development Authority. The grant agreement required the City to set up a Revolving Loan Fund with a separate bank account to collect the repayments from the Pelham Economic Development Authority. In addition, semi-annual RLF reports should have been filed with the DCA for the period ended December 31, 2010.

The City has not collected any repayments on this loan and as a result no funds have been placed in a separate account as required by the grant document. At fiscal year-end, this account should have had a balance of $72,956. In addition, the RLF reports have not been filed with DCA.

The City is working to correct this deficiency/non-compliance as soon as possible. The possible consequences of this non compliance, if any, cannot be reasonably determined at this time.

V. COMPONENT UNIT

A. REPORTING ENTITY

The Pelham City Economic Authority was established by the Mayor and City Council of Pelham on March 15, 2001. The Authority has seven members appointed by the Mayor and City Council to serve a four-year term. Once selected, the seven members of the Authority will elect members to serve as a Chairman and a Secretary/Treasurer.

The Authority is presented in the City's financial statements as a discretely presented component unit. Financial statements may be obtained at the offices of the City of Pelham, Georgia.

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B. CAPITAL ASSETS

Governmental activities:	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, being depreciated				
Buildings	$ 458,688	$ -	$ -	$ 458,688
Total captial assets, being depreciated	458,688	-	-	458,688
Less accumulated depreciation for				
Buildings	(45,868)	(11,467)	-	(57,335)
Total accumulated depreciation	(45,868)	(11,467)	-	(57,335)
Total capital assets, being depreciated, net	412,820	(11,467)	-	401,353
Governmental activities capital assets, net	$ 412,820	$ (11,467)	$ -	$ 401,353

Buildings are depreciated over 40 years.

C. LONG-TERM DEBT

The Authority established a note on August 18, 2005 with Pelham Banking Company for $47,000 bearing interest at 4.68%. The debt is an extension of the loan used for the construction of cottonseed warehouse. Five annual payments of $10,526 are due beginning February 1, 2006. On June 2, 2009 the authority borrowed additional funds on this note in the amount of $53,194, of which $15,000 was used to pay off the principal and interest on the original note established in 2004. At June 30, 2011, the balance of the note outstanding was $0.

The Authority established a note February 2007 with The City of Pelham, Georgia for $169,500 bearing interest at 3.00%. The debt was used to pay down on existing bank loans that were used for the construction of cottonseed warehouse. The Authority is to make 144 monthly payments of $1,403 due beginning March 2007. At June 30, 2011, the balance of the note outstanding was $165,568.

Notes payable debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest
2012	$ 63,943	$ 20,237
2013	13,978	2,858
2014	14,406	2,430
2015	14,842	1,994
2016	15,293	1,543
2017	15,758	1,078
2018	16,238	598
2019	11,110	114
Totals	$ 165,568	$ 30,852

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Component Unit					
Pelham Banking Company	$ 31,838	$ -	$ (31,838)	$ -	$ -
City of Pelham, Georgia	165,568	-	-	165,568	63,943
Total long-term liabilties- Governmental Activities	$ 197,406	$ -	$ (31,838)	$ 165,568	$ 63,943

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Required Supplementary Information

City of Pelham, Georgia
Budgetary Basis Comparision Schedule
General Fund

For the Fiscal Year Ended June 30, 2011	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget- Positive (Negative)
REVENUES				
Taxes				
Property	$ 681,500	$ 681,500	$ 647,037	$ (34,463)
Franchise	191,000	191,000	214,447	23,447
Alcoholic Beverage	110,000	110,000	114,303	4,303
Insurance Premium	230,000	230,000	222,110	(7,890)
Intangible	5,000	5,000	3,767	(1,233)
Financial Institution	12,000	12,000	16,691	4,691
Fees and Fines	200,030	200,030	179,799	(20,231)
Licenses and Permits	58,200	58,200	54,393	(3,807)
Charges for Services	1,411,550	1,411,550	2,174,078	762,528
Investment Earnings	-	-	149	149
Contributions & Donations from Private Sources	-	-	7,264	7,264
Miscellaneous	320,800	320,800	262,630	(58,170)
TOTAL REVENUES	3,220,080	3,220,080	3,896,668	676,588
EXPENDITURES				
General Government				
Legislative	61,101	61,101	10,649	50,452
Executive	106,167	106,167	101,297	4,870
Elections	4,446	4,484	4,484	-
Financial	249,670	249,670	248,243	1,427
Law	7,200	7,200	7,200	-
Buildings	1,500	13,037	13,037	-
Total General Government	430,084	441,659	384,910	56,749
Judicial				
Municipal Court	59,739	82,839	82,839	-
Total Judicial	59,739	82,839	82,839	-
Public Safety				
Police	868,347	868,347	807,453	60,894
Fire	424,398	424,398	316,957	107,441
Corrections	1,071,734	1,486,378	1,416,546	69,832
Other	9,240	9,240	9,240	-
Total Public Safety	2,373,719	2,788,363	2,550,196	238,167
Public Works				
Highway and Streets	297,987	311,006	309,087	1,919
Solid Waste Collection	367,946	376,965	376,965	-
Maintenance and Shop	136,125	136,125	131,050	5,075
Cemetery	7,000	7,000	-	7,000
Total Public Works	809,058	831,096	817,102	13,994
Health and Welfare				
Health	27,620	27,620	18,968	8,652
Community Services	19,300	19,300	12,263	7,037
Total Health Welfare	46,920	46,920	31,231	15,689
Culture and Recreation				
Recreation	31,200	33,053	30,969	2,084
Parks	2,200	2,311	2,311	-
Libraries	68,583	68,583	55,337	13,246
Total Culture and Recreation	101,983	103,947	88,617	15,330

City of Pelham, Georgia
Budgetary Basis Comparision Schedule
General Fund

For the Fiscal Year Ended June 30, 2011	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget- Positive (Negative)
Housing and Development				
Protective Inspection	2,416	2,416	2,371	45
Code Enforcement	56,880	56,880	41,121	15,759
Economic Development and Assistance	109,000	114,919	106,749	8,170
Total Housing and Development	168,296	174,215	150,241	23,974
TOTAL EXPENDITURES - ALL DEPARTMENTS	3,989,799	4,469,039	4,105,136	363,903
Net Excess before Operating Transfers	(769,719)	(1,248,959)	(208,468)	1,040,491
OTHER FINANCING SOURCES (USES)				
Transfers In	67,678	67,678	979,561	911,883
Transfers (Out)	-	-	(574,692)	(574,692)
TOTAL OTHER FINANCING SOURCES (USES)	67,678	67,678	404,869	337,191
Net Excess (Deficit)	$ (702,041)	$ (1,181,281)	$ 196,401	$ 1,377,682

Note A - Explanation of Differences between Revenues, Expenditures and Other Financing Sources (Uses) for Budgetary Funds on a Budgetary Basis and GAAP General Fund on a GAAP Basis

Financial Statements General Fund:	General Fund
Revenues	
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedule	$ 3,896,668
Adjustments:	
The City budgets revenues on the cash basis of accounting rather than the modified accrual basis of accounting	(50,133)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-General Fund	$ 3,846,535
Expenditures	
Adjustments:	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	$ 4,105,136
Adjustments:	
The City budgets for expenditures on the cash plus 30 days basis of accounting rather than all accounts payables that would be recognized using the modified accrual basis of acounting.	(62,662)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances-General Fund	$ 4,042,474

Supplementary Information

Combining Fund Statements and Schedules

City of Pelham, Georgia
Non-Major Special Revenue Funds
Combining Balance Sheet

June 30, 2011	Hotel/Motel Tax Fund	CDBG RLF Fund	Totals
ASSETS			
Intergovernmental receivable	$ -	$ 5,612	$ 5,612
Notes receivable	-	165,568	165,568
TOTAL ASSETS	$ -	$ 171,180	$ 171,180
LIABILITIES AND FUND BALANCE			
Deferred revenue	$ -	$ 165,568	$ 165,568
TOTAL LIABILITIES	-	165,568	165,568
FUND BALANCES			
Restricted for:			
Community Development Projects	-	5,612	5,612
TOTAL LIABILITES AND FUND BALANCE	$ -	$ 171,180	$ 171,180

City of Pelham, Georgia
Non-Major Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2011	Hotel/Motel Tax Fund	CDBG RLF Fund	Totals
REVENUES			
Hotel/Motel Tax	$ 8,170	$ -	$ 8,170
TOTAL REVENUES	8,170	-	8,170
EXPENDITURES			
Capital Outlay			
Housing and Development	8,170	-	8,170
TOTAL EXPENDITURES	8,170	-	8,170
Net Change in Fund Balance	-	-	-
Fund Balance - Beginning of Year	-	5,612	5,612
Fund Balance - End of Year	$ -	$ 5,612	$ 5,612

City of Pelham, Georgia
Budgetary Comparision Schedule
Hotel/Motel - Non-Major Special Revenue Fund

For the Fiscal Year Ended June 30, 2011	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget- Positive (Negative)
REVENUES				
Hotel/Motel Tax	$ 9,000	$ 9,000	$ 8,170	$ (830)
TOTAL REVENUES	9,000	9,000	8,170	(830)
EXPENDITURES				
Housing and Development				
Economic Development and Assistance	9,000	9,000	8,170	830
Total Housing and Development	9,000	9,000	8,170	830
TOTAL EXPENDITURES - ALL DEPARTMENTS	9,000	9,000	8,170	830
Net Excess	$ -	$ -	$ -	$ -

State Reporting Requirements

City of Pelham, Georgia
Community Development Block Grant
Source and Application of Funds Schedule

June 30, 2011

	Grant #08p-x-101-2-5060
Total Program Year 2008 funds allocated to recipient	$ 500,000
Less: Total Program Year 2008 funds drawn down by recipient	(488,619)
Funds still available from Program Year 2008 Resources	$ 11,381
Total Program Year 2008 funds held at beginning of year	$ -
Total Program Year 2008 funds drawn down and received by recipient	488,619
Less: Funds applied and expended to Program Year 2008 costs	(488,619)
TOTAL PROGRAM YEAR 2008 FUNDS HELD BY RECIPIENT	$ -

City of Pelham, Georgia
Community Development Block Grant
Budget to Actual Funds Schedule

June 30, 2011		Grant #08p-x-101-2-5060				
	Activity Number	Latest Approved Budget CDBG Funds	Current Period Expenditures	Prior Period Expenditures	Grand Total Expenditures to Date	Questioned Costs
	C-022-00	$ 42,270	$ -	$ -	$ -	$ -
	P-03J-02	402,006	157,511	275,384	432,895	-
	T-03J-02	25,724	13,531	12,193	25,724	-
	A-21A-00	30,000	5,000	25,000	30,000	-
TOTAL		$ 500,000	$ 176,042	$ 312,577	$ 488,619	$ -

City of Pelham, Georgia
Schedule of Special Purpose
Local Option Sales Tax

June 30, 2011

Project	Original Estimated Cost	Current Estimated Cost	Prior Year	Current Year	Total	Estimated Percentage Of Completion
April 1, 2006-March 31, 2011						
Upgrade & Improvements to Sanitary Sewer System	$ 1,257,600	$ 1,257,600	$ 869,828	$ 528,032	$ 1,397,860	111.15%
Road Improvements	361,920	361,920	207,562	4,441	212,003	58.58%
Recreation Facilities	300,000	300,000	189,128	19,860	208,988	69.66%
TOTAL	$ 1,919,520	$ 1,919,520	$ 1,266,518	$ 552,333	$ 1,818,851	94.76%

City of Pelham, Georgia
Schedule of Special Purpose
Local Option Sales Tax

June 30, 2011

Project	Original Estimated Cost	Current Estimated Cost	Prior Year	Current Year	Total	Estimated Percentage Of Completion
2012						
Hand Trading Co Building	$ 70,000	$ 70,000	$ -	$ -	$ -	0.00%
General Obligation Debt incurred with the sanitary sewer rehabiliation, sanitary sewer improvements, construction of a mental health facility and the purchase of a fire truck.	532,000	532,000	-	-	-	0.00%
Sewer Improvements	304,357	304,357				
Roads & Bridges	1,500,000	1,500,000	-	-	-	0.00%
TOTAL	$ 2,406,357	$ 2,406,357	$ -	$ -	$ -	0.00%

Governmental Auditing Standards Requirements

Perry L. Henry, LLC

Certified Public Accountant and Consultant

Perry L. Henry, CPA, CGFM, CFS

Members

American Institue of Certified Public Accountants

Georgia Society of Certified Public Accountants

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Pelham, Georgia as of and for the year ended June 30, 2011, and have issued our report thereon dated October 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items *2010-5* that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pelham, 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 several instances of noncompliance or other matters that are required to be reported under *Government Auditing* Standards and which are described in the accompanying schedule of findings and questioned costs as items *2008-1*, *2010-1*, *2010-2*, *2010-3*, and *2010-5*.

We noted certain matters that we reported to management of City of Pelham, Georgia, in a separate letter dated October 26, 2012.

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

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

Perry L. Henry, LLC

Perry L. Henry, LLC
Bainbridge, Georgia
October 26, 2012

2008-1

Condition: The City was awarded a Department of Community Affairs grant (CDBG EIP 04q-x-101-2-3040) for $180,000 upon which it loaned $169,500 to the Pelham City Economic Development Authority. The grant agreement required the City to set up a Revolving Loan Fund with a separate bank account to collect the repayments from the Pelham Economic Development Authority. In addition, semi-annual RLF reports should have been filed with the DCA for the period ended December 31, 2008.

The City has not collected any repayments on this loan and as a result no funds have been placed in a separate account as required by the grant document. At fiscal year-end this account should have had a balance of $72,956. In addition, the RLF reports have not been filed with DCA.

Cause: Required payments have not been made to the City from the Pelham City Economic Development Authority.

Effect: The City is in violation of grant compliance requirements.

Recommendation: The City should move immediately to collect required payments and file appropriate reports.

Management's Response: Management concurs with the finding and will work to resolve it during the 2012 fiscal year.

2010-1

Condition: The City collects property taxes to be forwarded to the City's school system. The City failed to remit these proceeds in a timely manner.

Cause: All funds were comingled into one bank account and with the City resources low they spent the proceeds and had to earn revenues to pay.

Effect: The City has spent funds entrusted to them for the City's school system to use resulting in an untimely transfer.

Recommendation: The City should remit these proceeds as soon as possible.

Management's Response: Management concurs with the finding and is making monthly payments to get these proceeds paid by the end of the 2012 fiscal year.

2010-2

Condition: The City defaulted on the lease purchase agreement with Mooring Capital Fund, LLC. The City has acknowledged the default and has since entered into a Forbearance Agreement.

Cause: The City did not make the payments as called for in the lease agreement.

Effect: The City could face legal actions from Mooring Capital Fund, LLC.

Recommendation: The City should make every effort to comply with the Forbearance Agreement.

Management's Response: Management concurs with the finding and is working hard to comply with the agreement.

2010-3

Condition: The City did not make payments on their worker's compensation, property and liability insurance policies as required.

Cause: The City has been in financial distress due to the economic downturn.

Effect: The City had an outstanding balance of worker's compensation insurance premiums, causing their coverage to be terminated on April 27, 2010. Their property and liability insurance premiums were also outstanding, resulting in the loss of coverage effective March 31, 2010. The City obtained private insurance coverage becoming available for workers compensation on July 23, 2010 and liability insurance on August 23, 2010.

Recommendation: Although the City is now covered by another insurance carrier, the City should take precautions to not allow such a lapse to occur again.

Management's Response: Management concurs and will make every effort not to allow such a lapse to take place again.

2010-5

Condition: The City printed checks and held them for extended periods of time.

Cause: The City did not have the financial resources to pay the expenses.

Effect: The reconciled cash balance and accounts payable were both materially understated.

Recommendation: The City should book unpaid invoices as accounts payables and only cut checks when financial resources are available to liquidate such liabilities.

Management's Response: Management concurs and will begin making changes to the way such transactions are being recorded.