City of Pelham, Georgia

Basic Financial Statements and
Supplementary Information

For the Fiscal Year Ended June 30, 2013

CITY OF PELHAM, GEORGIA
For The Fiscal Year Ended June 30, 2013
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Perry L. Henry, LLC

Certified Public Accountant and Consultant

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate business-type activities, the aggregate 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Pelham, Georgia as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedule – General Fund on page 38-39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pelham, Georgia, Georgia's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of special purpose local option sales tax proceeds is presented for purposes of additional analysis as required by the Official Code of Georgia 48-8-21, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules, the schedule of expenditures of special purpose local option sales tax proceeds, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules, the schedule of expenditures of special purpose local option sales tax proceeds, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2014 on our consideration of the City of Pelham, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part on an audit performed in accordance with *Government Auditing Standards* in considering the City of Pelham, Georgia's internal control over financial reporting and compliance.

Perry L. Henry, LLC

Perry L. Henry, LLC
Bainbridge, Georgia
March 19, 2014

City of Pelham, Georgia
Statement of Net Position
June 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and Equivalents	$ 29,174	$ 431,329	$ 460,503	$ -
Receivables	259,516	298,058	557,574	
Internal Balances	2,635,605	(2,635,605)	-	-
Due from Other Governmental Agencies	40,673	87,000	127,673	274,408
Prepaid Expenses	8,466	4,149	12,615	-
Bond Issuance Cost	-	7,259	7,259	-
Capital Assets				
Land	456,141	673,651	1,129,792	-
Improvements other than buildings	3,314,546	10,931,354	14,245,900	-
Buildings	2,628,949	1,498,779	4,127,728	458,688
Machinery and equipment	1,250,094	194,826	1,444,920	-
Less: Accumulated Depreciation	(2,949,010)	(5,133,718)	(8,082,728)	(80,269)
Total Capital Assets	4,700,720	8,164,892	12,865,612	378,419
Total Assets	7,674,154	6,357,082	14,031,236	652,827
LIABILITIES				
Accounts payable and accrued expenses	833,850	612,141	1,445,991	-
Due to other governmental agencies	274,408	-	274,408	127,674
Deferred Revenues	165,568	-	165,568	-
Short-term notes payable	725,531	-	725,531	-
Long-term liabilities				
Due within one year				
Bonds, capital leases and contracts	158,373	71,851	230,224	63,943
Accrued interest	-	22,078	22,078	-
Due in more than one year				
Bonds, capital leases and contracts	1,246,395	1,583,683	2,830,078	101,625
Compensated absences	56,766	14,101	70,867	-
Total liabilities	3,460,891	2,303,854	5,764,745	293,242
NET POSITION				
Invested in capital assets, net of related debt	3,295,952	6,509,358	9,805,310	212,851
Restricted for:				
Community Development Projects	5,612	-	5,612	-
Unrestricted	911,699	(2,456,130)	(1,544,431)	146,734
Total net position	$ 4,213,263	$ 4,053,228	$ 8,266,491	$ 359,585

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, 2013

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Unit
Primary Government							
Governmental Activities							
General Government	$ 408,827	$ 775	$ -	$ (408,052)	$ -	$ (408,052)	
Judicial	61,077	233,575	-	172,498	-	172,498	
Public Safety	1,130,608	-	-	(1,130,608)	-	(1,130,608)	
Public Works	712,738	457,118	267,853	12,233	-	12,233	
Health, Welfare and Sanitation	28,579	57,528	-	28,949	-	28,949	
Culture and Recreation	63,447	-	-	(63,447)	-	(63,447)	
Housing and development	173,001	10,104	-	(162,897)	-	(162,897)	
Interest on Long-term debt	53,167	-	-	(53,167)	-	(53,167)	
Total governmental activities	2,631,444	759,100	267,853	(1,604,491)	-	(1,604,491)	
Business-type activities:							
Water	306,413	515,049	-	-	208,636	208,636	
Sewer	367,464	359,240	-	-	(8,224)	(8,224)	
Gas	293,937	333,102	-	-	39,165	39,165	
Jail	1,150,179	1,041,005	-	-	(109,174)	(109,174)	
Total business-type activities	2,117,993	2,248,396	-	-	130,403	130,403	
Total primary government	$ 4,749,437	$ 3,007,496	$ 267,853	(1,604,491)	130,403	(1,474,088)	
Component Units							
Development Authority	12,467	53,791	-				$ 41,324
Total component units	$ 12,467	$ 53,791	$ -				41,324
General revenues:							
Taxes:							
Property taxes, levied for general purposes				$ 735,326	$ -	$ 735,326	-
Franchise taxes				206,976	-	206,976	-
Insurance premium tax				194,199	-	194,199	-
Alcoholic beverage tax				107,330	-	107,330	-
Other taxes				24,236	-	24,236	-
Unrestricted investment earnings				66	251	317	-
Miscellaneous				99,035	100	99,135	-
Special item - gain on sale of asset				7,141	-	7,141	-
Transfers				1,434,452	(1,434,452)	-	-
Total general revenues, special items, and transfers				2,808,761	(1,434,101)	1,374,660	-
Change in net position				1,204,270	(1,303,698)	(99,428)	41,324
Net position - beginning- as originally stated				4,337,696	4,028,223	8,365,919	318,261
Prior period adjustment				(1,328,703)	1,328,703	-	-
Net position - beginnig - restated				3,008,993	5,356,926	8,365,919	318,261
Net position - ending				$ 4,213,263	$ 4,053,228	$ 8,266,491	$ 359,585

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

City of Pelham, Georgia
Balance Sheet
Governmental Funds

June 30, 2013	General Fund	SPLOST Capital Project Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 29,174	$ -	$ -	$ 29,174
Taxes receivable, net	36,709	-	-	36,709
Due from other funds	2,638,305	-	-	2,638,305
Receivable from other governments	35,061	-	5,612	40,673
Other receivables	57,240	-	165,568	222,808
Total assets	$ 2,796,489	$ -	$ 171,180	$ 2,967,669
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 806,400	$ -	$ -	$ 806,400
Due to other funds	-	2,700	-	2,700
Payable to other governments	274,408	-	-	274,408
Deferred revenue	20,689	-	165,568	186,257
Accrued salaries & wages	18,687	-	-	18,687
Other payables	8,764	-	-	8,764
Short-term notes payable	725,531	-	-	725,531
Total liabilities	1,854,479	2,700	165,568	2,022,747
Fund balances:				
Restricted for:				
Community Development Projects	-	-	5,612	5,612
Unassigned	942,010	(2,700)	-	939,310
Total fund balances	942,010	(2,700)	5,612	944,922
Total liabilities and fund balances	$ 2,796,489	$ -	$ 171,180	$ 2,967,669

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 Position

June 30, 2013

Total fund balance, governmental funds	$	944,922
Amounts reported for governmental activities in the Statement of Net Position 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 Position.		4,700,720
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.		8,466
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.		20,689
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.		(1,461,534)
Net Position of Governmental Activities in the Statement of Net Position	$	4,213,263

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, 2013	General Fund	SPLOST Capital Project Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	$ 959,002	$ -	$ -	$ 959,002
Sales and Miscellaneous Taxes	301,610	-	10,104	311,714
Fees and Fines	252,770	-	-	252,770
Licenses and Permits	64,928	-	-	64,928
Intergovernmental	-	267,853	-	267,853
Charges for Services	437,063	-	-	437,063
Investment Earnings	66	-	-	66
Contributions and Donations	10,000	-	-	10,000
Miscellaneous	83,270	-	-	83,270
Total revenues	2,108,709	267,853	10,104	2,386,666
EXPENDITURES				
Current:				
General Government	388,815	-	-	388,815
Judicial	60,896	-	-	60,896
Public Safety	1,099,839	-	-	1,099,839
Public Works	649,503	-	-	649,503
Health and Welfare	1,766	-	-	1,766
Culture and Recreation	44,650	-	-	44,650
Housing and Development	163,170	-	10,104	173,274
Capital Outlay:				
Public Works	-	2,700	-	2,700
Housing and development	212	-	-	212
Debt Service:				
Principal	41,209	-	-	41,209
Interest and other charges	53,167	-	-	53,167
Total Expenditures	2,503,227	2,700	10,104	2,516,031
Excess (deficiency) of revenues over expenditures	(394,518)	265,153	-	(129,365)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,702,304	-	-	1,702,304
Transfers out	-	(267,853)	-	(267,853)
Total other financing sources and uses	1,702,304	(267,853)	-	1,434,451
SPECIAL ITEM				
Proceeds from sale of assets	7,141	-	-	7,141
Net change in fund balances	1,314,927	(2,700)	-	1,312,227
Fund balances - beginning	(372,917)	-	5,612	(367,305)
Fund balances - ending	$ 942,010	$ (2,700)	$ 5,612	$ 944,922

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, 2013

Net change in fund balances - total governmental funds:	$ 1,312,227
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:	
Depreciation expense during the current fiscal period	(155,583)
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.	(7,462)
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 Position, the debt is reported as a liability.	41,209
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	5,413
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.	8,466
Change in net position of governmental activities	$ 1,204,270

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

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

	Enterprise Funds		
June 30, 2013	**Water, Sewer, & Gas**	**Jail**	**Total**
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 343,244	45,547	$ 388,791
Accounts Receivable, net	158,554	139,504	298,058
Due from Other Funds	-	-	-
Receivables from Other Governments	87,000	-	87,000
Bond Issuance Cost, net of Amortization	7,259	-	7,259
Prepaid Expenses	1,518	2,631	4,149
Restricted Cash:			
Revenue Bond Covenant Accounts	42,539	-	42,539
Total Current Assets	640,114	187,682	827,796
Non-current Assets:			
Capital Assets:			
Land and Improvements	673,651	-	673,651
Utility System	10,931,354	-	10,931,354
Buildings	62,343	1,436,436	1,498,779
Equipment and Furniture	194,826	-	194,826
Less Accumulated Depreciation	(4,990,074)	(143,644)	(5,133,718)
Total Non-current Assets	6,872,100	1,292,792	8,164,892
Total Assets	7,512,214	1,480,474	8,992,688
LIABILITIES			
Current Liabilities:			
Accounts Payable	476,775	42,586	519,361
Accrued Interest Payable	22,078	-	22,078
Due to Other Funds	1,636,872	998,733	2,635,605
Customer Deposits	83,845	-	83,845
Other Accrued Expenses	8,935	-	8,935
Bonds, Notes and Loans Payable	71,851	-	71,851
Total Current Liabilities	2,300,356	1,041,319	3,341,675
Non-current Liabilities:			
Compensated Absences	7,920	6,181	14,101
Bonds, Notes and Loans Payable	1,583,683	-	1,583,683
Total Non-current Liabilities	1,591,603	6,181	1,597,784
Total Liabilities	3,891,959	1,047,500	4,939,459
NET POSITION			
Invested in Capital Assets, net of Related Debt	5,216,566	1,292,792	6,509,358
Unrestricted	(1,596,311)	(859,818)	(2,456,129)
Total Net Position	$ 3,620,255	$ 432,974	$ 4,053,229

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 Position
Proprietary Funds
Business-type Activities-Enterprise Funds

	Enterprise Funds		
For the Year Ended June 30, 2013	**Water, Sewer, & Gas**	**Jail**	**Total**
OPERATING REVENUES			
Charges for services	$ 1,207,391	1,041,005	$ 2,248,396
Miscellaneous	100	-	100
Total operating revenues	1,207,491	1,041,005	2,248,496
OPERATING EXPENSES			
Personal services	278,407	608,980	887,387
Contractual services	84,674	74,145	158,819
Repairs and maintenance	36,193	20,060	56,253
Other supplies and expenses	332,177	380,363	712,540
Depreciation	183,781	35,911	219,692
Total Operating Expenses	915,232	1,119,459	2,034,691
Operating income (loss)	292,259	(78,454)	213,805
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	251	-	251
Interest expense	(52,582)	(30,720)	(83,302)
Total non-operating revenue (expenses)	(52,331)	(30,720)	(83,051)
Income (loss) before contributions and transfers	239,928	(109,174)	130,754
Transfers in	348,462	-	348,462
Transfers out	(996,358)	(786,555)	(1,782,913)
Change in net position	(407,968)	(895,729)	(1,303,697)
Total net position - beginning	4,028,223	-	4,028,223
Prior period adjustment	-	1,328,703	1,328,703
Total net position - beginning - restated	4,028,223	1,328,703	5,356,926
Total net position - ending	$ 3,620,255	$ 432,974	$ 4,053,229

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, 2013	Water, Sewer & Gas	Jail	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	$ 1,239,051	$ 901,501	$ 2,140,552
Payments to suppliers	(396,548)	(434,613)	(831,161)
Payments to employees	(278,407)	(602,799)	(881,206)
NET CASH PROVIDED BY OPERATING ACTIVITIES	564,096	(135,911)	428,185
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers to/from other funds	(915,749)	(786,555)	(1,702,304)
Loans from other funds, net	212,445	998,733	1,211,178
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(703,304)	212,178	(491,126)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Transfer in from SPLOST	267,853	-	267,853
Principal payments on note payable	(83,823)	-	(83,823)
Principal payments on revenue bonds	(23,527)	-	(23,527)
Interest paid	(52,244)	(30,720)	(82,964)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	108,259	(30,720)	77,539
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Income	251	-	251
NET CASH PROVIDED FROM INVESTING ACTIVITIES	251	-	251
NET INCREASE IN CASH AND CASH EQUIVALENTS	(30,698)	45,547	14,849
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	416,481	-	416,481
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 385,783	$ 45,547	$ 431,330

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, 2013	Water, Sewer & Gas	Jail	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	$ 292,259	$ (78,454)	$ 213,805
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	183,781	35,911	219,692
(Increase) decrease in current assets			
Accounts receivable	31,560	(139,504)	(107,944)
Prepaid expenses	934	(2,631)	(1,697)
(Decrease) increase in current liabilities			
Accounts payable	81,066	42,586	123,652
Accrued liabilities	(22,425)	6,181	(16,244)
Deposits	(3,079)	-	(3,079)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 564,096	$ (135,911)	$ 428,185

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, 2013

	Agency Fund
ASSETS	
Cash	$ 52,868
TOTAL ASSETS	$ 52,868
LIABILITIES	
Due to others	$ 52,868
TOTAL LIABILITIES	$ 52,868

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 Position and the Statement of Changes in Net Position) 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 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 *Jail Fund* accounts for activities related to the government's rental of inmate space to various entities.

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 one agency fund which is the Jail Fund. Agency funds 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 POSITION 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 22, 2012 on property values assessed as of January 1, 2012. The billing, representing the current year tax levy, was mailed October 22, 2012. 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 $53,167. 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.

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 Position. 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 position."

Fund Balance – Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based 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 Position – Net position represents the difference between assets and liabilities. Net position 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 position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

The City applies restricted resources first when an expense in incurred for purposes for which both restricted and unrestricted net position is 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, 2013, were adopted by the City Council on May 21, 2012. The June 30, 2013 budget was amended on August 19, 2013.

B. DEFICIT FUND BALANCE

The General Fund had a positive fund balance of $942,010 as of June 30, 2013. The additional tax and other revenues of the general fund are expected to alleviate the fund's deficit over the next several years.

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	-	(622,109)	456,141
Capital assets, being depreciated					
Buildings	**	2,628,949	-	-	2,628,949
Improvements, other than buildings		2,692,437	622,109	-	3,314,546
Machinery and equipment		1,269,597	-	(19,503)	1,250,094
Total captial assets, being depreciated		6,590,983	622,109	(19,503)	7,193,589
Less accumulated depreciation for					
Buildings	**	(918,710)	(60,971)	-	(979,681)
Improvements, other than buildings		(815,645)	(60,440)	-	(876,085)
Machinery and equipment		(1,078,574)	(34,172)	19,503	(1,093,243)
Total accumulated depreciation		(2,812,929)	(155,583)	19,503	(2,949,009)
Total capital assets, being depreciated, net		3,778,054	466,526	-	4,244,580
Governmental activities capital assets, net		$ 4,856,304	$ 466,526	$ (622,109)	$ 4,700,721

*The above schedule includes current depreciation expense of $41,056 and accumulated depreciation of $171,941 for assets acquired through capital leases.

Business-type activities		Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated					
Land		$ 673,651	$ -	$ -	$ 673,651
Construction in progress		1,989,135	-	(1,989,135)	-
Total captial assets not being depreciated		2,662,786	-	(1,989,135)	673,651
Capital assets, being depreciated					
Buildings	**	1,498,779	-	-	1,498,779
Improvements, other than buildings		8,942,220	1,989,135	-	10,931,355
Machinery and equipment		521,393	-	-	521,393
Total captial assets, being depreciated		10,962,392	1,989,135	-	12,951,527
Less accumulated depreciation for					
Buildings	**	(142,226)	(37,037)	-	(179,263)
Improvements, other than buildings		(4,580,556)	(180,860)	-	(4,761,416)
Machinery and equipment		(517,811)	(1,795)	-	(519,606)
Total accumulated depreciation		(5,240,593)	(219,692)	-	(5,460,285)
Total capital assets, being depreciated, net		5,721,799	1,769,443	-	7,491,242
Business-type activities capital assets, net		$ 8,384,585	$ 1,769,443	$ (1,989,135)	$ 8,164,893

** As-restated due to the transfer of the jail from the general fund to an enterprise fund.

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

Governmenal activities:		
General government	$	21,942
Public safety		28,384
Public works		59,929
Health and welfare		26,620
Culture and recreation		18,708
Total depreciation expense-governmental activities	$	155,583
Business-type activities:		
Water	$	90,839
Sewer		90,523
Gas		2,419
Jail		35,911
Total depreciation expense-business-type activities	$	219,692

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D. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2013, is as follows:

Due to/from other funds:

	Interfund Receivable (Due From)	Interfund Payable (Due To)
Governmental Funds		
General Fund	$ 1,636,872	$ -
General Fund	2,700	-
General Fund	998,733	-
SPLOST Capital Project Fund	-	2,700
Sub-total Governmental Funds	2,638,305	2,700
Proprietary Funds		
Water, Sewer and Gas Fund	-	1,636,872
Jail Fund	-	998,733
Sub-total Proprietary Funds	-	2,635,605
Totals	$ 2,638,305	$ 2,638,305

Governmenal fund receivables-Major Funds	$ 2,638,305
Governmenal fund payables-Major Funds	(2,700)
Internal balances - Statement of Net Position	$ 2,635,605
Proprietary fund payables-Major Funds	$ (2,635,605)
Internal balances - Statement of Net Position	$ (2,635,605)

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.

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Interfund transfers:

Transfer Out	General Fund	Major - Enterprise Funds - Telecom	Major Enterprise- Water, Sewer and Gas	Total
General Fund	$ -	$ -	$ -	$ -
SPLOST Capital Projects Fund	-	-	267,853	267,853
Major - Enterprise Funds - Water, Sewer and Gas	380,044	-	-	380,044
Major - Enterprise Funds - Jail	786,555	-	-	786,555
Totals	$ 1,166,599	$ -	$ 267,853	$ 1,434,452

Transfers from the SPLOST Fund in the amount of $267,853 were for capital expenditures moved to the Water, Sewer & Gas Fund.

All other transfers were for normal general operating purposes.

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, 2013, the balance of the capital lease outstanding was $0.

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, 2013 the principal balance due was $887,365.

Year ending June 30,	Principal	Interest
2014	$ 122,022	$ 146,034
2015	144,992	123,064
2016	172,598	95,458
2017	447,753	6,551
Totals	$ 887,365	$ 371,107

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%.	$ 744,460
$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%.	72,630
Total Revenue Bonds	$ 817,090

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Revenue bond debt service requirements to maturity are as follows:

Year ending June 30,	Principal	Interest
2014	$ 24,710	$ 40,855
2015	25,946	39,619
2016	27,244	38,321
2017	28,606	36,959
2018	30,036	35,529
2019-2023	174,263	153,562
2024-2028	222,413	105,412
2029-2033	283,872	43,953
Totals	$ 817,090	$ 494,210

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, 2013, the balance of the note outstanding was $16,745.

Notes payable debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2014	$ 16,745	$ 754
	$ 16,745	$ 754

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, 2013, the balance of the note outstanding was $500,657 bearing an annual interest rate of 5%.

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Notes payable debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2014	$ 19,606	$ 25,033
2015	11,658	24,053
2016	12,241	23,470
2017	12,853	22,858
2018	444,299	22,214
	$ 500,657	$ 117,628

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, 2013, the balance of the note outstanding was $272,839.

Notes payable debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest
2014	$ 23,725	$ -
2015	23,725	-
2016	23,725	-
2017	23,725	
2018	23,725	
2019-2023	118,625	
2024-2025	35,589	-
Totals	$ 272,839	$ -

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, 2013, the balance of the note outstanding was $565,604.

Year Ending June 30	Principal	Interest
2014	$ 23,416	$ 23,158
2015	24,376	22,198
2016	25,376	21,198
2017	26,416	20,158
2018	27,499	19,075
2019-2023	155,359	77,509
2024-2028	189,928	42,940
2029-2031	93,234	7,673
	$ 565,604	$ 233,909

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, 2013, the balance of the note outstanding was $0.

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities					
Capital leases payable	$ 898,855	$ -	$ (11,490)	$ 887,365	$ 122,022
Notes payable	547,121	-	(29,718)	517,403	36,351
Compensated absences	62,178	24,608	(30,020)	56,766	-
Total long-term liabilties-Governmental Activities	$ 1,508,154	$ 24,608	$ (71,228)	$ 1,461,534	$ 158,373
Business-type activities					
Revenue bonds	$ 840,617	$ -	$ (23,527)	$ 817,090	$ 24,710
Notes payable	922,266	-	(83,822)	838,444	47,141
Compensated absences	7,109	18,598	(11,606)	14,101	-
Total long-term liabilties-Business-type Activities	$ 1,769,992	$ 18,598	$ (118,955)	$ 1,669,635	$ 71,851

F. SHORT-TERM DEBT

Governmental Activities

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, 2013,

the balance of the note outstanding was $398,297 bearing an annual interest rate of 3.50%.

Tax Anticipation Notes

The City entered into a new tax anticipation note on January 24, 2013. The note is secured by the 2013 Tax Digest Revenue with the Pelham Banking Company at an interest rate of 4.50%. The principal and interest are due by January 1, 2013. At June 30, 2013, the note had an outstanding balance of $327,234. The purpose of this loan was for operating expenses.

Changes in Short-term Liabilities

Short-term liability activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Short-term (excluding TANs)	$ 406,108	$ 398,297	$ (406,108)	$ 398,297
Tax anticipation notes	344,880	331,518	(349,164)	327,234
Total short-term liabilties-Governmental Activities	$ 750,988	$ 729,815	$ (755,272)	$ 725,531

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, 2013 is $ 42,540.

Liabilities payable from restricted assets:

Current portion of bonds payable	$ 24,710
Interest payable	40,855
Total liabilities payable from restricted assets	$ 65,565

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, 2013. No provisions have been made in the financial statements for the year ended June 30, 2013 for any estimate of potential unpaid claims.

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, 2010-2, 2010-5, 2012-1 and 2012-2.

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 2013 fiscal year. The City made payments totaling $106,000 during the 2013 fiscal year.

D. 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.

E. 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.

F. 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 $198,127 representing the annual pension cost on a monthly basis.

Fiscal Period Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1/1/2013	$ 198,127	100%	$ -
1/1/2012	$ 190,274	100%	$ -
1/1/2011	$ 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, 2013 are:

Net Investment Rate of Return	7.75% per year
Projected Salary Increases	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%
1/1/2012	$ 2,849,749	$ 3,454,230	$ (604,481)	82.50%	$ 1,384,487	43.66%
1/1/2013	$ 2,844,847	$ 3,568,311	$ (723,464)	79.73%	$ 1,282,033	56.43%

G. 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, 2013 follows:

Lodging tax receipts	$ 10,104
Disbursement to promote tourism and economic development.	(4,042)
Disbursement for other purposes	(6,062)
Balance of lodging tax funds on hand at end of the year	$ -

The city expended 40 % of these taxes received during the year to promote tourism and economic development within the city. The other 60% was used for other purposes.

H. 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	$	942,010
Total	$	942,010

I. 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.

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 $84,180.

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. PRIOR PERIOD ADJUSTMENT

To help the City better manage the rental of the jail facilities, the activity is now being reported in the Enterprise Jail Fund.

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VI. 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.

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	(68,802)	(11,467)	-	(80,269)
Total accumulated depreciation	(68,802)	(11,467)	-	(80,269)
Total capital assets, being depreciated, net	389,886	(11,467)	-	378,419
Governmental activities capital assets, net	$ 389,886	$ (11,467)	$ -	$ 378,419

Buildings are depreciated over 40 years.

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C. LONG-TERM DEBT

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, 2013, 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
2014	$ 78,349	$ 22,667
2015	14,842	1,994
2016	15,293	1,543
2017	15,758	1,078
2018	16,238	598
2019	25,088	2,972
Totals	$ 165,568	$ 30,852

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Component Unit					
City of Pelham, Georgia	$ 165,568	$ -	$ -	$ 165,568	$ 78,349
Total long-term liabilties-Governmental Activities	$ 165,568	$ -	$ -	$ 165,568	$ 78,349

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Required Supplementary Information

City of Pelham, Georgia
Budgetary Basis Comparision Schedule
General Fund

For the Fiscal Year Ended June 30, 2013	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
REVENUES				
Taxes				
Property	$ 721,100	$ 721,100	$ 753,388	$ 32,288
Franchise	211,500	211,500	206,976	(4,524)
Alcoholic Beverage	127,000	127,000	107,330	(19,670)
Insurance Premium	180,000	180,000	194,199	14,199
Intangible	3,700	3,700	4,238	538
Fees and Fines	235,200	235,200	249,217	14,017
Licenses and Permits	53,730	53,730	64,928	11,198
Charges for Services	466,900	466,900	456,282	(10,618)
Investment Earnings	-	-	66	66
Contributions & Donations from Private Sources	-	-	10,000	10,000
Miscellaneous	103,328	103,328	83,270	(20,058)
TOTAL REVENUES	2,102,458	2,102,458	2,129,894	27,436
EXPENDITURES				
General Government				
Legislative	50,370	50,370	44,507	5,863
Executive	106,979	112,935	112,834	101
Elections	6,651	12,926	12,846	80
Financial	242,311	279,700	278,979	721
Law	7,200	7,200	7,200	-
Buildings	1,500	1,500	220	1,280
Total General Government	415,011	464,631	456,586	8,045
Judicial				
Municipal Court	84,119	82,119	62,246	19,873
Total Judicial	84,119	82,119	62,246	19,873
Public Safety				
Police	801,000	801,000	779,602	21,398
Fire	390,973	390,973	368,151	22,822
Other	9,240	16,170	16,170	-
Total Public Safety	1,201,213	1,208,143	1,163,923	44,220
Public Works				
Highway and Streets	213,057	213,057	186,262	26,795
Solid Waste Collection	387,800	403,796	403,717	79
Maintenance and Shop	97,350	97,350	96,900	450
Cemetery	10,000	10,000	-	10,000
Total Public Works	708,207	724,203	686,879	37,324
Health and Welfare				
Health	26,312	26,312	15,907	10,405
Community Services	11,500	11,500	130	11,370
Total Health Welfare	37,812	37,812	16,037	21,775
Culture and Recreation				
Recreation	26,800	26,800	5,813	20,987
Parks	2,200	2,200	1,880	320
Libraries	54,350	54,350	44,389	9,961
Total Culture and Recreation	83,350	83,350	52,082	31,268

City of Pelham, Georgia
Budgetary Basis Comparision Schedule
General Fund

For the Fiscal Year Ended June 30, 2013	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
Housing and Development				
Protective Inspection	2,460	5,457	5,457	-
Code Enforcement	55,850	58,201	58,095	106
Economic Development and Assistance	119,950	116,422	110,422	6,000
Total Housing and Development	178,260	180,080	173,974	6,106
TOTAL EXPENDITURES - ALL DEPARTMENTS	2,707,972	2,780,338	2,611,727	168,611
Net Excess before Transfers	(605,514)	(677,880)	(481,833)	196,047
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	944,211	944,211
Transfers (Out)	-	-	(28,462)	(28,462)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	915,749	915,749
SPECIAL ITEMS				
Proceeds from sale of capital assets	3,000	3,000	7,141	4,141
Total Special Items'	3,000	3,000	7,141	4,141
Net Excess (Deficit)	(602,514)	(674,880)	441,057	1,115,937
Fund balances - beginning of the year (budgetary basis)	(372,917)	(372,917)	413,638	786,555
Fund balances - end of the year (budgetary basis)	$ (975,431)	$ (1,047,797)	854,695	$ 1,902,492
Adjustment for basis differences			87,315	
Fund balances - end of the year GAAP Basis			$ 942,010	

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	$ 2,129,894
Adjustments:	
The City budgets revenues on the cash basis of accounting rather than the modified accrual basis of accounting	(21,185)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-general fund	$ 2,108,709
Expenditures	
Adjustments:	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	$ 2,611,727
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.	(108,500)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances-general fund	$ 2,503,227

Supplementary Information

Combining Fund Statements and Schedules

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

June 30, 2013	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, 2013	Hotel/Motel Tax Fund	CDBG RLF Fund	Totals
REVENUES			
Hotel/Motel Tax	$ 10,104	$ -	$ 10,104
TOTAL REVENUES	10,104	-	10,104
EXPENDITURES			
Capital Outlay			
Housing and Development	10,104	-	10,104
TOTAL EXPENDITURES	10,104	-	10,104
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, 2013	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget- Positive (Negative)
REVENUES				
Hotel/Motel Tax	$ 7,000	$ 11,000	$ 10,104	$ (896)
TOTAL REVENUES	7,000	11,000	10,104	(896)
EXPENDITURES				
Housing and Development				
Economic Development and Assistance	7,000	11,000	10,104	896
Total Housing and Development	7,000	11,000	10,104	896
TOTAL EXPENDITURES - ALL DEPARTMENTS	7,000	11,000	10,104	896
Net Excess	$ -	$ -	$ -	$ -

State Reporting Requirements

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

June 30, 2013

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	$ 1,538,258	$ 178,560	$ 1,716,818	136.52%
Road Improvements	361,920	361,920	212,003	-	212,003	58.58%
Recreation Facilities	300,000	300,000	208,988	-	208,988	69.66%
TOTAL	$ 1,919,520	$ 1,919,520	$ 1,959,249	$ 178,560	$ 2,137,809	111.37%

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

June 30, 2013

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	101,843	89,293	191,136	35.93%
Sewer Improvements	304,357	304,357	23,400	2,700	26,100	8.58%
Roads & Bridges	1,500,000	1,500,000	505	-	505	0.03%
TOTAL	$ 2,406,357	$ 2,406,357	$ 125,748	$ 91,993	$ 217,741	9.05%

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

June 30, 2013

	Grant #10p-x-101-2-5248
Total Program Year 2010 funds allocated to recipient	$ 500,000
Less: Total Program Year 2010 funds drawn down by recipient	(467,672)
Funds still available from Program Year 2010 Resources	$ 32,328
Total Program Year 2010 funds held at beginning of year	$ 6,000
Total Program Year 2010 funds drawn down and received by recipient	471,672
Less: Funds applied and expended to Program Year 2010 costs	(467,672)
TOTAL PROGRAM YEAR 2010 FUNDS HELD BY RECIPIENT	$ 4,000

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

June 30, 2013		Grant #10p-x-101-2-5248				
	Activity Number	Latest Approved Budget CDBG Funds	Current Period Expenditures	Prior Period Expenditures	Grand Total Expenditures to Date	Questioned Costs
	C-022-00	$ 44,670	$ -	$ -	$ -	$ -
	P-03J-02	337,605	-	353,947	353,947	-
	P-03K-02	87,725	-	87,725	87,725	-
	A-21A-00	30,000	-	26,000	26,000	-
TOTAL		$ 500,000	$ -	$ 467,672	$ 467,672	$ -

Governmental Auditing Standards Requirements

Perry L. Henry, LLC

Certified Public Accountant and Consultant

Perry L. Henry, CPA, CGFM, CFS

Members

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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, in accordance with audit standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Pelham, Georgia as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Colquitt's basic financial statements, and have issued our report dated thereon March 19, 2014.

Internal Control over Financial Reporting

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

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we

consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2013-1 and 2013-2 that we consider to be a significant deficiency.

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 did disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards which are described in the accompanying Schedule of Findings and Responses as items 2008-1*, *2010-2*, *2010-5, 2012-1, 2012-2, 2013-1.*

City of Pelham's Response to Findings

City of Pelham, Georgia's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses*. The* City of Pelham, Georgia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Perry L. Henry, LLC

Perry L. Henry, LLC
Bainbridge, Georgia
March 19, 2014

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.

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 $84,180.

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 2013 and 2014 fiscal years.

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.

2010-5

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.

2012-1

Condition: The City does not have adequate separation of duties in various functions of the City.

Criteria: Internal control is a process designed to provide reasonable assurance about your objectives with regard to reliability of:

(1) financial reporting,
(2) effectiveness and efficiency of operations, and
(3) Compliance with applicable laws and regulations.

Cause: There is an insufficient number of staff to properly segregate functions of all transaction cycles.

Effect: The City will be exposed to increased risk that the financial statements could be materially misstated whether by error or intentionally and not be detected in a timely manner.

Recommendation: The City should monitor the control environment and continue to strengthen controls where cost effective.

Management's Response: Management agrees. A corrective action plan will be issued under a separate cover.

2012-2

Condition: The City entered into a TAN note during the fiscal year but failed to pay the note by year end. This loan was entered into in accordance with the provisions of Article IX, V, V of the Georgia Constitution (the Temporary Borrowing Clause). It is required by state law that such loans must be repaid by year-end.

Cause: The City did not have funds sufficient to repay this note by year-end.

Effect: The City is in violation of State Law.

Recommendation: The City should adjust finances to ensure adequate funds are available to retire such notes at year end.

Management's Response: Management concurs with the finding and will take corrective steps for future years.

2013-1

Condition: The City of Pelham is delinquent in its contributions to the Georgia Municipal Employees Benefit System (GMEBS) retirement plan.

Cause: The City did not make its contributions as required.

Effect: The City is in noncompliance with Article 2 of OCGA §47-20.

Recommendation: The City should pay all delinquent contributions and in make all contributions as required in the future.

Management's Response: Management concurs with the finding and will take corrective action.