CITY OF PEMBROKE, GEORGIA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2011

# CITY OF PEMBROKE

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# HOLLAND, HENRY & BROMLEY, LLP

## Certified Public Accountants

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South Carolina Accociation of Certified Public Accountants

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**Independent Auditors' Report**

Honorable Mayor and City Council
City of Pembroke
Pembroke, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Pembroke (the City) as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated June 26, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of 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 City has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was performed for the purpose of forming an opinion on the financial statements of the City taken as a whole. The accompanying financial information listed as supplementary information and the schedule of expenditures of special purpose local option sales tax proceeds are presented for purposes of additional analysis and are not a required part of the basic financial statements Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Holland, Henry & Bromley LLP

Holland, Henry, & Bromley, LLP
Savannah, Georgia
June 26, 2012

CITY OF PEMBROKE

STATEMENT OF NET ASSETS

DECEMBER 31, 2011

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Type Activities | Business-type Activites | Total | Component Units |
| **ASSETS** | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | $ 685,655 | $ (87,585) | $ 598,070 | $ 1,949 |
| Receivables: | | | | |
| Taxes | 31,815 | | 31,815 | |
| Fines | 193,893 | | 193,893 | |
| Accounts | 171,019 | 69,647 | 240,666 | |
| Sanitation | 9,441 | | 9,441 | |
| Internal balances | 347,899 | (347,899) | - | |
| RESTRICTED ASSETS | | | | |
| Cash and cash equivalents | | 259,548 | 259,548 | |
| Certificates of deposit | 358,111 | 150,097 | 508,208 | |
| CAPITAL ASSETS | | | | |
| Nondepreciable capital assets | 159,649 | 66,000 | 225,649 | |
| Depreciable capital assets, net | 1,307,846 | 8,187,105 | 9,494,951 | |
| Total assets | 3,265,328 | 8,296,913 | 11,562,241 | 1,949 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable | 112,486 | 2,140 | 114,626 | |
| Accrued interest payable | | 5,323 | 5,323 | |
| Capital leases payable | 26,999 | 3,350 | 30,349 | |
| Notes payable | | 1,028,930 | 1,028,930 | |
| Revenue bonds payable | | 50,315 | 50,315 | |
| CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS | | | | |
| Customer deposits | | 132,952 | 132,952 | |
| LONG-TERM LIABILITIES | | | | |
| Capital leases payable (net of current portion) | 16,056 | 1,613 | 17,669 | |
| Revenue bonds payable (net of current portion) | - | 3,270,946 | 3,270,946 | |
| Total liabilities | 155,541 | 4,495,569 | 4,651,110 | - |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | 1,424,440 | 3,897,951 | 5,322,391 | - |
| Restricted for: | | | | |
| Debt service | | 409,645 | 409,645 | |
| Confiscated assets | 1,643 | | 1,643 | |
| Special sales tax | 413,967 | | 413,967 | |
| Multiple grant | (104,282) | | (104,282) | |
| Unrestricted | 1,374,019 | (506,252) | 867,767 | 1,949 |
| Total net assets | $ 3,109,787 | $ 3,801,344 | $ 6,911,131 | $ 1,949 |

(The accompanying notes are an integral part of these financial statements.)

CITY OF PEMBROKE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2011

| Functions/Programs | Expenses | Program Revenue: Fees, Fines, & Charges for Services | Program Revenue: Operating Grants and Contributions | 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 Units |
|---|---|---|---|---|---|---|---|---|
| Primary government | | | | | | | | |
| Governmental Activities | | | | | | | | |
| General government | $ 181,272 | $ 104,685 | | $ 572,278 | $ 495,691 | | $ 495,691 | |
| Public safety | 801,585 | 435,914 | | | (365,671) | | (365,671) | |
| Streets and sanitation | 567,603 | 119,491 | | 69,572 | (378,540) | | (378,540) | |
| Health and welfare | 54,689 | 8,357 | | | (46,332) | | (46,332) | |
| Recreation and culture | 113,691 | 3,447 | | | (110,244) | | (110,244) | |
| Interest | 43,686 | - | - | 610 | (43,076) | | (43,076) | |
| Total governmental activities | 1,762,526 | 671,894 | - | 642,460 | (448,172) | - | (448,172) | - |
| Business-type activities | | | | | | | | |
| Water and sewer | 1,201,534 | 942,286 | - | - | - | $ (259,248) | $ (259,248) | |
| Total primary government | $ 2,964,060 | $ 1,614,180 | $ - | $ 642,460 | $ (448,172) | $ (259,248) | $ (707,420) | $ - |
| Component Units | | | | | | | | |
| Downtown Development Authority | $ 15,845 | $ - | | | | | | $ (15,845) |
| Total component units | $ 15,845 | $ - | | | | | | $ (15,845) |
| General revenues: | | | | | | | | |
| Property taxes, levied for general purposes | | | | | $ 395,125 | | $ 395,125 | |
| Intergovernmental revenue | | | | | 528,127 | | 528,127 | |
| Franchise taxes | | | | | 150,136 | | 150,136 | |
| Insurance premium tax | | | | | 103,002 | | 103,002 | |
| Other taxes | | | | | 97,358 | | 97,358 | |
| Interest earned | | | | | 6,895 | $ 925 | 7,820 | |
| Payments from City | | | | | | | - | $ 12,610 |
| Miscellaneous | | | | | 14,462 | | 14,462 | 5,184 |
| Transfers | | | | | - | - | - | - |
| Total General Revenue | | | | | 1,295,105 | 925 | 1,296,030 | 17,794 |
| Change in Net Assets | | | | | 846,933 | (258,323) | 588,610 | 1,949 |
| Net assets - beginning of year | | | | | 2,262,854 | 4,059,667 | 6,322,521 | - |
| Net assets - ending of year | | | | | $ 3,109,787 | $ 3,801,344 | $ 6,911,131 | $ 1,949 |

(The accompanying notes are an integral part of these financial statements.)

CITY OF PEMBROKE
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2011

| | General | Special Sales Tax | Multiple Grant | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash | $ 459,908 | $ 213,967 | $ 10,137 | $ 1,643 | $ 685,655 |
| Receivables: | | | | | |
| Taxes | 31,815 | | | | 31,815 |
| Fines receivable | 193,893 | | | | 193,893 |
| Accounts receivable | 73,021 | 97,998 | | | 171,019 |
| Sanitation | 9,441 | | | | 9,441 |
| Due from other funds | 415,831 | | | | 415,831 |
| Restricted assets: | | | | | |
| Certificates of deposit | 158,111 | 200,000 | - | - | 358,111 |
| | $ 1,342,020 | $ 511,965 | $ 10,137 | $ 1,643 | $ 1,865,765 |
| LIABILITIES AND NET ASSETS | | | | | |
| Accounts payable | $ 65,999 | | $ 46,487 | | $ 112,486 |
| Due to other funds | - | | 67,932 | | 67,932 |
| Deferred revenue | 224,827 | $ 97,998 | - | - | 322,825 |
| TOTAL LIABILITIES | 290,826 | 97,998 | 114,419 | - | 503,243 |
| Fund balances: | | | | | |
| Unassigned | 1,051,194 | | | | 1,051,194 |
| Restricted - multiple grant | | | (104,282) | | (104,282) |
| Restricted - special sales tax | | 413,967 | | | 413,967 |
| Restricted - confiscated assets | - | - | - | $ 1,643 | 1,643 |
| TOTAL FUND BALANCES | 1,051,194 | 413,967 | (104,282) | 1,643 | 1,362,522 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 1,342,020 | $ 511,965 | $ 10,137 | $ 1,643 | |

| | |
|---|---|
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the funds. | 1,467,495 |
| Other long-term assets are not available to pay for the current period expenditures, and, therefore, are deferred in the funds. | 322,825 |
| Certain liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds. | (43,055) |
| Net assets of governmental activities | $ 3,109,787 |

(The accompanying notes are an integral part of these financial statements.)

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

| | General Fund | Special Sales Tax | Multiple Grant | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| REVENUES | | | | | |
| Taxes | $1,182,878 | | | | $ 1,182,878 |
| Licenses and permits | 31,537 | | | | 31,537 |
| Charges for services | 204,443 | | | | 204,443 |
| Fines and forfeitures | 435,914 | | | | 435,914 |
| Intergovernmental | | $ 572,278 | $ 69,572 | | 641,850 |
| Interest revenue | 6,888 | 610 | | $ 7 | 7,505 |
| Miscellaneous | 12,600 | - | - | 1,862 | 14,462 |
| Total | 1,874,260 | 572,888 | 69,572 | 1,869 | 2,518,589 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 154,596 | | | | 154,596 |
| Public safety | 763,529 | | | | 763,529 |
| Streets and sanitation | 519,905 | | 87,799 | | 607,704 |
| Health and welfare | 54,689 | | | | 54,689 |
| Recreation and culture | 100,541 | | | | 100,541 |
| Capital Outlay | | 203,412 | | | 203,412 |
| Debt Service: | | | | | |
| Principal | 32,486 | | | | 32,486 |
| Interest | 8,297 | 35,389 | - | - | 43,686 |
| Total | 1,634,043 | 238,801 | 87,799 | - | 1,960,643 |
| Excess revenues over expenditures | 240,217 | 334,087 | (18,227) | 1,869 | 557,946 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | 3,991 | | | | 3,991 |
| Transfers out | | | | (3,991) | (3,991) |
| Proceeds from capital lease | - | - | - | - | - |
| Total other financing sources and uses | 3,991 | - | - | (3,991) | - |
| Net change in fund balance | 244,208 | 334,087 | (18,227) | (2,122) | 557,946 |
| Fund balance - beginning of year | 806,986 | 79,880 | (86,055) | 3,765 | 804,576 |
| Fund balance - end of year | $1,051,194 | $ 413,967 | $(104,282) | $ 1,643 | $ 1,362,522 |

(The accompanying notes are an integral part of these financial statements.)

CITY OF PEMBROKE

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

| | | |
|---|---|---|
| Net changes in Fund Balance - Total Governmental Funds | $ | 557,946 |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. | | 165,631 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | 90,870 |
| Other financing sources (uses) are reported on the fund level but are reported as a liability on the government-wide financial statements. | | 32,486 |
| | $ | 846,933 |

(The accompanying notes are an integral part of these financial statements.)

CITY OF PEMBROKE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET (GAAP BASIS) AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2011

| | Budgeted Amounts | | | Variance with Final |
|---|---|---|---|---|
| | Original | Final | Actual | Budget |
| **REVENUES:** | | | | |
| Taxes | $ 1,108,065 | $ 1,108,065 | $ 1,182,878 | $ 74,813 |
| Licenses and permits | 33,900 | 33,100 | 31,537 | (1,563) |
| Charges for services | 231,775 | 242,575 | 204,443 | (38,132) |
| Fines and forfeitures | 173,400 | 173,400 | 435,914 | 262,514 |
| Interest revenue | 4,000 | 4,000 | 6,888 | 2,888 |
| Miscellaneous | 3,000 | 3,000 | 12,600 | 9,600 |
| Total revenues | 1,554,140 | 1,564,140 | 1,874,260 | 310,120 |
| **EXPENDITURES:** | | | | |
| General government | 202,900 | 206,900 | 154,596 | 52,304 |
| Public safety | 648,694 | 648,694 | 763,529 | (114,835) |
| Streets and sanitation | 552,325 | 552,325 | 519,905 | 32,420 |
| Health & welfare | 54,445 | 54,445 | 54,689 | (244) |
| Recreation & culture | 97,756 | 103,756 | 100,541 | 3,215 |
| Debt service – principal | | | 32,486 | (32,486) |
| Debt service – interest | | | 8,297 | (8,297) |
| Total expenditures | 1,556,120 | 1,566,120 | 1,634,043 | (67,923) |
| Excess revenues before other financing sources | (1,980) | (1,980) | 240,217 | 242,197 |
| **OTHER FINANCING SOURCES (USES):** | | | | |
| Proceeds from capital lease | | | | |
| Transfers in | | | 3,991 | 3,991 |
| Total | - | - | 3,991 | 3,991 |
| Net change in fund balance | $ (1,980) | $ - | 244,208 | $ 246,188 |
| Fund balance - beginning of year | | | 806,986 | |
| Fund balance - end of year | | | $ 1,051,194 | |

(The accompanying notes are an integral part of these financial statements.)

CITY OF PEMBROKE

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

DECEMBER 31, 2011

| | |
|---|---|
| **ASSETS** | |
| Cash | $ (87,585) |
| Receivables: | |
| Accounts receivable | 69,647 |
| Restricted assets: | |
| Cash | 259,548 |
| Certificates of deposit | 150,097 |
| Total current assets | 391,707 |
| | |
| Nondepreciable capital assets | 66,000 |
| Depreciable capital assets (net where applicable) | 8,187,105 |
| Total capital assets | 8,253,105 |
| | |
| Total Assets | $ 8,644,812 |
| | |
| **LIABILITIES AND NET ASSETS** | |
| Accounts payable | $ 2,140 |
| Interest payable | 5,323 |
| Due to other funds | 347,899 |
| Current portion of bond payables | 50,315 |
| Notes payable | 1,028,930 |
| Current portion of capital leases | 3,350 |
| Customer deposits | 132,952 |
| Total current liabilities | 1,570,909 |
| | |
| Capital leases | 1,613 |
| Bonds payable | 3,270,946 |
| | |
| Total liabilities | 4,843,468 |
| Net Assets: | |
| Invested in capital assets, net of related debt | 3,897,951 |
| Restricted for debt service | 409,645 |
| Unrestricted | (506,252) |
| | |
| Total Net Assets | $ 3,801,344 |

(The accompanying notes are an integral part of these financial statements.)

CITY OF PEMBROKE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NETASSETS

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2011

| | |
|---|---|
| **REVENUES:** | |
| Operating revenues: | |
| Water sales and sewer revenue | $ 906,489 |
| Other operating income | 35,797 |
| Total | 942,286 |
| **EXPENSES:** | |
| Operating expenses: | |
| Salaries | 257,173 |
| Payroll taxes | 18,505 |
| Depreciation | 276,289 |
| Legal | 1,959 |
| Utilities | 130,318 |
| Rent | 50,000 |
| Repair and maintenance | 35,222 |
| Insurance | 59,293 |
| Chemicals | 7,276 |
| Audit | 3,800 |
| Other operating expenses | 26,673 |
| Lab | 9,296 |
| Gas/Oil | 21,002 |
| Retirement | 16,665 |
| Telephone | 7,190 |
| Supplies | 48,062 |
| Equipment | 4,113 |
| Male prisoner expenses | 61,494 |
| Contracted expenses | 13,440 |
| Total | 1,047,770 |
| Operating loss | (105,484) |
| Nonoperating revenues (expenses): | |
| Interest income | 925 |
| Interest expense | (153,764) |
| Intergovernmental revenue | |
| Total | (152,839) |
| Transfers in | |
| Change in net assets | (258,323) |
| Net Assets – beginning of year | 4,059,667 |
| Net Assets – end of year | $ 3,801,344 |

(The accompanying notes are an integral part of these financial statements.)

CITY OF PEMBROKE

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2011

| | |
|---|---|
| Cash flows from operating activities: | |
| Cash received from providing services | $ 940,447 |
| Cash paid to suppliers | (517,067) |
| Cash paid to employees | (257,173) |
| Net cash provided by operating activities | 166,207 |
| Cash flows from capital and related financing activities: | |
| Purchase of equipment/land | - |
| Interest payments | (153,764) |
| Principal payments on bonds payable | (46,026) |
| Payments on notes payable | (11,746) |
| Borrowings from notes payable | - |
| Principal payments on capital leases | (14,342) |
| Operating subsidies and transfer | - |
| Intergovernmental revenue | - |
| Net cash used for capital and related financing activities | (225,878) |
| Cash flows from investment activities: | |
| Interest on investments | 925 |
| Net decrease in cash | (58,746) |
| Cash - beginning of year | 380,806 |
| Cash - end of year | $ 322,060 |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating loss | $ (105,484) |
| Adjustment to reconcile net loss to net cash provided by operating activities: | |
| Depreciation | 276,289 |
| Increase in accounts receivable | (1,839) |
| Decrease in accounts payable and deposits | (2,759) |
| Increase in due to other fund | - |
| Net cash provided by operating activities | $ 166,207 |

(The accompanying notes are an integral part of these financial statements.)

CITY OF PEMBROKE
STATEMENT OF NET ASSETS
COMPONENT UNIT
DECEMBER 31, 2011

| | Downtown Development Authority of the City of Pembroke |
|---|---|
| ASSETS | |
| Cash | $ 1,949 |
| Non-depreciable capital assets | - |
| TOTAL ASSETS | 1,949 |
| LIABILITIES | |
| Note payable | - |
| TOTAL LIABILITIES | - |
| NET ASSETS | |
| Invested in capital assets, net of related debt | |
| Unrestricted | 1,949 |
| TOTAL NET ASSETS | $ 1,949 |

CITY OF PEMBROKE
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2011

| | Downtown Development Authority of the City of Pembroke |
|---|---|
| OPERATING REVENUES: | |
| Revenue | $ 5,184 |
| Total operating revenues | $ 5,184 |
| OPERATING EXPENSES | |
| Other | 15,845 |
| Total operating expenses | 15,845 |
| OPERATING INCOME | (10,661) |
| NON-OPERATING REVENUES (EXPENSES) | |
| Intergovernmental | 12,610 |
| Interest income | |
| Proceeds from disposal of capital assets | |
| Other expense | - |
| Total non-operating revenue (expenses) | 12,610 |
| CHANGE IN NET ASSETS | 1,949 |
| NET ASSETS, DECEMBER 31, 2010 | - |
| NET ASSETS, DECEMBER 31, 2011 | $ 1,949 |

## NOTE 1 - THE REPORTING ENTITY

The City of Pembroke, Georgia (the City) operates under a corporate charter that was revised on February 21, 1951. During 2005, the City celebrated its Centennial anniversary of incorporation. The City's government is a Council/Mayor form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, culture and recreation, public improvements, cemetery, planning and zoning and general administration.

The City has implemented the Governmental Accounting Standards Board Statement 14, "The Financial Reporting Entity". Statement 14 applies at all levels to all state and local governments. The Statement applies to financial reporting by primary governments, governmental joint ventures, jointly governed organizations, and other stand-alone governments; and it applies to the separately issued financial statements of governmental component units. The financial reporting entity of (a) primary government, (b) organizations for which the primary government is financially accountable, and (c) primary organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, a joint venture, a jointly governed organization, or another stand alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements.

In conformity with GASB Statement 14 there is no component unit that meets the criteria for component units requiring discrete presentation in the primary government financial reporting entity.

## NOTE 2 - BASIS OF PRESENTATION

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the City). These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore, clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including taxes, are presented as general revenues.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise 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 this definition are reported on nonoperating revenues and expenses.

The City reports the following major governmental funds:

*General Fund* – The General Fund is the general operating fund of the City. It is used to account for all revenues and expenditures which are not accounted for in other funds.
*Special Sales Tax Fund* - The special sales tax fund accounts for the special purpose local option sales tax received from Bryan County to be spent for various capital projects.
*Multiple Grant Fund* – The multiple grant fund is a special revenue fund used to account for intergovernmental revenues that are legally restricted to expenditure for a specific purpose.
The City reports the following major enterprise fund:

*Water/Sewer Fund* – The Water/Sewer Fund is used to account for operation and maintenance of the City's water and sewer system.

Additionally, the City reports the following fund types:

The special revenue funds accounts for revenue sources that are legally restricted to expenditure for specific purpose.

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

## NOTE 3 - BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus.

Eliminations have not been made between funds.

### Governmental Funds

All governmental funds are accounted for using the modified accrual basis accounting. Under the modified accrual basis of accounting, revenues are generally recognized when they become measurable

and available as net current assets. Revenues which are susceptible to accrual include (1) property taxes, (2) garbage collection fees and (3) interest, franchise taxes, sales taxes and intergovernmental revenues when received after the end of the accounting period so as to be both measurable and available. Property tax revenues are considered measurable and available to the extent they are collected within the current period or collected sixty days after the end of the period. Property taxes not collected within sixty days after the end of the period are recorded as deferred revenues and recognized when collected.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid vacation, sick pay, and other employee benefits which are not accrued; (2) inventory type items which are expensed when purchased; and (3) principal and interest on general long-term debt which is recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. The flow of current financial resources measurement focus is used for all governmental funds.

Those revenues susceptible to accrual are property taxes, franchise taxes, licenses, interest revenue and charges for services. Sales taxes collected and held by the state at year-end on behalf of the City are recognized as revenue. Fines and permits are not susceptible to accrual because they generally are not measurable until received in cash.

Proprietary Funds

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Unbilled water and sewer utility service receivables are recorded at year end.

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Effective January 1, 2004 the City implemented the provisions of GASB No. 34, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments, GASB No. 37, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus, and amendment to GASB Statements No. 21 and No. 34, and GASB No. 38, Certain Financial Statement Disclosures. These statements significantly change the financial reporting model used by the City including statement formats, changes in fund types and the elimination of account groups. Additionally, the categories of fund equity for proprietary funds have been reclassified into categories of net assets.

GASB No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities and business type activities. Significantly, the statement of net assets will include noncurrent assets which were previously reported in the General Fixed Asset Account Group and long-term liabilities previously reported in the General Long-Term Debt Account Group. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets.

Like the government-wide financial statements, all proprietary fund types are accounted for on a flow of economic resources management focus on both financial reporting levels.

## NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Budgetary Data

1. Budgets are usually adopted for all governmental fund types. Prior to December 1, the Mayor submits to the Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Council holds a public hearing on the budget, giving notice thereof at least ten days in advance by publication in the official organ.
3. The budget is then revised and adopted or amended by the Council prior to December 31.
4. The budget so adopted may be revised during the year only by formal action of the Council in a regular meeting and no increase shall be made therein without provision also being made for financing same.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles.
6. Budgeted amounts are as originally adopted with one budget amendment before year end. All expenditures were approved by the City Council before funds were expended.
7. The level of control (level at which expenditures may not legally exceed the budget) is exercised by the Mayor and Council at the department level.

### Encumbrances

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

### Inventory

Inventory consists of expendable supplies held for consumption. The cost of these supplies on hand are considered immaterial to the balance sheets of the various funds and are not shown as assets of the funds nor is any portion of the fund balance reported as an expenditure when purchased.

### Receivables

Property taxes are considered fully collectible and therefore no provision for uncollectible taxes is provided. Accounts receivable of the Water and Sewer Fund are stated net of an allowance for doubtful accounts of $3,667.

### Compensated absences and other employee benefits

Accumulated unpaid vacation, sick pay and other fringe benefits are not accrued since the amounts do not exceed a normal year's accumulation. These expenses are recorded as incurred.

### Deposits and investments

The City's cash and cash equivalents consists of cash on hand and on deposit with financial institutions. For purposes of reporting cash on the statement of net assets, the City considers all unrestricted highly liquid investments with original maturities of three months or less from the date of acquisition to be cash equivalents.

All investments are reported at fair value, which is based on quoted market prices.

The City is authorized by Georgia statutes to invest in the following:

1. Deposit accounts with eligible depository institutions,
2. Obligations of the State of Georgia or of other states,
3. Obligations issued by the United States government,
4. Obligations fully insured or guaranteed by the United States government or a United States government agency,
5. Obligations of any corporation of the United States government,
6. Prime banker's acceptances,
7. The local government investment pool established by Georgia Code Section 36-83-8,
8. Repurchase agreements, and
9. Obligations of other political subdivisions of the State of Georgia

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair value on the date received. For infrastructure, the City only reported after the implementation of GASB No.34.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| Asset Class | Estimated Useful Lives |
|---|---|
| Buildings and infrastructure | 20 – 50 |
| Machinery and equipment | 3 – 15 |
| Water/Sewer System | 5 – 50 |

Deficits

The only fund to have a deficit fund balance as of December 31, 2011 was the multiple grant special revenue fund with a deficit balance of $43,055.

Interfund transactions

Interfund transactions are reflected as loans, are for services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when on fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

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

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
Restricted – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, ore externally imposed conditions by grantors or creditors.

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

Assigned – Amounts that are designated by the Mayor for the particular purpose but are not spendable until a budget ordinance is passes or there is a majority vote approval for capital projects by the City Council.

Unassigned – All amounts not included in other spendable classifications.

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 for the acquisition, construction, or improvements of those assets. This net amount is also adjusted by any bond issuance deferral amounts. Net assets 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. All other net assets are reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed and then assigned fund balances before using unassigned fund balances.

## NOTE 5 - DEPOSITS AND INVESTMENTS

At year end, the carrying amount of the City's deposits was $857,618 and the certificates of deposit carrying amount was $508,028 for a total carrying amount of $1,365,826. The financial institution balance was $902,215 and $508,028 for cash deposits and certificates of deposit respectively for a total financial institution balance of $1,410,243 which was entirely insured or collateralized with securities held by the pledging financial institution's agent in the City's name.

*Custodial credit risk* is the risk that in the event of a bank failure, the City's deposits may not be returned to the City. The Official Code of Georgia Annotated (OCGA) Section 45-8-12 provides that there shall not be on deposit at any time in any depository for a time longer than ten days a sum of money which has not been secured by a surety bond, by guarantee of insurance, or by collateral. The aggregate of the face value of such surety bond and the market value of securities pledged shall be equal to not less than 110% of the public funds being secured after the deduction of the amount of depository insurance. The city has no custodial credit risk policy that would require additional collateral requirements.

The carrying amount of the City's deposits and certificates of deposit are classified as follows on the statement of net assets:

| | |
|---|---|
| Cash and cash equivalents | $ 857,618 |
| Certificates of deposit | 508,028 |
| Total | $ 1,365,826 |

*Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. *Credit risk* is the risk that issuer or counterparty to an investment will not fulfill its obligations. State law governs the investment of retirement funds (OCGA 47-20-84) and limits investments to maximum concentrations by investment category (at cost). The City has no formal investment policy that would further limit its investment choices.

## NOTE 6 - LITIGATION AND COMMITMENTS

At December 31, 2011, the City had no pending litigation, unasserted claims, or commitments which would have a material effect on the financial condition of the City.

## NOTE 7 - STEWARDSHIP AND COMPLIANCE

The City participates in various federally and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. 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.

## NOTE 8 - PENSION REQUIREMENTS

The City participates in the Georgia Municipal Employees Benefit System (GMEBS). The Board of Trustees of GMEBS has adopted an actuarial funding policy for determination of annual contributions and the systematic funding of liabilities arising under the plan. The plan is an agent multiple-employer defined benefit pension plan. The minimum annual contribution is required under Public Retirement Systems Law (Georgia Code Section 47-20-10). The primary benefit of the plan is to fund retirement for participant employees. Benefits are fully vested after 5 years of service. Participants become eligible to retire at 65, with 5 years of participation in the Plan. Upon eligibility to retire, participants are entitled to an annual benefit in the amount of 2.0% of final average earnings up to a participant's amount of covered compensation, multiplied by the participant's years of total credited service. These benefit provisions and all other requirements are established and amended by local ordinance. The pension plan issues a stand-alone financial report.

The GMEBS issues a publicly available financial report that includes financial statements and supplementary information. The report may be obtained by writing to:

Georgia Municipal Association
201 Pryor Street, SW
Atlanta, Georgia 30303-3606

Trend information

| Year ending | Annual Pension Cost | % of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 12/31/09 | 46,749 | 100% | - |
| 12/31/10 | 47,658 | 100% | - |
| 12/31/11 | 40,227 | 100% | - |

Annual pension cost for the year ended December 31, 2011 was $40,227. The required contribution rate of the City is 10.43% of the employee's salary. The employees are not required to make contributions. July 1, 2011 is the actuarial valuation date. On this date there was no actuarial accrued liability. The pension plan issues a stand-alone financial report. Current year payroll totaled $ 815,069.

Significant Actuarial Assumptions

The significant actuarial assumptions used to compute the actuarial accrued liability are the same as those used to compute the actuarial determined contribution requirements of the plan.

The significant actuarial assumptions used in the current valuation are:

| | |
|---|---|
| Rate of return on investment | 7.75% per year |
| Projected salary increases for | |
| Inflation and merit | 3.5% per year |
| Post retirement benefit increases | Not applicable |

Effect of Plan Changes on the Actuarial Accrued Liability

The plan provisions valued and the actuarial assumptions are the same as those used in the preceding valuation.

Funding Policy and Annual Contributions

The funding policy for the plan is to contribute an amount equal to the recommended contribution in each year. These contributions are determined under the projected unit credit actuarial cost method. 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. The recommended contributions under this policy for 2011 are shown below:

| | |
|---|---|
| Normal cost | |
| Plan benefits | $ 49,481 |
| Recommended contribution | 71,432 |
| Covered payroll | 672,964 |
| Recommended contribution as a % | |
| of covered payroll | 10.43% |

Effect of Plan Changes on Contribution Requirements

The plan provisions valued and the actuarial assumptions and cost methods are the same as those used to determine the contribution requirement for the preceding year.

Current Plan Membership

As of July 1, 2011, the current plan membership includes the following categories of participants:

| | |
|---|---|
| Retirees and beneficiaries currently receiving benefits | 15 |
| Terminated employees entitled to benefits but not yet receiving them | 13 |
| Current active employees | |
| Vested | 19 |
| Nonvested | 11 |
| Total membership in the plan | 58 |

Historical Trend Information

The table below sets forth required supplementary information to be disclosed in the plan's financial statements. The items presented are based on the July 1, 2011 actuarial valuation:

| | |
|---|---|
| Market value of assets | $ 909,312 |
| Actuarial accrued liability | 1,063,902 |
| Percentage funded | 85.47% |
| Unfunded actuarial accrued liability (funding excess) | (154,590) |
| Annual covered payroll | 672,964 |
| Unfunded accrued liability as a percentage of covered payroll | 10.43% |

| Fiscal Year Starting July 1 | Actuarial Value of Assets | Actuarial Accrued Liability | % Funded | Unfunded Accrued Liability | Annual Covered Payroll | Actuarial Accrued Liability as a % of Covered Payroll | Annual Pension Costs |
|---|---|---|---|---|---|---|---|
| 2009 | 644,246 | 738,143 | 87.3% | 93,897 | 426,725 | 22.0% | $ 46,749 |
| 2010 | 858,665 | 915,252 | 93.8% | 56,587 | 632,045 | 8.95% | $ 47,658 |
| 2011 | 909,312 | 1,063,902 | 85.5% | 154,590 | 672,964 | 10.43% | $ 40,227 |

Asset Data

GMEBS has supplied all asset data used in the valuation. The market value of assets is based on current values as of two months preceding the valuation date and is assumed to be current through that date.

Participant Data

The primary source of participant data for the current valuation is a census of all participants which was prepared by the employer through GMEBS. The data are typically collected by the employer two months prior to valuation date and assumed to be current through that date. This pension plan issues a stand-alone report.

The amortization period for the unfunded actuarial liability is open.

Actuarial Assumptions and Methods

| | |
|---|---|
| Economic Assumptions | |
| Interest rate | 7.75% |
| Annual rates of increase in: | |
| Salaries | 3.5% |
| Cost of living adjustment | N/A |

Demographic Assumptions

| | |
|---|---|
| Mortality | RP-2000 Combined Mortality Table |
| Retirement | Employees: 65 with 5 years of service<br>Officials: 65 |
| Form of payment | Life annuity |
| Administrative expenses | $2,500 plus $45 per participant, plus .05% of the market value of assets. |

Actuarial Methods

| | |
|---|---|
| Normal Cost and Actuarial Accrued Liability | Projected Unit Credit |

| | |
|---|---|
| Actuarial Value of Assets | Sum of the actuarial value at the beginning of year and the cash flow during year plus the assumed investment return, adjusted by 10 percent of the amount that the value exceeds or is less that the market value at end of year. The actuarial value is adjusted, if necessary, to within 38% of market value for 2011. |

NOTE 9 - PROPERTY TAXES

Property taxes attach as an enforceable lien as of January 1. Taxes are typically billed in October and are due and payable within sixty days of the mailing date. Taxes were levied on November 1st and due by December 31, 2011. The millage rate for the year ended December 31, 2011 was 8.359. Property tax revenues are recognized when levied. Those property taxes not received within 60 days after the year end are recorded as deferred revenues.

NOTE 10 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

| | |
|---|---|
| Water and Sewer Fund | $(347,899) |
| Multiple Grant Fund | $ (67,932) |
| General Fund | $ 415,831 |

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The City expects to pay all interfund balances within one year.

**Interfund transfers:**

| Transfer out | Transfer in | Amount |
|---|---|---|
| Confiscated assets fund | General fund | $ 3,991 |
| Total | | $ 3,991 |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) move unrestricted general fund revenues to finance various programs that the City must account for in other funds in accordance with budgetary authorizations.

## NOTE 11 - CAPITAL ASSETS OF GENERAL FUND

| | Balance 12/31/10 | Additions | Deletions | Balance 12/31/11 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Construction in progress | 86,020 | $ 21,609 | 59,477 | $ 48,152 |
| Land | $ 111,497 | | - | 111,497 |
| Total nondepreciable capital assets | 197,517 | 21,609 | 59,477 | 159,649 |
| Other capital assets: | | | | |
| Building and infrastructure | 2,033,905 | 306,348 | | 2,340,253 |
| Machinery and equipment | 1,667,531 | 24,844 | - | 1,692,375 |
| Total other capital assets | 3,701,436 | 331,192 | - | 4,032,628 |
| Accumulated depreciation: | | | | |
| Building and infrastructure | 1,039,470 | 67,918 | | 1,107,388 |
| Machinery and equipment | 1,557,619 | 59,775 | - | 1,617,394 |
| Total accumulated depreciation | 2,597,089 | 127,693 | - | 2,724,782 |
| TOTAL | $ 1,301,864 | $ 225,108 | $ 59,477 | $ 1,467,495 |
| Depreciation expense: | | | | |
| General government | | $ 26,676 | | |
| Public safety | | 38,056 | | |
| Streets and sanitation | | 49,811 | | |
| Recreation and culture | | 13,150 | | |
| Total depreciation expense | | $ 127,693 | | |

## NOTE 12 - CAPITAL ASSETS OF PROPRIETARY FUND

| | Balance 12/31/10 | Additions | Deletions | Balance 12/31/11 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Construction in progress | $ - | $ | $ | $ - |
| Land | 66,000 | | | 66,000 |
| Total nondepreciable capital assets | 66,000 | | | 66,000 |
| Other capital assets: | | | | |
| Machinery and equipment | 781,883 | | | 781,883 |
| Water/Sewer system | 9,380,025 | | | 9,380,025 |
| Total other capital assets | 10,161,908 | | | 10,161,908 |
| Accumulated depreciation: | | | | |
| Machinery and equipment | 304,115 | 24,676 | | 328,791 |
| Water/Sewer system | 1,394,399 | 251,613 | | 1,646,012 |
| Total accumulated depreciation | 1,698,514 | 276,289 | | 1,974,803 |
| TOTAL | $ 8,529,394 | $ (276,289) | $ | $ 8,253,105 |

NOTE 13 - LONG-TERM DEBT:

| Governmental Activities | Balance December 31, 2010 | Additions | Reductions | Balance December 31, 2011 |
|---|---|---|---|---|
| Notes payable | | | | |
| Capital leases payable | 75,541 | $ | 32,486 | $ 43,055 |
| Total Governmental Activities | $ 75,541 | $ | $ 32,486 | $ 43,055 |
| Business-Type Activities | | | | |
| Capital leases payable | $ 19,305 | | $ 14,342 | $ 4,963 |
| Revenue bonds payable | 3,367,287 | | 46,026 | 3,321,261 |
| Notes payable | 1,040,676 | $ | 11,746 | 1,028,930 |
| Total Business-Type Activities | $ 4,427,268 | $ | $ 72,114 | $ 4,355,154 |

General long-term debt of governmental funds consisted of lease obligations on various equipment. Amounts due in one year for governmental activities include $26,999 on capital leases totaling $43,055.

Long-term debt of proprietary funds consisted of bonds payable, a note payable to a local financial institution and lease obligations on various equipment. The City also borrowed $1,046,959 as an advance on CDBG funds. The note is for one year with principal and interest due on December 31, 2011. The interest rate is 3.80%. The principal balance owed at December 31, 2011 was $1,028,930.

The City's long-term debt to maturity, including interest of $39,741 and principal of $1,028,930, is as follows:

| | |
|---|---|
| Year ending December 31, 2012 | $ 1,068,671 |

Amounts due in one year for business-type activities include $1,028,930 on notes payable and $3,350 on capital leases totaling $4,963.

Revenue bonds – proprietary funds

The resolutions under which the bond series were issued provide that principal and interest are to be paid solely from the revenues of the system, which are pledged for that purpose. The revenue bonds were issued for the construction and expansion of the water and sewer system. The bonds outstanding at year end are as follows:

| Purpose | Original Issue | Interest Rate | Bond payable |
|---|---|---|---|
| 2002 A bonds | $ 1,669,300 | 4.50% | $ 1,553,257 |
| 2002 B bonds | 1,900,000 | 4.50% | 1,768,004 |
| Total bonds | | | 3,321,261 |
| Less: current portion | | | 50,315 |
| Total long-term debt | | | $ 3,270,946 |

Revenue bonds debt service requirements to maturity are as follows:

| Year | Principal | Interest | Total |
|---|---|---|---|
| 2012 | 50,315 | 146,293 | 196,608 |
| 2013 | 52,627 | 143,981 | 196,608 |
| 2014 | 55,044 | 141,564 | 196,608 |
| 2015 | 57,573 | 139,035 | 196,608 |
| 2016 | 60,218 | 136,390 | 196,608 |
| 2017-2021 | 345,217 | 637,823 | 983,040 |
| 2022-2026 | 432,141 | 550,899 | 983,040 |
| 2027-2031 | 540,953 | 442,087 | 983,040 |
| 2032-2036 | 677,162 | 305,878 | 983,040 |
| 2037-2041 | 847,669 | 135,371 | 983,040 |
| 2042-2043 | 152,027 | - | 152,027 |
| TOTAL | $ 3,270,946 | $ 2,779,321 | $ 6,050,267 |

Capital leases- governmental funds

The City has entered into several lease agreements as lessee for vehicles, and equipment. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present values of the future minimum lease payments as of the date of their inceptions. These leases vary in remaining life from 1-5 years and have annual interest rates that range from 3.37% to 3.73%.

The equipment leased under capital leases as of December 31, 2011 consisted of the following:

| | |
|---|---|
| Vehicles | $ 80,322 |
| Equipment | - |
| Total | $ 80,322 |

The following is a schedule of future minimum lease payments under the capital leases:

| | |
|---|---|
| Year ending December 31, | |
| 2012 | $ 28,133 |
| 2013 | 16,386 |
| 2014 | |
| 2015 | - |
| 2016 | - |
| Total minimum lease payments | 44,519 |
| Less amounts interest | 1,465 |
| Present value of future minimum lease payments | $ 43,054 |

Capital leases- proprietary funds

The City has entered into several lease agreements as lessee for vehicles, and equipment. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present values of the future minimum lease payments as of the date of their inceptions. These leases vary in remaining life from 1-5 years and have annual interest rates of 3.73%.

The equipment leased under capital leases as of December 31, 2011 consisted of the following:

| | |
|---|---|
| Vehicles | $ 9,717 |
| Equipment | |
| Total | $ 9,717 |

The following is a schedule of future minimum lease payments under the capital leases:

| | |
|---|---|
| Year ending December 31, | |
| 2012 | $ 3,417 |
| 2013 | 1,808 |
| 2014 | - |
| 2015 | - |
| 2016 | - |
| Total minimum lease payments | 5,225 |
| Less amounts interest | 262 |
| Present value of future minimum lease payments | $ 4,963 |

NOTE 14 - EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2011, expenditures exceeded appropriations in public safety, health and welfare, debt service-principle and debt service-interest of the general fund by $114,835, $244, $32,486, and $8,297 respectively. These over expenditures were funded by greater than anticipated revenues in each fund.

## NOTE 15 - STATEMENT OF CASH FLOWS

As required by GASB statement No. 9, a statement of cash flows has been presented rather than a statement of changes in financial position for the proprietary fund. The amount of $380,806 is considered highly liquid.

## NOTE 16 - PREPAID ITEMS

There were no amounts recorded for prepaid items in the financial statements. Prepaid items are amounts that would benefit future periods; therefore, these amounts would not be recorded as expenditures in the appropriate funds.

## NOTE 17 - RISK MANAGEMENT

The government is exposed to various risks of losses related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Government has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Agency Property and Liability Insurance Fund and the Georgia Municipal Association Group Self-Insurance Workers Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for member local governments. As part of these risk pools, the Government is obligated to pay all contributions and assessments as prescribed by the pools, to cooperate with the pool's agents and attorneys, to follow loss reduction procedures established by the funds, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss. The Government is also to allow the pool's agents and attorneys to represent the Government in investigation, settlement discussions and all levels of litigation arising out of any claim made against the Government within the scope of loss protection furnished by the funds.
The Funds are to defend and protect the members of the funds against liability or loss as prescribed in the member government contract and in accordance with the worker's compensation law of Georgia. The funds are to pay all cost taxed against the members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense. Settled claims in the past three years have not exceeded the coverages.

## NOTE 18 - JOINT VENTURE

Under Georgia law, the City, in conjunction with other cities and counties in the nine counties and thirty cities, is a member of the Coastal Georgia Regional Commission (CRC) and is required to pay annual dues thereto. Membership in a CRC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the CRC in Georgia. The CRC Board membership includes the chief elected official of each city and municipality of the area. OCGA 50-8-391 provides that the member governments are liable for any debts or obligations of a CRC. Separate financial statements may be obtained from:

Coastal Georgia Regional Commission
127 F Street
Brunswick, Georgia 31520

CITY OF PEMBROKE

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2011

| | Confiscated Assets Fund | Total Governmental Funds |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 1,643 | $ 1,643 |
| | - | - |
| | $ 1,643 | $ 1,643 |
| **LIABILITIES AND FUND BALANCES** | | |
| Accounts payable | | |
| Due to other funds | | |
| Fund balance: | | |
| Unreserved | $ 1,643 | $ 1,643 |
| | $ 1,643 | $ 1,643 |

CITY OF PEMBROKE

COMBINING STATEMENT OF REVENUES, EXPENDITURES,

AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2011

| | Confiscated Assets Fund | Total Governmental Funds |
|---|---|---|
| **REVENUES:** | | |
| Intergovernmental | | |
| Special investigations | $ 1,862 | $ 1,862 |
| Interest revenue | 7 | 7 |
| Total | 1,869 | 1,869 |
| **EXPENDITURES:** | | |
| Public safety | - | - |
| Streets and sanitation | - | - |
| Capital outlay | - | - |
| Total | - | - |
| Excess revenues over expenditures | 1,869 | 1,869 |
| **OTHER FINANCING SOURCES (USES):** | | |
| Transfers in | | |
| Transfers out | (3,991) | (3,991) |
| Total | (3,991) | (3,991) |
| Fund balance - beginning of year | 3,765 | 3,765 |
| Fund balance - end of year | $ 1,643 | $ 1,643 |

CITY OF PEMBROKE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL – CONFISCATED ASSETS FUND

FOR THE YEAR ENDED DECEMBER 31, 2011

| | Budgeted Amounts | | | Variance with Final |
|---|---|---|---|---|
| | Original | Final | Actual | Budget |
| **REVENUES:** | | | | |
| Special investigations | $ 2,000 | $ 2,000 | $ 1,862 | $ (138) |
| Interest revenue | 25 | 25 | 7 | (18) |
| Total revenues | 2,025 | 2,025 | 1,869 | (156) |
| **EXPENDITURES:** | | | | |
| Public safety | 2,025 | 2,025 | - | 2,025 |
| Total expenditures | 2,025 | 2,025 | - | 2,025 |
| Excess revenues before other financing uses | - | - | 1,869 | 1,869 |
| Other financing uses: | | | | |
| Transfers out | - | - | (3,991) | (3,991) |
| Excess revenues over expenditures and other uses | $ - | $ - | (2,122) | $ (2,122) |
| Fund balance - beginning of year | | | 3,765 | |
| Fund balance - end of year | | | $ 1,643 | |

CITY OF PEMBROKE

SCHEDULE OF EXPENDITURES

SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS

FOR THE YEAR ENDED DECEMBER 31, 2011

| | Original Estimated Cost | Revised Estimated Cost | Expenditures | | |
|---|---|---|---|---|---|
| | | | Prior Years | Current Year | Total |
| **Project Description:** | | | | | |
| CDBG Project (2820) match on water and sewer system improvements | $ 475,315 | $ 475,315 | $ 475,315 | $ - | $ 475,315 |
| CDBG Project (3062) match on water and sewer system improvements | $ 775,000 | $ 1,168,350 | $ 1,132,961 | $ 35,389 | $1,168,350 |
| Municipal facilities | $ 535,000 | $ 1,310,728 | $ 1,108,047 | $ 202,681 | $1,310,728 |
| Total all Projects | $ 1,785,315 | $ 2,954,393 | $ 2,716,323 | $ 238,070 | $2,954,393 |

# HOLLAND, HENRY & BROMLEY, LLP

## Certified Public Accountants

J. Richard Henry, CPA
Christopher H. Holland, CPA, CFP®
S. Stewart Broomley, CPA, CFP®
Ronnie A. Barnhill, Jr., CPA
Shannon L. Brett, CPA, CFE

MEMBER:

American Institute of
Certified Public Accountants

Georgia Society of
Certified Public Accountants

South Carolina Accociation of
Certified Public Accountants

Private Companies Pracice
Section Firms Division of
American Institute of
Certified Public Accountants


**Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

Honorable Mayor and City Council
City of Pembroke
Pembroke, Georgia

We have audited the basic financial statements of the governmental activities, the business-type activities and each major fund and the remaining fund information of the City of Pembroke (the City) as of and for the year ended December 31, 2011 and have issued our report thereon dated June 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 Pembroke'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether that the City'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 of 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 disclose no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and federal awarding agencies and pass-through entities and is not intended to be used by anyone other than specified parties.

Holland, Henry + Bromley LLP

Holland, Henry, & Bromley, LLP
Savannah, Georgia
June 26, 2012