CITY OF PEMBROKE, GEORGIA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2012

CITY OF PEMBROKE

TABLE OF CONTENTS

DECEMBER 31, 2012

Pages

Report of Independent Accountants 1-2

Basic Financial Statements:

Government-wide Financial Statements

Statement of Net Position 3

Statement of Activities 4

Fund Financial Statements

Balance Sheet – Governmental Funds 5

Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds 6

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 7

Statement of Revenue, Expenditures, and Changes in Fund Balances – Budget (GAAP Basis) and Actual – General Fund 8

Statement of Net Position – Proprietary Funds 9

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds 10

Statement of Cash Flows – Proprietary Funds 11

Statement of Net Position – Component Unit 12

Statement of Revenues, Expenses, and Changes in Net Position – Component Unit 13

Notes to Financial Statements 14-30

Individual Fund Statements and Schedules:

Combining Balance Sheet – Non-major Governmental Funds 31

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-major Governmental Funds 32

Schedule of Revenue, Expenditures, and Changes in Fund Balances Budget and Actual – Confiscated Assets Fund 33

Schedule of Expenditures of Special Purpose Local Option Sales Tax Proceeds 34

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 35-36

HOLLAND, HENRY & BROMLEY, LLP

Certified Public Accountants

J. Richard Henry, CPA
Christopher H. Holland, CPA, CFP®
S. Stewart Bromley, 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 Association of Certified Public Accountants

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

Independent Auditors' Report

December 31, 2013

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pembroke, Georgia (the City) as of and for the year ended December 31, 2012, 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 or error.

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

Opinion

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2012, 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

Management has omitted Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying financial information listed as supplementary information including the combining and individual nonmajor fund financial statements and schedules of projects paid with special sales tax proceeds 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 of projects paid with special sales tax proceeds are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 31, 2013, on our consideration of the City'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. The report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

Holland, Henry & Bromley, LLP

Holland, Henry & Bromley, LLP
Savannah, Georgia

CITY OF PEMBROKE

STATEMENT OF NET POSITION

DECEMBER 31, 2012

	Primary Government			
	Governmental Type Activities	Business-type Activites	Total	Component Units
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 1,025,127	$ (118,703)	$ 906,424	$ 10,596
Receivables:				
Taxes	210,069		210,069	
Fines	88,313		88,313	
Accounts	22,671	71,540	94,211	
Sanitation	9,510		9,510	
Internal balances	467,725	(467,725)	-	
RESTRICTED ASSETS				
Cash and cash equivalents		262,486	262,486	
Certificates of deposit	360,016	150,097	510,113	
CAPITAL ASSETS				
Nondepreciable capital assets	437,332	66,000	503,332	
Depreciable capital assets, net	1,381,602	7,923,104	9,304,706	
Total assets	4,002,365	7,886,799	11,889,164	10,596
LIABILITIES AND FUND BALANCES				
CURRENT LIABILITIES				
Accounts payable	115,125	25,544	140,669	
Accrued interest payable		6,871	6,871	
Capital leases payable	39,374	1,685	41,059	
Notes payable		874,190	874,190	
Revenue bonds payable		55,044	55,044	
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS				
Customer deposits		130,782	130,782	
LONG-TERM LIABILITIES				
Capital leases payable (net of current portion)	15,373	-	15,373	
Revenue bonds payable (net of current portion)	-	3,218,077	3,218,077	
Total liabilities	169,872	4,312,193	4,482,065	-
NET POSITION				
Net investment in capital assets		3,840,108	3,840,108	-
Restricted for:				
Debt service		412,583	412,583	
Confiscated assets			-	
Special sales tax			-	
Multiple grant	-		-	
Unrestricted	3,832,493	(678,085)	3,154,408	10,596
Total net position	$ 3,832,493	$ 3,574,606	$ 7,407,099	$ 10,596

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

CITY OF PEMBROKE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2012

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 Position: Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units
Primary government								
Governmental Activities								
General government	$ 244,946	130,712		$ 529,708	$ 415,474		$ 415,474	
Public safety	779,693	332,302			(447,391)		(447,391)	
Streets and sanitation	575,287	118,576		82,049	(374,662)		(374,662)	
Health and welfare	54,981	21,176			(33,805)		(33,805)	
Recreation and culture	144,434	5,954			(138,480)		(138,480)	
Interest	2,654	-	-	-	(2,654)		(2,654)	
Total governmental activities	1,801,995	608,720	-	611,757	(581,518)	-	(581,518)	-
Business-type activities								
Water and sewer	1,229,173	937,592	-	-	-	$ (291,581)	$ (291,581)	
Total primary government	$ 3,031,168	$ 1,546,312	$ -	$ 611,757	$ (581,518)	$ (291,581)	$ (873,099)	$ -
Component Units								
Downtown Development Authority	$ 13,056	$ -						$ (13,056)
Total component units	$ 13,056	$ -						$ (13,056)
General revenues:								
Property taxes, levied for general purposes					$ 383,133		$ 383,133	
Intergovernmental revenue					532,813		532,813	
Franchise taxes					139,031		139,031	
Insurance premium tax					109,405		109,405	
Other taxes					90,062		90,062	
Interest earned					7,546	$ 1,063	8,609	
Payments from City							-	$ 16,279
Miscellaneous					106,014		106,014	5,424
Transfers					(63,780)	63,780	-	-
Total general revenue					1,304,224	64,843	1,369,067	21,703
Change in net position					722,706	(226,738)	495,968	8,647
Net position - beginning of year					3,109,787	3,801,344	6,911,131	1,949
Net position - ending of year					$ 3,832,493	$ 3,574,606	$ 7,407,099	$ 10,596

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

CITY OF PEMBROKE

BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2012

	General	Special Sales Tax	Multiple Grant	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	$ 407,689	$ 606,314	$ 10,137	$ 987	$ 1,025,127
Receivables:					
Taxes	122,888	87,181			210,069
Fines receivable	88,313				88,313
Accounts receivable	22,671				22,671
Sanitation	9,510				9,510
Due from other funds	731,290				731,290
Restricted assets:					
Certificates of deposit	158,111	201,905	-	-	360,016
	$ 1,540,472	$ 895,400	$ 10,137	$ 987	$ 2,446,996
LIABILITIES AND NET ASSETS					
Accounts payable	$ 96,032		$ 19,093		$ 115,125
Due to other funds	-		263,565		263,565
Deferred revenue	135,701	87,181	-	-	222,882
TOTAL LIABILITIES	231,733	87,181	282,658	-	601,572
Fund balances:					
Unassigned	1,308,739				1,308,739
Restricted - multiple grant			(272,521)		(272,521)
Restricted - special sales tax		808,219			808,219
Restricted - confiscated assets	-	-	-	$ 987	987
TOTAL FUND BALANCES	1,308,739	808,219	(272,521)	987	1,845,424
TOTAL LIABILITIES AND FUND BALANCES	$ 1,540,472	$ 895,400	$ 10,137	$ 987	

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.	1,818,934
Other long-term assets are not available to pay for the current period expenditures, and, therefore, are deferred in the funds.	222,882
Certain liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.	(54,747)
Net assets of governmental activities	$ 3,832,493

(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, 2012

	General Fund	Special Sales Tax	Multiple Grant	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$ 1,238,447				$ 1,238,447
Licenses and permits	37,516				37,516
Charges for services	212,338				212,338
Fines and forfeitures	463,989				463,989
Intergovernmental		$ 540,525	$ 82,049		622,574
Interest revenue	4,924	2,619		$ 3	7,546
Miscellaneous	105,616	-	-	398	106,014
Total	2,062,830	543,144	82,049	401	2,688,424
EXPENDITURES					
Current:					
General government	223,165	126		1,057	224,348
Public safety	835,278				835,278
Streets and sanitation	575,626		250,288		825,914
Health and welfare	54,981				54,981
Recreation and culture	125,273				125,273
Capital Outlay		84,986			84,986
Debt Service:					
Principal	49,255				49,255
Interest	2,654	-	-	-	2,654
Total	1,866,232	85,112	250,288	1,057	2,202,689
Excess revenues over expenditures	196,598	458,032	(168,239)	(656)	485,735
OTHER FINANCING SOURCES (USES)					
Transfers in					-
Transfers out		(63,780)			(63,780)
Proceeds from capital lease	60,947	-	-	-	60,947
Total other financing sources and uses	60,947	(63,780)	-	-	(2,833)
Net change in fund balance	257,545	394,252	(168,239)	(656)	482,902
Fund balance - beginning of year	1,051,194	413,967	(104,282)	1,643	1,362,522
Fund balance - end of year	$ 1,308,739	$ 808,219	$(272,521)	$ 987	$ 1,845,424

(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, 2012

Net changes in Fund Balance - Total Governmental Funds		$ 482,902
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.		
Depreciation expense	(108,691)	
Capital outlay	460,130	351,439
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(99,943)
This issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is net effect of these differences in the treatment of long-term debt and related items.		(11,692)
		$ 722,706

(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, 2012

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
REVENUES:				
Taxes	$ 1,181,677	$ 1,181,677	$ 1,238,447	$ 56,770
Licenses and permits	45,200	45,200	37,516	(7,684)
Charges for services	234,050	234,050	212,338	(21,712)
Fines and forfeitures	285,500	252,500	463,989	211,489
Interest revenue	5,800	5,800	4,924	(876)
Miscellaneous	1,233	1,233	105,616	104,383
Total revenues	1,753,460	1,720,460	2,062,830	342,370
EXPENDITURES:				
General government	222,976	178,334	223,165	(44,831)
Public safety	689,124	728,124	835,278	(107,154)
Streets and sanitation	633,694	633,694	575,626	58,068
Health & welfare	77,247	67,247	54,981	12,266
Recreation & culture	82,419	91,419	125,273	(33,854)
Debt service – principal	-	-	49,255	(49,255)
Debt service – interest	-	-	2,654	(2,654)
Total expenditures	1,705,460	1,698,818	1,866,232	(167,414)
Excess revenues before other financing sources	48,000	21,642	196,598	174,956
OTHER FINANCING SOURCES (USES):				
Proceeds from capital lease	-	-	60,947	60,947
Total	-	-	60,947	60,947
Net change in fund balance	$ 48,000	$ 21,642	257,545	$ 235,903
Fund balance - beginning of year			1,051,194	
Fund balance - end of year			$ 1,308,739	

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

CITY OF PEMBROKE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

ASSETS		
Cash	$	(118,703)
Receivables:		
Accounts receivable		71,540
Restricted assets:		
Cash		262,486
Certificates of deposit		150,097
Total current assets		365,420
Nondepreciable capital assets		66,000
Depreciable capital assets (net where applicable)		7,923,104
Total capital assets		7,989,104
Total Assets	$	8,354,524
LIABILITIES AND NET ASSETS		
Accounts payable		25,544
Interest payable		6,871
Due to other funds		467,725
Current portion of bond payables		55,044
Notes payable		874,190
Current portion of capital leases		1,685
Customer deposits		130,782
Total current liabilities		1,561,841
Capital leases		-
Bonds payable		3,218,077
Total liabilities		4,779,918
Net Position:		
Net investment in captial assets		3,840,108
Restricted for debt service		412,583
Unrestricted		(678,085)
Total Net Position	$	3,574,606

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

CITY OF PEMBROKE
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

REVENUES		
Operating revenues:		
Water sales and sewer revenue	$	881,687
Other operating income		55,905
Total		937,592
EXPENSES		
Operating expenses:		
Salaries		214,480
Payroll taxes		15,703
Depreciation		271,280
Legal		3,128
Utilities		154,487
Rent		50,000
Repair and maintenance		48,154
Insurance		52,628
Chemicals		7,047
Audit		4,000
Other operating expenses		39,865
Lab		4,965
Gas/Oil		24,206
Retirement		19,412
Telephone		5,738
Supplies		48,558
Equipment		4,583
Male prisoner expenses		56,711
Contracted expenses		19,259
Total		1,044,204
Operating gain		(106,612)
Nonoperating revenues (expenses):		
Interest income		1,063
Interest expense		(184,969)
Intergovernmental revenue		-
Total		(183,906)
Transfers in		63,780
Change in net position		(226,738)
Net Position - beginning of year		3,801,344
Net Position - end of year	$	3,574,606

(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, 2012

Cash flows from operating activities:	
Cash received from providing services	$ 935,699
Cash paid to suppliers	(415,836)
Cash paid to employees	(214,480)
Net cash provided by operating activities	305,383
Cash flows from capital and related financing activities:	
Purchase of equipment/land	(7,279)
Interest payments	(184,969)
Principal payments on bonds payable	(48,140)
Payments on notes payable	(154,740)
Borrowings from notes payable	-
Principal payments on capital leases	(3,278)
Operating subsidies and transfer	63,780
Intergovernmental revenue	-
Net cash used for capital and related financing activities	(334,626)
Cash flows from investment activities:	
Interest on investments	1,063
Net decrease in cash	(28,180)
Cash - beginning of year	322,060
Cash - end of year	293,880
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	(106,612)
Adjustment to reconcile net loss to net cash provided by operating activities:	
Depreciation	271,280
Increase in accounts receivable	(1,893)
Decrease in accounts payable and deposits	22,782
Increase in due to other fund	119,826
Net cash provided by operating activities	$ 305,383

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

CITY OF PEMBROKE
STATEMENT OF NET POSITION
COMPONENT UNIT
DECEMBER 31, 2012

	Downtown Development Authority of the City of Pembroke
ASSETS	
Cash	$ 10,596
Non-depreciable capital assets	-
TOTAL ASSETS	10,596
LIABILITIES	
Note payable	-
TOTAL LIABILITIES	-
NET POSITION	
Net investment in captial assets	
Unrestricted	10,596
TOTAL NET POSITION	$ 10,596

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

CITY OF PEMBROKE
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
COMPONENT UNIT
FOR THE YEAR ENDED DECEMBER 31, 2012

	Downtown Development Authority of the City of Pembroke
OPERATING REVENUES:	
Revenue	$ 5,424
Total operating revenues	5,424
OPERATING EXPENSES	
Other	13,056
Total operating expenses	13,056
OPERATING INCOME	(7,632)
NON-OPERATING REVENUES (EXPENSES)	
Intergovernmental	16,279
Interest income	
Proceeds from disposal of capital assets	
Other expense	-
Total non-operating revenue (expenses)	16,279
CHANGE IN NET POSITION	8,647
NET POSITION - BEGINNING OF YEAR	1,949
NET POSITION - END OF YEAR	$ 10,596

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

CITY OF PEMBROKE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

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.

The Downtown Development Authority of the City of Pembroke is a public corporation created to promote industry, trade, and economic growth in the City. The City appoints the members of the authority's board and assists in its funding. Separate financial statements are not prepared.

NOTE 2 - BASIS OF PRESENTATION

Government-wide Statements: The statement of net position 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 is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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.

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 position 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 $3,766.

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 position, 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, 2012 was the multiple grant special revenue fund with a deficit balance of $272,521.

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 a 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 position."

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 passed or there is a majority vote approval for capital projects by the City Council.

Unassigned – All amounts not included in other spendable classifications.

Net Position- Net position represents the difference between assets and liabilities. Net investment in capital assets, 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 position is 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 components of net position 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 $1,168,910 and the certificates of deposit carrying amount was $510,113 for a total carrying amount of $1,679,023. The financial institution balance was $1,192,683 and $512,192 for cash deposits and certificates of deposit respectively for a total financial institution balance of $1,704,875 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 position:

	2012
Cash and cash equivalents	$ 1,168,910
Certificates of deposit	510,113
Total	$ 1,679,023

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, 2012December 31, 2012, 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 Contributied	Net Pension Obligation
12/31/2010	47,658	100%	-
12/31/2011	40,277	100%	-
12/31/2012	46,205	100%	-

Annual pension cost for the year ended December 31, 2012 was $46,205. The required contribution rate of the City is 11.26% of the employee's salary. The employees are not required to make contributions. July 1, 2012 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 $824,148

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 2012 are shown below:

Normal cost	
Plan benefits	46,205
Recommended contribution	74,614
Covered payroll	651,187
Recommended contribution as a % of covered payroll	11.26%

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, 2012, the current plan membership includes the following categories of participants:

	2012
Retirees and beneficiaries currently receiving benefits	17
Terminated employees entitled to benefits but not yet receiving them	12
Current active employees	
Vested	16
Nonvested	14
Total membership in the plan	59

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, 2012 actuarial valuation:

		2012
Market value of assets	$	951,211
Actuarial accrued liability		1,104,798
Percentage funded		86.10%
Unfunded actuarial accrued liability		(153,587)
Annual covered payroll		651,187
Unfunded accrued liability as a percentage of covered payroll		11.26%

Fiscal Year Starting July 1	Actuarial Value of Assets	Acturarial Accrued Liability	% Funded	Unfunded Accrued Liability	Annual Covered Payroll	Actual Accrued Liability as a % of Covered Payroll	Annual Pension Costs
2010	858,665	915,252	93.80%	56,587	632,045	8.95%	47,658
2011	909,312	1,063,902	85.50%	154,590	672,964	22.97%	40,227
2012	951,211	1,104,798	86.10%	153,587	651,187	23.59%	46,205

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 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 32% of market value for 2012.

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, 2012. The millage rate for the year ended December 31, 2012 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

	2012
Water and Sewer Fund	$ (347,899)
Multiple Grant Fund	(263,565)
General Fund	611,464

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	2012
SPLOST fund	Water/Sewer fund	63,780
Total		$ 63,780

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 12/31/2011	Additions	Deletions	Balance 12/31/2012
Capital assets not being depreciated:				
Construction in progress	$ 48,152	$ 277,683	$ -	$ 325,835
Land	111,497	-	-	111,497
Total nondepreciable capital assets	159,649	277,683	-	437,332
Other capital assets:				
Building and infrastructure	2,340,253	84,986		2,425,239
Machinery and equipment	1,692,375	97,461	26,000	1,763,836
Total other capital assets	4,032,628	182,447	26,000	4,189,075
Accumulated depreciation:				
Building and infrastructure	1,107,388	54,009		1,161,397
Machinery and equipment	1,617,394	54,682	26,000	1,646,076
Total accumulated depreciation	2,724,782	108,691	26,000	2,807,473
TOTAL	$ 1,467,495	$ 351,439	$ -	$ 1,818,934

Depreciation expense:	
General government	$ 20,598
Public safety	34,597
Streets and sanitation	34,335
Recreation and culture	19,161
Total depreciation expense	$ 108,691

NOTE 12 - CAPITAL ASSETS OF PROPRIETARY FUND

	Balance 12/31/2011	Additions	Deletions	Balance 12/31/2012
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	7,279		789,162
Water/Sewer system	9,380,025	-	-	9,380,025
Total other capital assets	10,161,908	7,279	-	10,169,187
Accumulated depreciation:				
Machinery and equipment	328,791	23,708		352,499
Water/Sewer system	1,646,012	247,572	-	1,893,584
Total accumulated depreciation	1,974,803	271,280	-	2,246,083
TOTAL	$ 8,253,105	$ (264,001)	$ -	$ 7,989,104

NOTE 13 - LONG-TERM DEBT:

Governmental Activities	Balance 12/31/11	Additions	Reductions	Balance 12/31/12
Notes payable				
Capital leases payable	$ 43,055	$ 60,947	$ 49,255	$ 54,747
Total Governmental Activities	$ 43,055	$ 60,947	$ 49,255	$ 54,747
Business-Type Activities				
Capital leases payable	$ 4,963		$ 3,278	$ 1,685
Revenue bonds payable	3,321,261		48,140	3,273,121
Notes payable	1,028,930	874,190	1,028,930	874,190
Total Business-Type Activities	$ 4,355,154	$ 874,190	$ 1,080,348	$ 4,148,996

General long-term debt of governmental funds consisted of lease obligations on various pieces of equipment. Amounts due in one year for governmental activities include $39,374 on capital leases totaling $54,747.

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 $1,050,728 as an advance on CDBG funds. The note is for one year with principal and interest due on December 31, 2013. The interest rate is 3.80%. The principal balance owed at December 31, 2012 was $874,190.

Amounts due in one year for business-type activities include $874,190 on notes payable and $1,685 on capital leases totaling $875,875.

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%	$ 1,530,734
2002 B bonds	1,900,000	4.50%	1,742,387
Total bonds			3,273,121
Less: current portion			55,044
Total long-term debt			$ 3,218,077

Revenue bonds debt service requirements to maturity are as follows.

Year	Principal	Interest	Total
2013	55,044	143,981	199,025
2014	57,573	141,564	199,137
2015	60,218	139,035	199,253
2016	62,984	136,390	199,374
2017-2021	361,077	637,823	998,900
2022-2026	451,994	550,899	1,002,893
2027-2031	565,803	442,087	1,007,890
2032-2036	708,271	305,878	1,014,149
2037-2041	693,013	135,371	828,384
2042-2043	257,144	-	257,144
TOTAL	$ 3,273,121	$ 2,633,028	$ 5,906,149

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, 2012 consisted of the following:

Vehicles	$ 141,270
Equipment	-
Total	$ 141,270

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

Year ending December 31,	
2013	$ 40,068
2014	16,310
2015	-
2016	-
2017	
Total minimum lease payments	56,378
Less amounts interest	1,631
Present value of future minimum lease payments	$ 54,747

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, 2012 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,	
2013	$ 1,709
2014	-
2015	-
2016	-
2017	
Total minimum lease payments	1,709
Less amounts interest	24
Present value of future minimum lease payments	$ 1,685

NOTE 14 - EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2012, expenditures exceeded appropriations in general government, public safety, recreation and culture, debt service-principle and debt service-interest of the general fund by $44,831, $107,154, $33,854, $49,255, and $2,654 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 $293,880 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, 2012

	Confiscated Assets Fund	Total Governmental Funds
ASSETS		
Cash	$ 987	$ 987
	$ 987	$ 987
LIABILITIES AND FUND BALANCES		
Fund balance:		
Unreserved	$ 987	$ 987
	$ 987	$ 987

CITY OF PEMBROKE
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Confiscated Assets Fund	Governmental Funds
REVENUES:		
Intergovernmental		
Special investigations	$ 398	$ 398
Interest revenue	3	3
Total	401	401
EXPENDITURES:		
Public safety	1,057	1,057
Total	1,057	1,057
Excess revenues over expenditures	(656)	(656)
Fund balance - beginning of year	1,643	1,643
Fund balance - end of year	$ 987	$ 987

CITY OF PEMBROKE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONFISCATED ASSETS FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
Revenues:				
Special Investigations	$ 2,000	$ 2,000	$ 398	$ -
Interest revenue	25	25	3	-
Total revenues	2,025	2,025	401	-
Expenditures:				
Public safety	2,025	2,025	1,057	-
Total expenditures	2,025	2,025	1,057	-
Excess revenues before other financing uses	-	-	(656)	-
Other financing uses:				
Transfers out	-	-	-	-
Excess revenues over expenditures and other uses	$ -	$ -	(656)	$ -
Fund balance - beginning of year			1,643	
Fund balance - end of year			$ 987	

CITY OF PEMBROKE
SCHEDULE OF EXPENDITURES
SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS
FOR THE YEAR ENDED DECEMBER 31, 2012

			Expenditures		
Project Description:	Original Estimated Cost	Revised Estimated Cost	Prior Years	Current Year	Total
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	1,232,130	1,168,350	63,780	1,232,130
Municipal facilities	535,000	1,395,714	1,310,728	84,986	1,395,714
Total all Projects	$ 1,785,315	$ 3,103,159	$ 2,954,393	$ 148,766	$ 3,103,159

HOLLAND, HENRY & BROMLEY, LLP

Certified Public Accountants

J. Richard Henry, CPA
Christopher H. Holland, CPA, CFP®
S. Stewart Bromley, 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 Association of
Certified Public Accountants

Private Companies Practice
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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pembroke (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 31, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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, or 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. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Holland, Henry & Bromley, LLP

Holland, Henry & Bromley, LLP
Savannah, Georgia
December 31, 2013