CITY OF PEMBROKE, GEORGIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2014

TABLE OF CONTENTS

	Page
FINANCIAL SECTION	
Independent Auditor's Report	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	4
Statement of Activities	5
Fund Financial Statements:	
Balance Sheet - Governmental Funds	6
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	7
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	8
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	9
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	10
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Multiple Grant Fund	11
Statement of Net Position - Water and Sewer Fund	12
Statement of Revenues, Expenses and Changes in Fund Net Position - Water and Sewer Fund	13
Statement of Cash Flows - Water and Sewer Fund	14
Notes to the Financial Statements	15
Supplementary Information:	
Community Development Block Grant - Source and Application of Funds Schedule	36
Community Development Block Grant - Project Cost Schedule	37
Schedule of Projects Paid with Special Sales Tax Proceeds	38
Independent Auditor's 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*	39
SINGLE AUDIT SECTION	
Schedule of Expenditures of Federal Awards	41
Notes to Schedule of Expenditures of Federal Awards	42
Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	43
Schedule of Findings and Questioned Costs	45

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Pembroke, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund, of the City of Pembroke, Georgia as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Pembroke'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.

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, the aggregate discretely presented component unit, and each major fund of the City of Pembroke, Georgia, as of December 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and Multiple Grant Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented 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 the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pembroke, Georgia's basic financial statements. The Community Development Block Grant schedules and schedule of projects paid with SPLOST proceeds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2015 on our consideration of the City of Pembroke, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pembroke, Georgia's internal control over financial reporting and compliance.

Thigpen, Lanier, Waterfield & Deal

Statesboro, Georgia
July 31, 2015

CITY OF PEMBROKE, GEORGIA
STATEMENT OF NET POSITION
DECEMBER 31, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 2,094,546	$ (201,656)	$ 1,892,890	$ 15,826
Restricted cash and cash equivalents	-	275,167	275,167	-
Certificates of deposit	98,237	-	98,237	-
Receivables:				
Taxes	264,516	-	264,516	-
Accounts	25,205	69,119	94,324	-
Intergovernmental	132,052	84,616	216,668	-
Internal balances	457,998	(457,998)	-	-
Prepaid insurance	11,066	4,972	16,038	-
Total Current Assets	3,083,620	(225,780)	2,857,840	15,826
Noncurrent Assets:				
Restricted assets - Certificate of deposit	204,750	151,851	356,601	-
Capital assets:				
Nondepreciable capital assets	254,205	27,288	281,493	-
Depreciable capital assets, net	1,991,491	9,337,500	11,328,991	-
Total Capital Assets	2,245,696	9,364,788	11,610,484	-
Total Noncurrent Assets	2,450,446	9,516,639	11,967,085	-
Total Assets	5,534,066	9,290,859	14,824,925	15,826
LIABILITIES				
Current Liabilities:				
Accounts payable	52,672	31,949	84,621	-
Accrued payroll	29,112	9,453	38,565	-
Accrued interest payable	-	5,650	5,650	-
Compensated absences payable	3,005	1,951	4,956	-
Customer deposits	-	61,690	61,690	-
Unearned revenue	30,348	-	30,348	-
Notes payable	14,467	674,065	688,532	-
Capital leases payable	-	16,496	16,496	-
Revenue bonds payable	-	65,601	65,601	-
Total Current Liabilities	129,604	866,855	996,459	-
Long-Term Liabilities:				
Compensated absences payable (net of current portion)	12,021	7,802	19,823	-
Notes payable	34,166	-	34,166	-
Revenue bonds payable (net of current portion)	-	3,791,154	3,791,154	-
Total Long-Term Liabilities	46,187	3,798,956	3,845,143	-
Total Liabilities	175,791	4,665,811	4,841,602	-
NET POSITION				
Net investment in capital assets	2,197,063	4,817,472	7,014,535	-
Restricted for:				
Capital projects	1,246,477	-	1,246,477	-
Public safety	68,977	-	68,977	-
Debt service	204,741	318,782	523,523	-
Unrestricted	1,641,017	(511,206)	1,129,811	15,826
Total Net Position	$ 5,358,275	$ 4,625,048	$ 9,983,323	$ 15,826

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

Program/Function	Expenses	Program Revenues: Fees, Fines, and Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Unit
Primary Government								
Governmental Activities:								
General government	$ 205,979	$ 38,896	-	-	$ (167,083)	-	$ (167,083)	-
Municipal court	35,738	-	-	-	(35,738)	-	(35,738)	-
Public safety	738,475	102,201	$ 25,700	$ 124,583	(485,991)	-	(485,991)	-
Streets and sanitation	684,041	142,689	-	545,543	4,191	-	4,191	-
Recreation and culture	104,072	14,227	-	-	(89,845)	-	(89,845)	-
Housing and development	79,755	845	-	-	(78,910)	-	(78,910)	-
Health and welfare	4,279	-	7,567	-	3,288	-	3,288	-
Interest	2,107	-	-	-	(2,107)	-	(2,107)	-
Total Governmental Activites	1,854,446	298,858	33,267	670,126	(852,195)	-	(852,195)	-
Business-Type Activities:								
Water Fund	1,189,144	1,056,941	-	977,107	-	$ 844,904	844,904	-
Total - Primary Government	$ 3,043,590	$ 1,355,799	$ 33,267	$ 1,647,233	(852,195)	844,904	(7,291)	-
Component Unit								
Downtown Development Authority	$ 16,979	$ -	$ 28,160	$ -	-	-	-	$ 11,181
		General Revenues						
		Property taxes levied for:						
		General purposes			547,541	-	547,541	-
		Sales taxes			547,290	-	547,290	-
		Insurance premium tax			118,710	-	118,710	-
		Franchise taxes			140,456	-	140,456	-
		Other taxes			58,391	-	58,391	-
		Interest earned			4,012	1,058	5,070	-
		Gain on sale of capital assets			4,457	1,850	6,307	-
		Miscellaneous			75,386	-	75,386	-
		Total General Revenues			1,496,243	2,908	1,499,151	-
		Transfers			(196,433)	196,433	-	-
		Total General Revenues and Transfers			1,299,810	199,341	1,499,151	-
		Change in Net Position			447,615	1,044,245	1,491,860	11,181
		Net Position Beginning of Year, As Restated			4,910,660	3,580,803	8,491,463	4,645
		Net Position End of Year			$ 5,358,275	$ 4,625,048	$ 9,983,323	$ 15,826

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	General	SPLOST	Multiple Grant	Total Governmental Funds
ASSETS				
Cash	$ 852,678	$ 1,211,520	$ 30,348	$ 2,094,546
Certificates of deposit	98,237	-	-	98,237
Receivables:				
Taxes	264,516	-	-	264,516
Accounts	25,205	-	-	25,205
Intergovernmental	37,559	94,493	-	132,052
Prepaid insurance	11,066	-	-	11,066
Due from other funds	517,543	14,444	-	531,987
Restricted assets:				
Certificates of deposit	-	204,750	-	204,750
TOTAL ASSETS	$ 1,806,804	$ 1,525,207	$ 30,348	$ 3,362,359
LIABILITIES				
Accounts payable	$ 52,672	-	-	$ 52,672
Accrued payroll liabilities	29,112	-	-	29,112
Due to other funds	-	$ 73,989	-	73,989
Unearned revenue	-	-	$ 30,348	30,348
TOTAL LIABILITIES	81,784	73,989	30,348	186,121
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	32,136	-	-	32,136
FUND BALANCES				
Nonspendable	11,066	-	-	11,066
Restricted for:				
Capital projects	-	1,246,477	-	1,246,477
Public safety	68,977	-	-	68,977
Debt service	-	204,741	-	204,741
Unassigned	1,612,841	-	-	1,612,841
TOTAL FUND BALANCES	1,692,884	1,451,218	-	3,144,102
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 1,806,804	$ 1,525,207	$ 30,348	$ 3,362,359

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2014

Amounts reported for governmental activities in the statement of net position are different because:		
Total Governmental Fund Balances		$ 3,144,102
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Cost	$ 4,529,524	
Less accumulated depreciation	(2,283,828)	2,245,696
Other long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenue in the funds:		
Property taxes		32,136
Liabilities, including notes payable, capital leases payable, and compensated absences are not due and payable in the current period and therefore are not reported in the funds but are reported on the statement of net position:		
Notes payable	(48,633)	
Compensated absences	(15,026)	(63,659)
Net Position Of Governmental Activities		$ 5,358,275

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	General	SPLOST	Multiple Grant	Total Governmental Funds
REVENUES				
Taxes	$ 1,417,932	-	-	$ 1,417,932
Licenses and permits	39,421	-	-	39,421
Intergovernmental	25,700	$ 574,581	$ 101,102	701,383
Charges for services	183,804	-	-	183,804
Fines and forfeitures	177,116	-	-	177,116
Interest	4,012	2,010	-	6,022
Other	80,036	-	-	80,036
Total revenues	1,928,021	576,591	101,102	2,605,714
EXPENDITURES				
Current:				
General government	229,463	-	-	229,463
Municipal court	35,738	-	-	35,738
Public safety	712,532	-	-	712,532
Streets and sanitation	626,704	-	-	626,704
Recreation and culture	94,252	-	3,991	98,243
Housing and development	79,755	-	-	79,755
Health and welfare	-	-	4,279	4,279
Capital outlay:				
Public safety	-	124,583	-	124,583
Streets and sanitation	-	122,428	129,429	251,857
Debt service:				
Principal	29,984	-	-	29,984
Interest	2,107	-	-	2,107
Total expenditures	1,810,535	247,011	137,699	2,195,245
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	117,486	329,580	(36,597)	410,469
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	6,226	-	-	6,226
Transfers in	-	-	110,572	110,572
Transfers out	(123,939)	(183,066)	-	(307,005)
Total other financing sources (uses)	(117,713)	(183,066)	110,572	(190,207)
NET CHANGE IN FUND BALANCES	(227)	146,514	73,975	220,262
FUND BALANCES, JANUARY 1, 2014, AS RESTATED	1,693,111	1,304,704	(73,975)	2,923,840
FUND BALANCES, DECEMBER 31, 2014	$ 1,692,884	$ 1,451,218	$ -	$ 3,144,102

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2014

Amounts reported for governmental activities in the statement of activities are different because:

Net Changes In Fund Balances - Total Governmental Funds			$ 220,262
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. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period.			
	Depreciation expense	$ (141,314)	
	Capital outlay	454,773	313,459
Governmental funds do not report the cost of disposed capital assets but the cost is reported on the statement of activities.			(1,769)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.			(111,677)
Repayment of notes payable and capital leases principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.			29,984
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			
	Compensated absences payable:		
	Liability @ 12/31/14	(15,026)	
	Liability @ 12/31/13	12,382	(2,644)
Change In Net Position of Governmental Activities			$ 447,615

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Taxes	$ 1,223,613	$ 1,223,613	$ 1,417,932	$ 194,319
Licenses and permits	38,375	38,375	39,421	1,046
Intergovernmental	-	24,500	25,700	1,200
Charges for services	195,180	195,180	183,804	(11,376)
Fines and forfeitures	285,500	285,500	177,116	(108,384)
Interest income	5,000	5,000	4,012	(988)
Miscellaneous	56,000	113,505	80,036	(33,469)
Total revenues	1,803,668	1,885,673	1,928,021	42,348
EXPENDITURES				
Current:				
General government	189,638	247,143	229,463	17,680
Municipal court	46,805	46,805	35,738	11,067
Public safety	695,220	719,720	712,532	7,188
Streets and sanitation	692,150	684,150	626,704	57,446
Recreation and culture	81,595	81,595	94,252	(12,657)
Housing and development	73,470	81,470	79,755	1,715
Debt service:				
Principal	19,780	19,780	29,984	(10,204)
Interest	25,010	25,010	2,107	22,903
Total expenditures	1,823,668	1,905,673	1,810,535	95,138
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(20,000)	(20,000)	117,486	137,486
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	20,000	20,000	6,226	(13,774)
Transfers out	-	-	(123,939)	(123,939)
Total other financing sources (uses)	20,000	20,000	(117,713)	(137,713)
NET CHANGE IN FUND BALANCE	-	-	(227)	$ (227)
FUND BALANCE, JANUARY 1, 2014, AS RESTATED	1,693,111	1,693,111	1,693,111	
FUND BALANCE, DECEMBER 31, 2014	$ 1,693,111	$ 1,693,111	$ 1,692,884	

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA
MULTIPLE GRANT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Intergovernmental	$ -	$ 6,500	$ 101,102	$ 101,102
EXPENDITURES				
Current:				
Recreation and culture	-	-	3,991	(3,991)
Health and welfare	-	6,500	4,279	(4,279)
Capital outlay:				
Streets and sanitation	-	-	129,429	(129,429)
Total expenditures	-	6,500	137,699	(137,699)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	(36,597)	(36,597)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	110,572	110,572
NET CHANGE IN FUND BALANCE	-	-	73,975	73,975
FUND BALANCES, BEGINNING OF YEAR	(73,975)	(73,975)	(73,975)	-
FUND BALANCES, END OF YEAR	$ (73,975)	$ (73,975)	$ -	$ 73,975

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA
STATEMENT OF NET POSITION
WATER AND SEWER FUND
DECEMBER 31, 2014

ASSETS	
Current Assets	
Cash and cash equivalents	$ (201,656)
Restricted cash and cash equivalents	275,167
Accounts receivable	69,119
Intergovernmental receivable	84,616
Prepaid insurance	4,972
Total Current Assets	232,218
Noncurrent Assets	
Restricted Assets - Certificates of deposit	151,851
Capital Assets	
Water and sewer system	11,900,548
Machinery and equipment	308,892
Construction in progress	27,288
Less accumulated depreciation	(2,871,940)
Total Capital Assets	9,364,788
Total Noncurrent Assets	9,516,639
Total Assets	9,748,857
LIABILITIES	
Current Liabilities	
Accounts payable	31,949
Accrued payroll	9,453
Compensated absences payable	1,951
Due to other funds	457,998
Customer deposits	61,690
Accrued interest payable	5,650
Notes payable	674,065
Revenue bonds payable	65,601
Capital leases payable	16,496
Total Current Liabilities	1,324,853
Long-term Liabilites	
Compensated absences payable (net of current portion)	7,802
Revenue bonds payable (net of current portion)	3,791,154
Total Liabilites	5,123,809
NET POSITION	
Net investment in capital assets	4,817,472
Restricted for debt service	318,782
Unrestricted	(511,206)
Total Net Position	$ 4,625,048

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

WATER AND SEWER FUND

FOR THE YEAR ENDED DECEMBER 31, 2014

OPERATING REVENUES	
Water and sewer sales	$ 963,422
Other	93,519
Total operating revenues	1,056,941
OPERATING EXPENSES	
Salaries	223,640
Payroll taxes	15,672
Retirement	18,876
Depreciation	267,329
Professional fees	4,741
Utilities	145,101
Rent	50,000
Repair and maintenance	21,055
Insurance	57,174
Chemicals	9,240
Postage	6,789
Lab	6,896
Fuel	13,386
Telephone	6,078
Supplies	39,613
Small equipment	7,415
Prison detail	50,521
Contracted services	35,556
Other	20,869
Total operating expenses	999,951
OPERATING INCOME	56,990
NONOPERATING REVENUE (EXPENSE)	
Interest income	1,058
Interest expense	(189,193)
Intergovernmental revenue	977,107
Gain on sale of capital assets	1,850
Total nonoperating revenue (expense)	790,822
INCOME BEFORE TRANSFERS	847,812
TRANSFERS IN	196,433
CHANGE IN NET POSITION	1,044,245
NET POSITION, BEGINNING OF YEAR	3,580,803
NET POSITION, END OF YEAR	$ 4,625,048

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA
STATEMENT OF CASH FLOWS
WATER AND SEWER FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 1,045,874
Cash payments for employees	(247,217)
Cash payments for goods and services	(485,063)
Net cash provided by operating activities	313,594
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Advances from (to) other funds	6,537
Transfers in from general fund	13,367
Net cash provided by noncapital financing activities	19,904
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from sale of capital assets	1,850
Additions to capital assets	(1,097,704)
Capital grants	892,491
Transfers in from SPLOST fund	183,066
Principal payments on long term debt	(180,455)
Interest payments	(196,439)
Net cash used by capital and related financing activities	(397,191)
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in certificates of deposit	(610)
Interest received	1,058
Net cash provided by investing activities	448
NET DECREASE IN CASH AND CASH EQUIVALENTS	(63,245)
CASH AND CASH EQUIVALENTS, JANUARY 1, 2014	136,756
CASH AND CASH EQUIVALENTS, DECEMBER 31, 2014	$ 73,511
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 56,990
Adjustments:	
Depreciation	267,329
(Increase) decrease in operating assets:	
Accounts receivable	12,243
Prepaid insurance	(4,972)
Increase (decrease) in operating liabilities:	
Accounts payable	(5,657)
Accrued payroll	9,453
Customer deposits	(23,310)
Compensated absences payable	1,518
Net cash provided by operating activities	$ 313,594

See accompanying notes to the basic financial statements.

The City of Pembroke was chartered by an act of the General Assembly of the State of Georgia. The City operates under a Council/Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, culture and recreation, planning and zoning, and general administrative services. In addition, the City operates a water and sewer system.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting. The City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, in its government-wide and proprietary fund financial statements, provided they do not conflict with or contradict GASB pronouncements.

The most significant of the City's accounting policies are described below.

1-A. Reporting Entity

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organizations; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units also may include organizations that are fiscally dependent on the City in that the City approves the budget, levies their taxes or issues their debt.

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

1-B. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Financial Statements – The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes, grants and the City's general revenues, from business-type activities, generally financed in whole or part with service charges to external customers.

The statement of net position presents the financial position of the governmental and business-type activities of the City.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and for each identifiable activity of the business-type activities of the City. Direct expenses are those that are specifically associated with a function and therefore clearly identifiable to that particular function. The City does not allocate indirect expenses to functions in the statement of activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. For identifying to which function program revenue pertains, the determining factor for *charges for services* is which function *generates* the revenue. For *grants and contributions*, the determining factor is to which function the revenues are *restricted*.

Other revenue sources not properly included with program revenues are reported as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Fund financial statements are provided for governmental and proprietary funds.

Major individual governmental funds are reported in separate columns.

Fund Accounting – The City uses funds to maintain its financial records during the year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The City uses two categories of funds: governmental and proprietary.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between governmental fund assets and liabilities as fund balance. The following are the City's major governmental funds:

General Fund – The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund's fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of the State of Georgia.

SPLOST Fund – This capital projects fund accounts for the special purpose local option sales tax collected to be used for various capital improvements within the City.

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.

Proprietary Funds – Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. The proprietary funds are classified as enterprise funds and internal service funds. The City's only major enterprise fund is the water and sewer fund which accounts for the water and sewer provided to the City's constituents.

1-C. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net position. The statement of activities reports revenues and expenses.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus on both financial reporting levels. All assets and all liabilities associated with the operation of these funds are included on the statements of net position. The statements of changes in fund net position present increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1-D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, the governmental funds use the modified accrual basis in accounting. Proprietary funds use the accrual basis of accounting at both reporting levels. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, the phrase "available for exchange transactions" means expected to be received within 60 days of year-end.

Revenues – Non-exchange Transactions – Non-exchange transactions in which the City receives value without directly giving equal value in return, include sales taxes, property taxes, grants and donations. On an accrual basis, revenue from sales taxes is recognized in the period in which the taxable sale takes place. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions also must be available (i.e., collected within 60 days) before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: property taxes, sales taxes, interest and federal and state grants.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

1-E. Assets, Liabilities, Deferred Inflows of Resources, and Net Position

Cash, Cash Equivalents, and Investments

Cash and cash equivalents include amounts in demand deposits and short-term investments with an original maturity date within three months of the date acquired by the City.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments are stated at fair value based on quoted market prices.

Georgia law authorizes the City to invest in the following type of obligations:

- Obligations of the State of Georgia or of any other states
- Obligations of the United States Government
- Obligations fully insured or guaranteed by the United States Government or United States Government agency
- Obligations of any corporation of the United States Government
- Prime bankers' acceptances
- The State of Georgia local government investment pool (i.e., Georgia Fund I)
- Repurchase agreements
- Obligations of the other political subdivisions of the State of Georgia

Receivables

All trade and property tax receivables are reported net of an allowance for uncollectible, where applicable.

Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds." These amounts are eliminated in the governmental and business-type activities columns on the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances on this statement. These amounts are ultimately eliminated from the total column on the statement of net position.

Consumable Inventories

On the government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used (i.e., the consumption method).

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2014, are recorded as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. At the fund reporting level, an equal amount of fund balance is reported as nonexpendable as this amount is not available for general appropriation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

Restricted assets represent amounts set aside to meet the requirements of applicable covenants of the water and sewer revenue bonds.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column of the government-wide statement of net position but does not report these assets in the City fund financial statements. Capital assets utilized by the proprietary fund are reported in the business-type activities column of the government-wide statement of net position and in the proprietary fund's statement of net position.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars. The City's infrastructure consists of roads, bridges and water lines. For roads and bridges, the City will only capitalize infrastructure constructed after June 30, 2003. Improvements to capital assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed.

Interest incurred during the construction of capital assets utilized by the enterprise fund is capitalized.

All reported capital assets are depreciated except for land, right-of-ways and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	7-40 years
Machinery and equipment	3-10 years
Infrastructure	10-40 years
Water and sewer system	15-40 years

At the inception of capital leases at the governmental fund reporting level, expenditures and an "other financing source" of an equal amount are reported at the net present value of future minimum lease payments.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for the deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City does not have any deferred outflows of resources as of December 31, 2014.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

All compensated absence liabilities include salary-related payments, where applicable.

The total compensated absence liability is reported on the government-wide financial statements. The proprietary fund reports the total compensated liability at the fund reporting level. Governmental funds report the compensated absence liability at the fund reporting level only "*when due.*"

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of those funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year. Capital leases are recognized as a liability in the governmental fund financial statements when due.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Premiums, Discounts and Issuance Costs

On the government-wide statement of net position and the proprietary fund type statement of net position, bond premiums and discounts are netted against bonds payable. On the government-wide and proprietary fund type statement of activities, bond premiums and discounts are amortized over the life of the bonds using the effective interest method and bond issuance costs are expensed in the current period.

At the governmental fund reporting level, bond premiums and discounts are reported as other financing sources and uses, separately from the face amount of the bonds issued. Bond issuance costs are reported as debt service expenditures.

Fund Equity

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

Fund Balance – Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

Nonspendable – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

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

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

Assigned – Fund balances are reported as assigned when amounts are constrained by the City Council's intent to be used for specific purposes, but are neither restricted nor committed. Only the City Council is authorized to assign fund balance by resolution.

Unassigned – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Flow Assumptions - The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

Net Position – Net position represents the difference between the 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 improvement of those assets. Net position is reported as restricted when there are limitations imposed on its 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 position is reported as unrestricted.

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the City, these revenues are charges for services for water and sewer. Operating expenses are necessary costs incurred to provide the water and sewer services and includes administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after the non-operating revenues/expenses section in proprietary funds. Repayment from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements (i.e., they are netted).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfers between governmental and business-type activities on the government-wide statement of activities are reported as general revenues. Transfers between funds reported in the governmental activities column are eliminated. Transfers between governmental and business-type activities are eliminated from the total column.

Estimates

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The City adopts an annual operating budget for the general fund and each special revenue fund. The budget resolution reflects the total of each department's appropriation in each fund.

All budgets are adopted on a basis consistent with GAAP.

The legal level of control (the level at which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the department level within each individual fund. Any change in total to a fund or departmental appropriation within a fund requires approval of the City Council.

All unexpended annual appropriations lapse at year-end.

Excess of Expenditures over Appropriations

For the year ended December 31, 2014, expenditures exceeded appropriations for the following departments within the general fund:

	Overexpenditures
Recreation and culture	$ 12,657
Debt service - principal	10,204

The over expenditure in these areas were funded by under expenditures in other areas.

Expenditures exceeded appropriations for the Multiple Grant special revenue fund by $137,699 and were funded by excess revenues over amounts budgeted and by transfers from the general fund.

NOTE 3 – DEPOSITS

At December 31, 2014, the carrying amount of the City's deposits (checking and certificates of deposit) was $2,622,895 and the bank balance was $1,924,440. Of the bank balance, $250,000 was covered by federal depository insurance and $1,674,440 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

NOTE 4 – PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Property taxes are billed on or about September 15th of each year and are payable within sixty days. The City bills and collects its own property taxes. Property tax revenues at the fund reporting level are recognized when levied to the extent that they result in current receivables (i.e., collectible in 60 days). For the year ended December 31, 2014, property taxes were levied on September 15, 2014, and were due November 15, 2014.

NOTE 5 – RECEIVABLES

Receivables at December 31, 2014, consisted of taxes, accounts (billings for user charges) and intergovernmental receivables arising from grants.

Receivables are recorded on the City's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability. The allowance for uncollectible accounts netted against accounts receivable at December 31, 2014 for the water and sewer fund totaled $3,766.

NOTE 6 – INTERFUND BALANCES AND TRANSFERS

Receivable Fund	Payable Fund	Amount
General	SPLOST	$ 73,989
	Water and Sewer	443,554
SPLOST	Water and Sewer	14,444
		$ 531,987

Interfund balances at December 31, 2014 represent charges for services or reimbursable expenses. The City expects to repay all interfund balances within one year.

	Transfers From:		
Transfers To:	General Fund	SPLOST Fund	Total
Water and Sewer Fund	$ 13,367	$ 183,066	$ 196,433
Multiple Grant Fund	110,572	-	110,572
	$ 123,939	$ 183,066	$ 307,005

The SPLOST fund transfers were used to fund water and sewer system improvements. The general fund transfer to the Multiple Grant fund was used to fund the deficit in that fund, and the transfer to the Water and Sewer fund was for operating purposes.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

	Balance 1/1/14 As restated	Additions	Deductions	Balance 12/31/14
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 13,007	$ 182,087	-	$ 195,094
Construction in progress	172,790	-	$ 113,679	59,111
Total capital assets not being depreciated	185,797	182,087	113,679	254,205
Capital assets being depreciated:				
Buildings and other improvements	1,827,527	7,950		1,835,477
Machinery and equipment	1,865,523	24,379	850,764	1,039,138
Infrastructure	1,046,668	354,036	-	1,400,704
Total capital assets being depreciated	4,739,718	386,365	850,764	4,275,319
Total capital assets	4,925,515	568,452	964,443	4,529,524
Accumulated depreciation:				
Buildings and other improvements	1,159,247	42,222	-	1,201,469
Machinery and equipment	1,635,043	54,441	848,995	840,489
Infrastructure	197,219	44,651	-	241,870
Total accumulated depreciation	2,991,509	141,314	848,995	2,283,828
Governmental activities capital assets, net	$ 1,934,006	$ 427,138	$ 115,448	$ 2,245,696

NOTE 7 – CAPITAL ASSETS (Continued)

Governmental activities depreciation expense:

General government	$ 37,541
Public safety	24,620
Recreation	13,779
Streets and sanitation	65,374
Total governmental activities depreciation expense	$ 141,314

The following table presents the changes in capital assets for the City's enterprise fund:

	Balance 1/1/14 As restated	Additions	Deductions	Balance 12/31/14
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	$ 762,591	-	$ 735,303	$ 27,288
Total capital assets not being depreciated	762,591	-	735,303	27,288
Capital assets being depreciated:				
Water and sewer system	9,806,026	$ 2,094,522	-	11,900,548
Machinery and equipment	360,041	17,284	68,433	308,892
Total capital assets being depreciated	10,166,067	2,111,806	68,433	12,209,440
Total capital assets	10,928,658	2,111,806	803,736	12,236,728
Accumulated depreciation:				
Water and sewer system	2,111,420	526,712	-	2,638,132
Machinery and equipment	282,825	19,416	68,433	233,808
Total accumulated depreciation	2,394,245	546,128	68,433	2,871,940
Business-type activities capital assets, net	$ 8,534,413	$ 1,565,678	735,303	$ 9,364,788

NOTE 8 – NOTES PAYABLE

Governmental Activities

The note payable outstanding at December 31, 2014, consisted of the following:

	Governmental Activities
Note payable to USDA, payable in monthly installments of $1,315 including interest at 3.125%, through March, 2018, secured by equipment	$ 48,633

As of December 31, 2014, annual debt service requirements for governmental activities are as follows:

Year ending December 31	Principal	Interest	Total
2015	$ 14,467	$ 1,313	$ 15,780
2016	14,925	855	15,780
2017	15,398	382	15,780
2018	3,843	20	3,863
	$ 48,633	$ 2,570	$ 51,203

Business-type Activities

The note payable outstanding at December 31, 2014, consisted of a loan payable to First Bank of Coastal Georgia for financing water and sewer extension and equipment. The original loan amount was $778,536. The loan has an interest rate of 3.0% and requires quarterly payments of $26,890 and has a maturity date of December 31, 2014. Debt service requirements are as follows:

	Principal	Interest	Total
Year ending December 31, 2015	$ 674,065	$ 19,203	$ 693,268

NOTE 9 – WATER AND SEWER SYSTEM REVENUE BONDS

Series 2003A and 2003B

In December, 2003, the City issued City of Pembroke Water and Sewer System Revenue Bonds Series 2003A and 2003B in the amounts of $1,669,300 and $1,900,000, respectively, to provide funds for extending and improving its water and sewer system.

Series 2013

In May, 2013, the City issued City of Pembroke Water and Sewer System Revenue Bonds Series 2013 in the amount of $694,000 to provide funds for extending and improving its water and sewer system.

NOTE 9 – WATER AND SEWER SYSTEM REVENUE BONDS (continued)

	Business-Type Activities
Series 2003A Water and Sewer System Revenue Bonds, payable in monthly installments of $7,663 from January, 2006 through October, 2043, including interest at 4.50%	$ 1,482,537
Series 2003B Water and Sewer System Revenue Bonds, payable in monthly installments of $8,721 from January, 2006 through October, 2043, including interest at 4.50% .	1,687,565
Series 2013 Water and Sewer System Revenue Bonds, payable in monthly installments of $2,423 from June, 2014 through May, 2053, including interest at 2.75%	686,653
	$ 3,856,755

The bonds are secured by a lien on the revenues of the water and sewer system. The City will be required to create a special fund designated as the City of Pembroke Water and Sewer System Revenue Bond Sinking Fund (Sinking Fund), which will include a debt service and a reserve account.

All revenues from the new sewer system will be deposited into the Water and Sewer Fund, and after paying normal monthly operating costs, the City will maintain the monthly installment of principal and interest coming due on the bonds in the debt service account and ten percent of the monthly installment of principal and interest coming due will be deposited into the reserve account. These monthly deposits into the reserve account will continue until there is established and maintained a debt service reserve sufficient to pay the principal and interest due on the bonds in the next succeeding sinking fund year.

NOTE 9 – WATER AND SEWER SYSTEM REVENUE BONDS (continued)

As of December 31, 2014, annual debt service requirements for business-type activities are as follows:

Year ending December 31	Business-Type Activities		
	Principal	Interest	Total
2015	$ 65,601	$ 160,083	$ 225,684
2016	68,190	157,494	225,684
2017	71,130	154,554	225,684
2018	74,200	151,484	225,684
2019	77,406	148,278	225,684
2020-2024	440,305	688,115	1,128,420
2025-2029	544,621	583,799	1,128,420
2030-2034	674,239	429,083	1,103,322
2035-2039	835,388	293,032	1,128,420
2040-2044	793,880	99,344	893,225
2045-2049	124,478	20,902	145,380
2050-2053	87,316	3,922	91,237
	$ 3,856,755	$ 2,890,089	$ 6,746,843

NOTE 10 –LEASE OBLIGATIONS

Capital Lease

The City has entered into a lease agreement as lessee for financing the acquisition of water and sewer fund vehicles costing $48,190. The vehicles have a five year estimated useful life and the related amortization is included in depreciation expense and accumulated depreciation was $28,914 at December 31, 2014. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of its inception.

The following is a schedule of future minimum lease payments under this capital lease, and the present value of the net minimum lease payments at December 31, 2014:

Year ending December 31, 2015	$ 16,831
Less amount representing interest	335
Present value of future minimum lease payments	$ 16,496

NOTE 10 –LEASE OBLIGATIONS (continued)

Operating Lease

The City leases office equipment under a non-cancelable lease which expires September 2018. At December 31, 2014, future minimum payments required on this non-cancelable operating lease are as follows:

Year	Total
2015	$ 4,512
2016	4,512
2017	4,512
2018	3,384
Total	$ 16,920

Expenditures associated with the lease agreement totaled $4,512 for 2014.

NOTE 11 – CHANGES IN LONG-TERM DEBT

	Outstanding January 1, 2014	Additions	Reductions	Outstanding December 31, 2014	Amounts Due in One Year
Governmental Activities					
Compensated absences	$ 12,382	$ 2,644		$ 15,026	$ 3,005
Notes payable	62,655	-	14,022	48,633	14,467
Capital leases payable	15,962	-	15,962	-	-
Total Governmental Activities	$ 90,999	$ 2,644	$ 29,984	$ 63,659	$ 17,472
Business-Type Activities					
Compensated absences	$ 8,235	$ 1,518	-	$ 9,753	$ 1,951
Notes payable	778,536	674,065	$ 778,536	674,065	674,065
Capital lease payable	32,467	-	15,971	16,496	16,496
Revenue bonds payable	3,916,768	-	60,013	3,856,755	65,601
Total Business-Type Activities	$ 4,736,006	$ 675,583	$ 854,520	$ 4,557,069	$ 758,113

The compensated absences liability will be paid from the general fund for governmental activities and from the water and sewer fund for business-type activities. Capital lease payments will be paid from the water and sewer fund. Principal and interest payments related to notes payable for governmental activities will be paid from the general fund. Revenue bonds payable and notes payable for the City's Water and Sewer System are financed from income derived from the operation of the Water and Sewer System.

NOTE 12 – EMPLOYEE RETIREMENT PLAN

Plan Description

The City's defined benefit pension plan, the City of Pembroke Retirement Plan (the "Plan"), provides retirement and disability benefits and death benefits to plan members and beneficiaries. The Plan is affiliated with the Georgia Municipal Employees Benefit System (the "System"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for cities in the State of Georgia. The City is assigned the authority to establish and amend benefit provisions of the Plan. The System issues a publicly available financial report that includes financial statements and required supplementary information. The report can be obtained by writing to Georgia Municipal Association, Risk Management and Employee Benefit Services, 201 Pryor Street, SW, Atlanta, Georgia 30303 or by calling (404) 688-0472.

Funding Policy

Employees are not required to contribute to the Plan. The City is required to contribute at an actuarially determined rate. The minimum annual contribution requirements of the City are established by Public Retirement Systems Standards Law (Georgia Code Section 47-20-10).

Annual Pension Cost and Net Pension Obligation

For 2014, the City's annual pension cost of $76,253 for the Plan was equal to the City's required and actual contributions. The required contribution was determined as part of the July 1, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return and (b) projected salary increases of 3.5% per year for inflation and (c) additional projected salary increases of 3.5% based on age, service, and merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a ten-year period. The period, and related method, for amortizing the initial unfunded actuarial accrued liability is thirty years from 1999 and current changes in the unfunded actuarial accrued liability over fifteen years for actuarial gains and losses, twenty years for plan provisions and thirty years for actuarial assumptions and cost methods as a level dollar amount. These amortization periods, if applicable, are closed for this plan year.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2014	$ 76,253	100%	-
December 31, 2013	$ 78,649	100%	-
December 31, 2012	$ 74,614	100%	-

NOTE 12 – EMPLOYEE RETIREMENT PLAN (continued)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Surplus) AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a % of Covered Payroll
July 1, 2014	$ 1,086,289	$ 1,216,369	$ 130,080	89.3%	$ 682,857	19.1%
July 1, 2013	1,008,764	1,184,918	176,154	85.1%	654,481	26.9%
July 1, 2012	951,211	1,104,798	153,587	86.1%	651,187	23.6%

NOTE 13 – COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2014 there was no pending litigation that would have a material effect on the financial statements.

NOTE 14 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; workers' compensation claims; and natural disasters. The City has joined the Georgia Interlocal Risk Management Agency, a public entity risk pool currently operating as a common risk management and insurance program for member local governments. This membership allows the city to share liability, crime, motor vehicle and property damage risks.

Chapter 85 of Title 36 of the Official Code of Georgia Annotated authorizes Georgia municipalities to form interlocal risk management agencies. The Georgia Interlocal Risk Management Agency (GIRMA) is a municipal interlocal risk management agency to function as an unincorporated nonprofit instrumentality of its member municipalities – GIRMA establishes and administers one or more group self insurance funds and a risk management service to prevent or lessen the incidence and severity of casualty and property losses occurring in the operation of municipal government. GIRMA is to defend and protect in accordance with the member government contract and related coverage descriptions any member of GIRMA against liability or loss.

The City of Pembroke retains the first $1,000 of each risk of loss in the form of a deductible. The City files all claims with GIRMA. GIRMA bills the City for any risk of loss up to the $1,000 deductible.

There have been no settlements exceeding insurance coverage for each of the past three years.

Pursuant to Title 34, Chapter 9, Article 4 of the Official Code of Georgia Annotated, the City of Pembroke became a member of the Georgia Municipal Association Workers' Compensation Self Insurance Fund. The liability of the fund to the employees of any employer (City of Pembroke) is specifically limited to such obligations as are imposed by applicable state laws against the employer for workers' compensation and/or employer's liability.

NOTE 14 – RISK MANAGEMENT (continued)

As part of this risk pool, the City is obligated to pay all contributions and assessments as prescribed by the pool, to cooperate with the pool's agents and attorneys, to follow loss reduction procedures established by the fund, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the fund being required to pay any claim of loss. The City is also to allow the pool's agents and attorneys to represent the City in investigation, settlement discussions and all levels of litigation arising out of any claim made against the City within the scope of loss protection furnished by the fund.

The Fund is to defend, in the name of and on behalf of the members, any suits or other proceedings which may at any time be instituted against them on account of injuries or death within the preview of the Workers' Compensation Law of Georgia, or on the basis of employer's liability, including suits or other proceedings alleging such injuries and demanding compensation therefore, although such suits, other proceedings, allegations or demands be wholly groundless, false or fraudulent. The Fund is to pay all costs assessed against members in any legal proceedings defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

NOTE 15 – JOINT VENTURE

Under Georgia law, the City, in conjunction with other cities and counties in the ten county Southeast Georgia area, is a member of the Coastal Georgia Regional Commission (RC) and is required to pay annual dues thereto. During the year ended December 31, 2014, the City paid $2,196 in such dues. Membership in a RC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-33 which provides for the organizational structure of the RC in Georgia. The RC Regional Council membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39 provides that the member governments are liable for any debts or obligations of a RC. Separate financial statements may be obtained from:

Coastal Georgia Regional Commission
1181 Coastal Drive SW
Darien, Georgia 31305

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 31, 2015, which is the date the financial statements were available to be issued. No subsequent events were noted.

NOTE 17 – PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments have been made to the fund balances of governmental funds in the fund level financial statements:

	General Fund	Confiscated Assets Fund	Total
Fund balance, December 31, 2013, as previously reported	$ 1,491,092	$ 372	$ 1,491,464
Restatement for overstatement of accrued accounts payable	15,000	-	15,000
Restatement for understatement of intergovernmental receivable	186,647	-	186,647
Transfer of Confiscated Assets fund	372	(372)	-
Fund balance, January 1, 2014, as restated	$ 1,693,111	$ -	$ 1,693,111

Beginning net position for governmental activities for the government-wide financial statements was increased by the same net amount indicated above of $201,647.

CITY OF PEMBROKE, GEORGIA
COMMUNITY DEVELOPMENT BLOCK GRANT
CDBG 12P-X-015-2-5533
SOURCE AND APPLICATION OF FUNDS SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2014

Total Fiscal Year 2014 CDBG Funds Awarded to Recipient:	$ 498,102
Total Amount Drawdown by Recipient from DCA:	498,102
Less: CDBG Funds Expended by Recipient:	498,102
Amount of Fiscal Year 2014 CDBG Funds held by Recipient:	$ -

CITY OF PEMBROKE, GEORGIA
COMMUNITY DEVELOPMENT BLOCK GRANT
CDBG 12P-X-015-2-5533
PROJECT COST SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2014

PROGRAM ACTIVITY	ACTIVITY NUMBER	APPROVED BUDGET CDBG FUNDS	CUMULATIVE EXPENDITURES CDBG FUNDS
CONTINGENCIES	C-022-00	$ 43,783	-
ENGINEERING	T-03J-00	41,596	$ 41,596
WATER FACILITIES	P-03J-01	382,837	426,620
ADMINISTRATION	A-21A-00	29,886	29,886
Total		$ 498,102	$ 498,102

CITY OF PEMBROKE, GEORGIA
SCHEDULE OF PROJECTS PAID
WITH SPLOST PROCEEDS
FOR THE YEAR ENDED DECEMBER 31, 2014

Project	Original Estimated Cost	Current Estimated Cost	Expenditures Prior Years *	Expenditures Current Year	Total	Estimated Percentage of Completion
SPLOST V						
CDBG Project (2820) match on water and sewer system improvements	$ 475,315	$ 475,315	$ 475,315	-	$ 475,315	100.0%
CDBG Project (3062) match on water and sewer system improvements	775,000	1,677,000	1,318,259	$ 82,724	1,400,983	83.5%
Bank check fees	126	126	126	-	126	100.0%
Municipal facilities	535,000	1,395,714	1,395,714	-	1,395,714	100.0%
Totals	$ 1,785,441	$3,548,155	$3,189,414	82,724	$3,272,138	92.2%
SPLOST VI						
Public safety building	$ 1,700,000	$1,654,517	$ 10,959	124,583	$ 135,542	8.2%
TOS theater	905,000	905,000	-	-	-	0.0%
Water well	445,000	445,000	-	27,287	27,287	6.1%
CDBG project match on water and sewer system improvements	55,000	73,055	-	73,055	73,055	100.0%
Storm drainage improvements	95,000	122,428	-	122,428	122,428	100.0%
Totals	$ 3,200,000	$3,200,000	$ 10,959	347,353	$ 358,312	11.2%
		Total current year expenditures		$430,077		

* Prior years amounts have been restated.

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INDEPENDENT AUDITOR'S 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*

To the City Council
City of 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 discretely presented component unit, and each major fund of the City of Pembroke, Georgia, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Pembroke, Georgia's basic financial statements, and have issued our report thereon dated July 31, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as 2014-1 through 2014-3 in the accompany schedule of findings and questioned costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described as 2014-4 and 2014-5 in the accompany schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pembroke, Georgia'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*.

City of Pembroke, Georgia's Response to Findings

City of Pembroke, Georgia's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Pembroke, Georgia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Thigpen, Lanier, Waterfield & Dal

Statesboro, Georgia
July 31, 2015

CITY OF PEMBROKE, GEORGIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Contract Number	Federal Expenditures
U.S. Department of Agriculture:			
Direct Program:			
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	$ 501,676
U.S. Department of Housing and Urban Development:			
Pass-through program from Georgia Department of Community Affairs:			
Community Development Block Grants	14.228	12p-x-015-2-5533	485,047
Total expenditures of federal awards			$ 986,723

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the City of Pembroke for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Pembroke, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Pembroke.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

NOTE 3 – FEDERAL LOANS

The City of Pembroke has the following loans outstanding from USDA Rural Development loans received in prior years:

	12/31/2014 Balance
2013 Community Facilities Loan	$ 48,633
Series 2003A Water and Sewer System Revenue Bonds	1,482,537
Series 2003B Water and Sewer System Revenue Bonds	1,687,565
Series 2013C Water and Sewer System Revenue Bonds	686,653
	$ 3,905,388

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the City Council
City of Pembroke, Georgia

Report on Compliance for Each Major Federal Program

We have audited the City of Pembroke, Georgia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Pembroke, Georgia's major federal programs for the year ended December 31, 2014. The City of Pembroke, Georgia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Pembroke, Georgia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Pembroke, Georgia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Pembroke, Georgia's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Pembroke, Georgia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of the City of Pembroke, Georgia, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Pembroke, Georgia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Pembroke, Georgia's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Thigpen, Lanier, Westerfield & Deal

Statesboro, Georgia
July 31, 2015

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of the City of Pembroke, Georgia.

2. Five significant deficiencies disclosed during the audit of the financial statements are reported in the Independent Auditor's 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*. Three of the significant deficiencies were considered to be material weaknesses.

3. No instances of noncompliance material to the financial statements of the City of Pembroke, Georgia were disclosed during the audit.

4. No significant deficiencies in internal control over major federal award programs were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.

5. The auditor's report on compliance for the major federal award programs for the City of Pembroke, Georgia expresses an unmodified opinion on the major federal programs.

6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

7. The programs tested as major programs were: Community Development Block Grants, CFDA number 14.228 and Water and Waste Disposal Systems for Rural Communities, CFDA number 10.760.

8. The threshold used for distinguishing between Type A and B programs was $300,000.

9. The City of Pembroke, Georgia did not qualify as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

2014-1 Unrecorded Cash Activity

Condition: The City has several cash accounts for which the activity for the year was not recorded in the general ledger. The City also has eight general ledger accounts for a pooled cash bank account that is not being properly reconciled on a monthly basis.

Criteria: Bank reconciliations are one of the most basic and important control procedures and are necessary for an effective internal control system. Activity for all cash accounts should be recorded in the general ledger in a timely manner and all bank accounts should be reconciled monthly to ensure that account balances are correct and all transactions have been recorded in the City's general ledger.

Cause: The activity for several cash accounts is not being recorded in the City's general ledger and proper bank reconciliation are not being prepared on a monthly basis for the pooled cash bank account.

Effect: Significant adjusting journal entries were required to properly record activity for certain cash accounts. Also, the general ledger account balances for the pooled cash bank account were misstated.

Auditor's Recommendation: We recommend that the City record the activity for all bank accounts within the general ledger on at least a monthly basis. Also, the City needs to improve its reconciliation process for the pooled cash bank account.

Views of Responsible Officials and Planned Corrective Actions: We concur with this finding and we will implement procedures to properly record activity for all cash accounts maintained by the City and will improve our bank reconciliation procedures.

2014-2 Reconciliation of Accounts to Subsidiary Ledgers

Condition: The City does not reconcile accounts receivable and customer deposits to subsidiary ledgers generated from the computer system for utility billing purposes.

Criteria: The computer system is used to maintain subsidiary ledgers for accounts receivable and customer deposits. As a primary means of preventing and detecting errors or fraud in these accounts, the subsidiary ledgers should be reconciled to their respective general ledger accounts on a monthly basis.

Cause: The City does not have procedures in place to reconcile the subsidiary ledgers to general ledger accounts.

Effect: Without a monthly reconciliation, errors can accumulate in these accounts and become difficult to reconcile at year end.

Auditor's Recommendation: We recommend that the subsidiary ledgers generated from the computer system be utilized each month to perform a reconciliation of all associated accounts receivable and customer deposits accounts.

Views of Responsible Officials and Planned Corrective Actions: We concur with this finding and we will implement procedures to establish effective reconciliation processes for accounts receivable and customer deposits.

2014-3 Recording of Year End Accruals for the Financial Statements

Condition: The City's procedures to make sure all year end accruals such as receivables, payables, prepaid items, and deferred revenue are included in the financial statements are inadequate.

Criteria: All revenues earned and realizable and all expenditures incurred should be recorded at the end of the year via journal entry.

Cause: The City does not have procedures in place to make sure all accruals are recorded at year end for the financial statements.

Effect: Many of the adjusting journal entries needed to record these accruals were material to the City's financial statements.

Auditor's Recommendation: When conducting the year end closing, we recommend the City review for all needed accruals for receivables, payables, prepaid items, and deferred revenue.

Views of Responsible Officials and Planned Corrective Actions: We concur with this finding and we will implement procedures to establish a process for ensuring the completeness of year end accruals for the City's financial statements.

SIGNFICANT DEFICIENCIES

2014-4 Payroll Liability Accounts

Condition: During our audit, we noted that payroll liability accounts are not reviewed and reconciled on a periodic basis.

Criteria: Payroll liability accounts should be reviewed to ensure accuracy and completeness at the close of each period.

Cause: Transactions posted to payroll liability accounts are not reviewed on a monthly basis to correct for improper postings.

Effect: Payroll tax liabilities may not be properly reported in the City's financial statements.

Auditor's Recommendation: We recommend a member of the Finance Department staff be responsible for the review and reconciliation of payroll liability accounts on a periodic basis.

Views of Responsible Officials and Planned Corrective Actions: We concur with this finding and the Finance Department will implement procedures for the review and reconciliation of payroll liability accounts on at least a quarterly basis.

2014-5 Improper Posting of Certain Transactions

Condition: During our audit, we noted some transactions that were posting incorrectly in the City's general ledger.

Criteria: The City's general ledger should be reviewed on a periodic basis to ensure that all transactions are posting correctly within the general ledger.

Cause: The parameters set up within the computer system for the posting of certain transactions were incorrect.

Effect: Adjusting journal entries were needed to correct the posting of certain transactions.

Auditor's Recommendation: The Finance Department should review the parameters set up in the computer system for the posting of these transactions and make corrections as necessary. The City's general ledger should be reviewed on a monthly basis to ensure that all transactions are posting correctly in the general ledger.

Views of Responsible Officials and Planned Corrective Actions: We concur with this finding and have already corrected the parameters within the computer system for the posting of these transactions noted. We will also review the general ledger on a periodic basis to ensure all transactions have been posted properly.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None reported.