CITY OF QUITMAN, GEORGIA

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

MAULDIN & JENKINS

CITY OF QUITMAN, GEORGIA

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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FINANCIAL SECTION

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members
of the City Commission
Quitman, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Quitman, Georgia** (the "City"), as of and for the fiscal year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Quitman, Georgia's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Quitman, Georgia as of June 30, 2012, and the respective changes in financial position and where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2012, on our consideration of the City of Quitman, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (on pages 3 through 13) and the Schedule of Funding Progress (on page 48) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Quitman, Georgia's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of special purpose local option sales tax proceeds is presented for the purpose of additional analysis as required by the Official Code of Georgia 48-8-121 and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of special purpose local option sales tax proceeds are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of special purpose local option sales tax proceeds is fairly stated in all material respects in relation to the financial statements as a whole.

Mauldin & Jenkins, LLC

Albany, Georgia
December 21, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of Quitman, Georgia's (the City) annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights

- The City's assets exceeded its liabilities by $15,103,052 (net assets) for the fiscal year reported.

- Total net assets are comprised of the following:

  (1) Capital assets, net of related debt, of $9,226,984 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  (2) Restricted net assets of $1,103,699 are only available to use for specific purposes as determined by enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
  (3) Unrestricted net assets of $4,772,369 represent the portion available to maintain the City's continuing obligations to citizens and creditors.

- The City's governmental funds reported total ending fund balance of $3,331,529 this year. This compares to the prior year restated ending fund balance of $3,077,107 showing an increase of $254,422 during the current year. Unassigned fund balance of $1,323,910 at June 30, 2012 shows a $713 increase over the prior year.

- At the end of the current fiscal year, unassigned fund balance for the general fund was $1,323,910 or 39.9% of total general fund expenditures.

- Overall, the City continues to maintain a reasonably strong financial position in its general fund, in spite of a somewhat depressed economy.

The above financial highlights are explained in more detail in the "financial analysis" section of this document.

Overview of the Financial Statements

This Management Discussion and Analysis document introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall financial status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and elimination or reclassification of activities between funds.

The first of these government-wide statements is the *Statement of Net Assets.* This is the government-wide statement of position presenting information that includes all of the City's assets and liabilities, with the difference reported as *net assets.* Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure, in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities, which* reports how the City's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by property and sales taxes and from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public works, culture and recreation and housing and development. Business-type activities include the gas, electric, water and sewer, sanitation and telecommunication systems.

The government-wide financial statements are presented on pages 14 - 16 of this report.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for nonmajor funds is provided in the form of combining statements in a later section of this report.

The City has two kinds of funds:

Governmental funds are reported in the fund financial statements and encompass the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund operating statement provide a reconciliation to assist in understanding the differences between these two perspectives. In addition, the City presents its general fund budget to actual comparison statement as basic financial statement.

The basic governmental fund financial statements are presented on pages 17 - 19 of this report.

The budgetary comparison statement for the general fund is included within this section.

Individual fund information for nonmajor governmental funds is found in combining statements in a later section of this report.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. The five City proprietary funds are classified as enterprise funds. This enterprise funds essentially encompasses the same functions reported as business-type activities in the government-wide statements. These services are provided to customers external to the City.

The City's net assets at fiscal year-end are $15,103,052. The following table provides a summary of the City's net assets:

Summary of Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Assets:						
Current	$ 3,541,551	$ 3,255,494	$ 3,339,235	$ 3,798,259	$ 6,880,786	$ 7,053,753
Noncurrent:						
Capital assets	2,621,092	2,666,826	7,627,188	8,015,966	10,248,280	10,682,792
Total assets	6,162,643	5,922,320	10,966,423	11,814,225	17,129,066	17,736,545
Liabilities:						
Current liabilities	356,550	500,201	696,691	672,804	1,053,241	1,173,005
Long-term liabilities	969,856	1,035,684	2,917	2,563	972,773	1,038,247
Total liabilities	1,326,406	1,535,885	699,608	675,367	2,026,014	2,211,252
Net assets:						
Invested in capital assets, net of debt	1,599,796	1,408,613	7,627,188	8,015,966	9,226,984	9,424,579
Restricted	1,103,699	-	-	-	1,103,699	-
Unrestricted	2,132,742	2,977,822	2,639,627	3,122,892	4,772,369	6,100,714
Total net assets	$ 4,836,237	$ 4,386,435	$ 10,266,815	$ 11,138,858	$ 15,103,052	$ 15,525,293

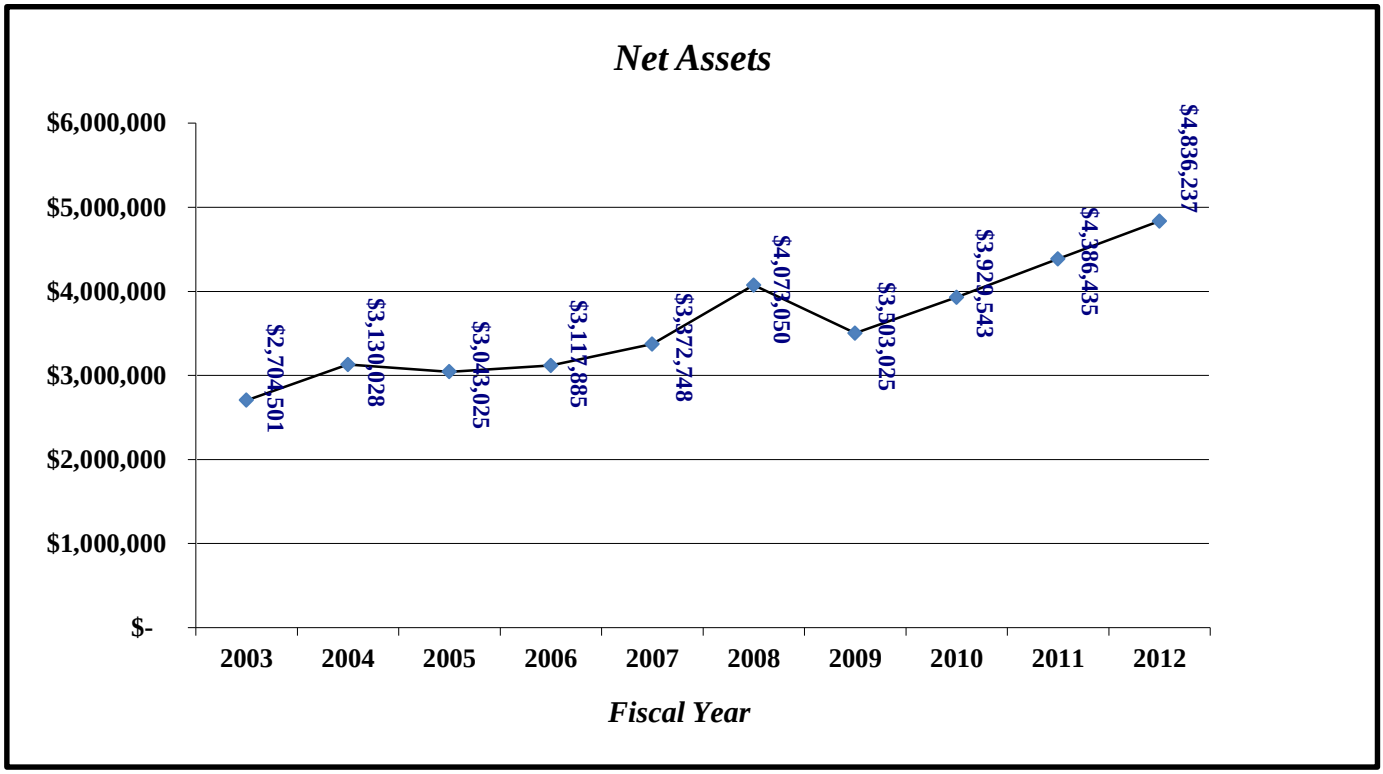
The City continues to maintain a high current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 9.9 to 1 (as compared to 6.5 to 1 at June 30, 2011). The current ratio for business-type activities is 4.9 to 1. At June 30, 2011, the current ratio was 5.6 to 1.

For the City overall, the current ratio is to 6.5 to 1 (as compared to 6.0 to 1 at June 30, 2011). These ratios are strong.

The City reported positive balances in net assets for both governmental and business-type activities. Net assets increased $449,802 for governmental activities and decreased by $872,043 for business-type activities. The City's overall financial position decreased during fiscal year 2012.

Note that 33.1% of the governmental activities' net assets are tied up in capital. The City uses these capital assets to provide services to its citizens. However, with business type activities, the City has spent 74.3% of its net assets on capital. Capital assets in the business-type activities also provide utility services, but they also generate revenues for this fund. 61.1% of the City's total net assets are included in capital assets as compared to 60% at June 30, 2011.

The following chart reports the City's governmental activities' net asset balances from fiscal year 2003 - 2012.



From fiscal year 2003 to fiscal year 2012, net assets increased $2,131,736 or 78.8%.

(This page is continued on the subsequent page)

The following table provides a summary of the City's changes in net assets:

Summary of Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program:						
Charges for services	$ 516,333	$ 508,305	$ 7,651,177	$ 8,514,038	$ 8,167,510	$ 9,022,343
Operating grants	183,768	119,781	-	-	183,768	119,781
Capital grants	448,185	483,357	-	-	448,185	483,357
General:						
Taxes	941,130	943,326	-	-	941,130	943,326
Other	32,531	40,938	19,393	25,083	51,924	66,021
Total revenues	2,121,947	2,095,707	7,670,570	8,539,121	9,792,517	10,634,828
Program Expenses:						
General government	771,573	774,090	-	-	771,573	774,090
Public safety	1,903,023	1,792,006	-	-	1,903,023	1,792,006
Public works	334,006	172,975	-	-	334,006	172,975
Culture and recreation	143,077	143,522	-	-	143,077	143,522
Housing and development	8,320	17,920	-	-	8,320	17,920
Interest	50,844	63,305	-	-	50,844	63,305
Gas	-	-	701,121	730,080	701,121	730,080
Electric	-	-	4,294,555	4,160,789	4,294,555	4,160,789
Water and sewer	-	-	938,459	896,420	938,459	896,420
Sanitation	-	-	472,066	575,013	472,066	575,013
Telecommuications	-	-	597,714	556,921	597,714	556,921
Total expenses	3,210,843	2,963,818	7,003,915	6,919,223	10,214,758	9,883,041
Excess (deficiency)	(1,088,896)	(868,111)	666,655	1,619,898	(422,241)	751,787
Transfers	1,538,698	1,325,003	(1,538,698)	(1,325,003)	-	-
Change in net assets	449,802	456,892	(872,043)	294,895	(422,241)	751,787
Beginning net assets	4,386,435	3,929,543	11,138,858	10,843,963	15,525,293	14,773,506
Ending net assets	$ 4,836,237	$ 4,386,435	$ 10,266,815	$ 11,138,858	$ 15,103,052	$ 15,525,293

GOVERNMENTAL REVENUES

The City is heavily reliant on both property taxes and sales taxes to support governmental operations and capital. Property taxes provided 20.2% of the City's total governmental revenues of fiscal year 2012 as compared with 10.4% in fiscal year 2011. Sales taxes are the second largest revenue source with $238,456 of revenues or 11.2% of the total revenues.

Because of the City's healthy financial position, we have been able to earn $32,531 in unrestricted investment earnings to support governmental activities. Also, note that program revenues cover only 35.8% of governmental operating expenses. This means that the government's taxpayers and the City's other general governmental revenues fund 64.2% of the governmental activities.

As a result, the general economy and the economic success of City businesses have a major impact on the City's revenue streams.

GOVERNMENTAL FUNCTIONAL EXPENSES

The public safety function makes up 59.3% of the total governmental activities expenses as compared to 60.5% in fiscal year 2011. In fiscal year 2012, general government totaled over $770,000.

This table presents the cost of each of the City's programs, including the net costs (i.e., total cost less revenues generated by the activities). The net costs illustrate the financial burden that was placed on the City's taxpayers by each of these functions.

Governmental Activities

	2012		2011	
	Total Cost of Services	**Net Cost of Services**	**Total Cost of Services**	**Net Cost of Services**
General government	$ 771,573	$ 379,577	$ 774,090	$ 427,137
Public safety	1,903,023	1,679,033	1,792,006	1,541,946
Public works	334,006	(183,372)	172,975	(310,665)
Culture and recreation	143,077	143,077	143,522	143,522
Housing and development	8,320	(6,602)	17,920	(12,870)
Interest	50,844	50,844	63,305	63,305
Total	$ 3,210,843	$ 2,062,557	$ 2,963,818	$ 1,852,375

After reducing gross expenses by program revenues, public safety totals 81.4% of the net cost of services.

BUSINESS-TYPE ACTIVITIES

The operating revenues for the enterprise funds were $862,861 or 10.1% below the 2011 amount and operating expenses increased $84,692 or 1.2% above the 2011 amount. Within the total business type activities of the City, these activities reported a $647,262 operating income compared to an operating income of $1,602,593 in the prior year.

Gas Fund – Gas fund operating revenues decreased $180,624 or 18%. Less gas was consumed due to a mild winter. Operating expenses decreased $28,959 or 4%. Salary costs were up $10,213 over the fiscal year 2011. This fund transferred $170,400 to the general fund or 10% of the total amount transferred from the enterprise funds to the general fund. This transfer assists in supporting general fund administrative costs. After transfers, this fund reported a $45,974 decrease in net assets as compared to decrease of $48,615 in fiscal year 2011. At June 30, 2012, the net assets totaled $251,884, of which $64,291 is tied up in capital assets.

Electric Fund – Electric fund operating revenues decreased $606,740 or 11.1%. This decrease relates to both a more mild summer and winter, with less consumer electricity needed. Total operating expenses increased $133,766 or 3.2%. Personal services increased $36,850 resulting from a salary increase granted to electric fund employees and the increased cost of health care. The cost of operations increased $108,188 due primarily to the cost of purchasing electricity from MEAG. This fund transferred $1,015,479 to the general fund as compared to $880,508 in fiscal year 2011. At June 30, 2012, the fund reports net assets of $3,130,375 of which 50.4% is tied up in capital assets.

Water and Sewer Fund – The water and sewer fund operating revenues decreased just $24,195. This decrease relates to a wetter summer season, requiring less water use. Operating expenses increased $49,817 or 5.6%. The cost of operations increased $52,909.

Major increases in the cost of operations include:

- Professional fees - $4,191
- Equipment repairs and maintenance - $15,739
- Production fee for the development authority - $9,900
- Rayonier closing – development authority - $21,250

This fund transferred $533,472 to the general fund. The transfer to the general fund assists in supporting general fund administrative costs. After transfers, this fund reported a $281,386 decrease in net assets as compared to a $147,257 decrease in fiscal year 2011. This fund reports net assets of approximately $6.7 million of which 88.3% is tied up in capital assets.

Sanitation Fund – The sanitation fund operating revenues decreased just $22,143. Operating expenses decreased $102,947 or 17.9%. The fund reported a net decrease in net assets of $5,100. At June 30, 2012, this fund reported $80,055 in net assets at June 30, 2012.

Telecommunications Fund – This fund's operating revenues decreased $29,159 or just 5.9%. Operating expenses increased $40,793 or 7.3%. This fund reports net assets at June 30, 2012 of $117,136.

Financial Analysis of the City's Funds

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of $3,331,529. Of this year-end total, $1,323,910 is unassigned indicating availability for continuing City service requirements. Fund balance in not spendable form includes $696,490. The amount of fund balance legally restricted totals $1,103,699, which includes $968,308 of SPLOST funds set aside for water and sewer projects. Finally, the City reports $207,430, which is committed to the maintenance of the cemetery.

Major Governmental Funds

The General Fund - The general fund is the City's primary operating fund and the largest source of day-to-day service delivery. The general fund's fund balance increased by $50,816 or 3.2% over the June 30, 2011 amount.

Property taxes in fiscal year 2012 increased $43,210 over the fiscal year 2011 amount. This increase relates to the collection of delinquent taxes. The local option sales taxes increased $20,824 or 9.6%. This increase is a positive sign of an economic recovery. Insurance premium taxes decreased $69,091 or 27.7% due to less tax distributions from the State of Georgia.

Licenses and permits were down just $1,301. Intergovernmental revenue increased $5,993 primarily because the amount of grants usually varies from year to year. Fines were down from fiscal year 2011 $22,033 or 28.1%, as more violators chose community service over paying the fines.

Total expenditures increased $181,619 or 5.8%.

General government expenditures decreased $2,218. In total, public safety costs increased $217,073 or 12.8%. This increase was caused by reinstated overtime and a salary increase.

The cost of most other expenditure functions was consistent with fiscal year 2011.

The general fund's ending unassigned fund balance of $1,323,910 represents the equivalent of 40% of annual expenditures, which is considered adequate, but not excessive. This compares to a 42.2% amount at June 30, 2011.

***The Sales Tax Fund* –** This fund recognized their share of the special purpose local option sales taxes or $382,712. They spent $190,176 leaving a fund balance of $968,308.

The Proprietary Funds

The proprietary funds statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status. Therefore, see the financial analysis presented above.

Budgetary Highlights

***The General Fund* –** During fiscal year 2012, the budget was not amended.

Sales taxes were $20,956 or 10% above budget because of an improving economic and increased local spending. The insurance premium taxes were $69,419 below the budget.

Revenue from intergovernmental revenues was $123,854 over the adopted budget. Since the City generally does not budget for federal grants, the actual revenues realized exceed the adopted budget. In addition, the City received reimbursement from the development authority for the Crown note payable, which was not budgeted.

Fines were below the budget by $33,532.

In total, the City realized 109% of the estimated revenues as compared to 106.6% in fiscal year 2011.

On the expenditure side of the budget, expenditures varied from the adopted budget as discussed below.

In the general government function, financial administration expenditures were below the adopted budget by $46,791. Both the DFACS and matching funds were below budget. In the public safety function, fire expenditures were over budget by $43,992, which relates primarily to a fire safety grant that was not budget.

Interest expenditures for the notes payable were not budgeted. The City spent 103.3% of the authorized budget.

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of June 30, 2012, was $2,621,092 and $7,627,188, respectively. The total decrease in this net investment was 1.7% for governmental activities and a 4.9% decrease for business-type activities. The overall decrease was $434,512 for the City as a whole. See Note 6 for additional information about changes in capital assets during the fiscal year and outstanding at the end of the year.

(This page continued on the subsequent page)

The following table provides a summary of capital asset activity.

	2012		2011		2012		2011	
	Amount	%	Amount	%	Amount	%	Amount	%
Nondepreciable assets:								
Land	$ 231,953	100%	$ 231,953	100%	$ 708,741	83%	$ 708,741	94%
Construction in progress	-	0%	-	0%	144,333	17%	44,280	6%
Total nondepreciable assets	231,953	100%	231,953	100%	853,074	100%	753,021	100%
Depreciable assets:								
Buildings	1,653,740	38.5%	1,653,740	39.3%	1,052,442	6.4%	1,052,442	6.4%
Machinery and equipment	1,445,639	33.7%	1,357,812	32.3%	5,190,830	31.7%	5,190,828	31.7%
Infrastructure	1,196,244	27.8%	1,196,244	28.4%	10,141,035	61.9%	10,141,034	61.9%
Total depreciable assets	4,295,623	100.0%	4,207,796	100.0%	16,384,307	100.0%	16,384,304	100.0%
Less accumulated depreciation	1,906,484		1,772,923		9,610,193		9,121,361	
Book value - depreciable assets	2,389,139		2,434,873		6,774,114		7,262,943	
Percentage depreciated	44%		42%		59%		56%	
Book value - all assets	$ 2,621,092		$ 2,666,826		$ 7,627,188		$ 8,015,964	

At June 30, 2012, the depreciable capital assets for governmental activities were 44% depreciated. This percentage is slightly above the 2011 amount of 42%. This comparison indicates that the City is replacing its assets at almost the same rate as they are depreciating which is a positive indicator. Business-type activities were 59% depreciated as compared to 56% at June 30, 2011.

The increases in governmental activities capital assets relates to the purchase of three Dodge Chargers and a Ranger Polaris. The increase in business-type activities construction in progress includes a sewer lift station upgrade project.

(This page continued on the subsequent page)

Long-term Debt

The outstanding debt balances at June 30, 2012 and 2011 follow:

Outstanding Borrowings

	Governmental Activities		Business-type Activities		Totals		% Change
	2012	2011	2012	2011	2012	2011	
Notes payable	$ 1,021,296	$ 1,258,213	$ -	$ -	$ 1,021,296	$ 1,258,213	-19%
Compensated absences	110,683	117,546	29,181	25,636	139,864	143,182	-2%
Total	$ 1,131,979	$ 1,375,759	$ 29,181	$ 25,636	$ 1,161,160	$ 1,401,395	-17%

See Note 7 for additional information about the City's long-term debt.

Economic Conditions Affecting the City

The City is a small rural community located in South Georgia, approximately 10 miles from the Georgia-Florida state line. It's convenient location to both Interstate 75 and Interstate 10, two major U.S. arteries that allow you to travel from the east coast to the west coast or from the Florida Peninsula to the northeast, allow the City to offer the convenience of living within close proximity to nearby larger cities, yet enjoy the unhurried pace of a small southern town.

Since our City is located on U.S. route 84 near the above two referenced interstate highways, it is well positioned for markets in the southeast and has direct access to the State of Georgia's port for international trade. A new 250-acre industrial park, with rail service, is located just ½ mile from the City limits. The City's police and fire departments serve this industrial park.

The City's commercial and professional areas are comprised of numerous manufacturing businesses, convenience stores, professional offices, retail sales stores, private firms, retail food stores, restaurants, medical facilities and a hospital. The City plays host to the Presbyterian Homes, Inc., a 237-bed skilled nursing care facility and our largest employer.

The City is a "full-service" City offering its 4,638 citizens services such as electricity, gas, water, sewer, garbage collection, cable television and wireless internet service. The City's population was reduced in 2002 census from the 1990 census by 12.4%.

The City features a wide variety of restaurants, shops, cultural attractions, parks and other outdoor activities. Visitors are attracted to the City's numerous antique shops, its historical district and its rich cultural past.

The City is the County seat located within Brooks County. In the year 2009, the average weekly wage for all the employment sectors in the county was $501. This amount was less than the statewide average of $728. In Brooks County, agriculture is the largest employment sector providing 16.8% of the jobs. The other predominant employment sectors are services and forestry, and fishing. Statewide, the service industry is the largest employment sector, contributing 25.6% of the state's jobs.

Between 2009 and 2012, Brooks County's annual unemployment rate was higher than the state's rate, averaging 11.0% compared with the state's average of 10.1%. Nationally, the unemployment rate for the same period averaged 9.8%. The county per capita personal income in 2007 was $13,977, as compared with $21,154 for Georgia and $28,546 for the United States.

Brooks County's median household income in 2007 was $32,302. This amount was less than the state's median household income of $49,080 in that same year. Nationally, the median household income in 2007 was $50,740. During 2007, 23.4% of the county's population lived below the poverty level, compared with Georgia's rate of 14.3% and the national rate of 13%.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City's Manager at 229-263-4166.

CITY OF QUITMAN, GEORGIA

STATEMENT OF NET ASSETS

JUNE 30, 2012

ASSETS	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	$ 1,818,704	$ 388,974	$ 2,207,678
Investments	780,378	1,160,208	1,940,586
Taxes receivable	25,207	-	25,207
Accounts receivable, net of allowances	11,079	1,018,855	1,029,934
Notes receivable	629,621	427,758	1,057,379
Due from other governments	136,927	-	136,927
Internal balances	42,181	(42,181)	-
Inventories	-	357,421	357,421
Prepaid expenses	97,454	28,200	125,654
Capital assets:			
Nondepreciable	231,953	853,074	1,085,027
Depreciable, net of accumulated depreciation	2,389,139	6,774,114	9,163,253
Total assets	6,162,643	10,966,423	17,129,066
LIABILITIES			
Accounts payable	153,880	473,364	627,244
Accrued liabilities	11,147	15,590	26,737
Retainage payable	10,005	-	10,005
Due to other governments	19,395	-	19,395
Customer deposits payable	-	181,473	181,473
Notes payable due within one year	62,508	-	62,508
Notes payable due in more than one year	958,788	-	958,788
Compensated absences due within one year	99,615	26,264	125,879
Compensated absences due in more than one year	11,068	2,917	13,985
Total liabilities	1,326,406	699,608	2,026,014
NET ASSETS			
Invested in capital assets, net of related debt	1,599,796	7,627,188	9,226,984
Restricted for:			
Capital projects	968,308	-	968,308
Economic development	121,275	-	121,275
Public safety	14,116	-	14,116
Unrestricted	2,132,742	2,639,627	4,772,369
Total net assets	$ 4,836,237	$ 10,266,815	$ 15,103,052

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

CITY OF QUITMAN, GEORGIA

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	$ 771,573	$ 306,939	$ 85,057	$ -
Public safety	1,903,023	77,515	83,789	62,686
Public works	334,006	131,879	-	385,499
Recreation	143,077	-	-	-
Housing and development	8,320	-	14,922	-
Interest on long-term debt	50,844	-	-	-
Total governmental activities	3,210,843	516,333	183,768	448,185
Business-type activities:				
Water and sewer	938,459	1,086,018	-	-
Electric	4,294,555	4,859,382	-	-
Gas	701,121	825,082	-	-
Telecommunication	597,714	463,619	-	-
Sanitation	472,066	417,076	-	-
Total business-type activities	7,003,915	7,651,177	-	-
Total primary government	$ 10,214,758	$ 8,167,510	$ 183,768	$ 448,185
General revenues:				
Property taxes				
Sales taxes				
Insurance premium tax				
Other taxes				
Unrestricted investment earnings				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets, beginning of year				
Net assets, end of year				

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

Net (Expenses) Revenues and Changes in Net Assets		
Governmental Activities	**Business-type Activities**	**Total**
$ (379,577)	$ -	$ (379,577)
(1,679,033)	-	(1,679,033)
183,372	-	183,372
(143,077)	-	(143,077)
6,602	-	6,602
(50,844)	-	(50,844)
(2,062,557)	-	(2,062,557)
-	147,559	147,559
-	564,827	564,827
-	123,961	123,961
-	(134,095)	(134,095)
-	(54,990)	(54,990)
-	647,262	647,262
(2,062,557)	647,262	(1,415,295)
428,266	-	428,266
238,456	-	238,456
180,581	-	180,581
93,827	-	93,827
32,531	19,393	51,924
1,538,698	(1,538,698)	-
2,512,359	(1,519,305)	993,054
449,802	(872,043)	(422,241)
4,386,435	11,138,858	15,525,293
$ 4,836,237	$ 10,266,815	$ 15,103,052

CITY OF QUITMAN, GEORGIA

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2012

ASSETS	General	Sales Tax Fund	Other Governmental Funds	Totals Governmental Funds
Cash and cash equivalents	$ 661,788	$ 1,006,160	$ 150,756	$ 1,818,704
Investments	606,648	-	173,730	780,378
Taxes receivable, net	25,207	-	-	25,207
Accounts receivable	11,079	-	-	11,079
Notes receivable	218,040	-	411,581	629,621
Due from other funds	42,181	-	-	42,181
Due from other governments	74,726	62,201	-	136,927
Prepaid expenditures	97,454	-	-	97,454
Total assets	$ 1,737,123	$ 1,068,361	$ 736,067	$ 3,541,551
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 63,016	$ 90,048	$ 816	$ 153,880
Retainage payable	-	10,005	-	10,005
Accrued liabilities	6,656	-	-	6,656
Deferred revenues	20,086	-	-	20,086
Due to other governments	19,395	-	-	19,395
Total liabilities	109,153	100,053	816	210,022
FUND BALANCES				
Nonspendable:				
Prepaid expenditures	97,454	-	-	97,454
Long-term notes receivable	206,606	-	392,430	599,036
Restricted for:				
Capital projects	-	968,308	-	968,308
Economic development	-	-	121,275	121,275
Public safety	-	-	14,116	14,116
Committed to:				
Cemetery maintenance	-	-	207,430	207,430
Unassigned	1,323,910	-	-	1,323,910
Total fund balances	1,627,970	968,308	735,251	3,331,529
Total liabilities and fund balances	$ 1,737,123	$ 1,068,361	$ 736,067	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				2,621,092
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.				20,086
Certain liabilities are not due and payable in the current period and are therefore not reported in the funds.				(1,136,470)
Net assets of governmental activities				$ 4,836,237

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

MAULDIN & JENKINS

CITY OF QUITMAN, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General	Sales Tax Fund	Other Governmental Funds	Totals Governmental Funds
Revenues				
Property taxes	$ 433,544	$ -	$ -	$ 433,544
Sales taxes	238,456	-	-	238,456
Insurance premium taxes	180,581	-	-	180,581
Other taxes	93,827	-	-	93,827
Licenses and permits	53,168	-	-	53,168
Intergovernmental	246,454	382,712	-	629,166
Charges for services	173,841	-	-	173,841
Fines and forfeitures	56,468	-	-	56,468
Rent revenue	170,064	-	-	170,064
Interest revenue	17,867	2,787	14,664	35,318
Other revenues	62,792	-	-	62,792
Total revenues	1,727,062	385,499	14,664	2,127,225
Expenditures				
Current:				
General government	723,261	-	-	723,261
Public safety	1,917,222	-	5,565	1,922,787
Public works	241,666	-	816	242,482
Recreation	134,155	-	-	134,155
Housing and development	8,320	-	-	8,320
Capital outlay	-	190,176	-	190,176
Debt service:				
Principal	236,917	-	-	236,917
Interest	53,456	-	-	53,456
Total expenditures	3,314,997	190,176	6,381	3,511,554
Excess (deficiency) of revenues over (under) expenditures	(1,587,935)	195,323	8,283	(1,384,329)
Other financing sources (uses)				
Transfers in	1,704,351	-	-	1,704,351
Transfers out	(65,600)	-	-	(65,600)
Total other financing sources	1,638,751	-	-	1,638,751
Net change in fund balances	50,816	195,323	8,283	254,422
Fund balances, beginning of year	1,577,154	772,985	726,968	3,077,107
Fund balances, end of year	$ 1,627,970	$ 968,308	$ 735,251	$ 3,331,529

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

CITY OF QUITMAN, GEORGIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds	$	254,422
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 and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciaiton in the current period.		54,319
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net assets.		(100,053)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(5,278)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the principal payment on notes payable.		236,917
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		9,475
Net change in net assets - governmental activities	$	449,802

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

CITY OF QUITMAN, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Revenues:				
Property taxes	$ 432,000	$ 432,000	$ 433,544	$ 1,544
Sales taxes	217,500	217,500	238,456	20,956
Insurance premium taxes	250,000	250,000	180,581	(69,419)
Other taxes	85,000	85,000	93,827	8,827
Licenses and permits	58,000	58,000	53,168	(4,832)
Intergovernmental	122,600	122,600	246,454	123,854
Charges for services	144,000	144,000	173,841	29,841
Fines and forfeitures	90,000	90,000	56,468	(33,532)
Rent revenue	162,000	162,000	170,064	8,064
Interest revenue	6,000	6,000	17,867	11,867
Other revenues	17,000	17,000	62,792	45,792
Total revenues	1,584,100	1,584,100	1,727,062	142,962
Expenditures:				
Current:				
General government:				
Legislative	53,200	53,200	47,744	5,456
Commission division	57,400	57,400	62,208	(4,808)
Financial administration	660,100	660,100	613,309	46,791
Total general government	770,700	770,700	723,261	47,439
Public safety:				
Police	991,500	991,500	1,007,747	(16,247)
Fire	824,000	824,000	867,992	(43,992)
Animal control	50,200	50,200	41,483	8,717
Total public safety	1,865,700	1,865,700	1,917,222	(51,522)
Public works	236,000	236,000	241,666	(5,666)
Recreation	145,300	145,300	134,155	11,145
Housing and development	8,600	8,600	8,320	280
Debt service:				
Principal	183,000	183,000	236,917	(53,917)
Interest	-	-	53,456	(53,456)
	183,000	183,000	290,373	(107,373)
Total expenditures	3,209,300	3,209,300	3,314,997	(105,697)
Deficiency of revenues under expenditures	(1,625,200)	(1,625,200)	(1,587,935)	37,265
Other financing sources (uses)				
Transfers in	1,745,200	1,745,200	1,704,351	(40,849)
Transfers out	(120,000)	(120,000)	(65,600)	54,400
Total other financing sources	1,625,200	1,625,200	1,638,751	13,551
Net change in fund balances	-	-	50,816	50,816
Fund balances, beginning of year	1,577,154	1,577,154	1,577,154	-
Fund balances, end of year	$ 1,577,154	$ 1,577,154	$ 1,627,970	$ 50,816

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

CITY OF QUITMAN, GEORGIA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2012

	Water and Sewer Fund	Electric Fund	Gas Fund	Nonmajor Enterprise Funds	Totals
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 245,505	$ 26,020	$ 35,082	$ 82,367	$ 388,974
Investments	398,998	664,740	96,470	-	1,160,208
Accounts receivable	148,980	699,308	74,907	95,660	1,018,855
Notes receivable	-	21,196	-	-	21,196
Inventories	37,957	271,663	37,201	10,600	357,421
Prepaid expenses	9,652	10,973	5,543	2,032	28,200
Total current assets	841,092	1,693,900	249,203	190,659	2,974,854
NONCURRENT ASSETS					
Notes receivable, net of current portion	-	406,562	-	-	406,562
Capital assets:					
Nondepreciable	834,347	-	14,727	4,000	853,074
Depreciable, net of accumulated depreciation	5,070,976	1,578,984	49,564	74,590	6,774,114
Total noncurrent assets	5,905,323	1,985,546	64,291	78,590	8,033,750
Total assets	6,746,415	3,679,446	313,494	269,249	11,008,604
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	18,807	365,160	19,608	69,789	473,364
Accrued liabilities	8,688	6,902	-	-	15,590
Due to other funds	1,632	26,284	13,977	288	42,181
Customer deposits payable	27,299	132,801	21,373	-	181,473
Compensated absences, current portion	2,362	16,132	5,987	1,783	26,264
Total current liabilities	58,788	547,279	60,945	71,860	738,872
NONCURRENT LIABILITIES					
Compensated absences, net of current portion	262	1,792	665	198	2,917
Total long-term liabilities	262	1,792	665	198	2,917
Total liabilities	59,050	549,071	61,610	72,058	741,789
NET ASSETS					
Invested in capital assets	5,905,323	1,578,984	64,291	78,590	7,627,188
Unrestricted	782,042	1,551,391	187,593	118,601	2,639,627
Total net assets	$ 6,687,365	$ 3,130,375	$ 251,884	$ 197,191	$ 10,266,815

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

CITY OF QUITMAN, GEORGIA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Water and Sewer Fund	Electric Fund	Gas Fund	Nonmajor Enterprise Funds	Totals
OPERATING REVENUES					
Charges for services	$ 1,086,018	$ 4,829,414	$ 825,082	$ 877,966	$ 7,618,480
Other services	-	29,968	-	2,729	32,697
Total operating revenues	1,086,018	4,859,382	825,082	880,695	7,651,177
OPERATING EXPENSES					
Personal services	171,912	268,009	107,907	51,182	599,010
Costs of operations	180,657	3,781,080	533,801	951,020	5,446,558
Supplies	241,653	146,959	43,918	36,986	469,516
Depreciation	344,237	98,507	15,495	30,592	488,831
Total operating expenses	938,459	4,294,555	701,121	1,069,780	7,003,915
Operating income (loss)	147,559	564,827	123,961	(189,085)	647,262
NONOPERATING REVENUES					
Interest income	4,474	14,062	465	392	19,393
Total nonoperating income	4,474	14,062	465	392	19,393
Income (loss) before contributions and transfers	152,033	578,889	124,426	(188,693)	666,655
CAPITAL CONTRIBUTIONS	100,053	-	-	-	100,053
TRANSFERS					
Transfers in	-	-	-	80,600	80,600
Transfers out	(533,472)	(1,015,479)	(170,400)	-	(1,719,351)
Total transfers	(533,472)	(1,015,479)	(170,400)	80,600	(1,638,751)
Change in net assets	(281,386)	(436,590)	(45,974)	(108,093)	(872,043)
NET ASSETS, beginning of year	6,968,751	3,566,965	297,858	305,284	11,138,858
NET ASSETS, end of year	$ 6,687,365	$ 3,130,375	$ 251,884	$ 197,191	$ 10,266,815

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

CITY OF QUITMAN, GEORGIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Water and Sewer Fund	Electric Fund	Gas Fund	Nonmajor Enterprise Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	$ 1,095,201	$ 5,023,070	$ 842,248	$ 876,268	$ 7,836,787
Payments to suppliers	(445,704)	(4,027,327)	(576,545)	(986,929)	(6,036,505)
Payments to employees	(170,113)	(261,507)	(107,405)	(50,985)	(590,010)
Net cash provided by (used in) operating activities	479,384	734,236	158,298	(161,646)	1,210,272
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	-	-	-	80,600	80,600
Transfers out	(533,472)	(1,015,479)	(170,400)	-	(1,719,351)
Net cash provided by (used in) noncapital financing activities	(533,472)	(1,015,479)	(170,400)	80,600	(1,638,751)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	(3,479)	(189,444)	(458)	-	(193,381)
Interest and dividends received	4,474	14,062	465	392	19,393
Net cash provided by (used in) investing activities	995	(175,382)	7	392	(173,988)
Change in cash and cash equivalents	(53,093)	(456,625)	(12,095)	(80,654)	(602,467)
Cash and cash equivalents:					
Beginning of year	298,598	482,645	47,177	163,021	991,441
End of year	$ 245,505	$ 26,020	$ 35,082	$ 82,367	$ 388,974
Classified as:					
Cash and cash equivalents	$ 245,505	$ 26,020	$ 35,082	$ 82,367	$ 388,974

(Continued)

CITY OF QUITMAN, GEORGIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Water and Sewer Fund	Electric Fund	Gas Fund	Nonmajor Enterprise Funds	Totals
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	$ 147,559	$ 564,827	$ 123,961	$ (189,085)	$ 647,262
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	344,237	98,507	15,495	30,592	488,831
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	12,304	148,558	9,309	(2,517)	167,654
Decrease in notes receivable	-	21,540	-	-	21,540
(Increase) decrease in inventories	(12,308)	(116,321)	12,318	-	(116,311)
Decrease in due from other funds	-	594	-	-	594
Increase in prepaid expenses	(7,615)	(7,003)	(3,907)	(1,185)	(19,710)
Increase (decrease) in accounts payable	(2,526)	52,338	17,729	2,538	70,079
Increase in accrued liabilities	3,446	2,009	-	-	5,455
Increase (decrease) in customer deposits	248	68	(665)	-	(349)
Increase (decrease) in due to other funds	(3,369)	(7,072)	8,522	(1,910)	(3,829)
Decrease in due to other governments	(945)	(28,302)	(24,966)	(276)	(54,489)
Increase (decrease) in compensated absences	(1,647)	4,493	502	197	3,545
Net cash provided by (used in) operating activities	$ 479,384	$ 734,236	$ 158,298	$ (161,646)	$ 1,210,272
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES					
Capital asset additions contributed from other funds	$ 100,053	$ -	$ -	$ -	$ 100,053

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Quitman, Georgia (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. With respect to proprietary activities, the City has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting". The City has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

A. The Financial Reporting Entity

The City was incorporated in 1859 and operates under a Board – Manager form of government. The City Manager is the head of the administrative branch of government. As such, he is responsible for the day-to-day operations of city government. The legislative authority of the City is vested in the Mayor and three (3) Council members with an appointed City Manager. The City provides the following services and operations as authorized by its charter: public safety (police and fire); public works; recreation; planning and zoning; general administrative services; and public utilities (water, sewer, electric, gas, telecommunications and sanitation). As required by generally accepted accounting principles, the financial statements of the reporting entity include the accounts of all City operations and all activities of the City.

Based on criteria set forth by Governmental Accounting Standards Board (GASB) Statement 14, "The Financial Reporting Entity" as amended by GASB 39 "Determining Whether Certain Organizations are Component Units", the City was determined to have no component units as of June 30, 2012.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues.*

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

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

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

The City reports the following major governmental funds:

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

The ***Sales Tax fund*** is a capital projects fund used to account for construction of water and sewer system improvements. Financing is provided by a special purpose sales and use tax.

The City reports the following major proprietary funds:

The ***Water and Sewer fund*** accounts for the provision of water and sewer services to the residents of the City. All activities necessary to provide such services are accounted for in this fund.

The ***Electric fund*** accounts for the provision of electrical services to the residents of the City. All activities necessary to provide such services are accounted for in this fund.

The ***Gas fund*** accounts for the provision of gas services to the residents of the City. All activities necessary to provide such services are accounted for in this fund.

Additionally, the City reports the following fund type:

The ***special revenue funds*** account for revenue sources that are legally restricted, committed, or assigned for expenditures of specific purposes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function, gas and electric function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services provided. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system.

Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

Statutes authorize the City to invest in obligations of the United States and of its agencies and instrumentalities, bonds of the State of Georgia and its agencies, instrumentalities and political subdivisions, certificates of deposit of national or state banks that are fully insured or collateralized by United States obligations, repurchase agreements and Georgia Fund 1, the Local Government Investment Pool.

Cash deposits are reported at carrying amount, which reasonably estimates fair value.

E. Inventory and Prepaid Items

Inventory in the proprietary funds is valued at the lower of cost or market. The City accounts for inventory on the purchase basis. Prepaid expenses/expenditures are accounted for using the consumption method. A prepaid expense/expenditure is recognized when a cash expense/expenditure is made for goods or services that were purchased for consumption, but not consumed as of June 30.

F. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” in the fund financial statements. Short-term interfund loans are classified as “interfund receivables/payables”. Long-term interfund loans are classified as advances.

G. Grants from Other Governments

Federal and state governmental units represent an important source of supplementary funding used to finance housing, business development employment, construction programs, capital asset additions and other activities beneficial to the community. This funding, primarily in the form of grants, is recorded in both governmental and proprietary funds. Grant contributions in the proprietary funds, which are for the purpose of construction activities, land easement, or capital asset acquisitions, are recorded as capital contributions within the statement of revenues and expenses. For all funds, a grant receivable is recorded when the City has a right to receive the related grant amounts.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets, not including infrastructure, with an initial, individual cost of $5,000 and an estimated useful life in excess of one year. Infrastructure assets capitalized have an original cost of $250,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending. As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the City values these capital assets at the estimated fair value of the item at the date of its donation.

Major outlays for capital assets and major improvements are capitalized as projects are constructed. Interest incurred during the construction period of capital assets of the business-type activities is included as part of the capitalized value of the assets constructed. The amount of interest capitalized is calculated by offsetting interest expense incurred (from the date of borrowing until the date of completion of the project) with interest earned on investment proceeds over the same period. During the fiscal year ended June 30, 2012, no interest was capitalized.

Depreciation is provided on the straight-line method over the following estimated useful lives:

Buildings and improvements	20-50 years
Infrastructure	20-50 years
Machinery and equipment	3 - 15 years

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Long-Term Liabilities

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs and deferred charges, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

J. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when the employees separate from service with the City. Therefore, all sick pay is expensed when incurred. The City does allow for employees to accumulate earned but unused vacation time with such time being fully vested when earned. For the City's government-wide funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Equity

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

Fund Balance - Generally, fund balance represents the difference between the assets and liabilities under the current financial resources measurement focus of accounting. In the fund financial statements, governmental funds report fund balance 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 may modify or rescind the commitment.

- ***Assigned*** - Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City's Manager to assign fund balances.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Equity (Continued)

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

- Committed
- Assigned
- Unassigned

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

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

L. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities are not due and payable in the current period and therefore are not reported in the funds." The details of this $1,136,470 difference are as follows:

Notes payable	$	(1,021,296)
Compensated absences		(110,683)
Accrued interest payable		(4,491)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net assets - governmental activities*	$	(1,136,470)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense." The details of this $54,319 difference are as follows:

Capital outlay	$	187,880
Depreciation expense		(133,561)
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*	$	54,319

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities (Continued)

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds." The details of this $9,475 difference are as follows:

Compensated absences	$	6,863
Accrued interest		2,612
Net adjustment to increase *net changes in fund balance - total governmental funds* to arrive at *changes in net assets - governmental activities*	$	9,475

NOTE 3. LEGAL COMPLIANCE – BUDGETS

A. Budgets and Budgetary Accounting

The City followed these procedures in establishing the budgetary data reflected in the financial statements for the fiscal year ended June 30, 2012:

1. The Board of Commissioners prepares a proposed operating budget for the year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted at the City offices to obtain taxpayer comments.
3. After the public hearing, the Board of Commissioners formally adopts the budget.
4. The budget is employed as a management control device during the year.
5. Formal budgetary integration is employed as a management control device during the year for all the governmental funds and the enterprise funds. Budgets for the enterprise funds are prepared for planning and control purposes only.
6. Budgets for the governmental funds and the enterprise funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Budget amounts are as originally adopted or as amended by the Board of Commissioners.

NOTE 3. LEGAL COMPLIANCE – BUDGETS (CONTINUED)

B. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the City.

C. Excess of Expenditures Over Appropriations

For the fiscal year ended June 30, 2012, the following departments had excesses of actual expenditures over appropriations, which were funded by available fund balance and larger than anticipated revenues:

	Excess
General Fund	
Commission division	$ 4,808
Police	16,247
Fire	43,992
Public works	5,666
Debt service	107,373

NOTE 4. DEPOSITS AND INVESTMENTS

Credit risk. State statutes authorize the City to invest in obligations of the State of Georgia or other states; obligations issued by the U.S. government; obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States; obligations of any corporation of the U.S. government; prime bankers' acceptances; the local government investment pool established by state law; repurchase agreements; and obligations of other political subdivisions of the State of Georgia.

At June 30, 2012, the Commission had the following investments:

Investments	Maturities	Fair Value
Certificates of Deposit	4 month weighted average	$ 1,315,505
Municipal Competitive Trust - Short Term	N/A	625,081
		$ 1,940,586

Interest rate risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 4. DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial credit risk – deposits. The City does not have a formal custodial credit risk policy. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of June 30, 2012, the City had no uncollateralized deposits as defined by GASB pronouncements.

NOTE 5. RECEIVABLES

Receivables as of June 30, 2012, including the applicable allowances for uncollectible accounts, are as follows:

	General	Nonmajor Governmental	Water and Sewer	Electric
Receivables:				
Taxes	$ 36,181	$ -	$ -	$ -
Accounts	11,079	-	148,980	699,308
Notes	218,040	411,581	-	427,758
Gross receivables	265,300	411,581	148,980	1,127,066
Less: allowance for uncollectibles	(10,974)	-	-	-
Net total receivables	$ 254,326	$ 411,581	$ 148,980	$ 1,127,066

	Gas	Nonmajor Enterprise	Total
Receivables:			
Taxes	$ -	$ -	$ 36,181
Accounts	74,907	95,660	1,029,934
Notes	-	-	1,057,379
Gross receivables	74,907	95,660	2,123,494
Less: allowance for uncollectibles	-	-	(10,974)
Net total receivables	$ 74,907	$ 95,660	$ 2,112,520

Property Taxes

Property taxes were levied by the City on August 10, 2011 (Levy Date) based upon property values assessed as of January 1. The billings were mailed on October 20, 2011 and payable on or before December 20, 2011. The net receivables collected during the year ended June 30, 2012, and collected by August 31, 2012, are recognized as revenues in the year ended June 30, 2012. Net receivables estimated to be collected subsequent to August 31, 2012 are recorded as revenue when received. Taxes not paid by January 1 are subject to property tax liens. Property tax revenues are recognized when levied to the extent they result in current receivables.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	$ 231,953	$ -	$ -	$ -	$ 231,953
Construction in progress	-	100,053	-	(100,053)	-
Total capital assets, not being depreciated	231,953	100,053	-	(100,053)	231,953
Capital assets, being depreciated:					
Buildings	1,653,740	-	-	-	1,653,740
Machinery and equipment	1,357,812	87,827	-	-	1,445,639
Infrastructure	1,196,244	-	-	-	1,196,244
Total capital assets, being depreciated	4,207,796	87,827	-	-	4,295,623
Less accumulated depreciation for:					
Buildings	(554,178)	(34,300)	-	-	(588,478)
Machinery and equipment	(1,094,151)	(75,336)	-	-	(1,169,487)
Infrastructure	(124,594)	(23,925)	-	-	(148,519)
Total accumulated depreciation	(1,772,923)	(133,561)	-	-	(1,906,484)
Total capital assets, being depreciated, net	2,434,873	(45,734)	-	-	2,389,139
Governmental activities capital assets, net	$ 2,666,826	$ 54,319	$ -	$ (100,053)	$ 2,621,092

NOTE 6. CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities					
Capital assets, not being depreciated:					
Land	$ 708,741	$ -	$ -	$ -	$ 708,741
Construction in progress	44,280	-	-	100,053	144,333
Total capital assets, not being depreciated	753,021	-	-	100,053	853,074
Capital assets, being depreciated:					
Buildings	1,052,442	-	-	-	1,052,442
Machinery and equipment	5,190,830	-	-	-	5,190,830
Infrastructure	10,141,035	-	-	-	10,141,035
Total capital assets, being depreciated	16,384,307	-	-	-	16,384,307
Less accumulated depreciation for:					
Buildings	(817,661)	(22,495)	-	-	(840,156)
Machinery and equipment	(3,329,029)	(127,679)	-	-	(3,456,708)
Infrastructure	(4,974,672)	(338,657)	-	-	(5,313,329)
Total accumulated depreciation	(9,121,362)	(488,831)	-	-	(9,610,193)
Total capital assets, being depreciated, net	7,262,945	(488,831)	-	-	6,774,114
Business-type activities capital assets, net	$ 8,015,966	$ (488,831)	$ -	$ 100,053	$ 7,627,188

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

Governmental activities:	
General government	$ 45,422
Public safety	82,330
Recreation	5,809
Total depreciation expense - governmental activities	$ 133,561
Business - type activities	
Water and sewer	$ 344,237
Electric	98,507
Gas	15,495
Telecommunications	30,592
Total depreciation expense - business - type activities	$ 488,831

NOTE 7. LONG-TERM DEBT

The following is a summary of long-term debt activity for the fiscal year ended June 30, 2012:

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year
Governmental activities:					
Notes payable	$ 1,258,213	$ -	$ (236,917)	$ 1,021,296	$ 62,508
Compensated absences	117,546	94,903	(101,766)	110,683	99,615
Governmental activity long-term liabilities	$ 1,375,759	$ 94,903	$ (338,683)	$ 1,131,979	$ 162,123
Business-type activities:					
Compensated absences	$ 25,636	$ 21,153	$ (17,608)	$ 29,181	$ 26,264
Business-type activity long-term liabilities	$ 25,636	$ 21,153	$ (17,608)	$ 29,181	$ 26,264

Compensated absences are generally liquidated by the General Fund.

Notes Payable. The City has incurred debt to a financial institution for the purchase of equipment and buildings. These notes are as follows at June 30, 2012:

Purpose	Original Amount	Interest Rate	Due Date	Balance at June 30, 2012
Equipment	$ 188,092	5.13%	2016	$ 90,347
Building	1,000,000	3.98%	2029	930,949
				1,021,296
			Less current maturities	(62,508)
				$ 958,788

The notes payable debt service requirements to maturity, including interest are as follows:

Fiscal Year Payable	Total	Principal	Interest
2013	$ 103,514	$ 62,508	$ 41,006
2014	103,514	65,260	38,254
2015	103,515	68,134	35,381
2016	103,515	71,136	32,379
2017	81,076	51,717	29,359
2018 - 2022	392,572	278,609	113,963
2023 - 2027	392,572	339,842	52,730
2028 - 2029	86,198	84,090	2,108
	$ 1,366,476	$ 1,021,296	$ 345,180

NOTE 8. PENSION PLAN

Plan Description

The City's defined benefit pension plan, City of Quitman Retirement Plan, provides retirement, disability, and death benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the City's noncontributory defined benefit pension plan after completion of one year of service. Benefits vest after five years of service, and participants become eligible to retire at age 65 with 5 years of participation in the plan.

The City of Quitman is a participating member of the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer pension plan administered by the Board of Trustees of the System. The Georgia Municipal Employees Benefit System issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to:

Georgia Municipal Association
The Burgess Building
201 Pryor Street, SW
Atlanta, GA 30303-3606
Telephone: (404) 688-0472

As of January 1, 2012, the date of the most recent actuarial valuation, there were 98 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	34
Vested terminated employees not yet receiving benefits	23
Active employees	41
Total	98

Funding Policy

The City is required to contribute an actuarially determined amount monthly to the Plan's trust. The contribution amount is determined using the actuarial methods and assumption approved by the Board of Trustees, and must satisfy the minimum contribution requirements as set forth in the State of Georgia statutes. Plan participants do not contribute to the plan.

NOTE 8. PENSION PLAN (CONTINUED)

Annual Pension Cost

The City's annual pension cost for the last five years are as follows:

Fiscal Year Ended Beginning	Actuarially Required Contribution (ARC)	Actual Pension Contribution	Percentage of ARC Contributed	Net Pension (Obligation) Asset
3/1/2008	$ 132,945	$ 132,945	100.0 %	$ -
3/1/2009	226,461	226,461	100.0	-
1/1/2010*	145,851	145,851	100.0	-
1/1/2011	141,714	141,714	100.0	-
1/1/2012	168,562	N/A	N/A	-

* Valuation date was changed from March 1 to January 1

Plan Funded Status

As of the most recent valuation date, January 1, 2012, the funded status of the Plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded / Surplus AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2012	$ 2,949,371	$ 3,375,244	$ 425,873	87.38 %	$ 1,780,415	23.92 %

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the actuarial accrued liability. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect long-term perspective. Calculations are based on the substantive plan in effect as of January 1, 2012.

NOTE 8. PENSION PLAN (CONTINUED)

Actuarial Valuation Information

The City's actuarial valuation information is as follows:

Basis of Valuation	
Current Valuation Date	January 1, 2012
Actuarial Funding Method	Projected Unit Credit
Amortization Method	Closed level dollar for remaining unfunded liability
Remaining Amortization Period	Remaining amortization period varies for the bases
Asset Valuation Method	Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at end of year. The actuarial value is adjusted, if necesary, to be within 50% of market value for 2009, 44% of market value for 2010, 38% of market value for 2011, 32% of market value for 2012, 26% of market value for 2013, and 20% of market vlaue for 2014 and later years.
Actuarial Assumptions:	
Annual Return on Invested Plan Assets	7.75%
Expected Annual Inflation	0.00%
Projected Annual Salary Increases	3.50% plus age and service based merit increases

NOTE 9. INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances as of June 30, 2012, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Gas Fund	$ 13,977
General Fund	Electric Fund	26,284
General Fund	Water & Sewer Fund	1,632
General Fund	Nonmajor Enterprise Funds	288
		$ 42,181

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made.

NOTE 9. INTERFUND BALANCES AND TRANSFERS (CONTINUED)

Interfund transfers:

	Transfers Out				
Transfers In	General Fund	Water and Sewer Fund	Electric Fund	Gas Fund	Total
General Fund	$ -	$ 533,472	$ 1,000,479	$ 170,400	$ 1,704,351
Nonmajor Enterprise Funds	65,600	-	15,000	-	80,600
Total	$ 65,600	$ 533,472	$ 1,015,479	$ 170,400	$ 1,784,951

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that the statute or budget requires to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 10. RELATED ORGANIZATION

The City's governing body is responsible for appointing one or more members of the Board of Directors for the following organizations:

Brooks County Public Library Board of Trustees
Quitman-Brooks County Airport Authority
Brooks County Board of Health
Quitman-Brooks County Chamber of Commerce
Quitman Development Authority
Quitman Housing Authority

The City has no further accountability for these organizations.

NOTE 11. RELATED PARTY TRANSACTIONS

The City borrowed $1,000,000 on August 21, 2008 from Citizens National Bank to finance the purchase of a building. The terms of this note are disclosed in Note 7 of the financial statements. The Chairman of the City Board of Commissioners is a director of Citizens National Bank.

The building was deeded to the Brooks County Development Authority ("the Authority"). The Authority leases the building to Crown Health Care Laundry Services, LLC. The lease payments are used to pay the principal and interest of the City's loan at Citizens National Bank. The City Manager's spouse is the director of the Authority. The City also provided $75,000 in operating capital for the Authority during the fiscal year ended June 30, 2012. The related party transactions were conducted in the normal course of business with management and the Board of Commissioners in full knowledge of the relations.

NOTE 12. JOINT VENTURES

Southern Georgia Regional Commission

Under Georgia law, the City, in conjunction with other cities and counties in the south Georgia area, is a member of the Southern Georgia Regional Commission (RC) and is required to pay annual dues thereto. During its fiscal year ended June 30, 2012, the City paid $7,127 in such dues. Membership in an RC is required by the Official Code of Georgia Annotated (OCGA), Section 50-8-34, which provides for the organizational structure of the RC in Georgia. The RC Board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of an RC. Separate financial statements may be obtained from: Southern Georgia Regional Commission, 327 W. Savannah St., Valdosta, Georgia 30601.

Industrial Development Park

For the purpose of encouraging and promoting the expansion and development of industrial and commercial facilities within the City, the City of Quitman and Brooks County entered into a joint agreement for the acquisition and development of an industrial park area. The City will maintain the infrastructure of the park once construction is completed. Separate financial statements are not available.

NOTE 12. JOINT VENTURES (CONTINUED)

Landfill

The City and Brooks County have entered into an agreement to establish and operate a sanitary landfill operation for the mutual advantage of the governments. The City and Brooks County amended the original agreement (dated April 3, 1974) on March 4, 1992. This amendment changed the day to day management of the landfill to become the responsibility of the County as of February 1, 1992. Upon closure of the landfill, the present equipment shall be sold and the City shall receive sixty-five percent (65%) of the proceeds and Brooks County shall receive thirty-five percent (35%) of the proceeds. The City has no financial obligation related to the closure or post closure of the landfill. Separate financial statements are not available.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Litigation

The City is involved in a number of legal matters, which either have or could result in litigation. The nature of the lawsuits varies considerably. Liability, if any, which might result from these proceedings, would not, in the opinion of management and legal counsel, have a material adverse effect on the financial position of the City.

Grant Contingencies

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to the disallowance of certain expenditures previously reimbursed by those agencies. Based upon prior experience, City management believes such disallowances, if any, will not be significant.

Agreements with the Municipal Electric Authority of Georgia

The Municipal Electric Authority of Georgia (MEAG) is a public corporation and an instrumentality of the State of Georgia created to supply electricity to local government electric distribution systems. As provided by state law, MEAG establishes rates and charges so as to produce revenues sufficient to cover its costs, including debt service, but it may not operate any of its projects for profit unless any such profits inure to the benefit of the public.

NOTE 13. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Agreements with the Municipal Electric Authority of Georgia (Continued)

As of June 30, 2012, the City is an electric utility participant in MEAG and obligated to purchase all of its bulk power supply requirements from MEAG for a period not to exceed 50 years. The City has agreed to purchase all of its future power and energy requirements in excess of that received by the City through the Southeastern Power Administration at prices intended to cover the operating costs of the systems and to retire any debt incurred by the MEAG. In the event that revenues are insufficient to cover all costs and retire the outstanding debt, each participating City has guaranteed a portion of the unpaid debt based on their individual entitlement shares of the output and services of generating units acquired or constructed by MEAG. In addition, in the event of discontinued service to a participant in default, the City would be obligated to purchase additional power subject to contractual limitations. Payments to MEAG are made monthly based on KWH usage. The total payments under these contracts amounted to $3,671,897 in 2012.

At June 30, 2012, the outstanding debt of MEAG was approximately $5.9 billion. The City's guarantee varies by individual projects undertaken by MEAG and totals approximately $21.9 million at June 30, 2012.

NOTE 14. RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. All major risks are covered by commercial insurance. There were no significant reductions in insurance coverage from prior year, and there have been no settlements that exceed the City’s insurance coverage during the past three years.

CITY OF QUITMAN, GEORGIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

City of Quitman's Employee's Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
3/1/2006	$ 2,233,118	$ 2,427,611	$ 194,493	92.0 %	$ 1,492,576	13.0 %
3/1/2007	2,382,610	2,635,453	252,843	90.4	1,606,313	15.7
3/1/2008	2,545,964	2,802,809	256,845	90.8	1,652,064	15.5
3/1/2009	2,061,500	2,991,758	930,258	68.9	1,726,613	53.9
1/1/2010	2,682,743	3,075,571	392,828	87.2	1,731,852	22.7
1/1/2011	2,866,449	3,165,625	299,176	90.5	1,712,149	17.5
1/1/2012	2,949,371	3,375,244	425,873	87.4	1,780,415	23.9

The assumptions used in the preparation of the above schedule are disclosed in Note 8 to the financial statements.

CITY OF QUITMAN, GEORGIA

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The **Asset Forfeiture Fund** accounts for confiscated assets awarded to the Police's Department to be spent on law enforcement at the discretion of the Police Chief.

The **EDA Revolving Loan Fund** accounts for grant proceeds that are to be used as capital for loans to businesses to create jobs in the City.

The **Cemetery Trust Fund** is used to account for revenues that are to be used for the maintenance of the City's cemetery.

CITY OF QUITMAN, GEORGIA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2012

ASSETS	Special Revenue Funds: EDA Revolving Loan Fund	Special Revenue Funds: Asset Forfeiture Fund	Special Revenue Funds: Cemetery Trust Fund	Totals
Cash and cash equivalents	$ 102,124	$ 14,116	$ 34,516	$ 150,756
Investments	-	-	173,730	173,730
Note receivable	411,581	-	-	411,581
Total assets	$ 513,705	$ 14,116	$ 208,246	$ 736,067
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ -	$ -	$ 816	$ 816
Total liabilities	-	-	816	816
FUND BALANCES				
Nonspendable:				
Long-term notes receivable	392,430	-	-	392,430
Restricted for:				
Economic development	121,275	-	-	121,275
Public safety	-	14,116	-	14,116
Committed to:				
Cemetery maintenance	-	-	207,430	207,430
Total fund balances	513,705	14,116	207,430	735,251
Total liabilities and fund balances	$ 513,705	$ 14,116	$ 208,246	$ 736,067

CITY OF QUITMAN, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Special Revenue Funds			
	EDA Revolving Loan Fund	Asset Forfeiture Fund	Cemetery Trust Fund	Totals
Revenues:				
Interest revenue	$ 13,027	$ 55	$ 1,582	$ 14,664
Total revenues	13,027	55	1,582	14,664
Expenditures:				
Public safety	-	5,565	-	5,565
Public works	-	-	816	816
Total expenditures	-	5,565	816	6,381
Net change in fund balances	13,027	(5,510)	766	8,283
Fund balances, beginning of year	500,678	19,626	206,664	726,968
Fund balances, end of year	$ 513,705	$ 14,116	$ 207,430	$ 735,251

CITY OF QUITMAN, GEORGIA

NONMAJOR ENTERPRISE FUNDS

Operations of enterprise funds are designed to be self-supporting.

The **Telecommunications Fund** accounts for revenues and expenses relating to the cable and internet services provided to the residents of the City. All activities necessary to provide such services are accounted for in this fund.

The **Sanitation Fund** is used to account for the provisions of solid waste collection and disposal services to the residents of the City. All activities necessary to provide such services are accounted for in this fund.

CITY OF QUITMAN, GEORGIA

COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2012

	Telecommunication Fund	Sanitation Fund	Totals
ASSETS			
CURRENT ASSETS			
Cash	$ 30,163	$ 52,204	$ 82,367
Accounts receivable, net of allowances	41,036	54,624	95,660
Inventories	10,600	-	10,600
Prepaid expenses	2,032	-	2,032
Total current assets	83,831	106,828	190,659
NONCURRENT ASSETS			
Capital assets:			
Nondepreciable	-	4,000	4,000
Depreciable, net of accumulated depreciation	74,590	-	74,590
Total capital assets	74,590	4,000	78,590
Total noncurrent assets	74,590	4,000	78,590
Total assets	158,421	110,828	269,249
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	39,016	30,773	69,789
Due to other funds	288	-	288
Compensated absences, current portion	1,783	-	1,783
Total current liabilities	41,087	30,773	71,860
NONCURRENT LIABILITIES			
Compensated absences, net of current portion	198	-	198
Total long-term liabilities	198	-	198
Total liabilities	41,285	30,773	72,058
NET ASSETS			
Invested in capital assets, net of related debt	74,590	4,000	78,590
Unrestricted	42,546	76,055	118,601
Total net assets	$ 117,136	$ 80,055	$ 197,191

CITY OF QUITMAN, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Telecommunication Fund	Sanitation Fund	Totals
OPERATING REVENUES			
Charges for services	$ 460,890	$ 417,076	$ 877,966
Other services	2,729	-	2,729
Total operating revenues	463,619	417,076	880,695
OPERATING EXPENSES			
Personal services	51,182	-	51,182
Costs of operations	478,996	472,024	951,020
Supplies	36,944	42	36,986
Depreciation	30,592	-	30,592
Total operating expenses	597,714	472,066	1,069,780
Operating loss	(134,095)	(54,990)	(189,085)
NONOPERATING REVENUES			
Interest revenue	102	290	392
Total nonoperating revenues	102	290	392
Loss before transfers	(133,993)	(54,700)	(188,693)
TRANSFERS			
Transfers in	31,000	49,600	80,600
Total transfers	31,000	49,600	80,600
Change in net assets	(102,993)	(5,100)	(108,093)
NET ASSETS, beginning of year	220,129	85,155	305,284
NET ASSETS, end of year	$ 117,136	$ 80,055	$ 197,191

CITY OF QUITMAN, GEORGIA

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Telecommunication Fund	Sanitation Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	$ 459,869	$ 416,399	$ 876,268
Payments to suppliers	(511,911)	(475,018)	(986,929)
Payments to employees	(50,985)	-	(50,985)
Net cash used in operating activities	(103,027)	(58,619)	(161,646)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	31,000	49,600	80,600
Net cash provided by noncapital financing activities	31,000	49,600	80,600
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	102	290	392
Net cash provided by investing activities	102	290	392
Change in cash and cash equivalents	(71,925)	(8,729)	(80,654)
Cash and cash equivalents:			
Beginning of year	102,088	60,933	163,021
End of year	$ 30,163	$ 52,204	$ 82,367
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$ (134,095)	$ (54,990)	$ (189,085)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation	30,592	-	30,592
Increase in accounts receivable	(1,840)	(677)	(2,517)
Increase in prepaids expenses	(1,185)	-	(1,185)
Increase (decrease) in accounts payable	5,490	(2,952)	2,538
Decrease in due to other funds	(1,910)	-	(1,910)
Decrease in due to other governments	(276)	-	(276)
Increase in compensated absences	197	-	197
Net cash used in operating activities	$ (103,027)	$ (58,619)	$ (161,646)

CITY OF QUITMAN, GEORGIA

SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Project Description	Original Costs	Estimated Costs	Expenditures		
			Prior Years	Current Year	Total
		SPLOST I			
Sewer Projects	$ 3,000,000	$ 4,700,000	$ 4,234,680	$ 102,045	$ 4,336,725
		SPLOST II			
Sewer Projects	$ 1,449,000	$ 1,449,000	$ 688,706	$ 88,131	$ 776,837
Water Projects	1,449,000	1,449,000	114	-	114
Totals	$ 2,898,000	$ 2,898,000	$ 688,820	$ 88,131	$ 776,951

COMPLIANCE SECTION

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

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 Honorable Mayor and Members
of the City Council
Quitman, Georgia

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Quitman, Georgia, as of and for the fiscal year ended June 30, 2012, which collectively comprise the City of Quitman, Georgia's basic financial statements and have issued our report thereon dated December 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Quitman, Georgia, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Quitman, Georgia's internal control over financial reporting as a basis for designing our auditing procedures 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 Quitman, Georgia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Quitman, Georgia's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and responses as item 2012-1 to be a significant deficiency. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We also noted certain matters that we reported to management of the City of Quitman, Georgia in a separate letter dated December 21, 2012.

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

This report is intended solely for the information and use of management, the City Council, others within the City, federal awarding agencies, and the Georgia Department of Audits and Accounts, and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Albany, Georgia
December 21, 2012

CITY OF QUITMAN, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION I
SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	___yes __X__no
Significant deficiencies identified not considered to be material weaknesses?	__X__yes ___ none reported
Noncompliance material to financial statements noted?	____yes __X__no

Federal Awards

There was not an audit of major federal award programs as of June 30, 2012 due to the total amount expended being less than $500,000.

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011 - 1. Segregation of Duties

Criteria: Internal controls should be in place that provide reasonable assurance that an individual cannot misappropriate funds without such actions being detected during the normal course of business.

Condition: For the fiscal year ending June 30, 2012, we noted a lack of proper segregation of duties within the City Finance Department.

Context: Several instances of overlapping duties were noted during interviews regarding internal control procedures, specifically the same person preparing the deposit is reviewing the completed deposit to the daily receipt report and the employee that is involved in the cash receipt function is also involved in the accounts receivable function.

Effect: Failure to properly segregate duties between recording, distribution and reconciliation of accounts can lead to misappropriation of funds that is not detected during the normal course of business.

Recommendation: The duties of recording, distribution and reconciliation of accounts should be segregated between employees.

Views of Responsible Officials and Planned Corrective Action: We concur. We will work with staff to segregate duties and apply compensating controls to the extent possible.

CITY OF QUITMAN, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION III
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Not applicable.

CITY OF QUITMAN, GEORGIA

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

STATUS OF PRIOR YEAR AUDIT FINDINGS

2011 - 1. Segregation of Duties

Criteria: Internal controls should be in place that provides reasonable assurance that an individual cannot misappropriate funds without such actions being detected during the normal course of business.

Condition: For the fiscal year ending June 30, 2011, we noted a lack of proper segregation of duties within the City Finance Department.

Auditee Response/Status: Unresolved – See current year financial audit finding 2012-1.