CITY OF QUITMAN, GEORGIA

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2014

CITY OF QUITMAN, GEORGIA

FINANCIAL REPORT

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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 Council
Quitman, Georgia

Report on the Financial Statements

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 year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Quitman, Georgia's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Quitman, Georgia as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (on pages 4 through 14) and the Schedule of Funding Progress (on page 53) 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Quitman, Georgia's basic financial statements. The combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of special purpose local option sales tax proceeds, as required by the Official Code of Georgia 48-8-121, as listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2014, 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* in considering the City of Quitman, Georgia's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Albany, Georgia
December 6, 2014

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, 2014. 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 total assets exceeded its total liabilities by $15,839,917 (net position) for the fiscal year reported.

- Total net position is comprised of the following:

  (1) Net investment in capital assets of $9,261,969 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  (2) Net position restricted of $1,509,342 by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  (3) Unrestricted net position of $5,068,606 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 $3,972,105 this year. This compares to the prior year restated ending fund balance of $3,301,307 showing an increase of $670,798 during the current year. Unassigned fund balance of $2,179,034 at June 30, 2014 shows a $1,198,800 increase over the prior year.

- At the end of the current fiscal year, unassigned fund balance for the general fund was $2,179,034 or 70.8% 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 Position.* 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 position.* Over time, increases or decreases in net position 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 position 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 15-17 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 a basic financial statement.

The basic governmental fund financial statements are presented on pages 18 – 20 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 position at fiscal year-end is $15,839,917. The following table provides a summary of the City's net position:

Summary of Net Position

	Governmental Activities		Business-type Activities		Totals	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Assets:						
Current	$ 4,148,191	$ 3,500,352	$ 3,411,052	$ 3,068,886	$ 7,559,243	$ 6,569,238
Noncurrent:						
Capital assets	2,464,002	2,590,312	7,696,122	8,059,331	10,160,124	10,649,643
Total assets	6,612,193	6,090,664	11,107,174	11,128,217	17,719,367	17,218,881
Liabilities:						
Current liabilities	292,659	353,048	744,803	735,136	1,037,462	1,088,184
Long-term liabilities	839,329	907,617	2,659	3,425	841,988	911,042
Total liabilities	1,131,988	1,260,665	747,462	738,561	1,879,450	1,999,226
Net position:						
Net investment in capital assets	1,565,847	1,631,096	7,696,122	8,059,331	9,261,969	9,690,427
Restricted	1,509,342	949,556	-	-	1,509,342	949,556
Unrestricted	2,405,016	2,249,347	2,663,590	2,330,325	5,068,606	4,579,672
Total net position	$ 5,480,205	$ 4,829,999	$ 10,359,712	$ 10,389,656	$ 15,839,917	$ 15,219,655

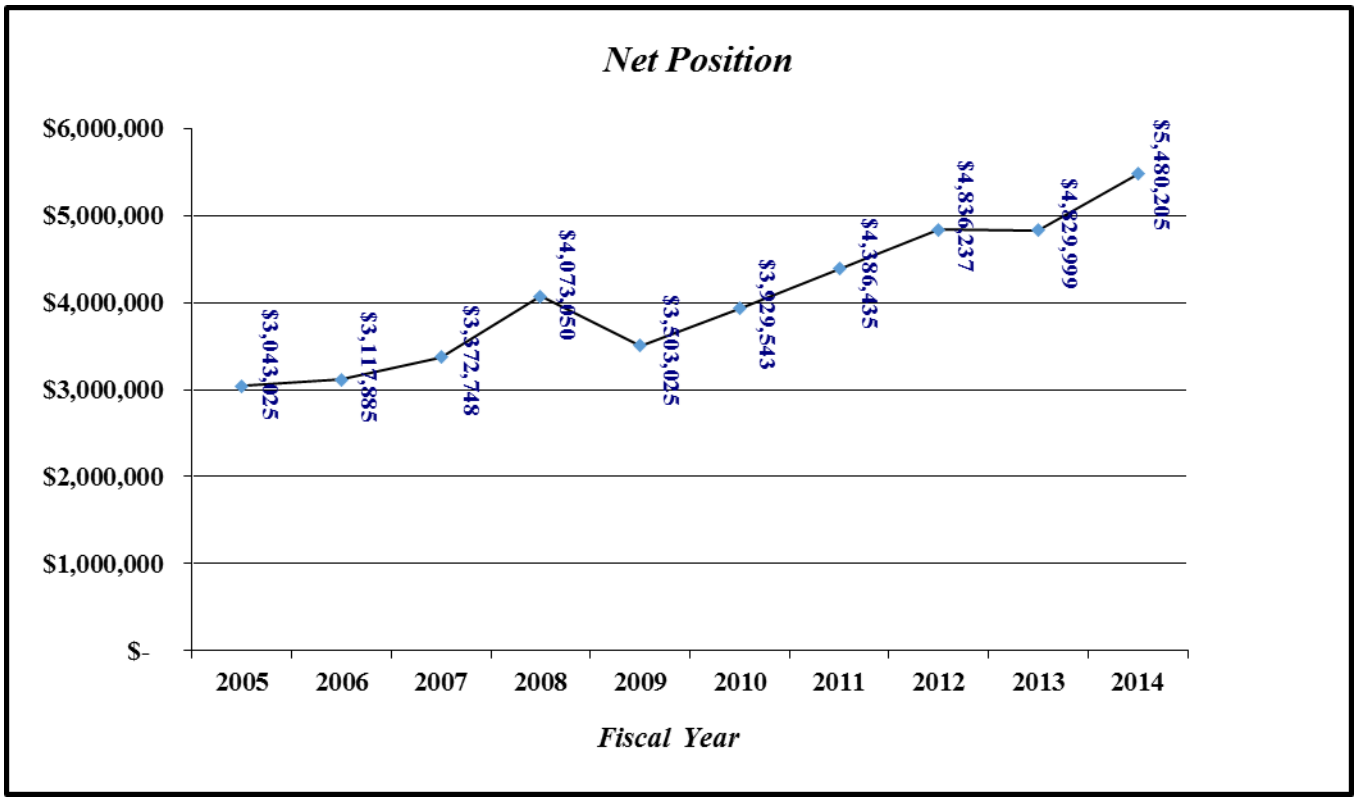
The City continues to maintain a high current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 14.2 to 1 (as compared to 9.9 to 1 at June 30, 2013). The current ratio for business-type activities is 4.6 to 1. At June 30, 2013, the current ratio was 4.2 to 1.

For the City overall, the current ratio is to 7.2 to 1 (as compared to 6.0 to 1 at June 30, 2013). These ratios are strong.

The City reported positive balances in net position for both governmental and business-type activities. Net position increased $650,206 for governmental activities and decreased by $29,944 for business-type activities. The City's overall financial position increased during fiscal year 2014.

Note that 28.5% of the governmental activities' net position is 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 74.2% of its net position on capital. Capital assets in the business-type activities also provide utility services, but they also generate revenues for this fund. 58.4% of the City's total net position is included in capital assets as compared to 63.7% at June 30, 2013.

The following chart reports the City's governmental activities' net position balances from fiscal year 2005 - 2014.



From fiscal year 2005 to fiscal year 2014, net position increased $2,437,180 or 90%.

(This page is continued on the subsequent page)

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

Summary of Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Revenues:						
Program:						
Charges for services	$ 300,966	$ 326,300	$ 9,111,320	$ 8,114,926	$ 9,412,286	$ 8,441,226
Operating grants	80,950	108,213	-	-	80,950	108,213
Capital grants	386,438	924,999	-	-	386,438	924,999
General:						
Taxes	943,615	940,925	-	-	943,615	940,925
Other	29,335	26,830	118,075	16,793	147,410	43,623
Total revenues	1,741,304	2,327,267	9,229,395	8,131,719	10,970,699	10,458,986
Program Expenses:						
General government	763,466	797,209	-	-	763,466	797,209
Public safety	1,788,171	1,854,653	-	-	1,788,171	1,854,653
Public works	342,700	264,020	-	-	342,700	264,020
Culture and recreation	162,803	139,316	-	-	162,803	139,316
Housing and development	8,082	6,997	-	-	8,082	6,997
Interest	34,878	40,418	-	-	34,878	40,418
Gas	-	-	713,188	699,651	713,188	699,651
Electric	-	-	4,477,826	4,537,360	4,477,826	4,537,360
Water and sewer	-	-	1,099,141	1,016,399	1,099,141	1,016,399
Sanitation	-	-	363,133	352,709	363,133	352,709
Telecommuications	-	-	597,049	633,651	597,049	633,651
Total expenses	3,100,100	3,102,613	7,250,337	7,239,770	10,350,437	10,342,383
Excess (deficiency)	(1,358,796)	(775,346)	1,979,058	891,949	620,262	116,603
Transfers	2,009,002	769,108	(2,009,002)	(769,108)	-	-
Change in net position	650,206	(6,238)	(29,944)	122,841	620,262	116,603
Beginning net position	4,829,999	4,836,237	10,389,656	10,266,815	15,219,655	15,103,052
Ending net position	$ 5,480,205	$ 4,829,999	$ 10,359,712	$10,389,656	$15,839,917	$15,219,655

GOVERNMENTAL REVENUES

The City is heavily reliant on both property taxes and sales taxes to support governmental operations and capital. Property taxes provided 26.6% of the City's total governmental revenues of fiscal year 2014 as compared with 18.6% in fiscal year 2013. Sales taxes are the second largest revenue source with $207,446 of revenues or 11.9% of the total revenues.

On the government-wide statement of activities, $80,950 is reported as operating grants for governmental activities. A majority of this revenue ($71,971) is from Brooks County Development Authority and was used to pay the principal and interest on the City's note payable. The balance of $8,979 is from the Corporation for National & Community Services to implement a police intoxilyzer education program.

On the government-wide statement of activities, $386,433 is reported as capital grants for governmental activities. Brooks County provided $323,263 of this amount for SPLOST water & sewer projects, in addition to $1,303 in interest recorded in the SPLOST Fund classified as capital contributions for government-wide reporting. The City received $48,290 in LMIG funds for roads/bridges from GA DOT and $13,582 from Bureau of Justice Assistance for the Justice Assistance Grant.

Because of the City's healthy financial position, we have been able to earn $29,335 in unrestricted investment earnings to support governmental activities. Also, note that program revenues cover only 24.8% of governmental operating expenses. This means that the government's taxpayers and the City's other general governmental revenues fund 75.2% 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 57.7% of the total governmental activities expenses as compared to 59.8% in fiscal year 2013. In fiscal year 2014, general government totaled over $763,000.

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

	2014		2013	
	Total Cost of Services	**Net Cost of Services**	**Total Cost of Services**	**Net Cost of Services**
General government	$ 763,466	$ 550,519	$ 797,209	$ 578,953
Public safety	1,788,171	1,710,486	1,854,653	1,257,557
Public works	342,700	(135,022)	264,020	(233,450)
Culture and recreation	162,803	162,803	139,316	139,316
Housing and development	8,082	8,082	6,997	(39,693)
Interest	34,878	34,878	40,418	40,418
Total	$ 3,100,100	$ 2,331,746	$ 3,102,613	$ 1,743,101

After reducing gross expenses by program revenues, public safety totals 60% of the net cost of services.

BUSINESS-TYPE ACTIVITIES

The operating revenues for the enterprise funds were $996,394 or 12.2% above the 2013 amount and operating expenses increased just $10,567 or about 1/10 of 1% above the 2013 amount. Within the total business type activities of the City, these activities reported $1,860,983 of operating income compared to an operating income of $875,156 in the prior year.

Gas Fund – Gas fund operating revenues increased $66,120 or 7.3%. Operating expenses increased just $13,537 or approximately 2%. The cost of gas purchased from MGAG increased $50,316 or 9.6% but was offset by other costs savings.

This fund transferred $100,100 to the general fund or 4.6% 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 $199,872 increase in net position as compared to an increase of $25,957 in fiscal year 2013. At June 30, 2014, the net position totaled $477,713, of which $83,982 is tied up in capital assets.

Electric Fund – Electric fund operating revenues increased $874,090 or 16.6%. This increase relates to a change from flat rate billing to a seasonal billing due to a rate study performed by Electric Cities of Georgia. Total operating expenses decreased just $59,534 or 1.2%. The change is due to a decrease in purchased electricity.

This fund transferred 1,661,313 to the general fund as compared to $1,182,598 in fiscal year 2013. At June 30, 2014, the fund reports net position of $2,836,336 of which 49.5% is tied up in capital assets.

Water and Sewer Fund – The water and sewer fund operating revenues decreased just $14,263. Operating expenses increased $82,742 or 8.1%. Personal services decreased $16,300 or 8.8% from fiscal year 2013 because the City did not replace the loss of an employee. The cost of supplies increased $36,308 or 12.1%.

This fund transferred $409,817 to the general fund. The transfer to the general fund assists in supporting general fund administrative costs. After transfers, this fund reported a $358,503 decrease in net position as compared to a $506,964 increase in fiscal year 2013. This fund reports net position of approximately $6.8 million of which 90.5% is tied up in capital assets.

Sanitation Fund – The sanitation fund operating revenues increased just $2,185. Operating expenses decreased $10,424 or just 3%. The fund reported a net increase in net position of $45,550. At June 30, 2014, this fund reported $279,445 in net position.

Telecommunications Fund – This fund's operating revenues increased $68,263 or 14.2% due to a rate increase. Operating expenses decreased $36,602 or 5.8%. This fund reports net position at June 30, 2014 of a $69,608 deficit.

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 $3,972,105. Of this year-end total, $2,179,034 is unassigned indicating availability for continuing City service requirements. Fund balance in a nonspendable form includes $86,852. The amount of fund balance legally restricted totals $1,509,342, which includes $971,403 of SPLOST funds set aside for water and sewer projects. Finally, the City reports $196,877, 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 $502,801 or 28.5% over the June 30, 2013 amount.

Property taxes in fiscal year 2014 increased $47,429 or 11.4% over the fiscal year 2013 amount. The increase is primarily due to the transportation ad valorem taxes being in place for the entire fiscal year.

The local option sales taxes decreased $28,087 or 11.9%. The decrease is due to the City experiencing a decline in taxable sales.

Charges for services were down $28,010 or 17.7%. The decrease is due to customers paying in a timely manner, which resulted in fewer late charges being assessed. The rebound of the economy is assumed a factor in this change. Intergovernmental revenue decreased $21,270 primarily because the City did receive a "COP's" grant.

In total, the actual revenues were less than the fiscal year 2013 by just $10,796.

The annual transfers from the three enterprise funds totaled $2,171,230 as compared to $1,804,341 in fiscal year 2013.

Total expenditures increased $80,815 or 2.7%.

General government expenditures decreased $25,831. In total, public safety costs were almost the same as those of fiscal year 2013. Public works expenditures increased $98,844 over the last fiscal year due to the use of LMIG funds from the current and prior year for projects in fiscal year 2014.

The cost of most other expenditure functions was consistent with fiscal year 2013.

The general fund's ending unassigned fund balance of $2,179,034 represents the equivalent of 70.9% of annual expenditures, which is considered adequate, but not excessive. This compares to a 32.7% amount at June 30, 2013.

The Sales Tax Fund – This fund recognized their share of the special purpose local option sales taxes or $323,263. They spent $167,613 leaving a fund balance of $971,403.

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 2014, the budget was not amended.

Property taxes were $33,323 or 7.8% above the final budget. The excess revenue over the budget is due to the City not having historical data available to accurately budget for this transportation ad valorem tax revenue stream. Sales taxes were $10,054 or 4.6% below budget. The insurance premium taxes were $18,598 above the budget as this revenue stream is difficult to estimate.

Revenue from intergovernmental revenues was $130,822 over the adopted budget. Since the City generally does not budget for federal grants, the actual revenues realized exceed the adopted budget.

Fines were below the budget by $13,695. Other revenues were $421,883 below the budget. Other revenues were $421,863 below the final budget. In total, the City realized 82.6% of the estimated revenues as compared to 107% in fiscal year 2013.

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 $155,152 or 20.3%. The "capital outlay" and "intergovernmental payments to other governments" sections of the budget were not spent.

In the public safety function, police expenditures were below the budget approximately $184,615, most of which relates to personal services resulting from staff vacancies. Fire expenditures were below the budget by $78,913 or 9.2% again relating to personal services.

The City spent 88.3% 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, 2014, was $2,464,002 and $7,696,122 respectively. The total decrease in this net investment was 4.9% for governmental activities and a 4.5% decrease for business-type activities. The overall increase was $489,518 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.

The following table provides a summary of capital asset activity.

Capital Assets

	Governmental Activities				Business-type Activities			
	2014		2013		2014		2013	
	Amount	%	Amount	%	Amount	%	Amount	%
Nondepreciable assets:								
Land	$ 231,953	100%	$ 231,953	100%	$ 708,741	89%	$ 708,741	100%
Construction in progress	-	0%	-	0%	84,117	11%	-	0%
Total nondepreciable assets	231,953	100%	231,953	100%	792,858	100%	708,741	100%
Depreciable assets:								
Buildings	1,653,740	37.6%	1,653,740	37.6%	1,257,998	7.2%	1,257,998	7.2%
Machinery and equipment	1,471,992	33.4%	1,471,992	33.4%	5,397,988	30.8%	5,380,105	30.8%
Infrastructure	1,276,074	29.0%	1,276,074	29.0%	10,885,590	62.0%	10,825,362	62.0%
Total depreciable assets	4,401,806	100.0%	4,401,806	100.0%	17,541,576	100.0%	17,463,465	100.0%
Less accumulated depreciation	2,169,757		2,043,447		10,638,312		10,112,876	
Book value - depreciable assets	2,232,049		2,358,359		6,903,264		7,350,589	
Percentage depreciated	49%		46%		61%		58%	
Book value - all assets	$ 2,464,002		$ 2,590,312		$ 7,696,122		$ 8,059,330	

At June 30, 2014, the depreciable capital assets for governmental activities were 49% depreciated. This percentage is slightly above the 2013 amount of 46%. 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 61% depreciated as compared to 58% at June 30, 2013.

The increases in governmental activities machinery and equipment relates to the purchase of:

1. A trailer ($5,000)
2. Mini excavator bobcat ($12,883)

The increase in the business-type infrastructure of $60,228 relates to additions for a gas line ($46,728) and a sewer main ($13,500).

During the year, the governmental activities transferred $78,111 (SPLOST financed) water and sewer capital assets to the water and sewer fund.

Long-term Debt

The outstanding debt balances at June 30, 2014 and 2013 follow:

Outstanding Borrowings

	Governmental Activities		Business-type Activities		Totals		% Change
	2014	2013	2014	2013	2014	2013	
Notes payable	$ 898,155	$ 959,216	$ -	$ -	$ 898,155	$ 959,216	-6%
Compensated absences	93,083	136,611	26,582	34,248	119,665	170,859	-30%
Total	$ 991,238	$ 1,095,827	$ 26,582	$ 34,248	$ 1,017,820	$ 1,130,075	-10%

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.

In 2014, Brooks County's annual unemployment rate was 7% as compared to the state's rate of 7.4%. Nationally, the unemployment rate for the same period averaged 5.9%. 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.

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 POSITION

JUNE 30, 2014

ASSETS	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	$ 3,098,970	$ 684,873	$ 3,783,843
Investments	728,616	1,089,160	1,817,776
Taxes receivable	41,148	-	41,148
Accounts receivable, net of allowances	34,448	1,303,597	1,338,045
Notes receivable	129,623	-	129,623
Due from other governments	74,288	-	74,288
Internal balances	(45,754)	45,754	-
Inventories	-	261,015	261,015
Prepaid expenses	86,852	26,653	113,505
Capital assets:			
Nondepreciable	231,953	792,858	1,024,811
Depreciable, net of accumulated depreciation	2,232,049	6,903,264	9,135,313
Total assets	6,612,193	11,107,174	17,719,367
LIABILITIES			
Accounts payable	110,602	508,943	619,545
Accrued liabilities	24,074	26,371	50,445
Due to other governments	6,074	-	6,074
Customer deposits payable	-	185,566	185,566
Notes payable due within one year	68,134	-	68,134
Notes payable due in more than one year	830,021	-	830,021
Compensated absences due within one year	83,775	23,923	107,698
Compensated absences due in more than one year	9,308	2,659	11,967
Total liabilities	1,131,988	747,462	1,879,450
NET POSITION			
Net investment in capital assets	1,565,847	7,696,122	9,261,969
Restricted for:			
Capital projects	971,403	-	971,403
Economic development	536,107	-	536,107
Public safety	1,832	-	1,832
Unrestricted	2,405,016	2,663,590	5,068,606
Total net position	$ 5,480,205	$ 10,359,712	$ 15,839,917

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, 2014

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	$ 763,466	$ 140,976	$ 71,971	$ -
Public safety	1,788,171	55,124	8,979	13,582
Public works	342,700	104,866	-	372,856
Recreation	162,803	-	-	-
Housing and development	8,082	-	-	-
Interest on long-term debt	34,878	-	-	-
Total governmental activities	3,100,100	300,966	80,950	386,438
Business-type activities:				
Water and sewer	1,099,141	1,032,922	-	-
Electric	4,477,826	6,155,409	-	-
Gas	713,188	966,243	-	-
Telecommunication	597,049	548,568	-	-
Sanitation	363,133	408,178	-	-
Total business-type activities	7,250,337	9,111,320	-	-
Total primary government	$ 10,350,437	$ 9,412,286	$ 80,950	$ 386,438
General revenues:				
Property taxes				
Sales taxes				
Business taxes				
Other taxes				
Unrestricted investment earnings				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position, beginning of year				
Net position, end of year				

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

Net (Expenses) Revenues and Changes in Net Position		
Governmental Activities	Business-type Activities	Total
$ (550,519)	$ -	$ (550,519)
(1,710,486)	-	(1,710,486)
135,022	-	135,022
(162,803)	-	(162,803)
(8,082)	-	(8,082)
(34,878)	-	(34,878)
(2,331,746)	-	(2,331,746)
-	(66,219)	(66,219)
-	1,677,583	1,677,583
-	253,055	253,055
-	(48,481)	(48,481)
-	45,045	45,045
-	1,860,983	1,860,983
(2,331,746)	1,860,983	(470,763)
462,919	-	462,919
207,446	-	207,446
198,598	-	198,598
74,652	-	74,652
29,335	118,075	147,410
2,009,002	(2,009,002)	-
2,981,952	(1,890,927)	1,091,025
650,206	(29,944)	620,262
4,829,999	10,389,656	15,219,655
$ 5,480,205	$ 10,359,712	$ 15,839,917

CITY OF QUITMAN, GEORGIA

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2014

ASSETS	General	Sales Tax Fund	Other Governmental Funds	Totals Governmental Funds
Cash and cash equivalents	$ 1,590,228	$ 949,315	$ 559,427	$ 3,098,970
Investments	553,227	-	175,389	728,616
Taxes receivable, net	41,148	-	-	41,148
Accounts receivable	34,448	-	-	34,448
Notes receivable	129,623	-	-	129,623
Due from other funds	30,984	-	-	30,984
Due from other governments	18,473	55,815	-	74,288
Prepaid expenditures	86,852	-	-	86,852
Total assets	$ 2,484,983	$ 1,005,130	$ 734,816	$ 4,224,929
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 76,875	$ 33,727	$ -	$ 110,602
Accrued liabilities	21,632	-	-	21,632
Due to other funds	76,738	-	-	76,738
Due to other governments	6,074	-	-	6,074
Total liabilities	181,319	33,727	-	215,046
DEFERRED INFLOW OF RESOURCES				
Unavailable revenue - property taxes	37,778	-	-	37,778
Total deferred inflow of resources	37,778	-	-	37,778
FUND BALANCES				
Nonspendable:				
Prepaid expenditures	86,852	-	-	86,852
Restricted for:				
Capital projects	-	971,403	-	971,403
Economic development	-	-	536,107	536,107
Public safety	-	-	1,832	1,832
Committed to:				
Cemetery maintenance	-	-	196,877	196,877
Unassigned	2,179,034	-	-	2,179,034
Total fund balances	2,265,886	971,403	734,816	3,972,105
Total liabilities, deferred inflow of resources, and fund balances	$ 2,484,983	$ 1,005,130	$ 734,816	

Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,464,002
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	37,778
Certain liabilities are not due and payable in the current period and are therefore not reported in the funds.	(993,680)
Net position of governmental activities	$ 5,480,205

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

CITY OF QUITMAN, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General	Sales Tax Fund	Other Governmental Funds	Totals Governmental Funds
Revenues				
Property taxes	$ 462,823	$ -	$ -	$ 462,823
Sales taxes	207,446	-	-	207,446
Insurance premium taxes	198,598	-	-	198,598
Other taxes	74,652	-	-	74,652
Licenses and permits	49,791	-	-	49,791
Intergovernmental	142,822	323,263	-	466,085
Charges for services	130,387	-	-	130,387
Fines and forfeitures	47,305	-	-	47,305
Rent revenue	53,750	-	-	53,750
Interest revenue	18,291	1,303	11,044	30,638
Other revenues	19,733	-	-	19,733
Total revenues	1,405,598	324,566	11,044	1,741,208
Expenditures				
Current:				
General government	728,331	-	-	728,331
Public safety	1,746,980	-	-	1,746,980
Public works	339,601	-	-	339,601
Recreation	154,061	-	-	154,061
Housing and development	8,082	-	-	8,082
Capital outlay	-	167,613	-	167,613
Debt service:				
Principal	61,061	-	-	61,061
Interest	35,911	-	-	35,911
Total expenditures	3,074,027	167,613	-	3,241,640
Deficiency of revenues under expenditures	(1,668,429)	156,953	11,044	(1,500,432)
Other financing sources (uses)				
Transfers in	2,171,230	-	-	2,171,230
Transfers out	-	-	-	-
Total other financing sources	2,171,230	-	-	2,171,230
Net change in fund balances	502,801	156,953	11,044	670,798
Fund balances, beginning of year	1,763,085	814,450	723,772	3,301,307
Fund balances, end of year	$ 2,265,886	$ 971,403	$ 734,816	$ 3,972,105

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, 2014

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds	$	670,798
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 depreciation in the current period.		35,918
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net position.		(162,228)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		96
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 position. This amount is the principal payment on notes payable.		61,061
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.		44,561
Net change in net position - governmental activities	$	650,206

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, 2014

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Revenues:				
Property taxes	$ 429,500	$ 429,500	$ 462,823	$ 33,323
Sales taxes	217,500	217,500	207,446	(10,054)
Insurance premium taxes	180,000	180,000	198,598	18,598
Other taxes	75,500	75,500	74,652	(848)
Licenses and permits	50,000	50,000	49,791	(209)
Intergovernmental	12,000	12,000	142,822	130,822
Charges for services	172,500	172,500	130,387	(42,113)
Fines and forfeitures	61,000	61,000	47,305	(13,695)
Rent revenue	51,000	51,000	53,750	2,750
Interest revenue	12,000	12,000	18,291	6,291
Other revenues	441,616	441,616	19,733	(421,883)
Total revenues	1,702,616	1,702,616	1,405,598	(297,018)
Expenditures:				
Current:				
General government:				
Legislative	53,900	53,900	49,718	4,182
Commission division	62,900	62,900	67,955	(5,055)
Financial administration	765,810	765,810	610,658	155,152
Total general government	882,610	882,610	728,331	154,279
Public safety:				
Police	1,105,675	1,105,675	921,060	184,615
Fire	860,750	860,750	781,837	78,913
Animal control	50,800	50,800	44,083	6,717
Total public safety	2,017,225	2,017,225	1,746,980	270,245
Public works	292,250	292,250	339,601	(47,351)
Recreation	149,350	149,350	154,061	(4,711)
Housing and development	11,800	11,800	8,082	3,718
Debt service:				
Principal	90,000	90,000	61,061	28,939
Interest	40,000	40,000	35,911	4,089
	130,000	130,000	96,972	33,028
Total expenditures	3,483,235	3,483,235	3,074,027	409,208
Deficiency of revenues under expenditures	(1,780,619)	(1,780,619)	(1,668,429)	112,190
Other financing sources (uses)				
Transfers in	1,780,619	1,780,619	2,171,230	390,611
Total other financing sources	1,780,619	1,780,619	2,171,230	390,611
Net change in fund balances	-	-	502,801	502,801
Fund balances, beginning of year	1,763,085	1,763,085	1,763,085	-
Fund balances, end of year	$ 1,763,085	$ 1,763,085	$ 2,265,886	$ 502,801

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

CITY OF QUITMAN, GEORGIA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

JUNE 30, 2014

	Water and Sewer Fund	Electric Fund	Gas Fund
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 225,487	$ 66,970	$ 114,709
Investments	291,583	700,733	96,844
Accounts receivable	141,712	949,345	110,192
Due from other funds	-	-	76,738
Inventories	35,548	196,988	17,879
Prepaid expenses	9,970	9,497	4,968
Total current assets	704,300	1,923,533	421,330
NONCURRENT ASSETS			
Advance to other funds	35,000	100,000	-
Capital assets:			
Nondepreciable	774,131	-	14,727
Depreciable, net of accumulated depreciation	5,413,492	1,404,301	69,255
Total noncurrent assets	6,222,623	1,504,301	83,982
Total assets	6,926,923	3,427,834	505,312
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	40,000	398,545	5,172
Accrued liabilities	14,169	12,077	125
Due to other funds	946	29,750	-
Customer deposits payable	27,673	136,280	21,613
Compensated absences, current portion	7,478	13,361	620
Total current liabilities	90,266	590,013	27,530
NONCURRENT LIABILITIES			
Compensated absences, net of current portion	831	1,485	69
Advance from other funds	-	-	-
Total long-term liabilities	831	1,485	69
Total liabilities	91,097	591,498	27,599
NET POSITION			
Investment in capital assets	6,187,623	1,404,301	83,982
Unrestricted (deficit)	648,203	1,432,035	393,731
Total net position (deficit)	$ 6,835,826	$ 2,836,336	$ 477,713

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

Telecommunication Fund	Nonmajor Enterprise Fund Sanitation Fund	Totals
$ 29,596	$ 248,111	$ 684,873
-	-	1,089,160
46,951	55,397	1,303,597
-	-	76,738
10,600	-	261,015
2,218	-	26,653
89,365	303,508	3,442,036
-	-	135,000
-	4,000	792,858
16,216	-	6,903,264
16,216	4,000	7,831,122
105,581	307,508	11,273,158
37,163	28,063	508,943
-	-	26,371
288	-	30,984
-	-	185,566
2,464	-	23,923
39,915	28,063	775,787
274	-	2,659
135,000	-	135,000
135,274	-	137,659
175,189	28,063	913,446
16,216	4,000	7,696,122
(85,824)	275,445	2,663,590
$ (69,608)	$ 279,445	$ 10,359,712

CITY OF QUITMAN, GEORGIA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Water and Sewer Fund	Electric Fund	Gas Fund
OPERATING REVENUES			
Charges for services	$ 1,032,922	$ 6,059,523	$ 966,243
Other services	-	95,886	-
Total operating revenues	1,032,922	6,155,409	966,243
OPERATING EXPENSES			
Personal services	169,969	261,726	95,526
Costs of operations	197,208	3,809,795	574,440
Supplies	335,545	319,723	29,973
Depreciation	396,419	86,582	13,249
Total operating expenses	1,099,141	4,477,826	713,188
Operating income (loss)	(66,219)	1,677,583	253,055
NONOPERATING REVENUES			
Interest income	2,033	115,288	189
Total nonoperating income	2,033	115,288	189
Income (loss) before contributions and transfers	(64,186)	1,792,871	253,244
CAPITAL CONTRIBUTIONS	115,500	-	46,728
TRANSFERS			
Transfers out	(409,817)	(1,661,313)	(100,100)
Total transfers	(409,817)	(1,661,313)	(100,100)
Change in net position	(358,503)	131,558	199,872
NET POSITION (DEFICIT), beginning of year	7,194,329	2,704,778	277,841
NET POSITION (DEFICIT), end of year	$ 6,835,826	$ 2,836,336	$ 477,713

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

Telecommunication Fund	Nonmajor Enterprise Fund Sanitation Fund	Totals
$ 546,016	$ 408,178	$ 9,012,882
2,552	-	98,438
548,568	408,178	9,111,320
51,446	-	578,667
474,906	363,062	5,419,411
41,510	71	726,822
29,187	-	525,437
597,049	363,133	7,250,337
(48,481)	45,045	1,860,983
60	505	118,075
60	505	118,075
(48,421)	45,550	1,979,058
-	-	162,228
-	-	(2,171,230)
-	-	(2,171,230)
(48,421)	45,550	(29,944)
(21,187)	233,895	10,389,656
$ (69,608)	$ 279,445	$ 10,359,712

CITY OF QUITMAN, GEORGIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Water and Sewer Fund	Electric Fund	Gas Fund
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	$ 1,068,675	$ 6,365,230	$ 856,517
Payments to suppliers	(521,516)	(4,065,566)	(628,440)
Payments to employees	(162,411)	(263,498)	(102,128)
Net cash provided by (used in) operating activities	384,748	2,036,166	125,949
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Advances to other funds	(35,000)	(100,000)	-
Advances from other funds	-	-	-
Transfers out	(409,817)	(1,661,313)	(100,100)
Net cash provided by (used in) noncapital financing activities	(444,817)	(1,761,313)	(100,100)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	-	(312,669)	(189)
Proceeds from the sale of investments	110,453	-	-
Interest and dividends received	2,033	92,793	189
Net cash provided by (used in) investing activities	112,486	(219,876)	-
Change in cash and cash equivalents	52,417	54,977	25,849
Cash and cash equivalents:			
Beginning of year	173,070	11,993	88,860
End of year	$ 225,487	$ 66,970	$ 114,709
Classified as:			
Cash and cash equivalents	$ 225,487	$ 66,970	$ 114,709

(Continued)

Telecommunication Fund	Nonmajor Enterprise Fund Sanitation Fund	Totals
$ 555,249	$ 407,014	$ 9,252,685
(609,015)	(367,247)	(6,191,784)
(51,698)	-	(579,735)
(105,464)	39,767	2,481,166
-	-	(135,000)
135,000	-	135,000
-	-	(2,171,230)
135,000	-	(2,171,230)
-	-	(312,858)
-	-	110,453
60	505	95,580
60	505	(106,825)
29,596	40,272	203,111
-	207,839	481,762
$ 29,596	$ 248,111	$ 684,873
$ 29,596	$ 248,111	$ 684,873

CITY OF QUITMAN, GEORGIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Water and Sewer Fund	Electric Fund	Gas Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	$ (66,219)	$ 1,677,583	$ 253,055
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	396,419	86,582	13,249
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(313)	(122,857)	(16,737)
Decrease in notes receivable	-	405,562	-
(Increase) decrease in inventories	(2,173)	38,159	(531)
(Increase) decrease in due from other funds	36,000	-	(78,139)
(Increase) decrease in prepaid expenses	(332)	(623)	62
Increase in outstanding checks in excess of bank balance	-	-	-
Increase (decrease) in accounts payable	13,742	26,416	(23,558)
Increase in accrued liabilities	3,585	2,914	99
Increase in customer deposits	66	371	150
Decrease in due to other funds	-	(73,255)	(15,000)
Increase (decrease) in compensated absences	3,973	(4,686)	(6,701)
Net cash provided by (used in) operating activities	$ 384,748	$ 2,036,166	$ 125,949
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Capital asset additions contributed from other funds	$ 115,500	$ -	$ 46,728

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

Telecommunication Fund	Nonmajor Enterprise Fund Sanitation Fund	Totals
$ (48,481)	$ 45,045	$ 1,860,983
29,187	-	525,437
6,681	(1,164)	(134,390)
-	-	405,562
-	-	35,455
-	-	(42,139)
-	-	(893)
(89,495)	-	(89,495)
(3,104)	(4,114)	9,382
-	-	6,598
-	-	587
-	-	(88,255)
(252)	-	(7,666)
$ (105,464)	$ 39,767	$ 2,481,166
$ -	$ -	$ 162,228

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. 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" and GASB No 61 "The Financial Reporting Entity", the City was determined to have no component units as of June 30, 2014.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position 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.

The ***Telecommunication 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.

Additionally, the City reports the following fund type:

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets (Continued)

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, 2014, 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

I. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts 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 expenses in the year the debt is issued.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

K. Deferred Outflows / Inflows of Resources

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

In addition to liabilities, the balance sheet and statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one type of item, arising only under a modified accrual basis of accounting, that qualifies for reporting in this category. *Unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes not received within 60 days after year end. These amounts are deferred and will be recognized as an inflow of resources in the period in which the amounts become available.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Equity

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

Fund Balance - Generally, fund balance represents the difference between the 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)

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

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

M. 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 position

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. 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 $993,680 difference are as follows:

Notes payable	$	(898,155)
Compensated absences		(93,083)
Accrued interest payable		(2,442)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net position of governmental activities*	$	(993,680)

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 position 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 $35,918 difference are as follows:

Capital outlay	$	162,228
Depreciation expense		(126,310)
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$	35,918

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 $44,561 difference are as follows:

Compensated absences	$	43,528
Accrued interest		1,033
Net adjustment to increase *net changes in fund balance - total governmental funds* to arrive at *changes in net position of governmental activities*	$	44,561

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, 2014:

1. The City Council 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 City Council 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 City Council.

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, 2014, 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	$ 5,055
Public works	47,351
Recreation	4,711

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, 2014, the City had the following investments:

Investments	Maturities	Fair Value
Certificates of Deposit	13 month weighted average	$ 1,117,043
Municipal Competitive Trust - Short Term	N/A	700,733
		$ 1,817,776

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, 2014, the City had no uncollateralized deposits as defined by GASB pronouncements.

NOTE 5. RECEIVABLES

Receivables as of June 30, 2014, including the applicable allowances for uncollectible accounts, are as follows:

	General	Water and Sewer	Electric	Gas
Receivables:				
Taxes	$ 77,690	$ -	$ -	$ -
Accounts	34,448	141,712	949,345	110,192
Notes	129,623	-	-	-
Gross receivables	241,761	141,712	949,345	110,192
Less: allowance for uncollectibles	(36,542)	-	-	-
Net total receivables	$ 205,219	$ 141,712	$ 949,345	$ 110,192

	Telecommunication	Nonmajor Enterprise Sanitation	Total
Receivables:			
Taxes	$ -	$ -	$ 77,690
Accounts	46,951	55,397	1,338,045
Notes	-	-	129,623
Gross receivables	46,951	55,397	1,545,358
Less: allowance for uncollectibles	-	-	(36,542)
Net total receivables	$ 46,951	$ 55,397	$ 1,508,816

NOTE 5. RECEIVABLES (CONTINUED)

Property taxes. Property taxes were levied by the City on August 10, 2013 (Levy Date) based upon property values assessed as of January 1. The billings were mailed on October 20, 2013 and payable on or before December 20, 2013. The net receivables collected during the year ended June 30, 2014, and collected by August 31, 2014, are recognized as revenues in the year ended June 30, 2014. Net receivables estimated to be collected subsequent to August 31, 2014 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, 2014 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	-	84,117	-	(84,117)	-
Total capital assets, not being depreciated	231,953	84,117	-	(84,117)	231,953
Capital assets, being depreciated:					
Buildings	1,653,740	-	-	-	1,653,740
Machinery and equipment	1,471,992	17,883	-	(17,883)	1,471,992
Infrastructure	1,276,074	60,228	-	(60,228)	1,276,074
Total capital assets, being depreciated	4,401,806	78,111	-	(78,111)	4,401,806
Less accumulated depreciation for:					
Buildings	(622,778)	(34,134)	-	-	(656,912)
Machinery and equipment	(1,247,427)	(66,655)	-	-	(1,314,082)
Infrastructure	(173,242)	(25,521)	-	-	(198,763)
Total accumulated depreciation	(2,043,447)	(126,310)	-	-	(2,169,757)
Total capital assets, being depreciated, net	2,358,359	(48,199)	-	(78,111)	2,232,049
Governmental activities capital assets, net	$ 2,590,312	$ 35,918	$ -	$ (162,228)	$ 2,464,002

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	-	-	-	84,117	84,117
Total capital assets, not being depreciated	708,741	-	-	84,117	792,858
Capital assets, being depreciated:					
Buildings	1,257,998	-	-	-	1,257,998
Machinery and equipment	5,380,105	-	-	17,883	5,397,988
Infrastructure	10,825,362	-	-	60,228	10,885,590
Total capital assets, being depreciated	17,463,465	-	-	78,111	17,541,576
Less accumulated depreciation for:					
Buildings	(865,287)	(30,196)	-	-	(895,483)
Machinery and equipment	(3,583,126)	(134,260)	-	-	(3,717,386)
Infrastructure	(5,664,462)	(360,981)	-	-	(6,025,443)
Total accumulated depreciation	(10,112,875)	(525,437)	-	-	(10,638,312)
Total capital assets, being depreciated, net	7,350,590	(525,437)	-	78,111	6,903,264
Business-type activities capital assets, net	$ 8,059,331	$ (525,437)	$ -	$ 162,228	$ 7,696,122

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

Governmental activities:	
General government	$ 44,544
Public safety	73,507
Recreation	8,259
Total depreciation expense - governmental activities	$ 126,310
Business - type activities	
Water and sewer	$ 396,419
Electric	86,582
Gas	13,249
Telecommunications	29,187
Total depreciation expense - business-type activities	$ 525,437

NOTE 7. LONG-TERM DEBT

The following is a summary of long-term debt activity for the fiscal year ended June 30, 2014:

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year
Governmental activities:					
Notes payable	$ 959,216	$ -	$ (61,061)	$ 898,155	$ 68,134
Compensated absences	136,611	36,643	(80,171)	93,083	83,775
Governmental activity long-term liabilities	$ 1,095,827	$ 36,643	$ (141,232)	$ 991,238	$ 151,909
Business-type activities:					
Compensated absences	$ 34,248	$ 13,665	$ (21,331)	$ 26,582	$ 23,923
Business-type activity long-term liabilities	$ 34,248	$ 13,665	$ (21,331)	$ 26,582	$ 23,923

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, 2014:

Purpose	Original Amount	Interest Rate	Due Date	Balance at June 30, 2014
Equipment	$ 188,092	5.13%	2016	$ 48,605
Building	1,000,000	3.98%	2029	849,550
				898,155
			Less current maturities	(68,134)
				$ 830,021

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

Fiscal Year Payable	Total	Principal	Interest
2015	$ 103,515	$ 68,134	$ 35,381
2016	103,515	71,136	32,379
2017	81,144	51,785	29,359
2018	78,515	51,384	27,131
2019	78,515	53,467	25,048
2020 - 2024	392,571	301,653	90,918
2025 - 2029	326,300	300,596	25,704
	$ 1,164,075	$ 898,155	$ 265,920

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, 2014, the date of the most recent actuarial valuation, there were 125 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	43
Vested terminated employees not yet receiving benefits	23
Active employees	59
Total	125

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 costs for the last five years are as follows:

Fiscal Year Beginning	Actuarially Required Contribution (ARC)	Actual Pension Contribution	Percentage of ARC Contributed	Net Pension (Obligation) Asset
3/1/2009	$ 226,461	$ 226,461	100.0 %	$ -
7/1/2010*	145,851	145,851	100.0	-
7/1/2011	141,714	141,714	100.0	-
7/1/2012	168,562	168,562	100.0	-
7/1/2013	175,431	175,431	100.0	-

* Valuation date was changed from March 1 to January 1

Plan Funded Status

As of the most recent valuation date, January 1, 2014, 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)
1/1/2014	$ 3,190,349	$ 3,728,853	$ 538,504	85.56 %	$ 1,772,955	30.37 %

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 position 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, 2014.

NOTE 8. PENSION PLAN (CONTINUED)

Actuarial Valuation Information

The City's actuarial valuation information is as follows:

Current Valuation Date	January 1, 2014
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, with a net effective amortization period of 10 years.
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 necessary, to be within 20% of market value.
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, 2014, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Electric Fund	$ 29,750
General Fund	Water & Sewer Fund	946
General Fund	Telecommunication Fund	288
Gas Fund	General Fund	76,738
		$ 107,722

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)

Advances to/from other funds:

Receivable Fund	Payable Fund	Amount
Water & Sewer Fund	Telecommunication Fund	$ 35,000
Electric Fund	Telecommunication Fund	100,000
		$ 135,000

Advances to/from other funds result from the loaning of funds to the Telecommunication Fund for operations.

Interfund transfers:

	Transfers Out			
Transfers In	Water and Sewer Fund	Electric Fund	Gas Fund	Total
General Fund	$ 409,817	$ 1,661,313	$ 100,100	$ 2,171,230
Total	$ 409,817	$ 1,661,313	$ 100,100	$ 2,171,230

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 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, 2014. The related party transactions were conducted in the normal course of business with management and the City Council in full knowledge of the transactions and relationships.

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, 2014, the City paid $6,758 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, 2014, 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 $3,639,362 in 2014.

At June 30, 2014, the outstanding debt of MEAG was approximately $5.9 billion. The City's guarantee varies by individual projects undertaken by MEAG and totals approximately $20.7 million at June 30, 2014.

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.

NOTE 15. DEFICIT NET POSITION

For the year ended June 30, 2014, the Telecommunication Fund had a deficit net position of $69,608. This deficit is expected to be reduced through increased user charges and transfers from the General Fund.

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
3/1/2009	$ 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
1/1/2013	3,063,636	3,583,509	519,873	85.5	1,726,408	30.1
1/1/2014	3,190,349	3,728,853	538,504	85.6	1,772,955	30.4

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, 2014

	Special Revenue Funds			
ASSETS	EDA Revolving Loan Fund	Asset Forfeiture Fund	Cemetery Trust Fund	Totals
Cash and cash equivalents	$ 536,107	$ 1,832	$ 21,488	$ 559,427
Investments	-	-	175,389	175,389
Total assets	$ 536,107	$ 1,832	$ 196,877	$ 734,816
FUND BALANCES				
Restricted for:				
Economic development	536,107	-	-	536,107
Public safety	-	1,832	-	1,832
Committed to:				
Cemetery maintenance	-	-	196,877	196,877
Total fund balances	536,107	1,832	196,877	734,816
Total liabilities and fund balances	$ 536,107	$ 1,832	$ 196,877	$ 734,816

CITY OF QUITMAN, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Special Revenue Funds			
	EDA Revolving Loan Fund	Asset Forfeiture Fund	Cemetery Trust Fund	Totals
Revenues:				
Interest revenue	$ 10,403	$ -	$ 641	$ 11,044
Total revenues	10,403	-	641	11,044
Net change in fund balances	10,403	-	641	11,044
Fund balances, beginning of year	525,704	1,832	196,236	723,772
Fund balances, end of year	$ 536,107	$ 1,832	$ 196,877	$ 734,816

CITY OF QUITMAN, GEORGIA

SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Project Description	Original Costs	Estimated Costs	Expenditures		
			Prior Years	Current Year	Total
SPLOST I					
Sewer Projects	$ 3,000,000	$ 4,700,000	$ 4,336,725	$ -	$ 4,336,725
SPLOST II					
Sewer Projects	$ 1,449,000	$ 1,449,000	$ 1,219,977	$ 165,566	$ 1,385,543
Water Projects	1,449,000	1,449,000	79,944	2,047	81,991
Totals	$ 2,898,000	$ 2,898,000	$ 1,299,921	$ 167,613	$ 1,467,534

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, 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, 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 (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Quitman, Georgia's basic financial statements and have issued our report thereon dated December 6, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described as item 2014-001 in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

Compliance and Other Matters

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

The City of Quitman, Georgia's Responses to Findings

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

Purpose of this Report

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

Mauldin & Jenkins, LLC

Albany, Georgia
December 6, 2014

CITY OF QUITMAN, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SECTION I
SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
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, 2014 due to the total amount expended being less than $500,000.

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2014 - 001. 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 ended June 30, 2014, 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, 2014

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, 2014

2013 - 001. 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 ended June 30, 2013, we noted a lack of proper segregation of duties within the City Finance Department.

Auditee Response/Status: Unresolved – See current year financial audit finding 2014-001.