CITY OF SPRINGFIELD, GEORGIA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2011

City of Springfield, Georgia
Audit of Financial Statements
For the Year Ended December 31, 2010

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CAINES, HODGES, PACE & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Donald T. Caines
Carlton H. Hodges
J. Edwin Pace, III
Member American Institute of Certified Public Accountants
and Georgia Society of Public Accountants

200 E. St. Julian Street
P. O. Box 10420
Savannah, Georgia 31412
(912) 233-6383

1009 N. Columbia Avenue
Suite A
Rincon, Georgia 31326
(912) 826-2345

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Springfield, Georgia

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated June 29, 2012, on our consideration of the City of Springfield, Georgia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 34 and 35 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City has not presented the management's discussion and analysis and budgetary comparison that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Springfield, Georgia's basic financial statements. The combining and individual fund schedules and other schedules, including the Schedule of Projects Constructed with Special Purpose Local Option Sales Tax Proceeds, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Carnes, Hodges, Pace & Company, P.C.

Rincon, Georgia
June 29, 2012

City of Springfield, Georgia
Statement of Net Assets
December 31, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents (Note 4)	$ 1,865,494	$ 1,279,702	$ 3,145,196
Restricted cash	61,086	665,170	726,256
Receivables			
Accounts	3,272	109,545	112,817
Taxes	336,776		336,776
Intergovernmental	115,784		115,784
Internal	428,090	(428,090)	
Prepaid items	14,313	4,037	18,350
Capital assets: (Note 7)			
Nondepreciable capital assets	455,728	2,440,114	2,895,842
Depreciable capital assets, net	1,131,980	8,991,742	10,123,722
Deferred loan fees		12,236	12,236
Total assets	4,412,523	13,074,456	17,486,979
Liabilities			
Current liabilities:			
Accounts payable	89,327	31,513	120,840
Accrued payroll	12,204	4,757	16,961
Accrued interest payable		3,523	3,523
Unearned revenue	12,093	480,092	492,185
Compensated absences payable	11,227	6,220	17,447
Notes payable		140,616	140,616
Current liabilities payable from restricted assets		69,465	69,465
Long-term liabilities: (Note 9)			
Compensated absences payable (net of (current portion)	7,484	4,147	11,631
Notes payable (net of current portion)		5,455,673	5,455,673
Total liabilities	132,335	6,196,006	6,328,341
Net assets			
Invested in capital assets, net of related debt (Note 11)	1,587,708	5,835,567	7,423,275
Restricted for:			
Capital projects	760,136		760,136
Debt service		500,305	500,305
Unrestricted (deficit)	1,932,344	542,578	2,474,922
Total net assets	$ 4,280,188	$ 6,878,450	$ 11,158,638

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

City of Springfield, Georgia
Statement of Activities
For the Year Ended December 31, 2011

Function/Program	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants, Contributions and Interest	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Business-Type Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Total
Primary government							
Governmental activities							
General government							
Administration	$ 204,671	$ 41,266			$ (163,405)		$ (163,405)
City buildings	28,749			$ 211,964	183,215		183,215
Special events	25,367				(25,367)		(25,367)
Other governmental services	243,504				(243,504)		(243,504)
Judicial - municipal court	86,393				(86,393)		(86,393)
Public safety - fire	153,121	31,994	$ 152,785	16,070	47,728		47,728
Public safety - police	470,192	147,446		22,572	(300,174)		(300,174)
Public works - streets and lanes	215,403			120,961	(94,442)		(94,442)
Public works - water and sewer				233,859	233,859		233,859
Housing and development - buildng and zoning	4,150	4,529			379		379
Parks and recreation	43,820			20,160	(23,660)		(23,660)
Interest	3,214				(3,214)		(3,214)
Total governmental activities	1,478,584	225,235	152,785	625,586	(474,978)	$ 0	(474,978)
Business-type activities:							
Water and sewer	976,273	875,042		38,398		(62,833)	(62,833)
Sanitation	133,973	158,471				24,498	24,498
Total business-type activities	1,110,246	1,033,513		38,398		(38,335)	(38,335)
Total primary government	$ 2,588,830	$ 1,258,748	$ 152,785	$ 663,984	(474,978)	(38,335)	(513,313)
		General revenues					
		Property taxes			243,340		243,340
		Local option sales tax			472,969		472,969
		Franchise taxes			163,480		163,480
		Motor vehicle tax			15,681		15,681
		Real estate transfer tax			746		746
		Intangible tax			5,206		5,206
		Alcohol taxes			75,022		75,022
		Insurance premium taxes			133,771		133,771
		Railroad equipment tax			342		342
		Investment earnings			11,033	9,680	20,713
		Gain on sale of capital asset				3,740	3,740
		Miscellaneous			37,594		37,594
		Total general revenues			1,159,184	13,420	1,172,604
		Transfers			(131,037)	131,037	0
		Total general revenues and transfers			1,028,147	144,457	1,172,604
		Change in net assets			553,169	106,122	659,291
		Net assets - beginning of year			3,727,019	6,772,328	10,499,347
		Net assets - end of year			$ 4,280,188	$ 6,878,450	$ 11,158,638

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

City of Springfield, Georgia
Balance Sheet
Governmental Funds
December 31, 2011

	General	SPLOST Capital Projects Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	$ 1,070,000	$ 795,494	$ 1,865,494
Restricted cash and cash equivalents	61,086		61,086
Receivables			
Taxes	347,894		347,894
Accounts	3,272		3,272
Intergovernmental - SPLOST	51,239	64,545	115,784
Interfund	548,231		548,231
Prepaid items	14,313		14,313
Total assets	$ 2,096,035	$ 860,039	$ 2,956,074
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 71,030	$ 18,297	$ 89,327
Accrued liabilities	12,204		12,204
Interfund payable	38,535	81,606	120,141
Deferred revenue	78,921		78,921
Total liabilities	200,690	99,903	300,593
Fund balances			
Nonspendable - prepaid items	14,313		14,313
Restricted for:			
Capital projects		760,136	760,136
Public safety	61,086		61,086
Unassigned	1,819,946		1,819,946
Total fund balances	1,895,345	760,136	2,655,481
Total liabilities and fund balances	$ 2,096,035	$ 860,039	$ 2,956,074

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

City of Springfield, Georgia
Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Assets
December 31, 2011

Total governmental fund balances		$ 2,655,481
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. However, in the statement of net assets the cost of these assets are capitalized and expensed over their estimated lives through annual depreciation expense.		
Cost of capital assets	$ 2,977,643	
Less accumulated depreciation	(1,389,935)	1,587,708
Property taxes are deferred in the governmental funds because they are not available but they are reported as revenue in the statement of activities, net of an allowance for doubtful accounts:		
Deferred revenues	66,828	
Allowance for doubtful accounts	(11,118)	55,710
Liabilities, including capital lease liability, accrued interest and compensated absences are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences payable		(18,711)
Net assets of governmental activities		$ 4,280,188

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

City of Springfield, Georgia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	General	SPLOST Capital Projects Fund	Total Governmental Funds
Revenues			
Taxes	$ 1,181,689		$ 1,181,689
Intergovernmental	375,167	$ 399,241	774,408
Licenses and permits	45,795		45,795
Charges for services	31,994		31,994
Fines and forfeitures	147,446		147,446
Investment earnings	11,033	3,963	14,996
Miscellaneous	37,594		37,594
Total revenues	1,830,718	403,204	2,233,922
Expenditures			
Current			
General government			
Administration	204,178		204,178
City buildings	17,735		17,735
Special events	25,367		25,367
Other governmental services	381,106		381,106
Judicial - municipal court	85,979		85,979
Public safety			
Police	460,172		460,172
Fire	115,414		115,414
Public works - streets and lanes	423,857		423,857
Housing and development - building and zoning	4,150		4,150
Parks and recreation	40,661		40,661
Capital outlays		54,122	54,122
Debt service			
Principal	186,593		186,593
Interest	6,594		6,594
Total expenditures	1,951,806	54,122	2,005,928
Excess (deficit) of revenues to expenditures	(121,088)	349,082	227,994
Other financing uses			
Transfers out		(131,037)	(131,037)
Net change in fund balances	(121,088)	218,045	96,957
Fund balances - beginning of year	2,016,433	542,091	2,558,524
Fund balances - end of year	$ 1,895,345	$ 760,136	$ 2,655,481

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

City of Springfield, Georgia

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

For the Year Ended December 31, 2011

Net changes in fund balances - total governmental funds		$ 96,957
Amounts reported for governmental activities in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period.		
Depreciation expense	$ (117,727)	
Capital outlay	454,652	336,925
Property taxes in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Deferred at 12/31/11	66,828	
Deferred at 12/31/10	(137,960)	
Allowance for doubtful accounts at 12/31/11	(11,118)	
Allowance for doubtful accounts at 12/31/10	11,118	(71,132)
Interest expense reported in the statement of activities does not require the use of current financial resources and therefore is not reported as an expenditure in governmental funds.		
Liability at 12/31/11	0	
Liability at 12/31/10	3,380	3,380
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets.		186,593
Compensated absences 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		
Liability at 12/31/11	(18,711)	
Liability at 12/31/10	19,157	446
Change in net assets of governmental activities		$ 553,169

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

City of Springfield, Georgia
Statement of Net Assets
Proprietary Funds
December 31, 2011

	Water and Sewer	Sanitation	Total
Assets			
Current assets:			
Cash and cash equivalents			
Unrestricted	$ 1,279,702		$ 1,279,702
Restricted	665,170		665,170
Receivables - accounts	94,086	$ 15,459	109,545
Interfund receivables		49,690	49,690
Prepaid expenses	4,037		4,037
Total current assets	2,042,995	65,149	2,108,144
Noncurrent assets			
Capital assets			
Nondepreciable capital assets	2,440,114		2,440,114
Depreciable capital assets, net	8,991,742		8,991,742
Deferred loan fees	12,236		12,236
Total noncurrent assets	11,444,092	0	11,444,092
Total assets	13,487,087	65,149	13,552,236
Liabilities			
Current liabilities:			
Accounts payable	21,106	10,407	31,513
Accrued payroll	4,757		4,757
Accrued interest payable	3,523		3,523
Interfund payable	477,780		477,780
Unearned revenue	480,092		480,092
Compensated absences payable	6,220		6,220
Notes payable	140,616		140,616
Current liabilities payable from restricted assets -			
Customer deposits	69,465		69,465
Total current liabilities	1,203,559	10,407	1,213,966
Long-term liabilities:			
Compensated absences payable (net of current portion	4,147		4,147
Notes payable (net of current portion)	5,455,673		5,455,673
Total long-term liabilities	5,459,820	0	5,459,820
Total liabilities	6,663,379	10,407	6,673,786
Net assets			
Invested in capital assets, net of related debt	5,835,567		5,835,567
Reserved for debt service	500,305		500,305
Unrestricted	487,836	54,742	542,578
Total net assets	$ 6,823,708	$ 54,742	$ 6,878,450

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

City of Springfield, Georgia
Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2011

	Water and Sewer	Sanitation	Total
Operating revenues			
Charges for services	$ 822,249	$ 158,471	$ 980,720
Other revenue	52,793		52,793
Total operating revenues	875,042	158,471	1,033,513
Operating expenses			
Salaries	238,808		238,808
Payroll taxes and employee benefits	76,724		76,724
Waste services contract		133,973	133,973
Uniforms and safety equipment	2,125		2,125
Professional fees	13,850		13,850
Utilities	116,862		116,862
Maintenance - repairs	64,259		64,259
Materials and supplies	83,446		83,446
Gas, oil and tires	15,929		15,929
Office supplies and expenses	6,708		6,708
Telephone	4,075		4,075
Insurance	22,866		22,866
Training	4,435		4,435
Miscellaneous	741		741
Amortization	422		422
Depreciation	292,970		292,970
Total operating expenses	944,220	133,973	1,078,193
Operating income (loss)	(69,178)	24,498	(44,680)
Non-operating revenues			
Impact fees	38,398		38,398
Investment earnings	9,680		9,680
Interest expense	(32,053)		(32,053)
Gain on sale of capital assets	3,740		3,740
Total non-operating revenues	19,765	0	19,765
Income (loss) before transfers	(49,413)	24,498	(24,915)
Transfers in	131,037		131,037
Change net in assets	81,624	24,498	106,122
Net assets - beginning of year	6,742,084	30,244	6,772,328
Net assets - end of year	$ 6,823,708	$ 54,742	$ 6,878,450

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

City of Springfield, Georgia
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	Water and Sewer	Sanitation	Total
Increase (decrease) in cash and cash equivalents			
Cash flows from operating activities			
Cash received from customers	$ 860,303	$ 158,471	$ 1,018,774
Cash payments to employees for personal services	(314,593)		(314,593)
Cash payments for goods and services	(411,698)	(133,815)	(545,513)
Net cash provided by operating activities	134,012	24,656	158,668
Cash flows from noncapital financing activities			
Interfund payable	20,352	(24,656)	(4,304)
Cash flows from capital and related financing activities			
Proceeds from long-term debt	180,727		180,727
Repayment of long-term debt	(21,673)		(21,673)
Interest paid	(28,530)		(28,530)
Interfund transfers	131,037		131,037
Payments for capital acquisitions	(269,564)		(269,564)
Proceeds from impact fees	38,398		38,398
Net cash provided by capital and related financing activities	30,395	0	30,395
Cash flows from investing activities			
Investment earnings	9,680		9,680
Proceeds from sale of asset	3,740		3,740
Net cash provided by investing activities	13,420		13,420
Net increase in cash and cash equivalents	198,179		198,179
Cash and cash equivalents - beginning of year	1,746,693		1,746,693
Cash and cash equivalents - end of year	$ 1,944,872	$ 0	$ 1,944,872

(continued)

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

City of Springfield, Georgia
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	Water and Sewer	Sanitation	Total
Reconciliation of operating income to net cash provided by operating activities			
Operating income (loss)	$ (69,178)	$ 24,498	$ (44,680)
Adjustments:			
Amortization	422		422
Depreciation	292,970		292,970
(Increase) decrease in current assets			
Accounts receivable	(7,340)		(7,340)
Prepaid expenses	(114)		(114)
			0
Increase (decrease) in current liabilities			
Accounts payable	(76,288)	158	(76,130)
Compensated absences payable	939		939
Deferred revenues	(1,484)		(1,484)
Customer deposits	(5,915)		(5,915)
Net cash provided by operating activities	$ 134,012	$ 24,656	$ 158,668

Additional cash flow information (noncash transactions)

The city incurred accrued interest on loans utilized to construct water and sewer projects. This interest totaled $170,634 and was capitalized as construction in progress and added to the principal amount of notes payable.

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

Note 1 - Reporting Entity

The City of Springfield, Georgia (the City) was incorporated under the provisions of Georgia law on August 19, 1912. The City operates under a Council-City Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), streets and lanes, sanitation, planning and zoning, water and sewer, and various administrative services.

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

The City has no component units and there are no organizations which have been excluded from the reporting entity.

Note 2 - Summary of Significant Accounting Policies

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

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

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

Government-wide Financial Statements - The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole. The primary government is presented separately within these financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and grants and City's general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

Major individual governmental and enterprise funds are reported in separate columns on the fund statements.

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

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

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

The SPLOST Capital Projects Fund – This fund is used to account for financial resources to be used for the acquisition or construction or other capital projects under a Special Local Option Sales Tax referendum.

Proprietary Funds -These fund types apply all applicable pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989 that are not in conflict with applicable GASB pronouncements.

Note 2 - Summary of Significant Accounting Policies (continued)

Enterprise Funds: – These funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) to provide certain goods and service to the general public be financed or recovered primarily through user charges or where the governing body has deemed that periodic determination of net income is appropriate for purposes of monitoring capital maintenance, accountability, or other purposes. The City accounts for its water, sewer , and reclaimed water operations in the Water and Sewer Fund and solid waste collection and disposal in the Sanitation Fund.

Measurement Focus

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

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

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

Basis of Accounting

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

Revenues - Non-exchange Transactions - Non-exchange transactions in which the City receives value without directly giving equal value in return, include sales taxes, property taxes, grants and donations. On an accrual basis, revenue from sales taxes is recognized in the period in which the taxable sale takes place. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (Note 6) Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions also must be available (i.e., collected within 60 days) before it can be recognized.

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

Deferred/Unearned Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

On governmental fund financial statements (i.e., on the modified accrual basis), receivables that will not be collected within the available period have been reported as deferred revenue (i.e., they are measurable but not available) rather than as revenue.

Grants and entitlements received before the eligibility requirements are met (e.g., cash advances) also are recorded as deferred revenue.

Deferred revenue is reclassified as unearned revenue on the government-wide statement of net assets.

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

Assets, Liabilities and Fund Equity

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

Receivables - All trade and property tax receivables are reported net of an allowance for uncollectibles, where applicable. Unbilled water and sewer charges are accrued as receivables and revenue at December 31, 2011.

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

Prepaid items - Payments made to vendors for services that will benefit periods beyond December 31, 2011, are recorded as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. At the fund reporting level, an equal amount of fund balance is reserved as this amount is not available for general appropriation.

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of one thousand dollars. The City's infrastructure consists of roads, bridges, water lines and sewer lines. Improvements to capital assets are capitalized. The City has capitalized only those infrastructure costs related to roads and bridges incurred in periods subsequent to December 31, 2003. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets utilized by the enterprise funds is capitalized.

Note 2 - Summary of Significant Accounting Policies (continued)

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

	Estimated Useful Lives	
Asset Class	Governmental Activities	Business-type Type Activities
Buildings and improvements	30-50 Years	7-10 Years
Machinery and equipment	5-10 years	
Furniture and fixtures	5 years	5 Years
Vehicles	5-8 years	Years
Infrastructure	3-10 years	40 Years
Water System	---	40 Years
Sewer collection system	---	40 Years

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

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

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

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

Bond premiums, discounts and issuance costs - On the government-wide statement of net assets and the proprietary fund type statement of net assets, bond premiums and discounts are netted against bonds payable and bond issuance costs are reported as deferred charges. On the government-wide and proprietary fund type statement of activities, bond premiums and discounts and bond issuance costs are deferred and amortized over the life of the bonds using the effective interest method.

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

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

Fund Balance – Beginning with the year ended June 30, 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance - amounts that are not in spendable form (such as prepaid items) or are required to be maintained intact.

Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions, or by enabling legislation.

Committed fund balance - amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. the City Council). To be reported as committed, amounts cannot be used for any other purposes unless the city takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the City intends to use for a specific purpose. Intent can be expressed by the City or by an official or body to which the City Council delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

Note 2 - Summary of Significant Accounting Policies (continued)

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purposes (such as the purchase of capital assets, construction, debt service, or other purposes). Additionally, assigned fund balance may reflect management's intended use of resources to be set forth in current or future annual budgets and any amendments thereto.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. This net asset amount also is adjusted by any bond issuance deferral amounts. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net assets are reported as unrestricted.

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

Operating revenues and expenses - Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water and sewer. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

Comparative data - Comparative total data for the prior year have been presented only for individual funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified to be consistent with the current year's presentation.

Note 3 – Stewardship, Compliance and Accountability

Budgetary Information
The City adopts an annual operating budget for the general fund and the capital projects fund. The budget resolution reflects the total of each department's appropriation in each fund.

The general and capital projects fund's budgets are adopted on a basis consistent with GAAP. For fund level reporting purposes, debt service expenditures are reported separately from current operating expenditures. For budgetary purposes, debt service expenditures are included in the departmental expenses charged for the expenditures.

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

Transfer of budget amounts can occur within departments. All unexpended annual appropriations lapse at year-end.

Note 4 - Cash and Cash Equivalents

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk; however, as of December 31, 2011, the government is not exposed to custodial credit risk.

Note 5 - Receivables

Receivables at December 31, 2011, consisted of taxes, interest, and accounts (billings for user charges).

Receivables and payables are recorded on the City's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectibility.

Note 6 - Property Taxes

Property taxes are assessed based upon property values determined by the Effingham County Tax Assessor's Office at January 1, 2011. The levy date was November 8, 2011, and the tax bills were mailed November 20, 2011, and were due January 20, 2012.

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Note 7 - Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2011, was as follows:

	Balance 12/31/10	Additions	Deductions	Reclass-ifications	Balance 12/31/11
Governmental activities:					
Capital assets not being depreciated:					
Land	$ 35,000				$ 35,000
Construction in progress	82,071	$ 243,052		$ 95,605	420,728
Total capital assets not being depreciated	117,071	243,052	$ 0	95,605	455,728
Depreciable capital assets:					
Site improvements	18,906	131,999		53,252	204,157
Buildings	571,772			(192,466)	379,306
Machinery and equipment	1,040,279	4,349	30,946	(48,183)	965,499
Vehicles	350,487	57,157		21,855	429,499
Computer equipment		18,095	30,484	78,503	66,114
Furniture and fixtures	24,310			(8,566)	15,744
Infrastructure	461,596				461,596
Total depreciable capital assets	2,467,350	211,600	61,430	(95,605)	2,521,915
Total capital assets	2,584,421	454,652	61,430	0	2,977,643
Accumulated depreciation:					
Site improvements	12,442	3,108		52,201	67,751
Buildings	240,372	10,619		(99,737)	151,254
Machinery and equipment	728,214	57,560	30,946	(27,875)	726,953
Vehicles	288,076	27,541		21,856	337,473
Computer equipment		5,170	30,484	62,121	36,807
Furniture and fixtures	17,930	1,458		(8,566)	10,822
Infrastructure	46,604	12,271			58,875
Total accumulated depreciation	1,333,638	117,727	61,430	0	1,389,935
Governmental activities capital assets, net	$ 1,250,783	$ 336,925	$ 0	$ 0	$ 1,587,708

Governmental activities depreciation expense:	
General government	$ 12,492
Public safety - police	25,989
Public safety - fire	45,367
Public works - streets and lanes	30,521
Parks and recreation	3,358
Total governmental activities depreciation expense	$ 117,727

Note 7 - Capital Assets (continued)

Capital asset activity for business-type activities for the year ended December 31, 2011, was as follows:

	Balance 12/31/10	Additions	Deductions	Reclass-ifications	Balance 12/31/11
Business-type activities:					
Water and sewer fund:					
Capital assets not being depreciated:					
Land and rights	$ 2,427,495				$ 2,427,495
Construction in progress	1,485,037	$ 440,198		$ (1,912,616)	12,619
Total capital assets not being depreciated	3,912,532	440,198	$ 0	(1,912,616)	2,440,114
Depreciable capital assets:					
Improvements - not building	10,558,096			1,912,616	12,470,712
Machinery and equipment	130,804		33,595		97,209
Vehicles	73,311		23,100		50,211
Computer equipment	53,286		15,875		37,411
Total depreciable capital assets	10,815,497	0	72,570	1,912,616	12,655,543
Total capital assets	14,728,029	440,198	72,570	0	15,095,657
Accumulated depreciation:					
Improvements - not building	3,262,903	280,553			3,543,456
Machinery and equipment	71,377	8,832	33,595		46,614
Vehicles	55,835	3,585	23,100		36,320
Computer equipment	53,286		15,875		37,411
Total accumulated depreciation	3,443,401	292,970	72,570	0	3,663,801
Water and sewer capital assets, net	$ 11,284,628	$ 147,228	$ 0	$ 0	$ 11,431,856

Note 8 - Interfund Balances and Transfers

Interfund balances represent charges for services or reimbursable expenses. These remaining balances resulted from the time lag between the dates that (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting period, and (3) payments between funds are made. The City expects to repay all interfund balances within one year.

Note 8 - Interfund Balances and Transfers (continued)

Interfund balances at December 31, 2011, consisted of the following:

General fund receivable from the water and sewer fund for various expenses paid by general fund $466,625.
General fund receivable from SPLOST capital projects fund for various expenses paid by general fund $81,606.
Sanitation fund receivable from the general fund for expenses paid by the sanitation fund $38,535.
Sanitation fund receivable from the water and sewer fund for revenues received by the water and sewer fund for the Sanitation fund in the amount of $11,155.

Transfers are used to report revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

Interfund transfers for the year ended December 31, 2011, consisted of the following:

The SPLOST fund transferred to the Water and Sewer fund totaling $131,037.

The City transfers either occur on a regular basis or are consistent with the purpose of the fund making the transfer.

Note 9 - Long Term Liabilities

Governmental Activities
Capital Lease – The City has entered into a capital lease for the acquisition of equipment. The leases meet the criteria of a capital lease since it transfers benefits and risks of ownership to the lessee at the end of the lease term. Capital lease payments are reflected as debt service expenditures at the governmental fund reporting level.

Capital lease payable in equal annual payments of approximately $41,744 through August 15, 2015 including interest at 3.80%. The purpose of this lease was to purchase a fire truck. The original principal amount of the lease was $341,595. This lease was completely paid off in 2011.

Business Type Activities
Georgia Environmental Facilities Authority – Contract 2008-L10WQ issued in the amount of $5,416,740 for the purpose of upgrading and expanding the wastewater treatment facility. Draws are made on the note as the funds are expended. At December 31, 2011, the amount drawn on the note totaled $4,606,305, including accrued capitalized interest totaling $416,234. The final draw on the loan was on March 2, 2012. The final loan amount of the loan is $4,898,902. The interest rate on the note is 4.10%. Interest on the note during the construction period is accrued on the outstanding balance and is included in the total loan amount. Repayment of the note is in two hundred thirty nine equal monthly installments of approximately $29,945 beginning on May 1, 2012, with the final payment of unpaid principal and accrued interest paid on April 1, 2032. Annual debt service requirements to amortize this note payable at December 31, 2011 follow:

Note 9 - Long Term Liabilities (continued)

Year	Principal	Interest	Total
2012	$ 106,930	$ 132,631	$ 239,561
2013	165,967	193,375	359,342
2014	172,901	186,441	359,342
2015	180,124	179,218	359,342
2016	187,650	171,692	359,342
2017-2021	1,062,608	734,102	1,796,710
2022-2026	1,303,922	492,788	1,796,710
2027-2031	1,600,038	196,672	1,796,710
2032	118,762	1,017	119,779
Total	$ 4,898,902	$ 2,287,936	$ 7,186,838

Georgia Environmental Facilities Authority – Contract 2008-L21WS issued in the amount of $1,380,842 for the purpose of upgrading and expanding the wastewater treatment facility. Draws are made on the note as the funds are expended. The project was completed in 2011 with a final note that totaled $1,011,657. The interest rate on the note is 4.27%. Interest on the note during the construction period was payable monthly. Repayment of the note is in two hundred thirty nine equal monthly installments of approximately $6,275 beginning on May 1, 2011, with a final payment of unpaid principal and accrued interest on April 1, 2031. Annual debt service requirements to amortize this note payable at December 31, 2011 follow:

Year	Principal	Interest	Total
2012	$ 33,686	$ 41,618	$ 75,304
2013	35,153	40,151	75,304
2014	36,683	38,621	75,304
2015	38,281	37,023	75,304
2016	39,948	35,356	75,304
2017-2021	227,397	149,122	376,519
2022-2026	281,411	95,108	376,519
2027-2031	297,426	29,072	326,498
Total	$ 989,985	$ 466,071	$ 1,456,056

Note 9 - Long Term Liabilities (continued)

Changes in Long-term Liabilities - Changes in the City's long-term obligations consisted of the following for the year ended December 31, 2011.

	Balance 12/31/10	Additions	Reductions	Balance 12/31/11	Amounts Due in One Year
Government activities					
Capital lease	$ 186,593		$ 186,593	$ 0	
Compensated absences	19,157	$ 29,019	29,465	18,711	$ 11,227
Total government activities	$ 205,750	$ 29,019	$ 216,058	$ 18,711	$ 11,227
Business-type activities					
Georgia Environmental Facilities Authority					
2008-L10-WQ	$ 4,388,743	$ 217,560		$ 4,606,303	106,930
2008-L21-WS	877,858	133,800	$ 21,672	989,986	$ 33,686
Compensated absences	9,428	15,154	14,215	10,367	$ 6,220
Total business-type activities	$ 5,276,029	$ 366,514	$ 35,887	$ 5,606,656	$ 146,836

The governmental capital leases payable were financed through future general fund expendable available financial sources as they become due. Principal and interest payments related to the City's GEFA loans and capital leases for the water and sewer fund are financed from income derived from the operation of the water and sewer system.

The total interest incurred for the year ended December 31, 2011 was $215,223. Of this amount, $183,170 was capitalized as a component of the cost of capital assets constructed during the year and $32,053 was charged to expense.

The compensated absences liability will be paid by the fund from which the employee's salaries are paid. In 2011, compensated absences were liquidated through the general fund, and the water and sewer fund.

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Note 10 - Pension

The City participates in the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer defined benefit pension plan.

Plan Description - The Plan provides retirement, disability and death benefits to plan members and beneficiaries. These retirement provisions were established by an adoption agreement executed by the City Council. The Plan is affiliated with the Georgia Municipal Employees Benefit System (GMEBS), administered by the Georgia Municipal Association. The Georgia Municipal Association issues a publicly available financial report on GMEBS that includes financial statements and required supplementary information. That report may be obtained by writing to Georgia Municipal Association, 201 Pryor Street, Atlanta, Georgia, 30303.

Funding Policy - The Plan members are not required to contribute to the Plan. The City is required to contribute at an actuarially determined rate; the current rate is 8.9% of annual covered payroll. The contribution requirements of the City are established and may be amended by the GMEBS Board of Trustees.

Annual Pension Cost - The required contribution was determined as part of the July 1, 2010, actuarial valuation for the Plan using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.75% per year investment rate of return (net of investment expenses) and (b) projected salary increases for inflation of 3.5% per year plus age and service based merit increases. The actuarial value of net assets is determined by a roll forward of prior year actuarial values combined with contributions, disbursements and expected return on investments, plus 10% of investment gains (losses) during the prior ten years. The period, and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years from 1987 and current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods as a level dollar amount. These periods, if applicable, are closed for this plan year.

Schedule of Funding Progress

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Funded Ratio (1)/(2)	(4) Unfunded AAL- (UAAL) (2)-(1)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll
9/1/2008	$ 564,380	$ 693,002	81.44%	$ 128,622	$ 567,050	22.68%
10/1/2009	572,323	737,535	77.60%	165,212	621,701	26.57%
7/1/2010	642,400	820,238	78.32%	177,838	677,130	26.26%
7/1/2011	706,284	889,499	79.40%	183,215	737,683	24.84%

Note 10 - Pension (continued)

Schedule of Employers Contribution

Year Beginning	Annual Required Contribution	Percentage Contributed	Annual Pension Cost	Percentage Contributed
9/1/2007	$ 31,884	100%	$ 32,600	100%
9/1/2008	50,587	100%	31,884	100%
10/1/2009	53,810	100%	53,810	100%
7/1/2010	61,448	100%	61,448	100%

Note 11 - Net Assets - Investment in Capital Assets, Net of Related Debt

Net assets invested in capital assets, net of related debt, on the government-wide statement of net assets as of December 31, 2011 are as follows:

Investments in capital assets, net of related debt:	Governmental Activities	Business Type Activities
Cost of capital assets	$ 2,977,643	$ 15,095,657
Less accumulated depreciation	1,389,935	3,663,801
Book value	1,587,708	11,431,856
Less capital related debt	0	5,596,289
Investments in capital assets, net of related debt	$ 1,587,708	$ 5,835,567

Note 12 - Risk Management

The City is exposed to various risks of loss related to torts; theft of or damage to, or destruction of assets; and errors or omissions; and workers compensation for which the City carries the following insurance coverages.

The City joined the Georgia Interlocal Risk Management Agency (GIRMA). Insurance coverage and deductible options for property, casualty and crime under the policy are selected by the City's management based on the anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed by GIRMA, as well as following loss reduction and prevention procedures established by GIRMA. GIRMA's responsibility includes paying claims, and representing the City in defense and settlement of claims. GIRMA's basis for estimating the liabilities for unpaid claims is "IBNR" established by an actuary. The City has not compiled a record of claims paid up to the applicable deductible for the prior year or the current fiscal year. The City is unaware of any claims for which the City is liable (up to the applicable deductible) which were outstanding and unpaid at December 31, 2011. No provisions have been made in the financial statements for the year ended December 31, 2011 for any estimate of potential unpaid claims.

Note 12 - Risk Management (continued)

The City has elected to be a member of the Georgia Municipal Association Workers' Compensation Self-Insurance Fund (the Fund). As a participant in the Fund, the City has no legal obligation to pay its own workers' compensation claims. The City is required to make an annual contribution to the Fund in an amount that is determined on the basis of actuarial projections of losses. With payment of the City's annual contribution, the City has effectively transferred the risk and responsibility for payment of its workers' compensation claims. However, the enabling statute creating the Fund permits the Fund to levy an assessment upon its members to make up any deficiency the Fund may have in surplus or reserves. No amount has been recorded in the financial statements for this contingency as management believes the likelihood for assessment is remote.

Note 13 - Contingent Liabilities

Federal and State Assistance - The City has received funding through federal and state assistance programs for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement to the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the City believes such disallowances, if any, will be immaterial.

Litigation - The City was a defendant in a lawsuit at December 31, 2011. In the opinion of City management, the outcome of these contingencies will not have a material effect on the financial position of the City.

Note 14 - Joint Ventures

Under Georgia law, the City, in conjunction with other cities and counties in the coastal Georgia area, is a member of the Coastal Georgia Regional Development Center (RDC) and is required to pay annual dues thereto. Membership in an RDC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the RDC in Georgia. The RDC 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 RDC. Separate financial statements may be obtained from Coastal Georgia Regional Development Center, P. O. Box 2917, Brunswick, Georgia 31521.

Note 17 - Subsequent Events

The City is in the process of selling a bond issue in the amount of $6,040,000 for the purpose of repaying existing water and sewer debt to GEFA. The bond issues is currently scheduled to be sold in July, 2012 and is secured by direct revenues of the water/sewer system. The issue has varying repayment dates and interest rates as follows:

Due in the Year	Principal Amount	Interest Rate
2012	$ 110,000	2.00%
2013	255,000	2.00%
2014	260,000	2.00%
2015	265,000	2.00%
2016	270,000	2.00%
2017	275,000	1.45%
2018	280,000	1.70%
2019	285,000	1.90%
2020	290,000	2.15%
2021	295,000	2.35%
2022	300,000	2.50%
2023	310,000	2.65%
2024	315,000	2.80%
2025	325,000	3.00%
2026	335,000	3.00%
2027	345,000	3.10%
2028	355,000	3.13%
2029	365,000	3.20%
2030	380,000	3.25%
2031	340,000	3.36%
2032	85,000	3.35%
	$ 6,040,000	

Required Supplementary Information

City of Springfield, Georgia
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Taxes	$ 996,520	$ 996,520	$ 1,181,689	$ 185,169
Intergovernmental	376,000	376,000	375,167	(833)
Licenses and permits	41,650	41,650	45,795	4,145
Charges for services	29,000	29,000	31,994	2,994
Fines and forfeitures	154,250	154,250	147,446	(6,804)
Investment earnings	6,000	6,000	11,033	5,033
Miscellaneous	15,175	15,175	37,594	22,419
Total revenues	1,618,595	1,618,595	1,830,718	212,123
Expenditures				
General government				
Administration	215,334	204,244	204,178	66
City buildings	15,141	17,735	17,735	0
Special events	26,677	25,367	25,367	0
Other governmental services	143,484	381,106	381,106	0
Judicial - municipal court	99,213	85,979	85,979	0
Public safety				
Police	448,520	460,172	460,172	0
Fire	121,721	308,601	308,601	0
Public works				
Streets and lanes	605,203	423,857	423,857	0
Housing and development				
Building and zoning	2,189	4,150	4,150	0
Parks and recreation	43,674	40,661	40,661	0
Total expenditures	1,721,156	1,951,872	1,951,806	66
Deficit of revenues to expenditures	$ (102,561)	$ (333,277)	(121,088)	$ 212,189
Fund balance - beginning of year			2,016,433	
Fund balance - end of year			$ 1,895,345	

See the accompanying notes to the required supplementary information.

Note 1 - Budgetary Information

The City adopts an annual operating budget for the general fund, each special revenue fund, each capital projects fund and the debt service fund.

All budgets are adopted on a basis consistent with GAAP.

The legal level of control (the level at which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the department level within each individual fund.

The City Manager may approve budget transfers within departments. Any changes to a fund total or departmental appropriation within a fund requires approval of the City Council. During the year, the City Council approved one budget revision.

All unexpended annual appropriations lapse at year-end.

On the budgetary basis, transfers to debt service fund (i.e. $193,187) are budgeted within the functions but are reported as separate character classifications on the GAAP basis.

Other Supplementary Information

City of Springfield, Georgia
General Fund
Comparative Balance Sheet
December 31, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents	$ 1,070,000	$ 1,184,283
Restricted cash and cash equivalents	61,086	60,118
Receivables:		
Taxes	347,894	426,576
Accounts	3,272	2,964
Intergovernmental	51,239	
Interfund	548,231	539,035
Prepaid items	14,313	13,913
Total assets	$ 2,096,035	$ 2,226,889
Liabilities and Fund Balances		
Liabilities		
Accounts payable	$ 71,030	$ 32,266
Accrued expenses	12,204	12,093
Interfund payable	38,535	25,034
Deferred revenue	78,921	141,063
Total liabilities	200,690	210,456
Fund balances		
Nonspendable - prepaid expenses	14,313	13,913
Restricted for public safety	61,086	60,118
Unassigned	1,819,946	1,942,402
Total fund balances	1,895,345	2,016,433
Total liabilities and fund balances	$ 2,096,035	$ 2,226,889

City of Springfield, Georgia
General Fund
Comparative Schedule of Revenues, Expenditures and
Changes in Fund Balances
For the Years Ended December 31, 2011 and 2010

	2011	2010
Revenues		
Taxes	$ 1,181,689	$ 996,631
Intergovernmental	375,167	72,170
Licenses and permits	45,795	64,665
Charges for services	31,994	32,035
Fines and forfeitures	147,446	161,140
Investment earnings	11,033	12,088
Miscellaneous	37,594	30,725
Total revenues	1,830,718	1,369,454
Expenditures		
Current		
General Government		
Administration	204,178	198,542
City buildings	17,735	16,260
Special events	25,367	29,850
Other governmental services	381,106	131,229
Judicial - municipal court	85,979	87,822
Public Safety		
Police	460,172	416,176
Fire	115,414	65,484
Public Works		
Streets and lanes	423,857	253,500
Housing and development - building and zoning	4,150	19,996
Parks and recreation	40,661	40,279
Debt service		
Principal retirement	186,593	33,246
Interest and fiscal charges	6,594	8,498
Total expenditures	1,951,806	1,300,882
Excess (deficit) of revenues to expenditures	(121,088)	68,572
Fund balances -beginning of year	2,016,433	1,947,861
Fund balances - end of year	$ 1,895,345	$ 2,016,433

City of Springfield, Georgia
SPLOST Capital Projects Fund
Comparative Balance Sheet
December 31, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents	$ 795,494	$ 562,629
Receivables - intergovernmental (SPLOST)	64,545	64,545
Total assets	$ 860,039	$ 627,174
Liabilities and Fund Balances		
Liabilities		
Accounts payable	$ 18,297	$ 3,476
Interfund balance	81,606	81,607
Total liabilities	99,903	85,083
Fund balances		
Restricted for capital projects	760,136	542,091
Total liabilities and fund balances	$ 860,039	$ 627,174

City of Springfield, Georgia
SPLOST Capital Projects Fund
Comparative Schedule of Revenues, Expenditures and
Changes in Fund Balance
For the Years Ended December 31, 2011 and 2010

	2011	2010
Revenues		
Intergovernmental	$ 399,241	$ 414,604
Investment earnings	3,963	3,293
Total revenues	403,204	417,897
Expenditures		
Capital outlays		
General government - city buildings	5,519	43,645
Public safety - fire department	47,520	27,882
Public works - streets and lanes	1,083	63,909
Total expenditures	54,122	135,436
Excess of revenues over expenditures	349,082	282,461
Other financing uses		
Transfers to water/sewer fund	(131,037)	(222,809)
Net change in fund balance	218,045	59,652
Fund balances - beginning of year	542,091	482,439
Fund balances - end of year	$ 760,136	$ 542,091

City of Springfield, Georgia
Water and Sewer Fund
Comparative Schedule of Net Assets
December 31, 2011 and 2010

	2011	2010
Assets		
Current assets		
Cash and cash equivalents		
Unrestricted	$ 1,279,702	$ 1,097,342
Restricted	665,170	649,351
Accounts receivable	94,086	86,746
Prepaid expenses	4,037	3,923
Total current assets	2,042,995	1,837,362
Noncurrent assets		
Capital assets		
Nondepreciable capital assets	2,440,114	3,912,532
Depreciable capital assets, net	8,991,742	7,372,096
Deferred loan fees	12,236	12,658
Total noncurrent assets	11,444,092	11,297,286
Total assets	13,487,087	13,134,648
Liabilities		
Current liabilities:		
Accounts payable	21,106	97,394
Accrued payroll	4,757	4,757
Accrued interest payable	3,523	
Interfund payable	477,780	457,428
Deferred revenue	480,092	481,576
Compensated absences payable	6,220	5,657
Notes payable	140,616	25,998
Current liabilities payable from restricted assets		
Customer deposits	69,465	75,380
Total current liabilities	1,203,559	1,148,190
Long-term liabilities:		
Compensated absences payable (net of current portion	4,147	3,771
Notes payable	5,455,673	5,240,603
Total long-term liabilities	5,459,820	5,244,374
Total liabilities	6,663,379	6,392,564
Net assets		
Invested in capital assets, net of related debt	5,835,567	6,018,027
Restricted for debt service	500,305	500,305
Unrestricted	487,836	223,752
Total net assets	$ 6,823,708	$ 6,742,084

City of Springfield, Georgia
Water and Sewer Fund
Comparative Schedule of Revenues,
Expenses and Changes in Fund Net Assets
For the Years Ended December 31, 2011 and 2010

	2011	2010
Operating revenues		
Charges for services	$ 822,249	$ 887,782
Other revenues	52,793	47,886
Total operating revenues	875,042	935,668
Operating expenses		
Salaries	238,808	236,002
Payroll taxes and employee benefits	76,724	74,522
Uniforms and safety equipment	2,125	3,307
Professional fees	13,850	42,865
Utilities	116,862	113,198
Maintenance - repairs	64,259	61,491
Materials and supplies	83,446	82,781
Gas, oil and tires	15,929	13,600
Office supplies and expenses	6,708	6,471
Telephone	4,075	6,954
Insurance	22,866	21,409
Training	4,435	1,372
Water Line		1,151
Uncollectible accounts		14,016
Miscellaneous	741	318
Amortization	422	
Depreciation	292,970	233,031
Total operating expenses	944,220	912,488
Operating income (loss)	(69,178)	23,180
Non-operating revenues (expenses)		
Impact fees	38,398	205,547
Investment earnings	9,680	7,704
Interest expense	(32,053)	
Gain on sale of capital assets	3,740	8,530
Total non-operating revenues	19,765	221,781
Income (loss) before transfers	(49,413)	244,961
Transfers in	131,037	222,809
Change in net assets	81,624	467,770
Net assets - beginning of year	6,742,084	6,274,314
Net assets - end of year	$ 6,823,708	$ 6,742,084

City of Springfield, Georgia
Sanitation Fund
Comparative Schedule of Net Assets
December 31, 2011 and 2010

	2011	2010
Assets		
Current assets		
Accounts receivable	$ 15,459	$ 15,459
Interfund receivable	49,690	25,034
	65,149	40,493
Liabilities		
Current liabilities		
Accounts payable	10,407	10,249
Net assets		
Unrestricted	$ 54,742	$ 30,244

City of Springfield, Georgia
Sanitation Fund
Comparative Schedule of Revenues, Expenses
and Changes in Fund Net Assets
For the Year Ended December 31, 2011 and 2010

	2011	2010
Operating revenues		
Charges for services	$ 158,471	$ 155,361
Operating expenses		
Waste services contract	133,973	139,244
Operating income	24,498	16,117
Net assets - beginning of year	30,244	14,127
Net assets - end of year	$ 54,742	$ 30,244

CITY OF SPRINGFIELD, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH
SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original Estimated Cost	Revised Estimated Cost	Expenditures			Percentage Complete
			Prior Years	Current Year	Total	
2006 Effingham County SPLOST						
Roads, streets and bridges	$ 727,500	$ 726,000	$ 91,647	$ 1,083	$ 92,730	12.77%
Public buildings capital outlay projects	48,500	50,000	43,645	5,519	49,164	98.33%
Public safety capital outlay projects						
Police			23,995	23,164	47,159	
Fire			27,882	24,356	52,238	
	121,250	121,250	51,877	47,520	99,397	81.98%
Recreation capital outlay projects	121,250	121,250				0.00%
Water and sewerage capital outlay projects	1,406,500	1,406,500	673,776	131,037	804,813	57.22%
	$ 2,425,000	$ 2,425,000	$ 860,945	$ 185,159	$ 1,046,104	
Total funds available for SPLOST projects at December 31, 2011					$ 760,136	

On September 1, 2007, the 2006 Effingham County SPLOST became effective. Under this referendum, SPLOST would be imposed for a period of time not to exceed five years and for the raising an estimated $50,000,000. In accordance with the referendum approved by voters the tax proceeds are to be used for roads, streets and bridges; public buildings capital outlay projects; public safety capital outlay projects; recreation capital outlay projects; and water and sewer capital outlay projects. The referendum does not specify individual projects to be completed with the taxes collected. The City receives approximately 4.85% of the proceeds from this SPLOST referendum. For the year ended December 31, 2011, the City recognized $399,241 of revenues from this SPLOST referendum. The City has recognized $1,791,421 during the life of this referendum, leaving approximately $636,000 to be recognized in its remaining duration.

CAINES, HODGES, PACE & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Donald T. Caines
Carlton H. Hodges
J. Edwin Pace, III

Member American Institute of Certified Public Accountants
and Georgia Society of Public Accountants

200 E. St. Julian Street
P. O. Box 10420
Savannah, Georgia 31412
(912) 233-6383

1009 N. Columbia Avenue
Suite A
Rincon, Georgia 31326
(912) 826-2345

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 Mayor and City Council
City of Springfield, Georgia

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Springfield, Georgia as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses at 2011-2 through 2011-3 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and responses at 2011-1 to be a significant deficiency.

Compliance and Other Matters

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

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

This report is intended solely for the information and use of management, City Council, and federal or state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cairns, Hodges, Pace & Company, P.C.

Rincon, Georgia
June 29, 2012

City of Springfield, Georgia
Schedule of Findings and Responses
For the Year Ended December 31, 2011

CONTROL DEFICIENCIES

2011-1 Reconciliations of bonds received

Condition: The City has not performed a reconciliation of bonds outstanding to the court journal.

Context: Internal controls should be in place that provide reasonable assurance that all bonds outstanding are reconciled to control totals and to the bond forfeiture account.

Effect: The failure to reconcile these amounts could result in the City holding funds that should be disbursed to the person to whom the funds are due or the misstatement of restricted funds due to funds actually being forfeited which should have been transferred to the general fund operating account.

Cause: Lack of appropriate procedures.

Recommendation: Establish procedures to maintain a perpetual accounting of outstanding bonds held and reconcile the total to the bond forfeiture account.

Management's response: Management agrees with the finding and has began the process of reconciling the outstanding bonds to the bond forfeiture account.

2011-2 Accounts Receivable - consumer (Repeat finding from prior year)

Condition: The accounts receivable detail for utilities is not periodically reconciled to the general ledger control account.

Context: Internal controls should be in place that provide reasonable assurance that all utility receivable general ledger accounts are reconciled to detail accounts receivable ageing reports on a timely basis.

Effect: Because of the failure to require the accounts receivable detail to be reconciled to the general ledger, errors or other irregularities could remain undetected for extended periods of time, and result in inaccurate financial reporting.

Cause: This condition began upon the conversion to a new accounting system. Adequate procedures were not put in place to ensure the ageing and the general ledger reporting agreed.

Recommendation: Require the accounts receivable detail to be reconciled to the general ledger control accounts at least monthly, and any errors or other differences noted to be corrected immediately.

Management's response: Management agrees with the finding and will establish procedures to assure that accounts receivable detail records are balanced to the general ledger at least monthly.

City of Springfield, Georgia
Schedule of Findings and Responses
For the Year Ended December 31, 2011

2011-3 Lack of segregation of duties surrounding customer payments

Condition: The person that receives the customer utility payments also posts the utility payments.

Context: Internal controls should be in place to provide assurance that there is a proper segregation of duties surrounding the receipt of utility payments, or adequate mitigating controls.

Effect: The failure to provide adequate segregation of duties in this area could lead to errors or fraud remaining undetected for extended periods of time.

Cause: The most significant cause for this condition is the small staff size. There is one utility clerk and one accounting clerk.

Recommendation: Establish procedures to ensure that there is an adequate segregation of duties surrounding the receipt and posting of utility payments. If this is not possible due to staff size, require all customer inquiries or complaints related to payments that have been made to be investigated and resolved by a person not involved with the receipt process.

Management's response: Management agrees with the finding. The staff is too small to provide for a proper segregation of duties. Generally, the utility clerk receives and posts the payments. Generally, the accounting clerk investigates customer complaints, however the City does not have such a policy. The City will establish policy to require all customer complaints and inquires related to payments made to be investigated by the accounting clerk.