

CITY OF BALDWIN, GEORGIA
ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
JUNE 30, 2020

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

**The Honorable Mayor and Members
of the City Council of the
City of Baldwin, Georgia**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the **City of Baldwin, Georgia** (the "City"), as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 and each major fund of the City of Baldwin, Georgia as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the fiscal 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 General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual, as listed in the table of contents, 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Baldwin, Georgia's basic financial statements. The schedule of expenditures of special purpose local option sales tax proceeds, as required by the Official Code of Georgia 48-8-121, and schedule of expenditures of transportation special purpose local option sales tax proceeds, as required by the Official Code of Georgia 48-8-249, and the Other Information as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of special purpose local option sales tax proceeds and the schedule of expenditures of transportation 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 schedule of expenditures of special purpose local option sales tax proceeds and the schedule of expenditures of transportation special purpose local option sales tax proceeds are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Other Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2020 on our consideration of the City of Baldwin, 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 solely 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 effectiveness of the City's 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's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Atlanta, Georgia
November 16, 2020

CITY OF BALDWIN, GEORGIA

STATEMENT OF NET POSITION JUNE 30, 2020

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 986,358	\$ 987,488	\$ 1,973,846
Accounts receivable, net of allowances	37,754	300,681	338,435
Taxes receivable, net of allowances	144,323	-	144,323
Due from other governments	132,019	441,891	573,910
Prepaid items	120,569	568	121,137
Internal balances	984,476	(984,476)	-
Restricted cash	-	696,720	696,720
Capital assets:			
Nondepreciable	573,204	2,433,620	3,006,824
Depreciable, net of accumulated depreciation	2,166,414	8,953,924	11,120,338
Total assets	5,145,117	12,830,416	17,975,533
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	-	39,604	39,604
LIABILITIES			
Accounts payable	305,809	383,883	689,692
Accrued liabilities	51,187	164,124	215,311
Customer deposits	-	106,465	106,465
Compensated absences due within one year	37,217	18,377	55,594
Bonds payable due within one year	-	380,000	380,000
Bonds payable due in more than one year	-	2,945,897	2,945,897
Notes payable, due within one year	-	31,761	31,761
Notes payable, due in more than one year	-	1,040,038	1,040,038
Total liabilities	394,213	5,070,545	5,464,758
NET POSITION			
Net investment in capital assets	2,739,618	7,029,452	9,769,070
Restricted for:			
Capital projects	944,258	-	944,258
Debt service	-	687,179	687,179
Unrestricted	1,067,028	82,844	1,149,872
Total net position	\$ 4,750,904	\$ 7,799,475	\$ 12,550,379

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

CITY OF BALDWIN, GEORGIA

STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Functions/Programs	Program Revenues					Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Capital		Governmental Activities	Primary Government		
		Charges for Services	Grants and Contributions		Business-Type Activities	Total	
Primary government:							
Governmental activities:							
General government	\$ 225,938	\$ 15,459	\$ 20,753	\$ (189,726)	\$ -	\$ (189,726)	
Judicial	75,801	324,390	-	248,589	-	248,589	
Public Safety	1,695,021	591,772	784	(1,102,465)	-	(1,102,465)	
Public works	464,469	1,605	479,147	16,283	-	16,283	
Culture and recreation	13,081	182,929	139,414	313,062	-	313,062	
Housing and development	20,362	54,008	1,156	34,802	-	34,802	
Total governmental activities	2,494,672	1,170,163	641,254	(679,455)	-	(679,455)	
Business-type activities:							
Water and sewer	3,191,325	3,251,657	224,396	-	284,728	284,728	
Total primary government	\$ 5,685,997	\$ 4,421,820	\$ 865,650	(679,455)	284,728	(394,727)	
General revenues:							
Property taxes				494,617	-	494,617	
Sales taxes				126,189	-	126,189	
Intangible taxes				5,837	-	5,837	
Franchise taxes				108,029	-	108,029	
Business taxes				23,002	-	23,002	
Alcohol & excise taxes				39,505	-	39,505	
Insurance premium taxes				250,559	-	250,559	
Unrestricted investment earnings				17	7,914	7,931	
Miscellaneous revenues				19,543	-	19,543	
Transfers				(208,183)	208,183	-	
Total general revenues and transfers				859,115	216,097	1,075,212	
Change in net position				179,660	500,825	680,485	
Net position, beginning of year				4,571,244	7,298,650	11,869,894	
Net position, end of year	\$ 4,750,904	\$ 7,799,475	\$ 12,550,379				

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

CITY OF BALDWIN, GEORGIA

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2020

ASSETS	General Fund	SPLOST Fund	Total Governmental Funds
Cash and cash equivalents	\$ 4,081	\$ 982,277	\$ 986,358
Accounts receivable, net of allowances	37,754	-	37,754
Taxes receivable, net of allowances	144,323	-	144,323
Intergovernmental receivable	-	132,019	132,019
Due from other funds	35,905	-	35,905
Advances to other funds	984,476	-	984,476
Prepaid items	120,569	-	120,569
Total assets	\$ 1,327,108	\$ 1,114,296	\$ 2,441,404
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 171,676	\$ 134,133	\$ 305,809
Accrued liabilities	51,187	-	51,187
Due to other funds	-	35,905	35,905
Total liabilities	222,863	170,038	392,901
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - intergovernmental	-	38,391	38,391
Unavailable revenue - taxes	105,372	-	105,372
Total deferred inflows of resources	105,372	38,391	143,763
FUND BALANCES			
Nonspendable:			
Prepaid items	120,569	-	120,569
Long-term advances	984,476	-	984,476
Restricted:			
Capital projects	-	905,867	905,867
Assigned:			
Appropriations for future use of fund balance	78,011	-	78,011
Unassigned	(184,183)	-	(184,183)
Total fund balances	998,873	905,867	1,904,740
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,327,108	\$ 1,114,296	

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 governmental funds.	2,739,618
Long-term liabilities (compensated absences) are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(37,217)
Some revenues are not available in the current period and, therefore, are not reported in the governmental funds.	143,763
Net position of governmental activities	\$ 4,750,904

The accompanying notes are an integral part of these statements.

CITY OF BALDWIN, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	SPLOST Fund	Total Governmental Funds
Revenues:			
Property taxes	\$ 455,064	\$ -	\$ 455,064
Sales taxes	126,189	-	126,189
Intangible taxes	5,837	-	5,837
Franchise taxes	108,029	-	108,029
Alcohol excise taxes	39,505	-	39,505
Business taxes	23,002	-	23,002
Insurance premium taxes	250,559	-	250,559
Licenses and permits	69,263	-	69,263
Intergovernmental	422	598,338	598,760
Charges for services	776,510	-	776,510
Fines and forfeitures	324,390	-	324,390
Interest earned	17	4,103	4,120
Donations	3,800	-	3,800
Miscellaneous	19,543	-	19,543
Total revenues	2,202,130	602,441	2,804,571
Expenditures:			
Current:			
General government	177,787	14,000	191,787
Judicial	75,801	-	75,801
Public safety	1,632,688	-	1,632,688
Public works	271,961	171,189	443,150
Culture and recreation	7,421	50,195	57,616
Housing and development	20,362	-	20,362
Total expenditures	2,186,020	235,384	2,421,404
Excess of revenues over expenditures	16,110	367,057	383,167
Other financing sources (uses):			
Proceeds from sale of capital assets	1,711	-	1,711
Transfers out	-	(208,183)	(208,183)
Total other financing sources (uses)	1,711	(208,183)	(206,472)
Net change in fund balances	17,821	158,874	176,695
Fund balances, beginning of year	981,052	746,993	1,728,045
Fund balances, end of year	\$ 998,873	\$ 905,867	\$ 1,904,740

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

CITY OF BALDWIN, 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, 2020

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

Net change in fund balances - total governmental funds	\$	176,695
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 depreciation expense exceeded capital outlays in the current period.		(71,897)
The net effect of various miscellaneous transactions involving capital assets (i.e., disposals) is to decrease net position.		(3,340)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		77,944
Some expenses (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.		<u>258</u>
Change in net position - governmental activities	\$	<u><u>179,660</u></u>

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

CITY OF BALDWIN, GEORGIA

STATEMENT OF NET POSITION PROPRIETARY FUND JUNE 30, 2020

	Water and Sewer Fund
ASSETS	
CURRENT ASSETS	
Cash	\$ 987,488
Accounts receivable, net of allowance	300,681
Due from other governments	441,891
Prepaid items	568
Restricted cash	696,720
Total current assets	2,427,348
NONCURRENT ASSETS	
Nondepreciable capital assets	2,433,620
Depreciable capital assets, net of accumulated depreciation	8,953,924
Total capital assets	11,387,544
Total assets	13,814,892
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on refunding	39,604
Total deferred outflows of resources	39,604
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	383,883
Accrued expenses	164,124
Compensated absences	18,377
Customer deposits	106,465
Bonds payable, due within one year	380,000
Notes payable, due within one year	31,761
Total current liabilities	1,084,610
NON-CURRENT LIABILITIES	
Advances from other funds	984,476
Bonds payable, due in more than one year	2,945,897
Notes payable, due in more than one year	1,040,038
Total non-current liabilities	4,970,411
Total liabilities	6,055,021
NET POSITION	
Net investment in capital assets	7,029,452
Restricted for debt service	687,179
Unrestricted	82,844
Total net position	\$ 7,799,475

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

CITY OF BALDWIN, GEORGIA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Water and Sewer Fund
OPERATING REVENUE	
Water charges	\$ 2,164,379
Sewer charges	864,421
Other	222,857
Total operating revenues	3,251,657
OPERATING EXPENSES	
Personnel services	1,044,091
Contracted services	755,694
Materials and supplies	666,872
Depreciation	598,316
Total operating expenses	3,064,973
Operating income	186,684
NONOPERATING REVENUES (EXPENSES)	
Interest income	7,914
Interest and amortization expense	(126,352)
Total nonoperating revenues (expenses)	(118,438)
Income before capital contributions and transfers	68,246
Capital contributions	224,396
Transfers in	208,183
Total capital contributions and transfers	432,579
Change in net position	500,825
Total net position, beginning of year	7,298,650
Total net position, end of year	\$ 7,799,475

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

CITY OF BALDWIN, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 3,240,161
Payments to suppliers and service providers	(1,086,848)
Payments to employees	(914,631)
Net cash provided by operating activities	1,238,682
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(1,341,064)
Capital grants received for purchases of capital assets	88,327
Proceeds from debt issuance	405,014
Transfers from other funds	208,183
Principal paid on capital debt	(401,602)
Interest paid on capital debt	(132,402)
Net cash used in capital and related financing activities	(1,173,544)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	7,914
Net cash provided by investing activities	7,914
Net increase in cash	73,052
Cash, beginning of year	1,611,156
Cash, end of year	\$ 1,684,208
RECONCILIATION OF CASH	
Cash	\$ 987,488
Restricted cash	696,720
Total cash	\$ 1,684,208
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 186,684
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	598,316
Change in assets and liabilities:	
Increase in accounts receivable	(25,341)
Increase in accounts payable	377,759
Decrease in advances from other funds	(42,041)
Increase in accrued expenses	129,203
Increase in compensated absences	257
Increase in customer deposits	13,845
Net cash provided by operating activities	\$ 1,238,682

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

City of Baldwin, Georgia
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Baldwin, 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. Reporting Entity

The City, which was incorporated in 1896, operates under the council-manager form of government. Policy-making and legislative authority are vested in the governing council consisting of the mayor and five other members. The government provides such services as police and fire protection, cultural and recreational activities, community development, water and sewer services, and public works.

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 non-fiduciary activities of the primary government. The statement of net position includes non-current assets and non-current liabilities. In addition, the government-wide statement of activities reflects depreciation expense on the City’s capital assets. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, any interfund services provided and used are not eliminated as this process would distort the direct costs and program revenues reported in the various functions.

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 those 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 and proprietary funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement 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 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 property taxes to be available if they are collected within 60 days of the end of the current fiscal period. All other revenues are considered available if they are collected within 90 days 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.

Property taxes, sales taxes, franchise taxes, intergovernmental grants, 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 if measurable and available. All other revenue items are considered to be measurable and available only when cash is received by the City.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

In accounting and reporting for its proprietary operations, the City applies all GASB pronouncements which includes GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 revenue of the enterprise fund are charges to customers for services provided. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, the corresponding assets (receivables) in non-exchange transactions are recognized in the period in which the underlying exchange occurs, when an enforceable legal claim has arisen, when all eligibility requirements have been met, or when resources are received, depending on the revenue source.

In accordance with GASB Statement No. 34, major individual governmental funds are reported as separate columns in the fund financial statements.

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 **SPLOST (Special Purpose Local Option Sales Tax) Fund** is used to account for the proceeds of a sales tax levied in both Habersham and Banks County, Georgia, which will be used by the City for the exclusive purpose of capital outlay projects in the voter approved referendum.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The City reports the following major proprietary fund:

The **Water and Sewer Fund** is used to account for the user charges for water and sewer services and the expenses of maintaining and improving the infrastructure needed to deliver such services to the citizens of the City.

D. Budgets

Formal budgetary accounting is employed as a management control device for the general fund and capital projects funds of the City. The governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual operating budgets are adopted for the General Fund each fiscal year through passage of an annual budget ordinance and amended as required. The City adopts project length budgets for the SPLOST Fund. During the fiscal year ended June 30, 2020, the original budget was amended through supplemental appropriations. These changes are reflected in the budgetary comparison schedules.

All unencumbered budget appropriations lapse at the end of each year.

E. Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Georgia statutes authorize the City to invest in the following: (1) obligations of Georgia or any other State; (2) obligations of the United States; (3) obligations fully insured or guaranteed by the United States Government or one of its agencies; (4) obligations of any corporation of the United States Government; (5) prime bankers' acceptances; (6) the State of Georgia local government investment pool; (7) repurchase agreements; and (8) obligations of any other political subdivisions of the State of Georgia. Any investment or deposit in excess of the federal depository insured amounts must be collateralized by an equivalent amount of State or U.S. obligations. For purposes of the statement of cash flows, all highly liquid investments with an original maturity of less than 90 days are considered to be cash equivalents.

Investments in nonparticipating interest-earning investment contracts, certificates of deposit, are recorded at cost. The remaining investments are recorded at fair value. Increases or decreases in the fair value during the year are recognized as a component of interest income.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

G. Interfund Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year as well as all other outstanding balances between funds are reported as “due to/from other funds.”

Advances between funds, as reported in the fund financial statements, represent long-term borrowing arrangements with established repayment schedules, and are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2020, are recorded as prepaid items in both government-wide and fund financial statements. These items are accounted for using the consumption method.

I. Restricted Assets

Proceeds of various issuances of bonds are classified as restricted assets on the balance sheet or Statement of Net Position because they are maintained in a separate bank account and their use is limited by applicable bond covenants.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. As allowed under GASB Statement No. 34, the City did not capitalize any infrastructure purchased or donated prior to the implementation of GASB Statement No. 34. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives is not capitalized.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

Capital assets of the City are depreciated using the straight line method over the following useful lives:

Buildings	40
Vehicles	3-10
Machinery and equipment	3-20
Infrastructure	15-40

K. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of financial 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 only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide and proprietary fund statement of net position. A *deferred charge on refunding* results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or the refunding debt.

In addition to liabilities, the financial statements 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 only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and these amounts are deferred and will be recognized as an inflow of resources in the period in which the amounts become available.

L. Compensated Absences

City employees are entitled to certain compensated absences such as earned but unused vacation and sick pay benefits based on their length of employment. Compensated absences either vest or accumulate and are accrued when they are earned. The vesting method is used to compute earned personal leave at year-end. No more than 240 hours can be carried over to a subsequent year without approval. No more than 120 hours will be paid out upon separation. All personal leave is accrued when incurred in the government-wide and proprietary fund financial statements. Compensated absences are reported as a liability in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Customer Deposits

The City collects deposits from new customers for water and sewer services. The deposits are held until the City discontinues services to the customer and, therefore, are reported as a liability in both the fund and government-wide financial statements.

N. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are accrued and amortized over the term of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums and discounts. Issuance costs are expensed in the period in which they are incurred.

In the fund financial statements, governmental fund types recognize the face amount of the debt issued as other financing sources and the repayment of debt as debt service expenditures. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

O. 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, liabilities and deferred inflows of resources 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 purpose 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Fund Equity (Continued)

Restricted – Fund balances are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, 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 a formal vote and passage of an ordinance of the City Council. Only the City Council may modify or rescind the commitment through passage of a subsequent ordinance.

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. The ordinance passed by the City Council establishing the City's fund balance policy delegated to the City's Financial Manager the authority to assign funds for particular purposes.

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.

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: (1) Committed, (2) Assigned, and (3) Unassigned.

Net Position – Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources for activities and funds which use the accrual basis of accounting. Amounts shown as net investment in capital assets are made up of capital asset costs, net of accumulated depreciation and any outstanding debt used to acquire, construct or improve the associated assets. Net position is reported as restricted when there are legal limitations or external restrictions imposed upon their use. All other net position is reported as unrestricted.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. 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, deferred outflows of resources, liabilities and deferred inflows of resources, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/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 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 change in fund balances – total governmental funds and change 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 estimated useful lives and reported as depreciation expense.” The details of this \$71,897 difference are as follows:

Capital outlay	\$ 104,950
Depreciation expense	<u>(176,847)</u>
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net position - governmental activities</i>	<u>\$ (71,897)</u>

NOTE 3. LEGAL COMPLIANCE – BUDGETS

The budget is officially adopted by the governing body prior to the beginning of its fiscal year, or a resolution authorizing the continuation of necessary and essential expenditures to operate the City will be adopted. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level, within the fund.

Transfers of appropriations within a department budget or within a non-departmental expenditure category require the approval of the governing body. Increases in appropriations in a departmental budget or in a non-departmental expenditure category, require approval of the governing body in the form of amendments to the budget ordinance.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. LEGAL COMPLIANCE – BUDGETS (CONTINUED)

For the period ended June 30, 2020 expenditures of the highways and streets department within the General Fund exceeded their appropriations by \$3,081. The excess of expenditures over budget were primarily funded by fewer than anticipated expenditures in other departments.

NOTE 4. DEPOSITS

Custodial credit risk – Deposits: State statutes require all deposits and investments (other than federal or state government instruments) to be covered by depository insurance or pledged securities. Amounts that exceed standard depository insurance limits are required to be collateralized either (1) individually by the financial institutions through pledged obligations of the U.S. Government, obligations backed by the full faith and credit of the U.S. Government, obligations of the State of Georgia or other states, or obligations of counties, municipalities, or public authorities of the State of Georgia, or (2) participation in the State of Georgia Secure Deposit Program. As of June 30, 2020, the financial institution holding all of the City's deposits is a participant of the State of Georgia Secure Deposit Program, which is administered by the Office of the State Treasurer, requires participating banks holding deposits of public funds to pledge collateral at varying rates depending on tier assigned by the State. As of June 30, 2020, all of the City's bank balances were insured and/or collateralized as defined by GASB and required by State Statutes.

NOTE 5. RECEIVABLES

Property taxes are levied on property values assessed as of January 1. The taxes are levied by October 1 based on the assessed value of property as listed on the previous January 1 and are due on or before December 1, with a lien date of January 1 of the following year. Property taxes are recorded as receivables and deferred inflows of resources when assessed. Revenues are recognized when available.

Receivables at June 30, 2020, for the City's individual major funds, including any applicable allowances for uncollectible accounts, are as follows:

	General	SPLOST	Water and Sewer
Receivables:			
Accounts	\$ 37,754	\$ -	\$ 523,868
Taxes	144,323	-	-
Intergovernmental	-	132,019	441,891
Total receivables	182,077	132,019	965,759
Less allowance for uncollectibles	-	-	(223,187)
Net total receivable	\$ 182,077	\$ 132,019	\$ 742,572

NOTES TO FINANCIAL STATEMENTS

NOTE 6. CAPITAL ASSETS

Capital asset activity for the City for the fiscal year ended June 30, 2020 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Nondepreciable capital assets:				
Land and improvements	\$ 238,982	\$ -	\$ -	\$ 238,982
Construction in progress	289,247	44,975	-	334,222
Total	<u>528,229</u>	<u>44,975</u>	<u>-</u>	<u>573,204</u>
Depreciable capital assets:				
Buildings and improvements	1,898,990	19,220	-	1,918,210
Machinery and equipment	488,813	5,889	(22,650)	472,052
Vehicles	896,345	34,866	(21,333)	909,878
Infrastructure	901,792	-	-	901,792
Total	<u>4,185,940</u>	<u>59,975</u>	<u>(43,983)</u>	<u>4,201,932</u>
Less accumulated depreciation for:				
Buildings and improvements	(337,134)	(63,227)	-	(400,361)
Machinery and equipment	(442,042)	(10,868)	22,524	(430,386)
Vehicles	(696,875)	(57,663)	18,119	(736,419)
Infrastructure	(423,263)	(45,089)	-	(468,352)
Total	<u>(1,899,314)</u>	<u>(176,847)</u>	<u>40,643</u>	<u>(2,035,518)</u>
Depreciable capital assets, net	<u>2,286,626</u>	<u>(116,872)</u>	<u>(3,340)</u>	<u>2,166,414</u>
Governmental activities capital assets, net	<u>\$ 2,814,855</u>	<u>\$ (71,897)</u>	<u>\$ (3,340)</u>	<u>\$ 2,739,618</u>

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NOTES TO FINANCIAL STATEMENTS

NOTE 6. CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Nondepreciable capital assets:				
Land and improvements	\$ 499,222	\$ -	\$ -	\$ 499,222
Construction in progress	863,754	1,070,644	-	1,934,398
Total	1,362,976	1,070,644	-	2,433,620
Depreciable capital assets:				
Buildings and improvements	341,954	9,530	-	351,484
Machinery and equipment	2,324,834	29,879	-	2,354,713
Vehicles	378,930	38,362	-	417,292
Infrastructure	17,201,080	192,649	-	17,393,729
Total	20,246,798	270,420	-	20,517,218
Less accumulated depreciation for:				
Buildings and improvements	(123,102)	(15,922)	-	(139,024)
Machinery and equipment	(1,832,195)	(67,691)	-	(1,899,886)
Vehicles	(277,787)	(49,199)	-	(326,986)
Infrastructure	(8,731,894)	(465,504)	-	(9,197,398)
Total	(10,964,978)	(598,316)	-	(11,563,294)
Depreciable capital assets, net	9,281,820	(327,896)	-	8,953,924
Governmental activities capital assets, net	\$ 10,644,796	\$ 742,748	\$ -	\$ 11,387,544

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

Governmental activities:	
General government	\$ 26,399
Public safety	74,603
Public works	56,185
Cemetery	4,053
Culture and recreation	15,607
Total depreciation expense - governmental activities	\$ 176,847
Business-type activities:	
Water and sewer	\$ 392,451
Water plant	205,865
Total depreciation expense - business-type activities	\$ 598,316

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT

The following is a summary of long-term debt activity of the City for the year ended June 30, 2020:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Compensated absences	\$ 37,475	\$ 35,574	\$ (35,832)	\$ 37,217	\$ 37,217
Total governmental activities					
long-term liabilities	<u>\$ 37,475</u>	<u>\$ 35,574</u>	<u>\$ (35,832)</u>	<u>\$ 37,217</u>	<u>\$ 37,217</u>
Business-type activities					
Bonds payable	\$ 3,630,000	\$ -	\$ (370,000)	\$ 3,260,000	\$ 380,000
Original issue premium	79,398	-	(13,501)	65,897	-
Total bonds payable	<u>3,709,398</u>	<u>-</u>	<u>(383,501)</u>	<u>3,325,897</u>	<u>380,000</u>
Notes payable	698,387	405,014	(31,602)	1,071,799	31,761
Compensated absences	18,120	28,627	(28,370)	18,377	18,377
Total business-type					
activities long-term liabilities	<u>\$ 4,425,905</u>	<u>\$ 433,641</u>	<u>\$ (443,473)</u>	<u>\$ 4,416,073</u>	<u>\$ 430,138</u>

For governmental activities, compensated absences is generally liquidated by the General Fund.

The City has reported 100% of the compensated absences liability as due in one year as historical usage patterns show employees use earned vacation within one year.

Notes from Direct Borrowings: On January 11, 2016, the City executed a promissory note (DWSRF 14-015) to the Georgia Environmental Finance Authority (GEFA) to borrow up to \$540,000 from the Drinking Water State Revolving Fund for the purpose of funding the replacement of the City's existing water meters with an automatic meter reading (ARM) system and related appurtenances. The unpaid principal balance of the note began to bear interest at 0.50% annually and became payable monthly on September 1, 2019. At that time, the note was finalized and entered into its repayment phase whereby principal and interest is due in one hundred-nineteen (119) equal monthly installments until the note is fully repaid. Additionally, the agreement with GEFA included a principal forgiveness component of \$215,139 of this note. If the City does not make its debt service payments on a timely basis, the full amount of the debt becomes due immediately. The outstanding balance of these notes payable at June 30, 2020 is \$280,608.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

The City's debt service requirements to maturity on this GEFA note are as follows:

Year ending June 30,	Principal	Interest	Total
2021	\$ 31,761	\$ 1,330	\$ 33,091
2022	31,920	1,171	33,091
2023	32,080	1,011	33,091
2024	32,241	850	33,091
2025	32,402	689	33,091
2026-2029	120,204	1,130	121,334
	\$ 280,608	\$ 6,181	\$ 286,789

In July 2017, the City executed a promissory note (DWSRF 13-016) to GEFA to borrow up to \$1,634,000 from the Drinking Water State Revolving Fund for water system improvements including a new elevated water storage tank, servicing and painting existing storage tanks, a new booster pump station, installing pressure reducing valves in the distribution system and other related improvements. The unpaid principal balance of the note will bear interest at 2.03% annually and will be payable monthly until the project is completed or May 1, 2022 (whichever is earlier). At that time, the note will be finalized and will enter into its repayment phase whereby principal and interest will be due in two hundred thirty-nine (239) equal monthly installments until the note is fully repaid. Additionally, the agreement with GEFA included a principal forgiveness component of \$397,000 of this note, if all funds are drawn. As of June 30, 2020, the City had made draws totaling \$791,191 on this note payable to GEFA. As the project is still in the construction phase, an amortization schedule has not been determined for this note and thus the entire payable is reported as due in more than one year. If the City does not make its debt service payments on a timely basis, the full amount of the debt becomes due immediately.

Revenue Bonds – Business-type Activities. In 2012, the City issued \$5,400,000 of Series 2012 revenue bonds to refund the City's remaining Series 1987 revenue bonds, Series 1997 A&B revenue bonds, and series 2001 revenue bonds. These bonds carry interest rates ranging from 2% to 5% which are payable on June 1 and December 1 of each year and matures on June 1, 2038. The Bond Ordinance requires the City to maintain a reserve account equal to the lesser of ten percent of the outstanding bonds, the maximum annual debt service payment or one hundred twenty-five percent of the average annual principal and interest outstanding. The City's net revenues surpassed the minimum level of 110 percent as required by the Bond Ordinance for fiscal year ended June 30, 2020. The outstanding balance of these revenue bonds at June 30, 2020 is \$3,260,000.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

The City's debt service requirements to maturity on its business-type activities revenue bonds are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 380,000	\$ 114,491	\$ 494,491
2022	395,000	95,491	490,491
2023	420,000	75,741	495,741
2024	440,000	64,401	504,401
2025	450,000	52,081	502,081
2026-2030	755,000	120,927	875,927
2031-2035	250,000	61,257	311,257
2036-2038	170,000	13,283	183,283
Total	<u>\$ 3,260,000</u>	<u>\$ 597,672</u>	<u>\$ 3,857,672</u>

NOTE 8. DEFERRED COMPENSATION PLAN

The City offers its employees a Deferred Compensation Plan (the "401a Plan") created in accordance with Internal Revenue Code Section 401 (a). The Deferred Compensation Plan for the City is available to all eligible full-time employees. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. As required by federal regulations, the 401a Plan assets are held in a trust for the exclusive benefit of participants and their beneficiaries. The 401a Plan is administered by a third party administrator, Georgia Municipal Association (GMA), who also serves as the trustee of the 401a Plan. The City has no fiduciary relationship with the trust. Accordingly, the plan assets are not reported in the City's financial statements.

Under the 401a Plan authorized by the Mayor and City Council, the City is required to make a fixed contribution equal to 2% of the aggregate annual compensation of all participants. The City's contribution and related investment earnings allocated to an employee's account are fully vested after four consecutive years of employment. The City contributed \$26,553 to the 401a Plan during the fiscal year ended June 30, 2020. At the end of the fiscal year, there were 46 participants in the 401a Plan. The City also provides a 3% match to those eligible employees who contribute 5% to the section 457(b) deferred compensation plan. Only full-time employees participating in the section 457(b) deferred compensation plan are eligible after being employed for one year. Plan provisions and contribution requirements are established and may be amended by the City Council. The City's contribution for fiscal year 2020 was \$26,553 and employee contributions were \$51,602. At the end of the fiscal year, there were 30 participants in the 457(b) Plan.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2020 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	SPLOST Fund	\$ 35,905
		<u>\$ 35,905</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

The composition of advances to/from balances as of June 30, 2020 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	\$ 984,476
		<u>\$ 984,476</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made. These balances will not be paid back within one year.

The composition of interfund transfers for the fiscal year ended June 30, 2020 are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Water and Sewer Fund	SPLOST Fund	\$ 208,183
		<u>\$ 208,183</u>

Transfers are used to move SPLOST proceeds from the SPLOST fund to Water and Sewer fund to fund capital projects as allowed in the referendum.

NOTE 10. JOINT VENTURE

Under Georgia law, the City, in conjunction with other cities and counties in the area, is a member of the Georgia Mountains Regional Commission (GMRC) and is required to pay annual dues thereto. During the year ended June 30, 2020, the City paid \$2,836 in such dues. Membership in the GMRC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34, which provides for the organization structure of the GMRC. GMRC 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 the GMRC. Separate financial statements may be obtained from the GMRC, P.O. Box 1720, Gainesville, Georgia 30503-1720.

NOTES TO FINANCIAL STATEMENTS

NOTE 11. 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. The City has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Agency Property and Liability Insurance Fund, a public entity risk pool currently operating as common risk management and insurance programs for member local governments.

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

The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member government contract. The fund is to pay all cost taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

Settled claims have not exceeded the coverages in the last three years.

The City carries commercial insurance for other risks of losses. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage in the last three years.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Litigation

The City is a defendant in certain legal actions in the nature of claims for alleged damages to persons and property and other similar types of actions rising in the course of City operations. 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, management of the City believes such disallowances, if any, will not be significant.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BALDWIN, GEORGIA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(Required Supplementary Information)

	Budget		Actual	Variance With Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 454,831	\$ 454,831	\$ 455,064	\$ 233
Sales taxes	92,000	92,000	126,189	34,189
Intangible taxes	1,700	1,700	5,837	4,137
Franchise taxes	110,000	110,000	108,029	(1,971)
Alcohol excise taxes	42,000	42,000	39,505	(2,495)
Business taxes	22,000	22,000	23,002	1,002
Insurance taxes	240,000	250,500	250,559	59
Licenses and permits	52,650	54,150	69,263	15,113
Intergovernmental	-	-	422	422
Charges for services	881,450	897,645	776,510	(121,135)
Fines and forfeitures	410,000	410,000	324,390	(85,610)
Interest earned	974	974	17	(957)
Donations	-	3,800	3,800	-
Miscellaneous	5,336	8,366	19,543	11,177
Total revenues	<u>2,312,941</u>	<u>2,347,966</u>	<u>2,202,130</u>	<u>(145,836)</u>
Expenditures:				
Current:				
General government:				
Legislative	10,979	10,979	8,402	2,577
Elections	5,000	5,000	1,376	3,624
Financial administration	168,301	171,331	158,945	12,386
Law	9,500	9,500	9,064	436
Total general government	<u>193,780</u>	<u>196,810</u>	<u>177,787</u>	<u>19,023</u>
Judicial:				
Municipal court	89,282	89,282	75,801	13,481
Total judicial	<u>89,282</u>	<u>89,282</u>	<u>75,801</u>	<u>13,481</u>
Public safety:				
Police	1,113,776	1,100,971	993,076	107,895
Fire	607,236	640,036	639,612	424
Total public safety	<u>1,721,012</u>	<u>1,741,007</u>	<u>1,632,688</u>	<u>108,319</u>
Public works				
Highways and streets	147,118	139,183	142,264	(3,081)
Solid waste and recycling	150,000	150,000	129,697	20,303
Total public works	<u>297,118</u>	<u>289,183</u>	<u>271,961</u>	<u>17,222</u>
Culture and recreation				
Parks	4,850	7,350	7,146	204
Cemetery	1,000	1,000	275	725
Total culture and recreation	<u>5,850</u>	<u>8,350</u>	<u>7,421</u>	<u>929</u>
Housing and development				
Total expenditures	<u>2,319,442</u>	<u>2,346,532</u>	<u>2,186,020</u>	<u>160,512</u>
Excess (deficiency) of revenues over expenditures	<u>(6,501)</u>	<u>1,434</u>	<u>16,110</u>	<u>14,676</u>
Other financing sources				
Proceeds from sales of capital assets	3,000	3,000	1,711	(1,289)
Total other financing sources	<u>3,000</u>	<u>3,000</u>	<u>1,711</u>	<u>(1,289)</u>
Net change in fund balance	(3,501)	4,434	17,821	13,387
Fund balance, beginning of year	<u>981,052</u>	<u>981,052</u>	<u>981,052</u>	<u>-</u>
Fund balance, end of year	<u>\$ 977,551</u>	<u>\$ 985,486</u>	<u>\$ 998,873</u>	<u>\$ 13,387</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF BALDWIN, GEORGIA

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS FOR THE FISCAL YEAR ENDED JUNE 30, 2020

PROJECT	ORIGINAL ESTIMATED COST	REVISED ESTIMATED COST	PRIOR YEARS	CURRENT YEAR	TOTAL	ESTIMATED PERCENT COMPLETE
Banks County, Georgia SPLOST II - Commenced October 1, 2012						
Sewage System Improvements	\$ 100,000	\$ 31,973	\$ 31,973	\$ -	\$ 31,973	100.00 %
Road Improvements	50,000	82,860	78,748	4,112	82,860	100.00
Water System Improvements	50,000	62,482	-	62,482	62,482	100.00
Banks County SPLOST II Totals	<u>\$ 200,000</u>	<u>\$ 177,315</u>	<u>\$ 110,721</u>	<u>66,594</u>	<u>\$ 177,315</u>	
Habersham County, Georgia SPLOST VI - Commenced May 1, 2015						
Roads / Bridges	\$ 605,000	\$ 605,000	\$ 125,573	-	\$ 125,573	20.76 %
Public Safety	464,380	464,380	212,085	-	212,085	45.67
Capital Outlay Projects	685,058	685,058	313,268	177,576	490,844	71.65
Habersham County SPLOST VI Totals	<u>\$ 1,754,438</u>	<u>\$ 1,754,438</u>	<u>\$ 650,926</u>	<u>177,576</u>	<u>\$ 828,502</u>	
Banks County, Georgia SPLOST III - Commenced October 1, 2017						
Road Improvements	\$ 223,118	\$ 196,631	\$ -	15,108	\$ 15,108	7.68 %
Water System Improvements	208,556	208,556	-	13,100	13,100	6.28
Parks: New Park Site Preparation	33,513	33,513	-	-	-	0.00
Cemetery	33,513	60,000	59,200	-	59,200	98.67
Totals	<u>\$ 498,700</u>	<u>\$ 498,700</u>	<u>\$ 59,200</u>	<u>28,208</u>	<u>\$ 87,408</u>	
Total SPLOST expenditures				<u>\$ 272,378</u>		

CITY OF BALDWIN, GEORGIA

SUPPLEMENTARY INFORMATION SCHEDULE OF EXPENDITURES OF TRANSPORTATION SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS FOR THE FISCAL YEAR ENDED JUNE 30, 2020

PROJECT	ORIGINAL ESTIMATED COST	REVISED ESTIMATED COST	PRIOR YEARS	CURRENT YEAR	TOTAL	ESTIMATED PERCENT COMPLETE
Banks County, Georgia TSPLOST						
Commenced October 1, 2018						
1) Smokerise Rd & Crooked Pine Trail Paving	\$ 174,200	\$ 174,200	\$ -	\$ 171,189	\$ 171,189	98.27 %
2) Baldwin Heights Drive Paving & Gravel	338,533	338,533	-	-	-	0.00
3) Davison Street & Vista Lane Paving & Widening	127,820	127,820	-	-	-	0.00
4) Church Street & Ivory Drive Paving	104,150	104,150	-	-	-	0.00
5) Old Orchard Rd Widening	31,130	31,130	-	-	-	0.00
Totals	<u>\$ 775,833</u>	<u>\$ 775,833</u>	<u>\$ -</u>	<u>171,189</u>	<u>\$ 171,189</u>	
Total TSPLOST expenditures				<u>\$ 171,189</u>		

Note: Proceeds received under the amount estimated in the Referendum question shall be allocated in accordance with the percentages set forth in the intergovernmental agreement and shall be used on the Transportation Projects and Purposes as outlined above. The priority and order in which the TSPLOST proceeds will be fully or partially funded is shown above.

OTHER INFORMATION

**CITY OF BALDWIN, GEORGIA
STATISTICAL INFORMATION
JUNE 30, 2020**

WATER OPERATIONS

Fiscal Year	Volume of Water Purchase	Cost of Water Purchased from Plant	Volume of Water Billed to Customers	Revenue from Water Billed to Customers	Percent Water Loss
2011	159,814,000	\$ 241,319	117,162,209	\$ 857,614	26.69 %
2012	156,880,000	287,090	111,774,787	843,593	28.75
2013	167,446,140	544,213	112,816,608	880,092	32.63
2014	167,493,000	544,352	115,278,853	891,254	31.17
2015	171,504,000	326,363	132,651,911	988,954	22.65
2016	175,932,530	571,771	127,920,163	1,013,251	27.29
2017	173,457,000	562,240	118,197,529	989,909	31.86
2018	176,769,000	550,483	112,197,410	938,203	36.53
2019	190,210,190	602,440	113,938,169	938,181	40.10
2020	169,210,674	531,192	114,712,069	1,067,751	32.21

TOTAL WATER AND SEWER SYSTEM CONNECTIONS

Fiscal Year	WATER CONNECTIONS		SEWER CONNECTIONS	
	Residential	Commercial	Residential	Commercial
2011	1,479	137	712	88
2012	1,458	137	696	96
2013	1,754	150	904	101
2014	1,718	154	877	102
2015	1,714	157	866	105
2016	1,711	157	878	99
2017	1,686	168	855	109
2018	1,692	159	871	105
2019	1,579	157	792	105
2020	1,610	163	815	111

LARGEST WATER AND SEWER USERS

User Name	Water Gallons Per Year	Sewer Gallons Per Year	Combined Revenue Fiscal 2020	Percent of Water and Sewer Revenue
Department of Corrections	-	62,392,400	\$ 459,940	19.92 %
Fieldale Corporation	14,597,624	5,942,560	221,980	9.61
Oak Heritage Healthcare, Inc.	4,694,210	4,694,210	110,608	4.79
Heritage Gardens	4,219,450	4,219,450	99,597	4.31
Magnolia Windows and Doors	2,013,959	2,013,959	54,017	2.34
SteelCell	1,675,570	1,675,570	38,446	1.67
Habersham Retreat	1,491,200	1,491,200	35,106	1.52
DQ Wilbanks, LLC	510,298	510,298	11,546	0.50
MJ Meeks Investments	353,089	353,089	8,249	0.36
Habersham Metal	339,123	339,123	7,519	0.33
All Others	84,817,546	40,702,505	1,261,792	54.65
TOTALS	114,712,069	124,334,364	\$ 2,308,800	100.00 %

**CITY OF BALDWIN, GEORGIA
STATISTICAL INFORMATION
JUNE 30, 2020**

RATIO OF LARGEST WATER USERS TO TOTAL WATER VOLUME

TEN LARGEST USERS' VOLUME	29,894,523
AMOUNT OF WATER DELIVERED TO CUSTOMERS	114,712,069
TEN LARGEST USERS PERCENTAGE OF TOTAL WATER VOLUME	26.06 %

RATIO OF LARGEST SEWER USERS TO TOTAL SEWER VOLUME

TEN LARGEST USERS' VOLUME	83,631,859
AMOUNT OF WASTEWATER FLOW	124,334,364
TEN LARGEST USERS PERCENTAGE OF TOTAL WASTEWATER VOLUME	67.26 %

RATIO OF LARGEST WATER AND SEWER USERS TO TOTAL WATER AND SEWER VOLUME

REVENUE FROM TEN LARGEST USERS	\$ 1,047,008
COMBINED WATER AND SEWER REVENUE	\$ 2,308,800
TEN LARGEST USERS PERCENTAGE OF TOTAL WATER AND SEWER REVENUE	45.35 %

WATER AND SEWER RATES

INSIDE RATES	WATER per 1,000 gallons	SEWER per 1,000 gallons
<u>Residential</u>		
0- 2,000 gallons	\$ 6.30	\$ 9.96
2,001 - 6,000 gallons	6.68	10.28
6,001 - 9,000 gallons	10.02	10.61
9,001 and up gallons	13.36	11.07
<u>Commercial</u>		
0- 2,000 gallons	\$ 6.30	\$ 9.96
2,001 - 6,000 gallons	6.68	10.28
6,001 - 9,000 gallons	10.02	10.61
9,001 and up gallons	13.36	11.07
OUTSIDE RATES	WATER per 1,000 gallons	SEWER per 1,000 gallons
<u>Residential</u>		
0- 1,000 gallons	\$ 9.00	\$ 10.48
1,001 - 6,000 gallons	9.38	10.81
6,001 - 9,000 gallons	11.82	11.20
9,001 and up gallons	15.75	11.79
<u>Commercial</u>		
0- 2,000 gallons	\$ 9.00	\$ 10.48
2,001 - 6,000 gallons	9.38	10.81
6,001 - 9,000 gallons	11.82	11.20
9,001 and up gallons	15.75	11.79

CITY OF BALDWIN, GEORGIA
ENTERPRISE FUND
SCHEDULE OF DEBT SERVICE COVERAGE RATIOS
JUNE 30, 2020

	2011	2012	2013	2014	2015
INCOME BEFORE DEBT SERVICE (2)	\$ 325,693	\$ 152,585	\$ 499,479	\$ 559,690	\$ 507,130
DEBT SERVICE EXISTING PROJECTS	203,740	191,360	-	-	-
DEBT SERVICE NEW SEWER PLANT	311,425	229,252	180,346	320,346	477,546
	<u>515,165</u>	<u>420,612</u>	<u>180,346</u>	<u>320,346</u>	<u>477,546</u>
REVENUE AVAILABLE FOR DEBT SERVICE	325,693	152,585	499,479	559,690	507,130
ADD BACK DEPRECIATION	503,799	520,286	523,788	519,518	499,831
	<u>829,492</u>	<u>672,871</u>	<u>1,023,267</u>	<u>1,079,208</u>	<u>1,006,961</u>
DEBT SERVICE COVERAGE	1.61	1.60	5.67	3.37	2.11

	2016	2017	2018 (1)	2019 (1)	2020
INCOME BEFORE DEBT SERVICE (2)	\$ 367,640	\$ (29,572)	\$ (95,356)	\$ (262,307)	\$ 194,598
DEBT SERVICE EXISTING PROJECTS	-	-	-	-	-
DEBT SERVICE NEW SEWER PLANT	478,547	481,146	483,146	484,546	502,402
	<u>478,547</u>	<u>481,146</u>	<u>483,146</u>	<u>484,546</u>	<u>502,402</u>
REVENUE AVAILABLE FOR DEBT SERVICE	367,640	(29,572)	(95,356)	(262,307)	194,598
ADD BACK DEPRECIATION	544,015	563,746	579,817	558,371	598,316
	<u>911,655</u>	<u>534,174</u>	<u>484,461</u>	<u>296,064</u>	<u>792,914</u>
DEBT SERVICE COVERAGE	1.91	1.11	1.00	0.61	1.58

(1) - The City's net revenues were less than the minimum level of 110 percent as required by the Bond Ordinance for fiscal year ended June 30, 2018 and June 30, 2019. However, the City obtained a rate study to determine a more appropriate rate structure as necessitated by the Bond Ordinance as a result of the net revenues being less than the minimum level. The City then adopted new rates effective July 1, 2019.

(2) - Income before debt service equates to operating income (loss) plus investment income.

COMPLIANCE SECTION

**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
City of Baldwin, 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, and each major fund of the City of Baldwin, Georgia (the "City") as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 16, 2020.

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) as a basis for designing 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 of Baldwin, Georgia's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2020-001 to be a material weakness.

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 accompanying schedule of findings and responses as item 2020-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 Baldwin, Georgia's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Mauldin & Jenkins, LLC

Atlanta, Georgia
November 16, 2020

CITY OF BALDWIN, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2020

SECTION I SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weaknesses identified? yes no

Significant deficiencies identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

There was not an audit of major federal award programs for the year ended June 30, 2020 due to the total amount expended being less than \$750,000.

CITY OF BALDWIN, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2020-001 Segregation of Duties

Criteria: Segregation of employee's duties is a common practice in an effective internal control structure. Segregation of duties is when specific employee functions related to important accounting areas (such as cash receipting or cash disbursements) are separated among different individuals to significantly reduce the risk that any one individual could intentionally or unintentionally misappropriate assets. Policies should be in place requiring the segregation of certain duties.

Condition: The size of the City's accounting and administrative staff preclude internal controls that would be preferred if the office staff were large enough, to provide optimum segregation of duties. Appropriate segregation of duties was not noted within the following areas of the City: cash receipting, recording and reconciliation process; journal entry review; revenue and receivable recording; accounts payable and expense/expenditure recording; grant recording; inventory and capital asset maintenance; and debt and debt service expenditures.

Context/Cause: Although the small size of the City's staff limits the segregation of duties, it is important that incompatible duties be assigned to different individuals and/or compensating controls implemented. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction.

Effects: Failure to properly segregate duties or implement compensating controls can lead to misappropriation of funds or abuse of the system that is not detected in a timely manner by employees in the normal course of performing their assigned functions.

Recommendation: We recommend the City segregate duties and/or implement compensating controls in the key areas noted above.

Auditee's Response: We will continue to review our operations to determine the most efficient and effective solution to properly segregate duties.

CITY OF BALDWIN, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2020-002 Customer Deposits

Criteria: Internal controls should be in place to ensure that customer deposits liabilities are appropriately reported.

Condition: Internal controls were not sufficient to detect misstatements in the reporting of the City's customer deposits payable.

Context/Cause: During our testing of water and sewer receivables and customer deposits payable it was noted that an audit adjustment of approximately \$17,500 was required to increase receivables and customer deposits payable to state each appropriately. When the customer cancelled water service, the City applied the entire deposit amount to the customer's outstanding balance. If the customer's deposit exceeded the outstanding balance, the City would issue a check for the remaining balance to the customer. As part of the process the City would reduce the customer deposit again for the excess being paid out when the City should have taken the excess amount from the accounts receivable balance where the excess was after the full deposit was applied. This process was causing the customer deposits and accounts receivable to be understated.

Effects: An audit adjustment of approximately \$17,500 was needed to correctly report receivables and customer deposits payable.

Recommendation: We recommend the City carefully review all receivable and customer deposits payable to ensure all necessary transactions are reported in accordance with generally accepted accounting principles.

Auditee's Response: We concur with the finding. We will take necessary steps in the future to ensure that receivables and related customer deposits payable are properly recorded.