

**City of Baldwin, Georgia**  
**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED**  
**JUNE 30, 2018**

**CITY OF BALDWIN, GEORGIA**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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## FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT

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**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, 2018, 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.

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**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, 2018, 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 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.

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The schedule of expenditures of special purpose local option sales tax proceeds is the responsibility of management and was derived from and relates 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 is 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 January 27, 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  
January 27, 2020

# CITY OF BALDWIN, GEORGIA

## STATEMENT OF NET POSITION JUNE 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 865,285	\$ 1,253,086	\$ 2,118,371
Accounts receivable, net of allowances	41,124	313,286	354,410
Taxes receivable, net of allowances	105,409	-	105,409
Due from other governments	165,499	103,469	268,968
Prepaid items	109,999	568	110,567
Internal balances	257,593	(257,593)	-
Restricted cash	-	404,455	404,455
Capital assets:			
Nondepreciable	388,973	1,395,294	1,784,267
Depreciable, net of accumulated depreciation	2,428,563	8,776,442	11,205,005
Total assets	4,362,445	11,989,007	16,351,452
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charges on refunding	-	56,302	56,302
<b>LIABILITIES</b>			
Accounts payable	170,200	-	170,200
Accrued liabilities	49,414	33,887	83,301
Customer deposits	-	87,571	87,571
Compensated absences due within one year	31,675	17,118	48,793
Bonds payable due within one year	-	355,000	355,000
Bonds payable due in more than one year	-	3,723,682	3,723,682
Notes payable, due in more than one year	-	363,298	363,298
Total liabilities	251,289	4,580,556	4,831,845
<b>NET POSITION</b>			
Net investment in capital assets	2,817,536	5,786,058	8,603,594
Restricted for:			
Capital projects	469,136	-	469,136
Debt service	-	404,455	404,455
Unrestricted	824,484	1,274,240	2,098,724
Total net position	\$ 4,111,156	\$ 7,464,753	\$ 11,575,909

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, 2018**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary government:</b>				
Governmental activities:				
General government	\$ 265,354	\$ 21,690	\$ -	\$ 11,027
Judicial	70,475	279,347	-	-
Public Safety	1,652,716	674,695	-	132
Public works	358,380	3,435	-	448,323
Culture and recreation	29,713	158,149	-	3,102
Housing and development	4,395	12,977	-	194
Total governmental activities	<u>2,381,033</u>	<u>1,150,293</u>	<u>-</u>	<u>462,778</u>
Business-type activities:				
Water and sewer	<u>2,942,151</u>	<u>2,709,945</u>	<u>-</u>	<u>187,774</u>
Total primary government	<u>\$ 5,323,184</u>	<u>\$ 3,860,238</u>	<u>\$ -</u>	<u>\$ 650,552</u>
General revenues:				
Property taxes				
Sales taxes				
Intangible taxes				
Franchise taxes				
Business taxes				
Alcohol & excise taxes				
Insurance premium taxes				
Unrestricted investment earnings				
Miscellaneous revenues				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position, beginning of year				
Net position, end of year				

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



**Net (Expenses) Revenues and  
Changes in Net Position**

**Primary Government**

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (232,637)	\$ -	\$ (232,637)
208,872	-	208,872
(977,889)	-	(977,889)
93,378	-	93,378
131,538	-	131,538
8,776	-	8,776
(767,962)	-	(767,962)
-	(44,432)	(44,432)
(767,962)	(44,432)	(812,394)
472,418	-	472,418
96,716	-	96,716
2,206	-	2,206
79,178	-	79,178
23,025	-	23,025
43,135	-	43,135
218,058	-	218,058
212	1,635	1,847
26,677	-	26,677
(114,274)	114,274	-
847,351	115,909	963,260
79,389	71,477	150,866
4,031,767	7,393,276	11,425,043
\$ 4,111,156	\$ 7,464,753	\$ 11,575,909

**CITY OF BALDWIN, GEORGIA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018**

<b>ASSETS</b>	<b>General Fund</b>	<b>SPLOST Fund</b>	<b>Total Governmental Funds</b>
Cash and cash equivalents	\$ 52,758	\$ 812,527	\$ 865,285
Accounts receivable, net of allowances	41,124	-	41,124
Taxes receivable, net of allowances	105,409	-	105,409
Intergovernmental receivable	117,604	47,895	165,499
Due from other funds	648,879	-	648,879
Prepaid items	109,999	-	109,999
<b>Total assets</b>	<b>\$ 1,075,773</b>	<b>\$ 860,422</b>	<b>\$ 1,936,195</b>
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 170,200	\$ -	\$ 170,200
Accrued liabilities	49,414	-	49,414
Due to other funds	-	391,286	391,286
<b>Total liabilities</b>	<b>219,614</b>	<b>391,286</b>	<b>610,900</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - taxes	87,491	-	87,491
<b>Total deferred inflows of resources</b>	<b>87,491</b>	<b>-</b>	<b>87,491</b>
<b>FUND BALANCES</b>			
Nonspendable:			
Prepaid items	109,999	-	109,999
Restricted:			
Capital projects	-	469,136	469,136
Assigned:			
Use of reserves in subsequent budget	32,338	-	32,338
Unassigned	626,331	-	626,331
<b>Total fund balances</b>	<b>768,668</b>	<b>469,136</b>	<b>1,237,804</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 1,075,773</b>	<b>\$ 860,422</b>	

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.	2,817,536
Long-term liabilities (compensated absences) are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(31,675)
Some revenues are not available in the current period and, therefore, are not reported in the governmental funds.	87,491
<b>Net position of governmental activities</b>	<b>\$ 4,111,156</b>

**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, 2018**

	<u>General Fund</u>	<u>SPLOST Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Property taxes	\$ 426,510	\$ -	\$ 426,510
Sales taxes	96,716	-	96,716
Intangible taxes	2,206	-	2,206
Franchise taxes	79,178	-	79,178
Alcohol excise taxes	43,135	-	43,135
Business taxes	23,025	-	23,025
Insurance premium taxes	218,058	-	218,058
Licenses and permits	34,043	-	34,043
Intergovernmental	177,402	284,675	462,077
Charges for services	836,903	-	836,903
Fines and forfeitures	279,347	-	279,347
Interest earned	212	701	913
Miscellaneous	26,677	-	26,677
Total revenues	<u>2,243,412</u>	<u>285,376</u>	<u>2,528,788</u>
<b>Expenditures:</b>			
Current:			
General government	236,799	4,557	241,356
Judicial	70,475	-	70,475
Public safety	1,572,095	3,692	1,575,787
Public works	278,210	16,300	294,510
Culture and recreation	7,354	76,123	83,477
Housing and development	4,395	-	4,395
Total expenditures	<u>2,169,328</u>	<u>100,672</u>	<u>2,270,000</u>
Excess of revenues over expenditures	74,084	184,704	258,788
<b>Other financing uses:</b>			
Transfers out	-	(114,274)	(114,274)
Total other financing uses	<u>-</u>	<u>(114,274)</u>	<u>(114,274)</u>
Net change in fund balances	74,084	70,430	144,514
<b>Fund balances, beginning of year</b>	<u>694,584</u>	<u>398,706</u>	<u>1,093,290</u>
<b>Fund balances, end of year</b>	<u>\$ 768,668</u>	<u>\$ 469,136</u>	<u>\$ 1,237,804</u>

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, 2018**

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

Net change in fund balances - total governmental funds	\$	144,514
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.		(118,329)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		45,908
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>7,296</u>
Change in net position - governmental activities	\$	<u><u>79,389</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, 2018**

<b>ASSETS</b>	<b>Water and Sewer Fund</b>
<b>CURRENT ASSETS</b>	
Cash	\$ 1,253,086
Accounts receivable, net of allowance	313,286
Due from other governments	103,469
Prepaid items	568
Restricted assets:	
Cash	404,455
Total current assets	<u>2,074,864</u>
<b>NONCURRENT ASSETS</b>	
Nondepreciable capital assets	1,395,294
Depreciable capital assets, net of accumulated depreciation	8,776,442
Total capital assets	<u>10,171,736</u>
 Total assets	 <u>12,246,600</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charges on refunding	56,302
Total deferred outflows of resources	<u>56,302</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accrued expenses	33,887
Due to other funds	257,593
Compensated absences	17,118
Customer deposits	87,571
Bonds payable, due within one year	355,000
Total current liabilities	<u>751,169</u>
<b>NON-CURRENT LIABILITIES</b>	
Bonds payable, due in more than one year	3,723,682
Notes payable, due in more than one year	363,298
Total non-current liabilities	<u>4,086,980</u>
 Total liabilities	 <u>4,838,149</u>
<b>NET POSITION</b>	
Net investment in capital assets	5,786,058
Restricted for debt service	404,455
Unrestricted	1,274,240
Total net position	<u>\$ 7,464,753</u>

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, 2018**

	<b>Water and Sewer Fund</b>
<b>OPERATING REVENUE</b>	
Water charges	\$ 1,851,222
Sewer charges	780,900
Other	77,823
Total operating revenues	2,709,945
<b>OPERATING EXPENSES</b>	
Personnel services	799,440
Contracted services	826,749
Materials and supplies	600,930
Depreciation	579,817
Total operating expenses	2,806,936
Operating loss	(96,991)
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	1,635
Intergovernmental revenues	31,961
Interest and amortization expense	(135,215)
Loss before capital contributions and transfers	(198,610)
Capital contributions	155,813
Transfers in	114,274
Total capital contributions and transfers	270,087
Change in net position	71,477
<b>Total net position, beginning of year</b>	<b>7,393,276</b>
<b>Total net position, end of year</b>	<b>\$ 7,464,753</b>

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, 2018**

	<b>Water and Sewer Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 2,694,875
Payments to suppliers and service providers	(1,427,679)
Payments to employees	(1,248,901)
Net cash provided by operating activities	18,295
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(955,440)
Capital grants received for purchases of capital assets	217,966
Proceeds from debt issuance	299,338
Transfers from other funds	114,274
Principal paid on capital debt	(340,000)
Interest paid on capital debt	(142,646)
Net cash used in capital and related financing activities	(806,508)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	1,635
Proceeds from sale of investments	121,341
Net cash provided by investing activities	122,976
Net decrease in cash	(665,237)
Cash, beginning of year	2,322,778
Cash, end of year	\$ 1,657,541
<b>RECONCILIATION OF CASH</b>	
Cash	\$ 1,253,086
Restricted Cash	404,455
Total Cash	\$ 1,657,541
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (96,991)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	579,817
Change in assets and liabilities:	
Increase in accounts receivable	(19,126)
Decrease in due to other funds	(438,997)
Decrease in accrued expenses	(3,391)
Decrease in compensated absences	(7,073)
Increase in customer deposits	4,056
Net cash provided by operating activities	\$ 18,295

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

**City of Baldwin, Georgia**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**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

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### 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 and fines 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

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### 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

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### 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, 2018, 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

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### 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, 2018, 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 \$2,500 and an estimated useful life in excess of two 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

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### 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:

<u>Asset</u>	<u>Years</u>
Buildings	40
Vehicles	3-10
Machinery and equipment	5-20
Infrastructure	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

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### 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

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### 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

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### 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 \$118,329 difference are as follows:

Capital outlay	\$ 102,621
Depreciation expense	<u>(220,950)</u>
Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net position - governmental activities</i>	<u>\$ (118,329)</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

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### NOTE 3. LEGAL COMPLIANCE – BUDGETS (CONTINUED)

For the year ended June 30, 2018 expenditures exceeded the budget in the General Fund departments as follows:

General Fund:

General government:

Financial administration	\$	5,638
Law		2,605

The excess of expenditures over budget that are noted above were primarily funded by less 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, 2018, 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, 2018, 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.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5. RECEIVABLES (CONTINUED)

Receivables at June 30, 2018, for the City's individual major funds, including any applicable allowances for uncollectible accounts, are as follows:

	<b>General</b>	<b>SPLOST</b>	<b>Water and Sewer</b>
Receivables:			
Accounts	\$ 41,124	\$ -	\$ 474,858
Taxes	105,409	-	-
Intergovernmental	117,604	47,895	103,469
Total receivables	264,137	47,895	578,327
Less allowance for uncollectibles	-	-	(161,572)
Net total receivable	\$ 264,137	\$ 47,895	\$ 416,755

### NOTE 6. CAPITAL ASSETS

Capital asset activity for the City for the fiscal year ended June 30, 2018 is as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Ending Balance</b>
<b>Governmental activities:</b>					
Nondepreciable capital assets:					
Land and improvements	\$ 233,017	\$ 5,965	\$ -	\$ -	\$ 238,982
Construction in progress	79,832	70,159	-	-	149,991
Total	312,849	76,124	-	-	388,973
Depreciable capital assets:					
Buildings and improvements	1,898,990	-	-	-	1,898,990
Machinery and equipment	498,099	5,725	-	-	503,824
Vehicles	1,127,165	20,772	(21,348)	-	1,126,589
Infrastructure	901,792	-	-	-	901,792
Total	4,426,046	26,497	(21,348)	-	4,431,195
Less accumulated depreciation for:					
Buildings and improvements	(210,894)	(63,120)	-	-	(274,014)
Machinery and equipment	(433,044)	(21,199)	-	-	(454,243)
Vehicles	(826,009)	(91,541)	21,348	-	(896,202)
Infrastructure	(333,083)	(45,090)	-	-	(378,173)
Total	(1,803,030)	(220,950)	21,348	-	(2,002,632)
Depreciable capital assets, net	2,623,016	(194,453)	-	-	2,428,563
Governmental activities capital assets, net	\$ 2,935,865	\$ (118,329)	\$ -	\$ -	\$ 2,817,536

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6. CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>					
Nondepreciable capital assets:					
Land and improvements	\$ 149,222	\$ 350,000	\$ -	\$ -	\$ 499,222
Construction in progress	477,287	418,785	-	-	896,072
Total	<u>626,509</u>	<u>768,785</u>	<u>-</u>	<u>-</u>	<u>1,395,294</u>
Depreciable capital assets:					
Buildings and improvements	341,954	-	-	-	341,954
Machinery and equipment	2,087,579	160,778	-	-	2,248,357
Vehicles	346,541	-	-	-	346,541
Infrastructure	16,220,320	25,877	-	-	16,246,197
Total	<u>18,996,394</u>	<u>186,655</u>	<u>-</u>	<u>-</u>	<u>19,183,049</u>
Less accumulated depreciation for:					
Buildings and improvements	(92,527)	(15,287)	-	-	(107,814)
Machinery and equipment	(1,624,498)	(136,796)	-	-	(1,761,294)
Vehicles	(174,606)	(50,106)	-	-	(224,712)
Infrastructure	(7,935,159)	(377,628)	-	-	(8,312,787)
Total	<u>(9,826,790)</u>	<u>(579,817)</u>	<u>-</u>	<u>-</u>	<u>(10,406,607)</u>
Depreciable capital assets, net	<u>9,169,604</u>	<u>(393,162)</u>	<u>-</u>	<u>-</u>	<u>8,776,442</u>
Business-type activities capital assets, net	<u>\$ 9,796,113</u>	<u>\$ 375,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,171,736</u>

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

Governmental activities:	
General government	\$ 26,940
Public safety	107,781
Public works	63,870
Cemetery	3,947
Culture and recreation	18,412
Total depreciation expense - governmental activities	<u>\$ 220,950</u>
Business-type activities:	
Water and sewer	\$ 383,129
Water plant	196,688
Total depreciation expense - business-type activities	<u>\$ 579,817</u>

## 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, 2018:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
Compensated absences	\$ 38,971	\$ 43,003	\$ (50,299)	\$ 31,675	\$ 31,675
Total governmental activities long-term liabilities	<u>\$ 38,971</u>	<u>\$ 43,003</u>	<u>\$ (50,299)</u>	<u>\$ 31,675</u>	<u>\$ 31,675</u>
<b>Business-type activities</b>					
Bonds payable	\$ 4,325,000	\$ -	\$ (340,000)	\$ 3,985,000	\$ 355,000
Original issue premium	109,465	-	(15,783)	93,682	-
Notes payable	104,551	258,747	-	363,298	-
Compensated absences	24,191	29,600	(36,673)	17,118	17,118
Total business-type activities long-term liabilities	<u>\$ 4,563,207</u>	<u>\$ 288,347</u>	<u>\$ (392,456)</u>	<u>\$ 4,459,098</u>	<u>\$ 372,118</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 Payable:** 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 will bear interest at 0.50% annually and will be payable monthly until the project is completed or September 1, 2019 (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 one hundred-nineteen (119) equal monthly installments until the note is fully repaid. Additionally, the agreement with GEFA included a principal forgiveness component of \$216,000 of this note, if all funds are drawn. As of June 30, 2018, the City had made draws totaling \$215,144 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.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7. LONG-TERM DEBT (CONTINUED)

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 February 1, 2021 (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, 2018, the City had made draws totaling \$148,154 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.

**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 was in violation of this bond covenant by \$226,000. The City obtained a waiver for this requirement. 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. 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. The outstanding balance of these revenue bonds at June 30, 2018 is \$3,985,000.

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

<b>Year ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 355,000	\$ 129,546	\$ 484,546
2020	370,000	122,446	492,446
2021	380,000	114,491	494,491
2022	395,000	95,491	490,491
2023	420,000	75,741	495,741
2024-2028	1,555,000	201,053	1,756,053
2029-2033	235,000	78,475	313,475
2034-2038	275,000	32,421	307,421
<b>Total</b>	<b>\$ 3,985,000</b>	<b>\$ 849,664</b>	<b>\$ 4,834,664</b>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2018 is as follows:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General Fund	SPLOST Fund	\$ 391,286
General Fund	Water and Sewer Fund	257,593
		\$ 648,879

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.

Interfund transfers:

<b>Transfers In</b>	<b>Transfers Out</b>	<b>Amount</b>
Water and Sewer Fund	SPLOST Fund	\$ 114,274

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 9. 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, 2018, the City paid \$2,793 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

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### **NOTE 10. 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 11. 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**

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**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, 2018**  
**(Required Supplementary Information)**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>Revenues:</b>				
Property taxes	\$ 418,050	\$ 430,050	\$ 426,510	\$ (3,540)
Sales taxes	92,000	92,000	96,716	4,716
Intangible taxes	1,200	1,200	2,206	1,006
Franchise taxes	121,000	121,000	79,178	(41,822)
Alcohol excise taxes	36,000	36,000	43,135	7,135
Business taxes	20,000	20,000	23,025	3,025
Insurance taxes	202,000	202,000	218,058	16,058
Licenses and permits	32,900	32,900	34,043	1,143
Intergovernmental	-	176,000	177,402	1,402
Charges for services	791,071	804,071	836,903	32,832
Fines and forfeitures	340,000	340,000	279,347	(60,653)
Interest earned	250	250	212	(38)
Miscellaneous	4,700	4,700	26,677	21,977
Total revenues	<u>2,059,171</u>	<u>2,260,171</u>	<u>2,243,412</u>	<u>(16,759)</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>General government:</b>				
Legislative	12,788	12,788	8,677	4,111
Elections	5,000	5,000	2,901	2,099
Financial administration	117,478	208,478	214,116	(5,638)
Law	6,500	8,500	11,105	(2,605)
Total general government	<u>141,766</u>	<u>234,766</u>	<u>236,799</u>	<u>(2,033)</u>
<b>Judicial:</b>				
Municipal court	82,855	70,855	70,475	380
Total judicial	<u>82,855</u>	<u>70,855</u>	<u>70,475</u>	<u>380</u>
<b>Public safety:</b>				
Police	946,271	943,271	894,933	48,338
Fire	549,873	649,873	644,816	5,057
Custody of prisoners	15,450	18,450	18,375	75
Animal control	15,000	15,000	13,971	1,029
Total public safety	<u>1,526,594</u>	<u>1,626,594</u>	<u>1,572,095</u>	<u>54,499</u>
<b>Public works</b>				
Highways and streets	131,442	132,842	132,555	287
Solid waste and recycling	132,000	146,000	145,655	345
Total public works	<u>263,442</u>	<u>278,842</u>	<u>278,210</u>	<u>632</u>
<b>Culture and recreation</b>				
Parks	2,000	5,600	5,514	86
Cemetery	1,000	1,900	1,840	60
Total culture and recreation	<u>3,000</u>	<u>7,500</u>	<u>7,354</u>	<u>146</u>
<b>Housing and development</b>				
Total expenditures	<u>8,000</u>	<u>8,000</u>	<u>4,395</u>	<u>3,605</u>
Total expenditures	<u>2,025,657</u>	<u>2,226,557</u>	<u>2,169,328</u>	<u>57,229</u>
Net change in fund balance	33,514	33,714	74,084	40,370
<b>Fund balance, beginning of year</b>	<u>694,584</u>	<u>694,584</u>	<u>694,584</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 728,098</u>	<u>\$ 728,298</u>	<u>\$ 768,668</u>	<u>\$ 40,370</u>

## **OTHER SUPPLEMENTARY INFORMATION**

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**CITY OF BALDWIN, GEORGIA**

**SUPPLEMENTARY INFORMATION  
SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

<b>PROJECT</b>	<b>ORIGINAL ESTIMATED COST</b>	<b>REVISED ESTIMATED COST</b>	<b>PRIOR YEARS</b>	<b>CURRENT YEAR</b>	<b>TOTAL</b>	<b>ESTIMATED PERCENT COMPLETE</b>
<b>Banks County, Georgia SPLOST II - Commenced October 1, 2012</b>						
Sewage System Improvements	\$ 100,000	\$ 100,000	\$ 6,097	\$ 25,876	\$ 31,973	31.97 %
Road Improvements	50,000	70,789	54,489	16,300	70,789	100.00
Water System Improvements	50,000	50,000	-	-	-	0.00
<b>Banks County SPLOST II Totals</b>	<b>\$ 200,000</b>	<b>\$ 220,789</b>	<b>\$ 60,586</b>	<b>42,176</b>	<b>\$ 102,762</b>	
<b>Habersham County, Georgia SPLOST VI - Commenced May 1, 2015</b>						
Roads / Bridges	\$ 605,000	\$ 605,000	\$ -	86,213	\$ 86,213	14.25 %
Public Safety	464,380	464,380	193,404	3,692	197,096	42.44
Capital Outlay Projects	685,058	685,058	63,190	82,865	146,055	21.32
<b>Habersham County SPLOST VI Totals</b>	<b>\$ 1,754,438</b>	<b>\$ 1,754,438</b>	<b>\$ 256,594</b>	<b>172,770</b>	<b>\$ 429,364</b>	
<b>Banks County, Georgia SPLOST III - Commenced October 1, 2017</b>						
Road Improvements	\$ 223,118	\$ 196,631	\$ -	-	\$ -	0.00 %
Water System Improvements	208,556	208,556	-	-	-	0.00
Parks: New Park Site Preparation	33,513	33,513	-	-	-	0.00
Cemetery	33,513	60,000	59,200	-	59,200	98.67
<b>Totals</b>	<b>\$ 498,700</b>	<b>\$ 498,700</b>	<b>\$ 59,200</b>	<b>-</b>	<b>\$ 59,200</b>	
<b>Total SPLOST expenditures</b>				<b>\$ 214,946</b>		

## **OTHER INFORMATION**

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**CITY OF BALDWIN, GEORGIA**  
**STATISTICAL INFORMATION**  
**JUNE 30, 2018**

**WATER OPERATIONS**

<b>Fiscal Year</b>	<b>Volume of Water Purchase</b>	<b>Cost of Water Purchased from Plant</b>	<b>Volume of Water Billed to Customers</b>	<b>Revenue from Water Billed to Customers</b>	<b>Percent Water Loss</b>
2009	174,346,000	\$ 263,262	116,575,533	\$ 866,113	33.14 %
2010	155,388,000	234,636	117,782,400	843,949	24.20
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

**TOTAL WATER AND SEWER SYSTEM CONNECTIONS**

<b>Fiscal Year</b>	<b>WATER CONNECTIONS</b>		<b>SEWER CONNECTIONS</b>	
	<b>Residential</b>	<b>Commercial</b>	<b>Residential</b>	<b>Commercial</b>
2009	1,442	142	676	91
2010	1,442	142	676	91
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

**LARGEST WATER AND SEWER USERS**

<b>User Name</b>	<b>Water Gallons Per Year</b>	<b>Sewer Gallons Per Year</b>	<b>Combined Revenue Fiscal 2018</b>	<b>Percent of Water and Sewer Revenue</b>
Department of Corrections	-	55,697,400	\$ 336,969	18.49 %
Fieldale Corporation	13,299,600	4,653,950	170,759	9.37
Oak Heritage Healthcare, Inc.	5,143,900	5,143,900	97,449	5.35
Magnolia Windows and Doors	2,620,920	2,620,920	55,980	3.07
Heritage Gardens	3,659,800	3,659,800	68,634	3.77
Steel Cell	1,726,910	1,726,910	32,355	1.77
Baldwin Court Apartments	1,374,000	1,374,000	25,208	1.38
Windstream	1,193,650	1,193,650	22,200	1.22
Habersham Retreat	651,700	651,700	11,873	0.65
Habersham Metal	545,200	545,200	9,844	0.54
All Others	81,981,730	34,286,363	991,658	54.40
<b>TOTALS</b>	<b>112,197,410</b>	<b>111,553,793</b>	<b>\$ 1,822,928</b>	<b>100.00 %</b>

**CITY OF BALDWIN, GEORGIA  
STATISTICAL INFORMATION  
JUNE 30, 2018**

**RATIO OF LARGEST WATER USERS TO TOTAL WATER VOLUME**

TEN LARGEST USERS' VOLUME	30,215,680
AMOUNT OF WATER DELIVERED TO CUSTOMERS	112,197,410
TEN LARGEST USERS PERCENTAGE OF TOTAL WATER VOLUME	26.93 %

**RATIO OF LARGEST SEWER USERS TO TOTAL SEWER VOLUME**

TEN LARGEST USERS' VOLUME	77,267,430
AMOUNT OF WASTEWATER FLOW	111,553,793
TEN LARGEST USERS PERCENTAGE OF TOTAL WASTEWATER VOLUME	69.26 %

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

REVENUE FROM TEN LARGEST USERS	\$ 831,270
COMBINED WATER AND SEWER REVENUE	\$ 1,822,928
TEN LARGEST USERS PERCENTAGE OF TOTAL WATER AND SEWER REVENUE	45.60 %

**WATER AND SEWER RATES**

<b>INSIDE RATES</b>	<b>WATER</b> per 1,000 gallons	<b>SEWER</b> per 1,000 gallons
<u>Residential</u>		
1st 2,000 gallons	\$ 10.00	\$ 15.50
2,001 - 6,000 gallons	5.30	7.85
6,001 - 9,000 gallons	7.95	8.10
9,001 and up gallons	10.60	8.45
<u>Commercial</u>		
1st 2,000 gallons	\$ 10.00	\$ 15.50
2,001 - 18,000 gallons	5.30	7.85
18,001 - 226,000 gallons	7.95	8.10
226,001 and up gallons	10.60	8.45
<b>OUTSIDE RATES</b>	<b>WATER</b> per 1,000 gallons	<b>SEWER</b> per 1,000 gallons
<u>Residential</u>		
1st 1,000 gallons	\$ 19.00	\$ 17.80
1,001 - 6,000 gallons	6.25	8.25
6,001 - 9,000 gallons	9.38	8.55
9,001 and up gallons	12.50	9.00
<u>Commercial</u>		
1st 1,000 gallons	\$ 19.00	\$ 17.80
1,001 - 18,000 gallons	6.25	8.25
18,001 - 226,000 gallons	9.38	8.55
226,001 and up gallons	12.50	9.00

**CITY OF BALDWIN, GEORGIA**  
**ENTERPRISE FUND**  
**SCHEDULE OF DEBT SERVICE COVERAGE RATIOS**  
**JUNE 30, 2018**

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
INCOME BEFORE DEBT SERVICE (2)	\$ 261,456	\$ 252,366	\$ 325,693	\$ 152,585	\$ 499,479
DEBT SERVICE EXISTING PROJECTS	201,053	199,963	203,740	191,360	-
DEBT SERVICE NEW SEWER PLANT	312,860	312,325	311,425	229,252	180,346
	<u>513,913</u>	<u>512,288</u>	<u>515,165</u>	<u>420,612</u>	<u>180,346</u>
REVENUE AVAILABLE FOR DEBT SERVICE	261,456	252,366	325,693	152,585	499,479
ADD BACK DEPRECIATION	462,706	493,264	503,799	520,286	523,788
	<u>724,162</u>	<u>745,630</u>	<u>829,492</u>	<u>672,871</u>	<u>1,023,267</u>
<b>DEBT SERVICE COVERAGE</b>	1.41	1.46	1.61	1.60	5.67

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018 (1)</b>
INCOME BEFORE DEBT SERVICE (2)	\$ 559,690	\$ 507,130	\$ 367,640	\$ (29,572)	\$ (95,356)
DEBT SERVICE EXISTING PROJECTS	-	-	-	-	-
DEBT SERVICE NEW SEWER PLANT	320,346	477,546	478,547	481,146	483,146
	<u>320,346</u>	<u>477,546</u>	<u>478,547</u>	<u>481,146</u>	<u>483,146</u>
REVENUE AVAILABLE FOR DEBT SERVICE	559,690	507,130	367,640	(29,572)	(95,356)
ADD BACK DEPRECIATION	519,518	499,831	544,015	563,746	579,817
	<u>1,079,208</u>	<u>1,006,961</u>	<u>911,655</u>	<u>534,174</u>	<u>484,461</u>
<b>DEBT SERVICE COVERAGE</b>	3.37	2.11	1.91	1.11	1.00

(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. 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**

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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**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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 27, 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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Baldwin, Georgia's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, as items 2018-001, 2018-002, and 2018-003, that we consider to be material weaknesses.

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### **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 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2018-004.

### **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  
January 27, 2020

# City of Baldwin, Georgia

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2018

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### 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, 2018 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, 2018

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

#### 2018-001 Timely Reporting of Accurate Financial Information

**Criteria:** Timely and accurate financial reporting of all funds included in the financial statements of the City should be performed to facilitate informed financial decisions by the City's management and those with oversight of management.

**Condition:** Internal controls were not sufficient to facilitate the accurate, timely reporting of the City's overall financial position and results of operation as of and for the fiscal year ended June 30, 2018.

**Context/Cause:** The City did not complete its year-end closing process to provide the final trial balances and the necessary subsidiary ledgers for its funds for the fiscal year ended June 30, 2018 for auditing until July of 2019.

**Effects:** The City was unable to report accurate financial information on either an accrual or modified accrual basis, as appropriate, in a timely manner.

**Recommendation:** We recommend the City implement procedures to ensure timely and accurate financial reporting to facilitate informed financial decisions.

**Auditee's Response:** We concur with the finding. Staff will take necessary steps to ensure that all funds pertaining to the City are included in the monthly accrual or modified accrual, as appropriate, closeout procedures, which in turn will simplify the year end accrual or modified accrual, as appropriate, close out procedures.

# City of Baldwin, Georgia

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2018

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

#### 2018-002 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; personnel and payroll 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, 2018

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

#### 2018-003 Debt and related accounts

**Criteria:** Internal controls should be in place to ensure that receivables and capital contributions are appropriately recorded in accordance with generally accepted accounting principles. Internal controls should also be in place to ensure that long-term debt are appropriately recorded in accordance with generally accepted accounting principles.

**Condition:** Internal controls were not sufficient to detect material misstatements in the reporting of the City's long-term debt, capital contributions and related receivables for a Georgia Environmental Finance Authority (GEFA) Loan.

**Context/Cause:** During our testing of City's long-term debt, we were required to make total adjustments of approximately \$222,800 to properly record receivables, capital contributions, and notes payable related to a federal funded GEFA loan.

**Effects:** An audit adjustment of approximately \$222,800 was needed to correctly report receivable, capital contributions and related long-term debt.

**Recommendations:** We recommend the City review terms and conditions of loan agreements and carefully assess when conditions have been met to record receivables, capital contributions, and loans related to federal awards.

**Auditee's Response:** We concur with the finding. Staff will take necessary steps in the future to ensure that conditions are met for recording receivables and loans related to Federal awards.

# City of Baldwin, Georgia

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2018

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

#### 2018-004 Bond Covenants

**Criteria:** The Official Code of Georgia Annotated (O.C.G.A.) Section 36-82-65 states that “Any resolution or resolutions authorizing the issuance of bonds under this article to finance, in whole or in part, the acquisition, construction, reconstruction, improvement, betterment, or extension of an undertaking may contain covenants, notwithstanding that such covenants may limit the exercise of powers conferred by this article, as to: (3) The creation and maintenance of reserves or sinking funds and the regulation, use and disposition thereof;”. Pursuant to the Bond Ordinance, the City has covenanted that it will maintain the reserve account in an amount equal to the reserve requirement. The reserve account should only be used to pay the principal of, redemption premium (if any) and interest on the Series 2012 Bonds in the event that amounts generally on deposit in the sinking fund are insufficient.

**Condition:** As of June 30, 2018, the City of Baldwin, Georgia (the “City”) was in default of the debt service reserve account requirement and therefore not in compliance with O.C.G.A. 36-82-65 and the Bond Ordinance.

**Context/Cause:** During our testing of City’s bond covenants, we noted that the balance in the debt service reserve account was less than the reserve requirement, by approximately \$226,000, as set forth in the Bond Ordinance.

**Effects:** The City’s debt service reserve account was less than the reserve requirement and not in compliance with the Bond Ordinance. Based on the Bond Ordinance, this is considered an event of default and the bonds could become due and payable immediately, if no waiver is obtained.

**Recommendations:** We recommend the City deposit the required amounts into the reserve account to become compliant with bond covenants stated in the bond ordinance. We also recommend the City carefully review the reserve account balance throughout the year to ensure the City is in compliance with bond covenants stated in the bond ordinance.

**Auditee’s Response:** We concur with the finding. Staff will take necessary steps in the future to ensure that the bond reserve fund is in compliance with the bond covenants as stated in the bond ordinance.