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**CITY OF ST. MARYS, GEORGIA**

**FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2008 ✓**

CITY OF ST. MARYS, GEORGIA

FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2008

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**CITY OF ST. MARYS, GEORGIA**  
**FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2008**

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**FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

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**To the Honorable Mayor and City Council  
City of St. Marys, Georgia**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of St. Marys, Georgia (the "City")** as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of St. Marys, Georgia as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2008, on our consideration of the City of St. Marys, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements and schedules 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 is presented for purposes of additional analysis as required by Official Code of Georgia 48-8-121 and is not a required part of the basic financial statements. The combining nonmajor fund financial statements and schedules, and schedule of expenditures of special purpose local option sales tax proceeds have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Mauldin & Jenkins, LLC*

Macon, Georgia  
December 30, 2008

## **CITY OF ST. MARYS, GEORGIA MANAGEMENT'S DISCUSSION AND ANALYSIS**

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As management of the City of St. Marys, Georgia (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of St. Marys, Georgia for the fiscal year ended June 30, 2008. The information presented here should be used in conjunction with the additional information provided in this Annual financial report, which follows this section.

### **FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at June 30, 2008 by \$49.9 million (*net assets*). Of this amount, \$9.9 million (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors. The City's total net assets increased by \$1.1 million.
- As of the close of the current fiscal year, the City's governmental activities reported combined ending net assets of \$20.2 million, an increase of \$29,510 in comparison with the prior year. Approximately 26% of this total amount, \$5.3 million is *available for spending* at the City's discretion (*unreserved fund balance*).
- As of the close of the current fiscal year, the City's business-type funds reported combined ending net assets of \$29.7 million, an increase of \$1,022,639 in comparison with the prior year. Approximately 15% of this total amount, \$4.6 million is *available for spending* at the City's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was a positive \$5 million or a positive 39% of total general fund expenditures.
- The City's total debt increased by \$45,082,080 during the current fiscal year. This increase consisted of new debt for Governmental activities of \$1,387,080 for the purchase of new equipment. The new debt for Business-type activities was \$43,695,000 for the up-grade of the Point Peter Waste Water plant capacity. The total reduction in debt service was \$2,285,310 of scheduled payments.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City of St. Marys basic financial statements. The City's basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City of St. Marys finances, in a manner similar to a private-sector business. All governmental and business-type activities are consolidated to arrive at a total for the Primary Government. There are two government-wide statements, the statement of net assets and the statement of activities, which are described below.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The *statement of net assets* presents information on all the City's assets and liabilities, with the difference between the two reported as *net assets*. This statement is a tool to measure the City's financial health or financial position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. It is important to note that this statement consolidates the governmental fund's current financial resources (short-term) with capital assets and long-term liabilities. This statement presents information on a component unit of the City.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, health and welfare, judicial, housing and development culture and recreation, and interest on long-term debt. The business-type Activities of the City include water and sewer and sanitation.

The government-wide financial statements can be found on pages 11 - 13 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and SPLOST fund, because they are considered major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and SPLOST Fund. A budgetary comparison statement has been provided for the general fund.

The basic governmental fund financial statements can be found on pages 14 - 18 of this report.

**Proprietary funds.** The City maintains one type of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water and Sewer Fund and Solid Waste Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund and the Solid Waste Fund, which both are considered major funds of the City.

The basic proprietary fund financial statements can be found on pages 19 - 22 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 - 45 of this report.

**Other information.** The combining statements referred to earlier in connection with non-major governmental funds and enterprise funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 47 - 53 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$49.9 million at the close of the most recent fiscal year.

By far the largest portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of St. Marys Net Assets June 30, 2008

	Governmental Activities		Business-type Activities	
	2007	2008	2007	2008
Current and other assets	7,897,698	6,156,219	7,893,701	37,173,589
Capital assets	15,373,601	16,598,303 ✓	34,360,255	49,558,850 ✓
Total assets	<u>23,271,299</u>	<u>22,754,522</u>	<u>42,253,956</u>	<u>86,732,439</u>
Other liabilities	3,024,659	1,452,869	2,327,723	3,787,374
Long-term liabilities outstanding	95,713	1,121,215 ✓	11,230,785	53,226,978 ✓
Total liabilities	<u>3,120,372</u>	<u>2,574,084</u>	<u>13,558,508</u>	<u>57,014,352</u>
Net assets:				
Invested in capital assets, net of related debt	13,205,436	14,851,172 ✓	22,562,522	21,406,616 ✓
Restricted for debt service			440,093	3,306,943
Restricted for renewal and extension			394,808	410,581
Unrestricted	6,945,491	5,329,266	5,298,025	4,593,947
Total net assets	<u>20,150,927</u>	<u>20,180,438</u> ✓	<u>28,695,448</u>	<u>29,718,087</u> ✓

Net assets may serve over time as a useful indicator of a government's financial position. The City of St. Marys combined net assets are \$49.9 million for the year ending June 30, 2008. Of this amount, \$29.7 million came from business-type activities and \$20.2 million came from governmental activities. This was an increase over 2007 of \$1.0 million. The Industrial Development Authority (Component Unit) total net assets for 2008 are \$453,927, which is not included in the above totals. This was an increase over 2007 of \$14,596.

The unrestricted net assets (\$9.9 million) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net assets/fund balance except in the SPLOST Fund. The negative fund balance is due to prior year accounting fees.

**Governmental activities.** Governmental activities during the fiscal year ending June 30, 2008 increased the City of St. Marys net assets by \$29,510. Business-type activities during the same period increased net assets by \$1,022,639 for a total increase in net assets of \$1,052,149. The Industrial Development Authority showed an increase of \$14,596 in net assets. The following chart shows the revenue and expenses by activity for the total primary government.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### City of St. Marys Changes in Net Assets June 30 2008

	Governmental Activities		Business-type Activities	
	2007	2008	2007	2008
<b>Revenues</b>				
<b>Program Revenues</b>				
Charges for services	2,976,366	2,002,667 ✓	4,976,525	5,418,877 ✓
Operating grants and contributions	29,718	537,196 ✓		✓
Capital grants and contribution	91,567	0 ✓	3,151,297	1,573,959 ✓
<b>General Revenues:</b>				
Property taxes	3,223,663	3,558,092		
Franchise taxes	724,213	768,041		
Sales taxes	2,991,372	4,101,868		
Hotel/motel Taxes		126,521		
Other taxes	948,736	977,604		
Unrestricted investment earnings	198,602	147,341	227,310	682,374
Gain on Sale of capital assets	9,492	99,000	13,877	0
Miscellaneous	0	92,500	17,222	40,742
<b>Total revenues</b>	<u>11,193,729</u>	<u>12,410,830</u>	<u>8,386,231</u>	<u>7,715,952</u>
<b>Expenses</b>				
<b>Governmental activities</b>				
General government	2,041,996	1,356,206		
Public safety	3,969,908	4,628,281		
Public works	2,438,935	4,162,567		
Health and welfare	58,225	89,928		
Judicial	253,957	250,126		
Culture and recreation	1,006,264	987,974		
Housing and development	788,967	791,216		
Interest on long-term debt	80,299	115,022		
<b>Business-type activities</b>				
Water and Sewer			4,342,075	5,609,650
Sanitation			916,596	1,083,663
<b>Total expenses</b>	<u>10,638,551</u>	<u>12,381,320</u> ✓	<u>5,258,671</u>	<u>6,693,313</u> ✓
<b>Increase in net assets before transfers</b>	555,178	29,510	3,127,560	1,022,639
<b>Transfers</b>	0	0	0	0
<b>Increase in net assets</b>	555,178	29,510 ✓	3,127,560	1,022,639 ✓
<b>Net assets, beginning of year</b>	<u>19,595,749</u>	<u>20,150,928</u>	<u>25,567,888</u>	<u>28,695,448</u>
<b>Net assets, end of year</b>	<u>20,150,927</u>	<u>20,180,438</u>	<u>28,695,448</u>	<u>29,718,087</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Analysis of Balances:

#### Governmental Funds:

The City of St. Marys has two major governmental funds, which are the General Fund and the SPLOST Fund.

At the end of FY 2008, the General Fund had a fund balance of \$4,994,961. This is a decrease of \$1,471,951 from the beginning fund balance. The General Fund's budget FY 2008-09 was decreased in order to keep from using fund balance to support expenses. The General Fund's taxes were increased to help with ongoing expenses.

The fund balance for the SPLOST fund increased by \$1,522. The fund balance at the end of FY2008 was a negative \$13,738.

The fund balances for the other governmental funds decreased by \$193,920. The total fund balance for these funds was a positive \$686,762 at the end of the year.

#### Business-Type Activities Funds:

The enterprise funds, which include the City's Water & Sewer Fund and Solid Waste Funds showed a combined cash and cash equivalents balance of \$34,046,756 at the end of fiscal year ending June 30, 2008. Of this amount, \$28,366,855 is restricted assets.

The Water and Sewer Fund had an ending net asset balance of \$28,837,185 for FY 2008. This was an increase of \$991,089 from the previous year. Of the balance, \$25,000,579 is restricted net assets. Bonds of \$43.7 million were issued which accounts for the increase..

The Solid Waste Fund had an ending net asset balance of \$880,902 for Fy2008. This was an increase of \$31,550 from the previous year. There are no restricted assets in the Solid Waste Fund.

#### General Fund Budget Highlights

The budget was prepared according to Georgia Law.

The 2008 original revenue budget was \$11,170,250. It was amended to \$11,358,925 to account for additional miscellaneous revenues. In total, the City realized 85% of the projected 2008 revenues.

Differences between the original budget and the final amended budget are as follows:

\$140,000 increase in property tax revenue – to account for an increase in real property taxes

\$9,000 increase in fines and forfeitures – to account for a new fine collected

\$8,000 increase in concession revenue – concession sales

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### General Fund Budget Highlights continued

\$31,675 increase in miscellaneous revenues – insurance proceeds  
\$82,357 increase in transfers in – to account for grant revenue and fire tax revenue  
\$102,484 decrease in general government – contingency transferred to various departments  
\$25,900 decrease in housing and development – transfer to various departments  
\$76,391 increase in general government – hiring of a full time attorney and additional expenditures  
\$13,300 increase in judicial – for additional fees collected as pass through fees  
\$52,625 increase in public safety – increase for medical expenses and replacement of a vehicle  
\$8,000 increase in culture and recreation – concession expenditures offset by revenues  
\$44,500 increase in housing and development – engineering services offset by a grant  
\$204,600 increase in Public Safety – equip new fire station

### Comparison of Final Budget and Actual expenditures:

Revenues – All categories were deficient except interest.  
The deficiencies are due to economic conditions and decrease in building within the City.

#### Expenditures deficiencies:

Culture and recreation – increase in supplies  
Transfers out – advanced grant revenue returned due to savings on expenditures.

Actual expenditures (\$12,761,566) came in less than the budget expenditures (\$15,362,957). The actual expenditures do not include the other financing sources (uses).

The City's actual expenditures exceeded revenues the by \$1,471,951 including the other financing sources (uses).

### **Capital Asset and Debt Administration**

**Capital Assets.** At the end of fiscal year ending June 30, 2008, governmental activities and business-type activities had capital assets of \$66,157,153 (net of accumulated depreciation) invested in land, buildings, system improvements, machinery and equipment and recreation and park facilities. The increase in assets for governmental activities was due to the purchase of new equipment and construction in progress. Business-type activities major increase was due to new construction of the waste water treatment plant and various infrastructure improvements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

City of St. Marys Capital Assets  
(Net of Depreciation)  
June 30, 2008

	Governmental Activities	Business-type Activities	Total
Land	\$ 481,333	846,727	1,328,060
Building and Improvements	5,232,579	3,211,406	8,443,985
Improvements other than buildings	5,374,361	0	5,374,361
Machinery and Equipment	2,573,686	1,172,248	3,745,934
Infrastructure	1,874,985	26,163,086	28,038,071
Construction in progress	1,061,359	18,165,383	19,226,742
<b>Total</b>	<b>\$ 16,598,303 ✓</b>	<b>49,558,850 ✓</b>	<b>66,157,153</b>

Additional information on the City's capital assets can be found in Note 6 on pages 35 and 36 of this report.

**Debt Administration.** The City's total long-term debt consists of revenue bonds, long-term notes, capital leases and compensated absences.

At the end of June 30, 2008, the City had \$2,193,013 of outstanding debt related to governmental activities and \$54,700,777 of outstanding debt related to business-type activities for a total of \$56,893,790 compared to the previous year's total of \$14,467,793. This is an increase of \$42,425,997.

Additional information on the City's debt can be found in Note 7 on pages 37 - 40 of this report.

**Factors affecting the FY 2009 Budget:**

The Mayor and Council of the City of St. Marys considered many factors when approving the City's FY 2009 budget and were very aware of the present economic conditions and the effect on its citizens. The Mayor and Council chose to decrease the current year's budget compared to prior years. In order to meet the demands, the City increased property taxes. The City's business-type activities issued \$43.7 million dollars in bonds to upgrade the Point Peter water treatment plant. This was necessary to provide for future growth. An increase in business type rates was implemented to cover new construction and debt service. The City continually strives to provide the very best service for its citizens.

**Requests for Information**

This financial report is designed to provide a general overview the City of St. Marys finances for citizens, taxpayers, customers, investors and creditors and all others with an interest in the City. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City Finance Department at the City of St. Marys, 418 Osborne Street, St. Marys, Georgia, 31558.

**CITY OF ST. MARYS, GEORGIA**

**STATEMENT OF NET ASSETS  
JUNE 30, 2008**

ASSETS	Primary Government			Component Unit
	Governmental	Business-type	Total	Industrial
	Activities	Activities		Development Authority
Cash and cash equivalents	\$ 4,407,353	\$ 5,679,901	\$ 10,087,254	\$ 27,826
Investments	837,311	711,547	1,548,858	92,737
Taxes receivable	126,415	-	126,415	-
Accounts receivable, net of allowances	-	486,443	486,443	-
Accrued interest receivable	-	-	-	1,130
Prepaid expenses	296,256	160,320	456,576	-
Other receivables	29,003	-	29,003	-
Due from other governments	463,312	-	463,312	-
Internal balances	(3,431)	3,431	-	-
Other current assets	-	55,017	55,017	-
Restricted assets, cash and investments	-	29,098,786	29,098,786	-
Deferred charges, unamortized balance	-	978,144	978,144	-
Capital assets:				
Non-depreciable	1,542,692	19,012,110	20,554,802	332,234
Depreciable, net of accumulated depreciation	15,055,611	30,546,740	45,602,351	-
<b>Total assets</b>	<b>22,754,522</b>	<b>86,732,439</b>	<b>109,486,961</b>	<b>453,927</b>
<b>LIABILITIES</b>				
Accounts payable	261,873	158,766	420,639	-
Contracts payable	-	1,443,348	1,443,348	-
Retainage payable	-	104,000	104,000	-
Accrued liabilities	119,198	91,095	210,293	-
Customer deposits	-	516,366	516,366	-
Compensated absences due within one year	370,000	-	370,000	-
Compensated absences due in more than one year	75,883	-	75,883	-
Capital leases due within one year	48,251	-	48,251	-
Capital leases due in more than one year	97,557	-	97,557	-
Notes payable due within one year	653,547	573,799	1,227,346	-
Notes payable due in more than one year	947,775	7,251,978	8,199,753	-
Bonds payable due within one year	-	900,000	900,000	-
Bonds payable due in more than one year	-	45,975,000	45,975,000	-
<b>Total liabilities</b>	<b>2,574,084</b>	<b>57,014,352</b>	<b>59,588,436</b>	<b>-</b>
<b>NET ASSETS</b>				
Investment in capital assets, net of related debt	14,851,173	21,406,616	36,257,789	332,234
Restricted for debt service	-	3,306,943	3,306,943	-
Restricted for renewal and extension	-	410,581	410,581	-
Unrestricted	5,329,265	4,593,947	9,923,212	121,693
<b>Total net assets</b>	<b>\$ 20,180,438</b>	<b>\$ 29,718,087</b>	<b>\$ 49,898,525</b>	<b>\$ 453,927</b>

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

**CITY OF ST. MARYS, GEORGIA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<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	\$ 1,356,206	\$ 1,113,143	\$ 130,753	\$ -
Public safety	4,628,281	413,928	-	-
Public works	4,162,567	50,359	-	-
Health and welfare	89,928	-	-	-
Judicial	250,126	-	-	-
Culture and recreation	987,974	425,237	-	-
Housing and development	791,216	-	406,443	-
Interest on long-term debt	115,022	-	-	-
Total governmental activities	<u>12,381,320</u>	<u>2,002,667</u>	<u>537,196</u>	<u>-</u>
Business-type activities:				
Water & sewer	5,609,650	4,318,375	-	1,573,959
Solid waste	1,083,663	1,100,502	-	-
Total business-type activities	<u>6,693,313</u>	<u>5,418,877</u>	<u>-</u>	<u>1,573,959</u>
Total primary government	<u>\$ 19,074,633</u>	<u>\$ 7,421,544</u>	<u>\$ 537,196</u>	<u>\$ 1,573,959</u>
<b>Component Unit: Industrial Development Authority</b>	<u>\$ 3,574</u>	<u>\$ 5,493</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
Franchise taxes				
Sales taxes				
Hotel/motel taxes				
Other taxes				
Unrestricted investment earnings				
Gain on sale of capital assets				
Miscellaneous				
Total general revenues				
Change in net assets				
Net assets, beginning of year				
Net assets, end of year				

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

Net (Expenses) Revenues and Changes in Net Assets			
Governmental Activities	Business-type Activities	Total	Component Unit Industrial Development Authority
\$ (112,310)	\$ -	\$ (112,310)	\$ -
(4,214,353)	-	(4,214,353)	-
(4,112,208)	-	(4,112,208)	-
(89,928)	-	(89,928)	-
(250,126)	-	(250,126)	-
(562,737)	-	(562,737)	-
(384,773)	-	(384,773)	-
(115,022)	-	(115,022)	-
<u>(9,841,457)</u>	<u>-</u>	<u>(9,841,457)</u>	<u>-</u>
-	282,684	282,684	-
-	16,839	16,839	-
-	299,523	299,523	-
<u>(9,841,457)</u>	<u>299,523</u>	<u>(9,541,934)</u>	<u>-</u>
-	-	-	1,919
3,558,092	-	3,558,092	-
768,041	-	768,041	-
4,101,868	-	4,101,868	-
126,521	-	126,521	-
977,604	-	977,604	-
147,341	682,374	829,715	12,677
99,000	-	99,000	-
92,500	40,742	133,242	-
<u>9,870,967</u>	<u>723,116</u>	<u>10,594,083</u>	<u>12,677</u>
29,510 ✓	1,022,639 ✓	1,052,149	14,596
20,150,928 ✓	28,695,448 ✓	48,846,376	439,331 ✓
<u>\$ 20,180,438 ✓</u>	<u>\$ 29,718,087 ✓</u>	<u>\$ 49,898,525</u>	<u>\$ 453,927 ✓</u>

**CITY OF ST. MARYS, GEORGIA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008**

ASSETS	General Fund	SPLOST Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 3,436,381	\$ 120,268	\$ 850,704	\$ 4,407,353
Investments	837,311	-	-	837,311
Taxes receivable	126,415	-	-	126,415
Accounts receivable	12,053	-	16,950	29,003
Prepaid items	296,256	-	-	296,256
Due from other governments	354,827	108,485	-	463,312
Due from other funds	353,347	148,485	52,076	553,908
<b>Total assets</b>	<b>\$ 5,416,590</b>	<b>\$ 377,238</b>	<b>\$ 919,730</b>	<b>\$ 6,713,558</b>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 130,999	\$ 130,495	\$ 379	\$ 261,873
Accrued liabilities	113,219	-	972	114,191
Deferred revenues	112,170	-	-	112,170
Due to other funds	65,241	260,481	231,617	557,339
<b>Total liabilities</b>	<b>421,629</b>	<b>390,976</b>	<b>232,968</b>	<b>1,045,573</b>
<b>FUND BALANCES (DEFICIT)</b>				
Fund balances:				
Unreserved (deficit), reported in:				
General fund	4,994,961	-	-	4,994,961
Special revenue funds	-	-	575,816	575,816
Capital projects fund	-	(13,738)	110,946	97,208
<b>Total fund balances (deficits)</b>	<b>4,994,961</b>	<b>(13,738)</b>	<b>686,762</b>	<b>5,667,985</b>
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 5,416,590</b>	<b>\$ 377,238</b>	<b>\$ 919,730</b>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	16,598,303 ✓
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	112,170 ✓
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(2,198,020) ✓
<b>Net assets of governmental activities</b>	<b>\$ 20,180,438 ✓</b>

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

**CITY OF ST. MARYS, GEORGIA**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	General Fund	SPLOST Fund	Other Governmental Funds	Totals Governmental Funds
<b>Revenues</b>				
Taxes	\$ 7,549,692	\$ 1,865,537	\$ 126,521	\$ 9,541,750
Licenses and permits	541,639	-	-	541,639
Intergovernmental	-	-	537,196	537,196
Fines and forfeitures	413,928	-	-	413,928
Charges for services	444,724	-	-	444,724
Interest income	132,329	1,522	13,490	147,341
Other revenues	555,392	92,500	46,984	694,876
Total revenues	<u>9,637,704</u>	<u>1,959,559</u>	<u>724,191</u>	<u>12,321,454</u>
<b>Expenditures</b>				
Current:				
General government	2,039,524	-	-	2,039,524
Public safety	4,554,622	-	-	4,554,622
Public works	2,652,326	-	-	2,652,326
Health and welfare	81,699	-	-	81,699
Judicial	250,126	-	-	250,126
Culture and recreation	796,542	-	195,215	991,757
Housing and development	776,607	-	-	776,607
Capital outlay	-	2,014,022	-	2,014,022
Debt service:				
Principal	1,493,355	-	-	1,493,355
Interest and fiscal charges	116,765	-	-	116,765
Total expenditures	<u>12,761,566</u>	<u>2,014,022</u>	<u>195,215</u>	<u>14,970,803</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,123,862)</u>	<u>(54,463)</u>	<u>528,976</u>	<u>(2,649,349)</u>
<b>Other financing sources (uses):</b>				
Proceeds from sale of capital assets	99,000	-	-	99,000 ✓
Issuance of notes payable	886,000	-	-	886,000 ✓
Transfers in	666,911	55,985	143,159	866,055
Transfers out	-	-	(866,055)	(866,055)
Total other financing sources (uses)	<u>1,651,911</u>	<u>55,985</u>	<u>(722,896)</u>	<u>985,000</u>
Net change in fund balances	(1,471,951)	1,522	(193,920)	(1,664,349) ✓
<b>Fund balances (deficits), beginning of year</b>	<u>6,466,912</u> ✓	<u>(15,260)</u> ✓	<u>880,682</u> ✓	<u>7,332,334</u> ✓
<b>Fund balances (deficits), end of year</b>	<u>\$ 4,994,961</u> ✓	<u>\$ (13,738)</u> ✓	<u>\$ 686,762</u> ✓	<u>\$ 5,667,985</u>

The accompanying notes are an integral part of these financial statement:

**CITY OF ST. MARYS, 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, 2008**

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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

\$ (1,664,349) ✓

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

1,224,702 ✓

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

(9,624) ✓

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.

607,355 ✓

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

(128,574) ✓

\$ 29,510 ✓

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

**CITY OF ST. MARYS, GEORGIA**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 7,822,775	\$ 7,962,775	\$ 7,549,692	\$ (413,083)
Licenses and permits	988,500	988,500	541,639	(446,861)
Fines and forfeitures	456,500	465,500	413,928	(51,572)
Interest	125,000	125,000	132,329	7,329
Charges for services	503,950	511,950	444,724	(67,226)
Miscellaneous	1,273,525	1,305,200	555,392	(749,808)
Total revenues	<u>11,170,250</u>	<u>11,358,925</u>	<u>9,637,704</u> ✓	<u>(1,721,221)</u>
<b>Expenditures</b>				
Current:				
General government:				
Legislative	266,857	269,857	242,790	27,067
Executive	386,768	454,209	413,839	40,370
Finance	1,262,022	1,159,538	885,312	274,226
Building and plant	286,925	286,925	163,611	123,314
Human resources	144,596	148,644	134,432	14,212
Information technology	201,853	215,198	199,540	15,658
Total general government	<u>2,549,021</u>	<u>2,534,371</u>	<u>2,039,524</u>	<u>494,847</u>
Public safety:				
Fire	1,560,240	1,764,840	1,517,691	247,149
Police	3,355,539	3,408,166	3,036,931	371,235
Total public safety	<u>4,915,779</u>	<u>5,173,006</u>	<u>4,554,622</u>	<u>618,384</u>
Public works:				
Public works administration	2,641,461	2,641,461	2,336,756	304,705
Highways and streets administration	320,000	320,000	310,932	9,068
Cemetery	72,500	46,600	4,638	41,962
Total public works	<u>3,033,961</u>	<u>3,008,061</u>	<u>2,652,326</u>	<u>355,735</u>
Judicial:				
Municipal court	278,658	291,958	250,126	41,832
Total judicial	<u>278,658</u>	<u>291,958</u>	<u>250,126</u>	<u>41,832</u>
Health and welfare:				
Senior citizens center	114,298	114,298	81,699	32,599
Total health and welfare	<u>114,298</u>	<u>114,298</u>	<u>81,699</u>	<u>32,599</u>
Culture and recreation:				
Culture and recreation administration	405,213	413,213	416,940	(3,727)
Parks administration	125,600	125,600	56,893	68,707
Library administration	342,806	342,806	322,709	20,097
Total culture and recreation	<u>873,619</u>	<u>881,619</u>	<u>796,542</u>	<u>85,077</u>
Housing and development:				
Protective inspection administration	344,843	331,498	290,391	41,107
Planning and zoning	317,833	317,833	234,169	83,664
Airport	785,000	785,000	31,305	753,695
Special facilities	97,590	91,790	47,024	44,766
Economic development	132,922	177,422	173,718	3,704
Total housing and development	<u>1,678,188</u>	<u>1,703,543</u>	<u>776,607</u>	<u>926,936</u>

(Continued)

**CITY OF ST. MARYS, GEORGIA**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>Expenditures (continued):</b>				
Debt service:				
Principal	\$ 1,524,997	\$ 1,524,997	\$ 1,493,355	\$ 31,642
Interest	131,104	131,104	116,765	14,339
Total debt service	<u>1,656,101</u>	<u>1,656,101</u>	<u>1,610,120</u>	<u>45,981</u>
Total expenditures	<u>15,099,625</u>	<u>15,362,957</u>	<u>12,761,566</u> ✓	<u>2,601,391</u>
Deficiency of revenues under expenditures	<u>(3,929,375)</u>	<u>(4,004,032)</u>	<u>(3,123,862)</u> ✓	<u>880,170</u>
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	-	-	99,000	99,000
Issuance of notes payable	864,000	864,000	886,000	22,000
Transfers in	965,375	1,047,732	666,911	(380,821)
Transfers out	-	(7,700)	-	7,700
Total other financing sources (uses)	<u>1,829,375</u>	<u>1,904,032</u>	<u>1,651,911</u> ✓	<u>(252,121)</u>
Net change in fund balances	<u>(2,100,000)</u>	<u>(2,100,000)</u>	<u>(1,471,951)</u> ✓	<u>628,049</u>
<b>Fund balances, beginning of year</b>	<u>6,466,912</u>	<u>6,466,912</u>	<u>6,466,912</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 4,366,912</u>	<u>\$ 4,366,912</u>	<u>\$ 4,994,961</u> ✓	<u>\$ 628,049</u>

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

**CITY OF ST. MARYS, GEORGIA**

**STATEMENT OF NET ASSETS**

**PROPRIETARY FUNDS**

**JUNE 30, 2008**

ASSETS	Business-type Activities - Enterprise Funds		
	Water & Sewer Fund	Solid Waste Fund	Totals
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 4,990,956 ✓	\$ 688,945 ✓	\$ 5,679,901
Investments	711,547	-	711,547
Restricted cash and cash equivalents	600,143 ✓	-	600,143
Restricted investments	326,411	-	326,411
Accounts receivable, net	402,109	84,334	486,443
Accrued interest receivable	55,017	-	55,017
Prepaid expenses	147,829	12,491	160,320
Due from other funds	11,815	67,667	79,482
Total current assets	<u>7,245,827</u>	<u>853,437</u>	<u>8,099,264</u>
<b>NONCURRENT ASSETS</b>			
Restricted cash and cash equivalents	27,766,712 ✓	-	27,766,712
Restricted investments	405,520	-	405,520
Deferred charges, unamortized bond issuance costs	978,144	-	978,144
Capital assets			
Non-depreciable	19,012,110	-	19,012,110
Depreciable, net of accumulated depreciation	30,423,179	123,561	30,546,740
Total noncurrent assets	<u>78,585,665</u>	<u>123,561</u>	<u>78,709,226</u>
Total assets	<u>85,831,492</u>	<u>976,998</u>	<u>86,808,490</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES, PAYABLE FROM CURRENT ASSETS</b>			
Accounts payable	72,404	86,362	158,766
Contracts payable	1,443,348	-	1,443,348
Retainage payable	104,000	-	104,000
Accrued interest payable	23,218	-	23,218
Other accrued liabilities	67,877	-	67,877
Due to other funds	66,317	9,734	76,051
Current portion of notes payable	573,799	-	573,799
Current portion of bonds payable	900,000	-	900,000
Total current liabilities, payable from current assets	<u>3,250,963</u>	<u>96,096</u>	<u>3,347,059</u>
<b>CURRENT LIABILITIES, PAYABLE FROM RESTRICTED ASSETS</b>			
Customer deposits	516,366	-	516,366
Total current liabilities, payable from restricted assets	<u>516,366</u>	<u>-</u>	<u>516,366</u>
<b>LONG-TERM LIABILITIES</b>			
Revenue bonds payable, net	45,975,000	-	45,975,000
Notes payable	7,251,978	-	7,251,978
Total liabilities	<u>56,994,307</u>	<u>96,096</u>	<u>57,090,403</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	21,283,055	123,561 ✓	21,406,616
Restricted for debt service	3,306,943	-	3,306,943
Restricted for renewal and extension	410,581	-	410,581
Unrestricted	3,836,606	757,341	4,593,947
Total net assets	<u>\$ 28,837,185</u>	<u>\$ 880,902</u>	<u>\$ 29,718,087</u> ✓

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

**CITY OF ST. MARYS, GEORGIA**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water &amp; Sewer Fund</b>	<b>Solid Waste Fund</b>	<b>Totals</b>
<b>OPERATING REVENUE</b>			
Sanitation fees	\$ -	\$ 992,603	\$ 992,603
Water sales	1,966,243	-	1,966,243
Sewer sales	1,829,026	-	1,829,026
Reconnection fees	70,963	-	70,963
Construction fees	333,074	-	333,074
Penalties	91,288	-	91,288
Miscellaneous	27,781	107,899	135,680
Total operating revenues	<u>4,318,375</u>	<u>1,100,502</u>	<u>5,418,877</u>
<b>OPERATING EXPENSES</b>			
Personal services	1,425,217	202,498	1,627,715
Purchased and contracted services	727,443	755,527	1,482,970
Supplies	1,003,043	69,585	1,072,628
Depreciation	1,336,846	55,846	1,392,692
Bad debt expense	50,209	-	50,209
Total operating expenses	<u>4,542,758</u>	<u>1,083,456</u>	<u>5,626,214</u>
Operating income (loss)	<u>(224,383)</u>	<u>17,046</u>	<u>(207,337)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	677,701	4,673	682,374
Interest expense	(1,066,892)	(207)	(1,067,099)
Other nonoperating income	30,704	10,038	40,742
Total nonoperating revenues (expenses)	<u>(358,487)</u>	<u>14,504</u>	<u>(343,983)</u>
Income (loss) before contributions	<u>(582,870)</u>	<u>31,550</u>	<u>(551,320)</u>
Capital contributions	1,573,959	-	1,573,959
	<u>1,573,959</u>	<u>-</u>	<u>1,573,959</u>
Change in net assets	991,089	31,550	1,022,639 ✓
Total net assets, beginning of year	27,846,096 ✓	849,352 ✓	28,695,448
Total net assets, end of year	<u>\$ 28,837,185 ✓</u>	<u>\$ 880,902 ✓</u>	<u>\$ 29,718,087</u>

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

**CITY OF ST. MARYS, GEORGIA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water &amp; Sewer Fund</b>	<b>Solid Waste Fund</b>	<b>Totals</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users	\$ 4,278,356	\$ 1,115,802	\$ 5,394,158
Payments to suppliers	(1,409,822)	(808,910)	(2,218,732)
Payments to employees	(1,411,951)	(221,827)	(1,633,778)
Net cash provided by operating activities	<u>1,456,583</u>	<u>85,065</u>	<u>1,541,648</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Advances from other funds	(12,206)	(35,418)	(47,624)
Other nonoperating income	30,704	10,038	40,742
Net cash provided by (used in) noncapital financing activities	<u>18,498</u>	<u>(25,380)</u>	<u>(6,882)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal payments on revenue bonds payable	(225,000)	-	(225,000)
Principal payments on notes payable	(5,557,546)	(9,409)	(5,566,955)
Bond issuance cost	(910,793)	-	(910,793)
Issuance of note payable	5,000,000	-	5,000,000
Issuance of revenue bonds payable	43,695,000	-	43,695,000
Interest paid	(1,484,796)	(207)	(1,485,003)
Capital contributions	538,299	-	538,299
Purchase of capital assets	(15,095,685)	(15,960)	(15,111,645)
Net cash provided by (used in) capital and related financing activities	<u>25,959,479</u>	<u>(25,576)</u>	<u>25,933,903</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investments	(157,833)	-	(157,833)
Interest received	628,748	4,673	633,421
Net cash provided by investing activities	<u>470,915</u>	<u>4,673</u>	<u>475,588</u>
Net increase in cash	27,905,475	38,782	27,944,257
Cash and cash equivalents, beginning of year	5,452,336 ✓	650,163 ✓	6,102,499
Cash and cash equivalents, end of year	<u>\$ 33,357,811</u>	<u>\$ 688,945</u>	<u>\$ 34,046,756</u>
<b>Classified as:</b>			
Cash and cash equivalents	\$ 4,990,956 ✓	\$ 688,945 ✓	\$ 5,679,901 ✓
Restricted assets:			
Cash and cash equivalents	<u>28,366,855</u> ✓	<u>-</u>	<u>28,366,855</u>
	<u>\$ 33,357,811</u>	<u>\$ 688,945</u>	<u>\$ 34,046,756</u>

**NONCASH CAPITAL FINANCING ACTIVITIES**

Capital assets of \$1,035,660 in the Water & Sewer Fund were acquired through contributions from developers.

(Continued)

**CITY OF ST. MARYS, GEORGIA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water &amp; Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ (224,383) ✓	\$ 17,046 ✓	\$ (207,337) ✓
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	1,336,846	55,846	1,392,692
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(49,420)	15,300	(34,120)
Increase in prepaid expenses	(147,829)	(12,491)	(160,320)
(Increase) decrease in due from other funds	12,220	(31,423)	(19,203)
Increase (decrease) in accounts payable	(6,444)	50,382	43,938
Increase in contracts payable	526,975	-	526,975
Decrease in retainages payable	(20,651)	-	(20,651)
Increase (decrease) in accrued liabilities	13,266	(19,329)	(6,063)
Increase in customer deposits	9,401	-	9,401
Increase in due to other funds	6,602	9,734	16,336
Net cash provided by operating activities	<u>\$ 1,456,583 ✓</u>	<u>\$ 85,065 ✓</u>	<u>\$ 1,541,648 ✓</u>

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

**CITY OF ST. MARYS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of St. Marys, Georgia (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental 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 was incorporated August 15, 1910, under the provisions of the laws of the State of Georgia. A new City charter was adopted February 8, 1981. The City operates under a Council/City Manager form of government and provides the following services to its citizens: public safety, public works, recreation, public improvements, and general and administrative services.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City of St. Marys, Georgia (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. Blended component units, although legally separate entities, are, in substance, part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Blended Component Unit. The St. Marys Convention & Visitors Bureau (the "Bureau") is reported as a blended component unit in the City's financial statements because the City maintains financial accountability over the Bureau and the Bureau almost exclusively benefits the City. The St. Marys Convention & Visitors Bureau is reported as a special revenue fund. Separate financial statements are not prepared for the Bureau.

Discretely Presented Component Unit. The Industrial Development Authority of St. Marys (the "Authority") is governed by a seven member board, the majority of which are appointed by St. Marys' City Council. The City is able to significantly influence the programs, projects and activities of the Authority. The Authority is presented as a governmental fund-type component unit. Separate financial statements are not prepared for the Authority.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### B. Government-wide and Fund Financial Statements (Continued)

For the most part, the effect of interfund activity has been removed from these statements. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities and business-type activities.

*Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for services. The statement of net assets includes non-current assets which were previously reported in the General Fixed Assets Account Group and non-current liabilities previously reported in the General Long-Term Debt Account Group. In addition, the government-wide statement of activities reflects depreciation expense on the City's capital assets.

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally 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, licenses, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The **SPLOST Fund** accounts for the proceeds and expenditures of a one percent Special Purpose Local Option Sales Tax.

The City reports the following major proprietary funds:

The **Water & Sewer Fund** accounts for the activities necessary to provide water and sewer services to the City's residents.

The **Solid Waste Fund** accounts for the fees and expenses associated with garbage collection and disposal services provided to the City's residents.

Additionally, the City reports the following fund type:

The *special revenue funds* account for revenue sources that are legally restricted to expenditure for specific purposes.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

#### D. Budgets

Annual appropriated budgets are adopted for all funds. The budgets for the proprietary funds are for management control purposes and are not required to be reported. Budgets of governmental funds are adopted on a modified accrual basis, which is consistent with accounting principles generally accepted in the United States of America for governmental funds. All appropriations lapse at fiscal year end. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is not employed by the City.

## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **E. Cash and Investments**

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less from the date of acquisition. State 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. Investments are reported at fair value as determined by quoted market prices.

#### **F. Receivables and Payables**

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

#### **G. Restricted Assets**

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on both the government-wide and proprietary fund financial statements because their use is limited by applicable bond covenants.

#### **H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2008 are recorded as prepaid items in both government-wide and fund financial statements.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. In accordance with GASB 34, the City has elected not to include infrastructure acquired prior to July 1, 2003.

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

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the City during the current fiscal year was \$1,510,873. Of this amount, \$443,981 was included as part of the capital assets under construction in connection with the wastewater treatment plant construction project.

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

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Infrastructure	30
Improvements	5-50
Machinery and equipment	3-10

#### J. Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused personal leave. All personal leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported 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)**

#### **K. Long-Term Obligations**

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

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

#### **L. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### **M. Management 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

## NOTES TO FINANCIAL STATEMENTS

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$2,198,020 difference are as follows:

Accrued interest payable	\$	5,007 ✓
Capital leases payable		145,808 ✓
Notes payable		1,601,322 ✓
Compensated absences		<u>445,883 ✓</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$	<u>2,198,020 ✓</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense.” The details of this \$1,224,702 difference are as follows:

Capital outlay	\$	2,517,186 ✓
Depreciation expense		<u>(1,292,484) ✓</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$	<u>1,224,702 ✓</u>

## NOTES TO FINANCIAL STATEMENTS

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

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

Another element of that reconciliation explains that "The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets." The details of this \$607,355 difference are as follows:

Issuance of notes payable	\$	(886,000) ✓
Principal retirement of long-term debt		1,493,355 ✓
		_____
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$	607,355 ✓
		_____

Another element of that reconciliation explains that "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this \$128,574 difference are as follows:

Compensated absences	\$	(130,317) ✓
Accrued interest		1,743 ✓
		_____
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$	(128,574) ✓
		_____

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 3. LEGAL COMPLIANCE - BUDGETS

The City of St. Marys, Georgia employs the following procedures in establishing its annual budget:

1. Prior to June 1, the Budget Committee/City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means for financing them.
2. Prior to any action by the Council, the Council holds a public hearing on the budget, giving notice in the official newspaper of the City, at least 10 days prior to such hearing.
3. The budget is then revised and adopted or amended by the Council at a regular meeting in June.
4. This budget may be revised during the year only by formal action of the Council in a regular or special called meeting. No increase to the budget may be made without a provision for financing such an increase.
5. Budgetary control is exercised at the department, function or activity, and major object of expenditures group for capital and grant projects within each fund. The legal level of budgetary control is the department level. Budgets for the City may be increased or decreased as the City Council deems appropriate. Budgets are adopted for all governmental and proprietary fund types. The supplementary budgetary appropriations made during the year were not material.

For the year ended June 30, 2008, the following general fund departments had excesses of actual expenditures over appropriations:

<u>Department</u>	<u>Excess</u>
Culture and recreation administration	\$ 3,727 ✓

The excesses of expenditures over appropriations were funded by available fund balance.

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 4. DEPOSITS AND INVESTMENTS**

**Credit Risk.** State 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) obligations of any other political subdivision of the State of Georgia local government investment pool; (7) repurchase agreements; and (8) the State of Georgia local government investment pool.

Georgia Fund 1, created by OCGA 36-83-8, is a stable net asset value investment pool which follows Standard & Poor's criteria for AAAM rated money market funds. However, Georgia Fund 1 operates in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940 and is considered to be a 2a-7 like pool. The pool is not registered with the SEC as an investment company. The pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal (\$1.00 per share value). Net asset value is calculated weekly to ensure stability. The pool distributes earnings (net of management fees) on a monthly basis and determines participants' shares sold and redeemed based on a \$1.00 per share. The fair value of the City's position in the pool is the same as the value of pool shares (\$1 per share value). The regulatory oversight agency for Georgia Fund 1 is the Office of Treasury and Fiscal Services of the State of Georgia. As of June 30, 2008, the City's investment in Georgia Fund 1 was rated AAAM by Standard & Poor's.

As of June 30, 2008, the City had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Georgia Fund 1	40 day weighted average	\$ 1,954,378
Certificates of deposit	6 months - 12 months	326,411
		<u>\$ 2,280,789</u>

**Interest rate risk.** As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy generally limits all operating investments to instruments that mature within one year. Asset investment funds shall be diversified to eliminate risk of loss resulting from the concentration of assets in a specific maturity, a specific issuer or a specific class of maturities.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4. DEPOSITS AND INVESTMENTS (CONTINUED)

**Custodial credit risk – deposits.** Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal and state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of June 30, 2008, the City's deposits were fully collateralized in compliance with the state requirements.

### NOTE 5. RECEIVABLES

Property taxes are levied by the City based on the assessed value of property as of January 1. Property taxes attach as an enforceable lien on property as of December 21, 2007. Taxes were levied on October 10, 2007 and payable on or before December 20, 2007. Property taxes not collected by December 20th are considered and reported as delinquent taxes receivable. Property taxes levied for the year ending June 30, 2008, are recorded as receivables, net of estimated uncollectibles.

In the governmental funds, the net receivables collected during the year ended June 30, 2008, and expected to be collected by August 31, 2008, are recognized as revenues for the year ended June 30, 2008, whereas, net receivables estimated to be collectible subsequent to August 31, 2008, are recorded as revenue when received.

Receivables at June 30, 2008, for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General	SPLOST	Water and Sewer	Solid Waste	Nonmajor Funds
Receivables:					
Taxes	\$ 162,789	\$ -	\$ -	\$ -	\$ -
Accounts	12,053	-	673,233	88,773	16,950
Due from other governments	354,827	108,485	-	-	-
Less allowance for uncollectibles	(36,374)	-	(271,124)	(4,439)	-
Net total receivable	<u>\$ 493,295</u>	<u>\$ 108,485</u>	<u>\$ 402,109</u>	<u>\$ 84,334</u>	<u>\$ 16,950</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, is as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 481,333	\$ -	\$ -	\$ -	\$ 481,333
Construction in progress	20,645	1,040,714	-	-	1,061,359
Total	<u>501,978</u>	<u>1,040,714</u>	<u>-</u>	<u>-</u>	<u>1,542,692</u> ✓
Capital assets, being depreciated:					
Infrastructure	1,660,830	415,961	-	-	2,076,791
Buildings	7,353,305	97,997	-	-	7,451,302
Improvements	8,685,632	-	-	-	8,685,632
Machinery and equipment	8,133,917	962,514	-	-	9,096,431
Total	<u>25,833,684</u>	<u>1,476,472</u>	<u>-</u>	<u>-</u>	<u>27,310,156</u>
Less accumulated depreciation for:					
Infrastructure	(139,512)	(62,294)	-	-	(201,806)
Buildings	(1,971,957)	(246,766)	-	-	(2,218,723)
Improvements	(3,022,548)	(288,723)	-	-	(3,311,271)
Machinery and equipment	(5,828,044)	(694,701)	-	-	(6,522,745)
Total	<u>(10,962,061)</u>	<u>(1,292,484)</u>	<u>-</u>	<u>-</u>	<u>(12,254,545)</u>
Total capital assets, being depreciated, net	<u>14,871,623</u>	<u>183,988</u>	<u>-</u>	<u>-</u>	<u>15,055,611</u> ✓
Governmental activities capital assets, net	<u>\$ 15,373,601</u> ✓	<u>\$ 1,224,702</u> ✓	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,598,303</u> ✓

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6. CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Business-type activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 846,727	\$ -	\$ -	\$ -	\$ 846,727
Construction in progress	3,245,219	15,376,152	-	(455,988)	18,165,383
Total	<u>4,091,946</u>	<u>15,376,152</u>	<u>-</u>	<u>(455,988)</u>	<u>19,012,110</u> ✓
Capital assets, being depreciated:					
Buildings	5,560,943	31,920	-	-	5,592,863
Infrastructure	35,740,494	1,048,660	-	455,988	37,245,142
Machinery and equipment	4,390,080	134,555	(219,186)	-	4,305,449
Total	<u>45,691,517</u>	<u>1,215,135</u>	<u>(219,186)</u>	<u>455,988</u>	<u>47,143,454</u>
Less accumulated depreciation for:					
Buildings	(2,273,284)	(108,173)	-	-	(2,381,457)
Infrastructure	(10,176,282)	(905,774)	-	-	(11,082,056)
Machinery and equipment	(2,973,642)	(378,745)	219,186	-	(3,133,201)
Total	<u>(15,423,208)</u>	<u>(1,392,692)</u>	<u>219,186</u>	<u>-</u>	<u>(16,596,714)</u>
Total capital assets, being depreciated, net	<u>30,268,309</u>	<u>(177,557)</u>	<u>-</u>	<u>455,988</u>	<u>30,546,740</u> ✓
Business-type activities capital assets, net	<u>\$ 34,360,255</u> ✓	<u>\$ 15,198,595</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,558,850</u> ✓

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

Governmental activities		
General government		\$ 324,354
Public safety		540,615
Public works		246,482
Culture and recreation		119,558
Health and welfare		8,229
Housing and development		53,246
Total depreciation expense - governmental activities		<u>\$ 1,292,484</u> ✓
Business-type activities		
Water and sewer		\$ 1,336,846
Sanitation		55,846
Total depreciation expense - business type activities		<u>\$ 1,392,692</u> ✓

**Component Unit:** ✓ The Industrial Development Authority maintains a parcel of land with a historical cost of \$332,234. ✓

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7. LONG-TERM DEBT AND CAPITAL LEASES

#### Revenue Bonds:

The City issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. The City's Water and Sewer Fund's revenue bonds outstanding at June 30, 2008, are as follows:

Series 1992 \$5,595,000 Water Revenue Bonds, due in annual installments of \$80,000 to \$410,000 through July 1, 2018, plus interest of 3.0% to 6.125%	\$ 3,180,000
Series 2007 \$43,695,000 Water Revenue Bonds, due in annual installments of \$900,000 to \$2,730,000 through December 1, 2032, plus interest at 1.55 to 3.765%.	<u>43,695,000</u>
	<u>\$ 46,875,000</u> ✓

Revenue bond debt service requirements to maturity are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2009	\$ 900,000	\$ 767,686	\$ 1,667,686
2010	1,190,000	843,385	2,033,385
2011	1,255,000	813,114	2,068,114
2012	1,455,000	780,102	2,235,102
2013	1,520,000	744,350	2,264,350
2014-2018	8,680,000	3,118,563	11,798,563
2019-2023	8,900,000	2,132,570	11,032,570
2024-2028	10,350,000	1,392,288	11,742,288
2029-2033	<u>12,625,000</u>	<u>504,642</u>	<u>13,129,642</u>
Total	<u>\$ 46,875,000</u> ✓	<u>\$ 11,096,700</u>	<u>\$ 57,971,700</u>

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7. LONG-TERM DEBT AND CAPITAL LEASES (CONTINUED)**

**Notes Payable:**

The City has incurred debt to the Georgia Environmental Facilities Authority for construction of various water and sewer system projects and various improvements to the water and sewer system. Additionally, the City has incurred debt to a local financial institution for the purchase of vehicles and equipment used in the water and sewer and solid waste operations. These notes are as follows at June 30, 2008:

<u>Interest Rate</u>	<u>Term</u>	<u>Fiscal Year Due Date</u>	<u>Amount</u>
2.00%	10 years	2012	\$ 210,367
5.60%	15 years	2013	68,675
4.76%	20 years	2020	337,675
4.55%	20 years	2021	2,440,934
3.00%	20 years	2025	4,318,866
4.05%	5 years	2012	449,260
			<u>\$ 7,825,777</u> ✓

The City has also entered into other notes payable agreements originally totaling \$3,735,966 with interest rates ranging from 3.98% to 4.41% for financing certain equipment and the renovation and improvement of the City's facilities. The outstanding balance of these notes payable at June 30, 2008 is \$1,601,322. The principal of these loans is to be repaid in monthly or quarterly payments with maturities ranging from October 2010 to October 2011.

The City's notes payable debt service requirements to maturity are as follows:

Fiscal year ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 653,547	\$ 51,906	\$ 573,799	\$ 273,003
2010	448,453	30,004	594,722	252,080
2011	403,821	12,575	616,902	229,890
2012	95,501	648	510,985	208,448
2013	-	-	432,017	190,898
2014-2018	-	-	2,408,705	698,044
2019-2023	-	-	2,225,566	236,738
2024-2025	-	-	463,081	10,540
Total	<u>\$ 1,601,322</u> ✓	<u>\$ 95,133</u>	<u>\$ 7,825,777</u> ✓	<u>\$ 2,099,641</u>

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 7. LONG-TERM DEBT AND CAPITAL LEASES (CONTINUED)**

**Capital Leases:**

The City has entered into lease agreements as lessee for financing the acquisition of machinery and equipment. The lease agreements qualify as capital leases for accounting purposes (titles transfer at the end of the lease terms) and, therefore, have been recorded at the present values of the future minimum lease payments as of the date of their inception. Interest rates range from 7.4% to 10.6%. The following is an analysis of leased assets under capital leases as of June 30, 2008:

	<b>Governmental Activities</b>
Machinery and equipment	\$ 364,326

The City's total capital lease debt service requirements to maturity are as follows:

	<b>Governmental Activities</b>
Fiscal Year Ending June 30,	
2009	
2010	\$ 54,121
2011	48,184
2012	45,349
Total minimum lease payments	9,191
Less amount representing interest	156,845
Present value of future minimum lease payments	11,037
	\$ 145,808 ✓

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7. LONG-TERM DEBT AND CAPITAL LEASES (CONTINUED)

Long-term liability activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Capital leases	\$ 820,845	\$ -	\$ (675,037)	\$ 145,808	\$ 48,251
Notes payable	1,533,640	886,000	(818,318)	1,601,322	653,547
Compensated absences	315,566	501,080	(370,763)	445,883	370,000
Governmental activity Long-term liabilities	<u>\$ 2,670,051</u>	<u>\$ 1,387,080</u>	<u>\$ (1,864,118)</u>	<u>\$ 2,193,013</u>	<u>\$ 1,071,798</u>
<b>Business-type activities:</b>					
Revenue bonds	\$ 3,405,000	\$ 43,695,000	\$ (225,000)	\$ 46,875,000	\$ 900,000
Notes payable	8,392,732	-	(566,955)	7,825,777	573,799
Business-type activity Long-term liabilities	<u>\$ 11,797,732</u>	<u>\$ 43,695,000</u>	<u>\$ (791,955)</u>	<u>\$ 54,700,777</u>	<u>\$ 1,473,799</u>

For governmental activities, compensated absences are generally liquidated by the General Fund. Compensated absences of business-type activities total \$57,705 and are included with accrued liabilities on the statement of net assets. The compensated absences of business-type activities are liquidated by the Water and Sewer Fund.

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

The composition of interfund balances as of June 30, 2008 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Solid Waste Fund	\$ 9,734
Solid Waste Fund	Water & Sewer Fund	66,317
General Fund	Nonmajor governmental funds	83,132
SPLOST Fund	Nonmajor governmental funds	148,485
Nonmajor governmental funds	General Fund	52,076
Water & Sewer Fund	General Fund	11,815
General Fund	SPLOST Fund	260,481
Solid Waste Fund	General Fund	1,350
		<u>\$ 633,390</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)**

Interfund transfers:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	\$ ✓ 666,911
SPLOST Fund	Nonmajor governmental funds	✓ 55,985
Nonmajor governmental funds	Nonmajor governmental funds	✓ 143,159
		<u>\$ 866,055 ✓</u>

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

**NOTE 9. PENSION PLANS**

**Plan Description**

The City terminated its non-contributory pension plan through the Georgia Municipal Employees Benefit System (GMEBS) in 1996 and established a defined contribution plan. Prior to termination, the City had adopted an agent multiple-employer non-contributory defined benefit pension plan, the City of St. Marys Retirement Plan (the "Plan") through GMEBS covering all employees with a service period of one year or more. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries and is administered by the Georgia Municipal Association. The City has authorized the GMEBS board to establish and amend all plan provisions. Employees were eligible for participation after one year of continuous service and become vested after 10 years of service. GMEBS issues a publicly available financial report that includes financial statements and required supplementary information for the City of St. Marys Retirement Plan. That report may be obtained by writing to Georgia Municipal Association, Employee Benefit Section, 201 Pryor Street, SW, Atlanta, Georgia 30303.

**Funding Policy**

The funding policy for the City of St. Marys Retirement Plan is to contribute an actuarially determined amount equal to the recommended contribution each year. The City makes all contributions to the City of St. Marys Retirement Plan. The City is required to contribute at an actuarially determined rate; the current rate is 6.54% of annual covered payroll.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 9. PENSION PLANS (CONTINUED)

#### Annual Pension Cost

For the year ended June 30, 2008, the City's annual pension cost was \$7,887 for the City of St. Marys Retirement Plan. Recommended contributions of \$7,887 were determined as part of the March 1, 2008, actuarial valuation, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return, (b) projected salary increases for inflation of 5.0% per year and for merit or seniority of .5% per year, and (c) no postretirement benefit increases or cost of living adjustments. The period, and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years from 1982, and current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provisions, and 30 years for actuarial assumptions and cost methods as a level dollar amount. These amortization periods, if applicable, are closed for this plan year. The method for determining the actuarial value of assets is part of GMEBS actuarial funding policy. It produces an adjusted actuarial value of assets.

The smoothing technique gradually incorporates investment performance that exceeds or falls short of the expected return of 8%, which is the valuation's investment return assumption.

#### Trend Information

Trend information which gives an indication of the progress made in accumulating sufficient assets to pay benefits when due, is presented below.

Fiscal Year Ending	Annual Pension Cost	Percentage Contributed	Net Pension Obligation
6/30/2006	\$ 15,787	100%	\$ -
6/30/2007	7,947	100%	-
6/30/2008	7,887	100%	-

As of the most recent valuation date, March 31, 2008, the funded status of the Plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets	AAL Actuarial Accrued Liability	(Overfunded) Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Overfunded AAL as a Percentage of Covered Payroll
3/1/08	\$ 1,212,947	\$ 1,086,167	\$ (126,780)	111.7%	\$ 120,609	-105%

## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 9. PENSION PLANS (CONTINUED)**

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the actuarial accrued liability.

### **NOTE 10. DEFINED CONTRIBUTION PENSION PLAN**

The City of St. Marys has established a defined contribution pension plan (the Plan) that is administered by the Variable Annuity Life Insurance Company for all of its full-time employees. The Plan provides retirement, disability, and death benefits to plan participants and beneficiaries. Plan provisions and contribution requirements are established and may be amended by the City Council. At June 30, 2008, there were 128 plan members.

Employees are not required to contribute to the Plan. Employees may contribute a portion of their gross salary up to a maximum of \$15,500 for the year ended June 30, 2008. The Plan allows employees to increase, decrease, stop and restart deferrals as often as they wish without penalties or fees. The City contributes an amount equal to 4% of each participant's compensation. Total employer contributions for the year ended June 30, 2008, were \$283,985.

### **NOTE 11. JOINT VENTURE**

Under Georgia law, the City, in conjunction with other cities and counties in the coastal Georgia area, is a member of the Coastal Georgia Regional Development Center (RDC) and is required to pay annual dues thereto. During the year ended June 30, 2008, the City paid \$14,764 in such dues. Membership in the ARC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of regional development commissions in Georgia. The RDC Board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of a regional development commission. Separate financial statements may be obtained from the Coastal Georgia Regional Development Center, P.O. Box 1917, Brunswick, Georgia 31521.

### **NOTE 12. RELATED ORGANIZATIONS**

The City's council is responsible for the appointment of a board member to the Southeast Georgia Consolidated Housing Authority. However, the City has no further accountability for this organization. During the year ended June 30, 2008, the City did not provide any contributions to the Southeast Georgia Consolidated Housing Authority.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 13. RISK MANAGEMENT

The City is exposed to various risks of losses related to: torts; thefts 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 and the Georgia Municipal Association Group Self-Insurance Workers' Compensation Fund, public entity risk pools currently operating as common risk management and insurance programs for member local governments.

As part of these risk pools, 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 City contract and in accordance with the workers' compensation law of Georgia. The funds are 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 in the past three years have not exceeded the coverages.

### NOTE 14. HOTEL/MOTEL LODGING TAX

The City imposes a hotel/motel tax on lodging facilities within the City. The tax was assessed at 6%. Expenditures of the tax were used to promote tourism as required by O.C.G.A. 48-13-50. The City spent 100% of the amount collected for the promotion of tourism. A summary of hotel/motel tax transactions for the fiscal year ended June 30, 2008, is as follows:

Balance, July 1, 2007	\$ 28,588 ✓
Fiscal year 2008 collections	126,521 ✓
Fiscal year 2008 disbursements	<u>(138,159) ✓</u>
Balance, June 30, 2008	<u>\$ 16,950 ✓</u>

## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 15. 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 arising 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.

#### **Construction Commitments**

In addition to the liabilities enumerated in the balance sheet at June 30, 2008, the City has contractual commitments on uncompleted contracts of approximately \$993,027.

**CITY OF ST. MARYS, GEORGIA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS**

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Actuarial Valuation Date	Actuarial Value of Assets	(AAL) Actuarial Accrued Liability	(Overfunded) Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Overfunded AAL as a Percentage of Covered Payroll
03/01/05	\$ 1,250,866	\$ 1,124,005	\$ (126,861)	111.3 %	\$ 103,480	-122.6 %
03/01/06	1,235,311	1,133,925	(101,386)	108.9 %	107,577	-94.2 %
03/01/07	1,226,697	1,148,550	(78,147)	106.8 %	113,631	-68.8 %

The assumptions used in the preparation of the above schedule are disclosed in Note 9 in the Notes to the Financial Statements.

**CITY OF ST. MARYS, GEORGIA**  
**NONMAJOR GOVERNMENTAL FUNDS**

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**Special Revenue Funds**

**Hotel/Motel Tax Fund** – To account for excise taxes on lodgings and accommodations.

**Convention & Visitors Bureau** – To account for monies received to operate tourism in the City.

**Multiple Grants Fund** – To account for small grants received from various agencies.

**Fire Tax District Fund** – To account for proceeds of a special fire district tax levy and expenditures of these proceeds.

**Capital Projects Fund**

**Capital Projects Fund** – To account for the construction of sidewalks and paving of streets in the City.

**CITY OF ST. MARYS, GEORGIA**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2008**

<b>ASSETS</b>	<b>Special Revenue</b>			
	<b>Hotel/Motel Tax Fund</b>	<b>Convention &amp; Visitors Bureau</b>	<b>Multiple Grants Fund</b>	<b>Fire Tax District Fund</b>
Cash and cash equivalents	\$ -	\$ 28,451	\$ 542,858	\$ 168,449
Accounts receivable	16,950	-	-	-
Due from other funds	-	2,076	50,000	-
<b>Total assets</b>	<b>\$ 16,950</b>	<b>\$ 30,527</b>	<b>\$ 592,858</b>	<b>\$ 168,449</b>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ 379	\$ -	\$ -
Accrued liabilities	-	972	-	-
Due to other funds	-	-	148,485	83,132
<b>Total liabilities</b>	<b>-</b>	<b>1,351</b>	<b>148,485</b>	<b>83,132</b>
<b>FUND BALANCE</b>				
Unreserved, undesignated	16,950	29,176	444,373	85,317
<b>Total fund balances</b>	<b>16,950</b>	<b>29,176</b>	<b>444,373</b>	<b>85,317</b>
<b>Total liabilities and fund balance</b>	<b>\$ 16,950</b>	<b>\$ 30,527</b>	<b>\$ 592,858</b>	<b>\$ 168,449</b>

<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>
\$ 110,946	\$ 850,704
-	16,950
-	52,076
<u>\$ 110,946</u>	<u>\$ 919,730</u> ✓

\$ -	\$ 379
-	972
-	231,617
-	<u>232,968</u> ✓

<u>110,946</u>	<u>686,762</u>
<u>110,946</u>	<u>686,762</u> ✓
<u>\$ 110,946</u>	<u>\$ 919,730</u>

**CITY OF ST. MARYS, GEORGIA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Special Revenue			
	Hotel/Motel Tax Fund	Convention & Visitors Bureau	Multiple Grants Fund	Fire Tax District Fund
<b>REVENUES</b>				
Taxes	\$ 126,521	\$ -	\$ -	\$ -
Intergovernmental	-	-	537,196	-
Interest	-	336	1,854	8,354
Miscellaneous	-	46,984	-	-
<b>Total revenues</b>	<u>126,521</u> ✓	<u>47,320</u>	<u>539,050</u>	<u>8,354</u>
<b>EXPENDITURES</b>				
Current				
Culture and recreation	-	195,215	-	-
<b>Total expenditures</b>	<u>-</u>	<u>195,215</u>	<u>-</u>	<u>-</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>126,521</u>	<u>(147,895)</u>	<u>539,050</u>	<u>8,354</u>
Other financing sources (uses)				
Transfers in	-	143,159	-	-
Transfers out	(138,159) ✓	-	(561,105)	(166,791)
<b>Total other financing sources (uses)</b>	<u>(138,159)</u>	<u>143,159</u>	<u>(561,105)</u>	<u>(166,791)</u>
<b>Net change in fund balances</b>	<u>(11,638)</u>	<u>(4,736)</u>	<u>(22,055)</u>	<u>(158,437)</u>
<b>FUND BALANCE, beginning of year</b>	<u>28,588</u> ✓	<u>33,912</u>	<u>466,428</u>	<u>243,754</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 16,950</u> ✓	<u>\$ 29,176</u>	<u>\$ 444,373</u>	<u>\$ 85,317</u>

<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>
\$ -	\$ 126,521
-	537,196
2,946	13,490
-	46,984
<u>2,946</u>	<u>724,191</u> ✓
-	<u>195,215</u>
-	<u>195,215</u> ✓
<u>2,946</u>	<u>528,976</u> ✓
-	143,159
-	<u>(866,055)</u>
-	<u>(722,896)</u> ✓
<u>2,946</u>	<u>(193,920)</u> ✓
<u>108,000</u>	<u>880,682</u>
<u>\$ 110,946</u>	<u>\$ 686,762</u> ✓

**CITY OF ST. MARYS, GEORGIA**

**SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE LOCAL OPTION SALES TAX - 2002 ISSUE  
FOR THE YEAR ENDED JUNE 30, 2008**

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<u>Project</u>	<u>Original Estimated Cost</u>	<u>Current Estimated Cost</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
City Sidewalks/Streets	\$ 3,930,000	\$ 3,930,000	\$ 977,539	\$ 1,186,824	\$ 2,164,363
Drainage	3,500,000	3,500,000	915,553	664,953	1,580,506
Downtown Multi-Media Center	300,000	300,000	60,316	25,580	85,896
City Library Expansion	588,000	588,000	209,919	80,680	290,599
<b>Totals</b>	<u>\$ 8,318,000</u> ✓	<u>\$ 8,318,000</u>	<u>\$ 2,163,327</u> ✓	<u>\$ 1,958,037</u>	<u>\$ 4,121,364</u>

**CITY OF ST. MARYS, GEORGIA**  
**BALANCE SHEET**  
**COMPONENT UNIT - INDUSTRIAL DEVELOPMENT AUTHORITY**  
**JUNE 30, 2008**

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**ASSETS**

Cash and cash equivalents	\$ 27,826
Investments	92,737
Accrued interest receivable	<u>1,130</u>
Total assets	<u>\$ 121,693</u>

**FUND BALANCE**

Unreserved, undesignated	<u>\$ 121,693</u>
Total fund balance	<u>\$ 121,693</u>

**CITY OF ST. MARYS, GEORGIA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
COMPONENT UNIT - INDUSTRIAL DEVELOPMENT AUTHORITY  
FOR THE YEAR ENDED JUNE 30, 2008**

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<b>REVENUES</b>	
Rent revenue	\$ 5,493
Interest revenue	<u>12,677</u>
Total revenues	<u>18,170</u>
<b>EXPENDITURES</b>	
Current	
Housing and development	<u>256,308</u>
Net change in fund balance	(238,138)
<b>FUND BALANCE, beginning of year</b>	<u>359,831</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 121,693</u>

## **COMPLIANCE SECTION**

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CERTIFIED PUBLIC ACCOUNTANTS, LLC

**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 City Council  
City of St. Marys, Georgia**

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of St. Marys, Georgia as of and for the year ended June 30, 2008, which collectively comprise the City of St. Marys, Georgia's basic financial statements and have issued our report thereon dated December 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as item 2008-01 to be a significant deficiency in internal control over financial reporting.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

**Compliance and Other Matters**

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

We noted certain matters that we reported to management of the City of St. Marys, Georgia in a separate letter dated December 30, 2008.

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

*Mauldin & Jenkins, LLC*

Macon, Georgia  
December 30, 2008

**CITY OF ST. MARYS, GEORGIA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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**SECTION I**  
**SUMMARY OF AUDIT RESULTS**

**Financial Statements**

Type of auditor's report issued	Unqualified
Internal control over financial reporting: Material weaknesses identified?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no
Significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

**Federal Awards**

Not applicable as a single audit was not performed for the year ended June 30, 2008 due to the City not expending \$500,000 or more of federal funds.

**SECTION II**  
**FINANCIAL STATEMENT FINDINGS**

**2008 – 01. Capitalization of Interest Costs**

**Criteria:** Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

**Condition:** The City did not capitalize interest expense associated with the construction of the wastewater treatment facility for the year ended June 30, 2008 .

**Context:** See above condition.

**Effect:** An adjustment of \$443,981 was made in the Water and Sewer Fund to increase construction in progress and decrease interest expense.

**Recommendation:** We recommend the City calculate and properly record capitalized interest associated with construction in progress at the end of each financial reporting cycle.

**Views of Responsible Officials and Planned Corrective Action:** We concur with the finding. The City will record capitalized interest as required for future years.

**CITY OF ST. MARYS, GEORGIA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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**SECTION III**  
**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

None reported.

**CITY OF ST. MARYS, GEORGIA**  
**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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**2007-1. Revenue/Receivables Cycle**

For the year ending June 30, 2007, we noted that the City did not appropriately record all transactions involving the receivable and revenue accounts.

Status: The above finding was corrected for the year ended June 30, 2008.