

City of Richmond Hill, Georgia

Financial Statements
And
Independent Auditors' Report

For the year ended December 31, 2013

CITY OF RICHMOND HILL, GEORGIA

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December 31, 2013

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INDEPENDENT AUDITORS' REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
City of Richmond Hill, 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 Richmond Hill, Georgia (City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2013, and the respective changes in financial position, and where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages B-1 and D-1 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

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 fund financial statements and schedules and supplementary information 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 federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2014, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

KRT, CPA&P.C.

Savannah, Georgia
June 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Our discussion and analysis of the financial performance of the City of Richmond Hill provides an overview of the City's financial activities for the calendar year ended December 31, 2013. The intent of this management discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the financial statements and notes to the financial statements to enhance their understanding of the City's financial performance.

The reporting model is a combination of both government-wide financial statements and fund financial statements. The Convention and Visitor's Bureau is reported as a separate component unit in the financial statements. The basic financial statements contain three components:

- 1) Government-wide financial statements including the Statement of Net Position and the Statement of Activities which provide a broad, long-term overview of the City's finances.
- 2) Fund financial statements that provide a greater level of detail of revenues and expenditures and focus on how well the City has performed in the short term in the most significant funds, and
- 3) Notes to the financial statements.

This report presents the financial highlights for last year and contains other supplementary information.

FINANCIAL HIGHLIGHTS

- 1 The City's assets exceeded its liabilities at December 31, 2013 by \$41,514,946 (net position). Of this amount, \$9,227,812 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors. This is an increase of \$140,601 from 2012. The CVB component unit has a balance of \$96,583 in net position, which is restricted for tourism-related expenses.
- 2 The City's total net position increased \$974,580 from the previous year with a \$88,549 increase resulting from governmental activities, and a \$886,031 increase from business-type activities.
- 3 Key factors resulting in the increase in net position include:
 - 1) The total net position of governmental activities increased primarily through the capital assets acquired by SPLOST proceeds and the significant reduction of debt. Net capital assets were \$20,918,715 at year end compared to \$20,273,393 in 2012, an increase of \$645,322.

- 2) The net capital assets of business-type activities increased primarily from the costs associated with the expansion of the water/sewer system. In addition, there is a forgiveness of principal on the two GEFA loans which allow assets to increase without corresponding debt. At December 31, 2013, the net capital assets in business-type activities was \$20,947,955 compared to \$19,569,198 at year end 2012, an increase of \$1,378,757.
- At December 31, 2013, the City's governmental funds balance sheet reports combined ending fund balances of \$5,080,855, a decrease of \$303,176 over the previous calendar year. This was primarily the result of SPLOST expenditures exceeding revenue in 2013 for capital projects. Of this amount, \$4,013,439 remains in the general fund as unassigned. The City Center Fund ended the year with a fund balance of \$163,400, an increase of \$39,952 from 2012, attributed primarily to the excess of transfers-in from the hotel/motel tax fund over the reduced operating expenditures experienced by the fund. No funds were transferred from the general fund to assist in funding the operating budget for the first time.
 - The SPLOST capital projects fund had a fund balance of \$901,259, a decrease of \$235,510 from a year ago. Revenues of \$1,699,795 were lower than the \$2,759,598 for expenditures in various capital projects and debt service related to the capital leases. The Special Revenue Funds ended the year with a fund balance of \$166,157. These remaining Non-Major Governmental Funds included a \$2,757 fund balance in the Confiscated Assets Fund, and \$163,400 in the City Center Fund. These fund balances are reported as restricted due to their required purpose of expenditure.
 - The General Fund reported an unassigned fund balance of \$4,013,439, a decrease over 2012 of \$96,612. This occurred due to decreased collections of property taxes and increased expenditures in several categories. Expenditures exceeded budgets, primarily due to the payoff of capital leases during 2013. The city also had higher professional service expenditures in 2013 than planned as well as higher repair and maintenance costs. Other concerns were the ongoing gasoline expenses as well as rising health insurance costs. Although there were some budget overruns, overall city departments performed well in controlling their costs during 2013. Excluding debt service, the General Fund showed an excess of \$151,874 in revenues over expenditures. The total fund balance decreased by \$96,612 in 2013, due to \$248,486 in total debt service. Although there was a decrease to the unassigned fund balance in 2013, the city enjoys a solid financial position, and is well positioned to improve overall in 2014 and beyond with no general fund debt, and no expected subsidy of the City Center fund. The City has a diversified revenue base and showed increased overall revenue in 2013.
 - Total long-term liabilities of the City were \$11,530,226 at year-end, an increase of \$1,149,103 from the previous calendar year. This was caused by the net increase of the GEFA construction loan advances over the principal reductions on city-wide debt. There was a decrease in government funds debt levels as leases were paid off, and no additional leases were obtained. The Water/Sewer Enterprise Fund had an increase of

\$1,177,758 in long-term liabilities in 2013 compared to 2012 due to the GEFA loan construction advances for the new wastewater treatment plant.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements:

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private sector business. The Statement of Net Position and the Statement of Activities provide information about the activities of the city as a whole, presenting both an aggregate and long-term view of the finances. These statements include all assets and liabilities using the accrual basis of accounting. This basis of accounting includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position and liabilities may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing the City's net position changes during the most recent calendar year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will take place in future calendar periods (e.g., uncollected taxes and earned but unused compensated absences).

Both statements attempt to 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).

Governmental activities reported in the statements include General Government, Public Safety, Public Works, Health and Welfare, Culture and Recreation, Housing and Development, and interest on Long-Term Debt. Business-type activities in the City include water and sewer services, found in the Water and Sewer Enterprise Fund.

The government-wide financial statements can be found on pages C-1 and C-2 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. Like other state and local governments, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the City government can be divided into two categories: governmental funds and proprietary funds.

Governmental funds- Governmental funds, presented on pages C-3 to C-6, essentially account for the same functions as those reported under the government-wide statement of net position and statement of activities. However, this set of financial statements focuses on events that produce near-term inflows and outflows of spendable resources as well as on the balances of spendable resources available at the end of the calendar year and is a narrower focus than the government-wide financial statements. Such information may be useful in evaluating the City's near-term financing requirements and available resources.

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 City'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. These reconciliations are on pages C-4 and C-6, respectively.

The City's fund financial statements provide detailed information about the most significant funds – not the City as a whole. The majority of the City's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using modified accrual, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's operations and the services it provides.

Proprietary funds - the City maintains and presents one type of proprietary fund, an enterprise fund found on pages C-7 to C-9 of this report.

Enterprise funds report, in greater detail, the same information presented as business-type activities in the Government-wide financial statements. The Water and Sewer Enterprise Fund is the only major proprietary fund.

Notes to the Financial Statements - The notes provide additional information that are essential to a full understanding of the data provided in both government-wide and fund financial statements. Notes are presented on pages C-10 to C-33 of the report.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process. The City adopts an annual budget for its general and special revenue funds. A budgetary comparison schedule has been provided for the General Fund as required supplementary information. This required supplementary information begins on page D-1 of this report. Individual schedules, which present more detailed view of non-major funds used in governmental funds, begin on page E-1. This section includes budget to actual schedules for non-major special revenue funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide financial statements presented are for the calendar year ended December 31, 2013. The "total" approach to governmental accounting was mandated by the Government Accounting Standards Board (GASB). Governmental accounting falls under their auspices to insure the uniform presentation of governmental financial statements that are accurate and complete in their presentation. Statements will continue to include current and prior calendar year data and provide greater opportunities for comparative analysis.

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's combined net position (government and business-type activities) totaled \$41.5 million at December 31, 2013.

The following table presents a summary of the City's net position at December 31, 2013:

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current assets	\$ 5,467,009	\$ 6,141,820	\$ 7,492,948	\$ 7,393,412	\$ 12,959,957	\$ 13,535,232
Capital assets, net	20,918,715	20,273,393	20,947,955	19,569,198	41,866,670	39,842,591
Total assets	26,385,724	26,415,213	28,440,903	26,962,610	54,826,627	53,377,823
Current liabilities	672,463	400,002	1,108,992	1,235,477	1,781,455	1,635,479
Noncurrent liabilities	4,265,022	4,655,521	7,265,204	6,546,457	11,530,226	11,201,978
Total liabilities	4,937,485	5,055,523	8,374,196	7,781,934	13,311,681	12,837,457
Net position:						
Net investment in capital assets	16,396,406	15,739,160	13,801,532	12,311,727	30,197,938	28,050,887
Restricted for:						
Capital projects	901,259	1,136,769	1,021,780	2,128,288	1,923,039	3,265,057
Other purposes	166,157	137,211	-	-	166,157	137,211
Unrestricted	3,984,417	4,346,550	5,243,395	4,740,661	9,227,812	9,087,211
Total net position	\$ 21,448,239	\$21,359,690	\$ 20,066,707	\$ 19,180,676	\$ 41,514,946	\$ 40,540,366

The largest portion of the City's net position (73%) reflect its investment in capital assets such as land, buildings, and equipment, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. 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.

An additional portion of the City's net position (5.0%) represents resources that are subject to external restrictions on how they may be used. The remaining (22%) balance of unrestricted net position may be used to meet the City's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net position.

At the end of the current calendar year, the City is able to report positive balances in all three categories of net position for the government as a whole. Positive balances are reported for the City's separate governmental and business-type activities.

Changes in Net Position

The following table presents a summary of the changes in net position for the calendar year ended December 31, 2013:

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 1,648,932	\$ 1,419,922	\$ 3,052,474	\$ 2,797,922	\$ 4,701,406	\$ 4,217,844
Operating grants and contributions	4,953	14,500	-	-	4,953	14,500
Capital grants and contributions	1,699,290	1,725,035	1,051,323	1,315,675	2,750,613	3,040,710
General revenues:						
Property taxes	1,835,174	2,291,716	-	-	1,835,174	2,291,716
Sales taxes	1,933,617	1,715,071	-	-	1,933,617	1,715,071
Other taxes	2,354,341	2,227,743	-	-	2,354,341	2,227,743
Grants and contributions not restricted to specific programs	-	148,789	-	-	-	148,789
Unrestricted investment earnings	11,881	16,703	49,428	87,125	61,309	103,828
Miscellaneous	12,052	120,996	3	-	12,055	120,996
Transfers	-	60,605	-	(60,605)	-	-
Total revenues	9,500,240	9,741,080	4,153,228	4,140,117	13,653,468	13,881,197
Expenses:						
General government	1,106,633	1,031,661	-	-	1,106,633	1,031,661
Judiciary	35,586	37,909	-	-	35,586	37,909
Public safety	3,609,897	3,414,100	-	-	3,609,897	3,414,100
Public works	2,856,603	2,713,717	-	-	2,856,603	2,713,717
Culture and recreation	516,203	573,869	-	-	516,203	573,869
Housing and development	1,058,362	1,094,327	-	-	1,058,362	1,094,327
Interest on long-term debt	228,407	217,293	-	-	228,407	217,293
Water and sewer	-	-	3,267,197	3,128,755	3,267,197	3,128,755
Total expenses	9,411,691	9,082,876	3,267,197	3,128,755	12,678,888	12,211,631
Change in net position	88,549	657,574	886,031	1,011,362	974,580	1,669,566
Net position-beginning	21,359,690	20,702,116	19,180,676	18,169,314	40,540,366	38,871,430
Net position-ending	\$ 21,448,239	\$ 21,359,690	\$ 20,066,707	\$ 19,180,676	\$ 41,514,946	\$ 40,540,996

Approximately 19% of the City's governmental activities revenue came from property taxes, while 17% of governmental activity revenue was generated from charges for various goods and services. Property tax revenue declined by \$456,542 over 2012 levels because the city collected a large amount of delinquent taxes in 2012. Sales taxes provided 20% of governmental activity revenues, an increase over 2012, generating a total figure of about \$1.9 million. The city had no infrastructure contributions from developers in 2013, which should be taken into account as well.

The City is blessed to have a strong, diversified revenue base, without significant concentration in one area, in a challenging revenue environment. The City's expenses cover a range of services. The largest expenses were for public safety, public works, general government, and water and sewer services.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds:

Governmental funds provide information on near-term inflows, outflows, and balances of available resources. The governmental fund types include the general fund, special revenue, and capital projects (Special Purpose Local Option Sales Tax Fund). The General Fund and SPLOST are the City's major funds. As of December 31, 2013, the City's governmental funds reported combined fund balances of \$5,080,855 a decrease of \$303,176 over the prior year's balance. This was the result of higher SPLOST project costs over SPLOST revenues. The restricted fund balance totals \$1,067,416 and represents funds set aside for capital projects and specific revenue related projects.

General Fund:

The general fund is the chief operating fund of the city. At December 31, 2013, the total fund balance in the general fund was \$4,013,439, a decrease of \$96,612 from 2012. As previously mentioned, revenues and expenditures slightly exceeded budget estimates. The fund balance however, is still strong, with funds available to support over six months of operating expenses.

Proprietary Funds:

Proprietary fund statements provide the same information as in the business activities column of the government-wide statements, only in greater detail. The City currently utilizes one enterprise fund in the proprietary fund financial statements; the water and sewer enterprise fund. An enterprise fund is used to account for the operations for which a fee is charged to external users for goods or services.

At December 31, 2013, total net position amounted to \$20,066,707 for the enterprise fund as compared to \$19,180,676 at December 31, 2012. The change in net position of \$886,031 resulted primarily from an increase in water/sewer infrastructure, increased charges for services, and the collection of connection fees. The fund continues to show a loss from operations however, the fund is close to reporting a break-even operating income. Management has addressed the need to raise water/sewer base rates, and user volume charges, to cover the increased future debt service levels due to the replacement of our wastewater treatment plant in a few years.

The enterprise fund is reflected on pages C-7 to C-9.

CAPITAL ASSETS

The Statement of Net Position presents capital assets in two groups: those assets subject to depreciation, such as equipment or operational facilities and those assets not subject to depreciation, such as land and construction-in-progress. At December 31, 2013, the City's capital assets for both governmental activities and business-type activities totaled \$41,866,670. Capital assets include assets purchased and donated, land, buildings, system improvements and machinery and equipment. Capital assets increased \$2,024,079 or 5.1% between calendar year 2013 and 2012. This was primarily related to the preliminary construction portion of the wastewater treatment plant expansion and other capital projects.

Additional information on the City's capital assets can be found in Note 2. Section C. on page C-21.

DEBT ADMINISTRATION

The long-term liabilities at December 31, 2013 totaled \$11,530,226. Of this amount, \$7,265,204 relates to the business-type activities and \$4,265,022 relates to the government-type activities.

Long-term debt of the business type activities increased approximately \$1,177,758 from December 31, 2012 levels. The net increase resulted from additional construction loan advances which exceeded principal balance reductions on GEFA loans. Governmental activity related debt decreased by \$28,655 from 2012 due to the pay-off of capital leases. Additional debt of \$810,000 was incurred on a facilities maintenance building financed during the year. Additional information on the City's debt can be found in Note 2. Section G. on pages C-24 to C-27.

BUDGETARY HIGHLIGHTS

The budgetary comparison schedule of the General Fund is provided as required supplementary information other than MD&A and can be found on pages D-1 and D-2. Additional budgetary comparison schedules of the special revenue funds can be found within other supplementary information found on pages E-3 to E-5. Budget columns are provided for both the original budget adopted for calendar year 2013 as well as the final budget. A column for actual resources (revenues), appropriations (expenditures), and a column for any variance between final budget and actual are also provided.

General Fund

The overall operations of the City are similar to directing a large multi-million dollar business. Budget amendments are approved throughout the year to more accurately reflect the ongoing changes and to abide by state laws. Total revenues, including transfers in from other funds, recorded in 2013 were \$7,704,152 which was \$180,848 below the original budgeted revenues, and \$96,612 below actual expenditures. Property taxes and franchise taxes fell below budget by \$52,590 due to reduced collections of past due taxes. Other areas of revenue were also less than expected.

Individual major category variances in resources and explanations are as follows:

- 1) Investment income was \$3,400 below budget due to the low rates paid on our cash deposits, despite higher cash balances.
- 2) Fines and forfeitures were \$81,199 below budget.
- 3) Transfers in were \$13,838 higher due to the increased H/M Tax collected.
- 4) Licenses and permits were \$49,640 below budget due to a decrease in new residential building during 2013.

Total expenditures recorded for 2013 were \$7,800,764. This amount is \$84,236 less than the budgeted amount of \$7,885,000. Overall departmental expenditures were \$170,011 under budget during the year. The city chose to pay down capital lease debt in the General Fund in 2013, which exceeded the debt service originally budgeted by \$85,775, accounting for the majority of the fund balance decline of \$96,612.. The fund balance decrease in 2013 was more a factor of reduced total revenues than of expenditures exceeding expectations.

ECONOMIC FACTORS, NEXT YEAR'S BUDGET'S AND RATES

The City adopted a more conservative general fund budget in 2014 to address the challenging revenue environment expected. It is expected that general fund revenues of property taxes and sales taxes will remain fairly constant. Rising health care costs could negatively impact operating expenses. The overall revenue picture is enhanced by Richmond Hill's diversified

revenue base. The City of Richmond Hill has many positive plans in place for economic development, despite the weak economic recovery.

The water and sewer enterprise fund could also be adversely affected again in 2014 if commercial activity is slow to occur and the economic conditions deteriorate. The city has annexed industrial property south of Richmond Hill, expecting an Israeli owned manufacturing facility. This will provide a greater economic climate in the coming years at the Belfast Interchange. Management believes that the potential challenges to the fiscal health of Richmond Hill can be met by controlling spending on a city-wide basis. In addition, revenue will be raised in the Water/Sewer Enterprise Fund by increased base charges and by increased usage charges to higher volume customers. Construction is finally under way on the new wastewater treatment plant. A comprehensive financial plan will address the wastewater issues in the Enterprise Fund and should provide for a small operating income in the near future.

Richmond Hill has been able to maintain the same millage rate for the past several years by carefully monitoring spending and having a diversified revenue base. The tax digest anticipated for 2014 will likely change very little, thus expenditures will be examined closely. In summary, the strong financial reserves built by the City, combined with prudent financial management, will help us to absorb the current challenging revenue environment.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview for the governmental operations of the City of Richmond Hill. It is designed for anyone with an interest in our government's finances and management. Questions concerning any of the information provided in this report or requests for additional financial information may be addressed to the City of Richmond Hill, Finance Director, P.O. Box 250, Richmond Hill, Georgia, 31324.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF RICHMOND HILL, GEORGIA

STATEMENT OF NET POSITION

DECEMBER 31, 2013

	Governmental Activities	Business-type Activities	Total	Convention and Visitors' Bureau - Component Unit
ASSETS				
Cash and investments	\$ 3,406,475	\$ 4,079,144	\$ 7,485,619	\$ 59,286
Receivables	1,976,166	1,121,501	3,097,667	29,439
Prepaid	-	-	-	10,446
Restricted assets				
Cash and investments	84,368	1,758,285	1,842,653	-
Long-term note receivables	-	534,018	534,018	-
Capital assets				
Land, improvements, and construction in progress	2,257,956	3,291,870	5,549,826	-
Other capital assets, net of depreciation	18,660,759	17,656,085	36,316,844	-
Total assets	<u>26,385,724</u>	<u>28,440,903</u>	<u>54,826,627</u>	<u>99,171</u>
LIABILITIES				
Accounts payable	268,607	642,119	910,726	968
Accrued liabilities	13,022	20,651	33,673	-
Long-term liabilities				
Due within one year	390,834	446,222	837,056	859
Due in more than one year	4,265,022	7,265,204	11,530,226	761
Total liabilities	<u>4,937,485</u>	<u>8,374,196</u>	<u>13,311,681</u>	<u>2,588</u>
NET POSITION				
Net investment in capital assets	16,396,406	13,801,532	30,197,938	-
Restricted for:				
Capital projects	901,259	1,021,780	1,923,039	-
Other purposes	166,157	-	166,157	96,583
Unrestricted	3,984,417	5,243,395	9,227,812	-
Total net position	<u>\$ 21,448,239</u>	<u>\$ 20,066,707</u>	<u>\$ 41,514,946</u>	<u>\$ 96,583</u>

CITY OF RICHMOND HILL, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			Discretely Presented Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental Activities								
General Government	\$ 1,106,633	\$ 675	\$ -	\$ -	\$ (1,105,958)		\$ (1,105,958)	
Judiciary	35,586	-	-	-	(35,586)		(35,586)	
Public Safety	3,609,897	612,898	-	68,985	(2,928,014)		(2,928,014)	
Public Works	2,856,603	770,595	-	1,630,305	(455,703)		(455,703)	
Culture and Recreation	516,203	46,404	4,953	-	(464,846)		(464,846)	
Housing and Development	1,058,362	218,360	-	-	(840,002)		(840,002)	
Interest on Long-term debt	228,407	-	-	-	(228,407)		(228,407)	
Total governmental activities	<u>9,411,691</u>	<u>1,648,932</u>	<u>4,953</u>	<u>1,699,290</u>	<u>(6,058,516)</u>		<u>(6,058,516)</u>	
Business-type activities:								
Water & Sewer	3,267,197	3,052,474	-	1,051,323	-	\$ 836,600	836,600	
Total business-type activities	<u>3,267,197</u>	<u>3,052,474</u>	<u>-</u>	<u>1,051,323</u>	<u>-</u>	<u>836,600</u>	<u>836,600</u>	
Total	<u>\$ 12,678,888</u>	<u>\$ 4,701,406</u>	<u>\$ 4,953</u>	<u>\$ 2,750,613</u>	<u>(6,058,516)</u>	<u>836,600</u>	<u>(5,221,916)</u>	
Component Unit								
Richmond Hill Convention and Visitors' Bureau	<u>\$ 152,947</u>	<u>\$ -</u>	<u>\$ 159,245</u>	<u>\$ -</u>				<u>\$ 6,298</u>
General revenues:								
Taxes:								
Property taxes, levied for general purposes					1,835,174	-	1,835,174	
Sales taxes for general purposes					1,933,617	-	1,933,617	
Selective taxes					809,209	-	809,209	
Other taxes					1,545,132	-	1,545,132	
Unrestricted investment earnings					11,881	49,428	61,309	195
Miscellaneous					12,052	3	12,055	14,209
Total general revenues					<u>6,147,065</u>	<u>49,431</u>	<u>6,196,496</u>	<u>14,404</u>
Change in Net Position					88,549	886,031	974,580	20,702
Net position - beginning					21,359,690	19,180,676	40,540,366	75,881
Net position - ending					<u>\$ 21,448,239</u>	<u>\$ 20,066,707</u>	<u>\$ 41,514,946</u>	<u>\$ 96,583</u>

The notes to the basic financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF RICHMOND HILL, GEORGIA

BALANCE SHEET
GOVERNMENTAL FUNDS

DECEMBER 31, 2013

	<u>General Fund</u>	<u>SPLOST</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 2,325,745	\$ 912,549	\$ 168,181	\$ 3,406,475
Receivables	1,764,216	165,226	46,724	1,976,166
Due from other funds	183,917	-	24,583	208,500
Restricted cash	84,368	-	-	84,368
Total assets	<u>\$ 4,358,246</u>	<u>\$ 1,077,775</u>	<u>\$ 239,488</u>	<u>\$ 5,675,509</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 227,260	\$ 12,620	\$ 28,727	\$ 268,607
Due to other funds	-	163,896	44,604	208,500
Total liabilities	<u>227,260</u>	<u>176,516</u>	<u>73,331</u>	<u>477,107</u>
Deferred Inflows of Resources:				
Unavailable property taxes	<u>117,547</u>	<u>-</u>	<u>-</u>	<u>117,547</u>
Fund balances:				
Restricted	-	901,259	166,157	1,067,416
Unassigned	4,013,439	-	-	4,013,439
Total fund balances	<u>4,013,439</u>	<u>901,259</u>	<u>166,157</u>	<u>5,080,855</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,358,246</u>	<u>\$ 1,077,775</u>	<u>\$ 239,488</u>	<u>\$ 5,675,509</u>

CITY OF RICHMOND HILL, GEORGIA

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES

DECEMBER 31, 2013

Total fund balance, governmental funds	\$ 5,080,855
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	20,918,715
Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	117,547
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.	(4,655,856)
Accrued interest not reflected on Governmental funds	(13,022)
Net Position of Governmental Activities in the Statement of Net Position	<u>\$ 21,448,239</u>

CITY OF RICHMOND HILL, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2013

	General Fund	SPLOST	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 5,793,410	\$ -	\$ 557,384	\$ 6,350,794
Licenses and permits	218,360	-	-	218,360
Intergovernmental	4,453	1,695,934	-	1,700,387
Charges for services	817,674	-	-	817,674
Fines and forfeitures	609,301	-	3,597	612,898
Investment	11,600	3,364	273	15,237
Miscellaneous	10,516	497	3	11,016
Total revenues	<u>7,465,314</u>	<u>1,699,795</u>	<u>561,257</u>	<u>9,726,366</u>
EXPENDITURES				
Current:				
General government	1,051,820	-	-	1,051,820
Judicial	35,586	-	-	35,586
Public Safety	3,350,866	-	14,605	3,365,471
Public Works	2,080,855	-	-	2,080,855
Culture and recreation	425,997	-	-	425,997
Housing and Development	607,154	-	278,823	885,977
Capital outlay		2,050,497	-	2,050,497
Debt Service:				
Principal	216,930	539,431	-	756,361
Interest and other charges	31,556	169,670	45	201,271
Total expenditures	<u>7,800,764</u>	<u>2,759,598</u>	<u>293,473</u>	<u>10,853,835</u>
Excess (deficiency) of revenues over expenditures	<u>(335,450)</u>	<u>(1,059,803)</u>	<u>267,784</u>	<u>(1,127,469)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	238,838	-	159,301	398,139
Transfers out	-	-	(398,139)	(398,139)
Issuance of refunding bonds	-	3,847,000	-	3,847,000
Payment to refunded bonds agent	-	(3,832,707)	-	(3,832,707)
Note issuance	-	810,000	-	810,000
Total other financing sources and uses	<u>238,838</u>	<u>824,293</u>	<u>(238,838)</u>	<u>824,293</u>
Net change in fund balances	(96,612)	(235,510)	28,946	(303,176)
Fund balances - beginning	4,110,051	1,136,769	137,211	5,384,031
Fund balances - ending	<u>\$ 4,013,439</u>	<u>\$ 901,259</u>	<u>\$ 166,157</u>	<u>\$ 5,080,855</u>

CITY OF RICHMOND HILL, GEORGIA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

Net change in fund balances - total governmental funds: \$ (303,176)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlays \$1,636,154 exceeded depreciation \$910,969 in the current period. 725,185

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. (226,126)

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds. (67,932)

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

- Accrued interest not reflected on Governmental funds (27,136)
- Compensated absences (12,266)

Change in Net Position of governmental activities \$ 88,549

CITY OF RICHMOND HILL, GEORGIA
STATEMENT OF NET POSITION
WATER AND SEWER ENTERPRISE FUND
DECEMBER 31, 2013

ASSETS

Current assets:	
Cash and investments	\$ 4,079,144
Receivables	1,121,501
Restricted cash and investments	1,758,285
Total current assets	<u>6,958,930</u>
Non-current assets:	
Long-term receivable	534,018
Capital Assets:	
Land, improvements, and construction in progress	3,291,870
Other capital assets, net of depreciation	17,656,085
Total non-current assets	<u>21,481,973</u>
Total assets	<u>28,440,903</u>

LIABILITIES

Current Liabilities:	
Accounts payable	347,868
Accrued liabilities	20,651
Current portion of long-term debt	3,968
Payable from restricted assets:	
Customers' deposits	294,251
Current portion of long-term debt	442,254
Total current liabilities	<u>1,108,992</u>
Non-current liabilities:	
Bonds, notes and loans payable	7,265,204
Total non-current liabilities	<u>7,265,204</u>
Total liabilities	<u>8,374,196</u>

NET POSITION

Net investment in capital assets	13,801,532
Restricted for capital projects	1,021,780
Unrestricted	5,243,395
Total net position	<u>\$ 20,066,707</u>

CITY OF RICHMOND HILL, GEORGIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
WATER AND SEWER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

Operating Revenues	
Charges for services	\$ 3,052,474
Other	<u>3</u>
Total operating revenues	<u>3,052,477</u>
Operating Expenses	
Cost of sales and services	2,491,555
Depreciation	<u>622,241</u>
Total Operating Expenses	<u>3,113,796</u>
Operating income (loss)	<u>(61,319)</u>
Nonoperating revenues (expenses)	
Investment income	49,428
Interest expense	<u>(153,401)</u>
Total non-operating revenue (expenses)	<u>(103,973)</u>
Income (loss) before transfers	(165,292)
Capital contributions	<u>1,051,323</u>
Change in net position	886,031
Total net position - beginning	<u>19,180,676</u>
Total net position - ending	<u><u>\$ 20,066,707</u></u>

CITY OF RICHMOND HILL, GEORGIA

STATEMENT OF CASH FLOWS
WATER AND SEWER ENTERPRISE FUND

FOR THE YEAR ENDED DECEMBER 31, 2013

Cash flows from operating activities:	
Cash received from customers	\$ 3,080,473
Cash payments to suppliers for goods and services	(2,415,972)
Cash payments to employees for services	(173,260)
Net cash provided (used) by operating activities	<u>491,241</u>
Cash flows from capital and related financing activities:	
Capital contributions	1,051,323
Proceeds from debt	1,357,583
Acquisitions and construction of capital assets	(2,505,502)
Principal payments on debt	(456,085)
Interest payments on debt	(158,172)
Net cash (used) by capital and related financing activities	<u>(710,853)</u>
Cash flows from investing activities:	
Interest earned on cash and investments	49,428
Net cash provided (used) by investing activities	<u>49,428</u>
Net increase (decrease) in cash and cash equivalents	<u>(170,184)</u>
Cash and cash equivalents, beginning of year	<u>6,007,613</u>
Cash and cash equivalents, end of year	<u>\$ 5,837,429</u>
Operating income (loss)	<u>\$ (61,319)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	622,241
Change in assets and liabilities:	
Decrease (increase) in other/accounts receivables	(9,514)
(Decrease) Increase in accounts payable and accrued liabilities	(97,677)
(Decrease) increase in customer deposits	37,510
Total adjustments	<u>552,560</u>
Net cash provided (used) by operating activities	<u>\$ 491,241</u>

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity
- B. Basis of Presentation
- C. Measurement Focus and Basis of Accounting
- D. Assets, Liabilities, and Equity
- E. Revenues, Expenditures, and Expenses

NOTE 2. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

- A. Cash and Investments
- B. Accounts Receivable
- C. Capital Assets
- D. Interfund Transactions and Balances
- E. Long-term receivables
- F. Leases
- G. Long-term Liabilities
- H. Segments of Enterprise Activities
- I. Fund Balances/Restricted Net Position

NOTE 3. OTHER INFORMATION

- A. Employee Pension Plan
- B. Risk Management
- C. Commitments and Contingencies
- D. Subsequent Events

CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principals. The City exclusively follows the standards set forth by the GASB. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

A. Financial Reporting Entity

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, "The Financial Reporting Entity," and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists. The City's reporting entity consists of the City and the Convention and Visitor's Bureau.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above. Currently, the City has no blended component units.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. The Convention and Visitor's Bureau (Bureau) is a discretely presented component unit of the City. The Bureau is controlled and managed by a board of seven members appointed by the Mayor and Aldermen of the City. The Bureau's primary function is the promotion of tourism in the City. The City also is required to approve the Bureau's operating budget. A separate report has not been issued for the Bureau.

Membership in Coastal Regional Commission

Under Georgia law, the City is a member of the Coastal Regional Commission (CRC) and is required to pay annual dues thereto. During its year ended December 31, 2013, the City paid \$9,281 in such dues. Membership in a Regional Commission (RC) is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the RC in Georgia. The CRC Board membership of 37 is as follows: Bryan - 3, Bulloch - 5, Camden - 4, Chatham - 5, Effingham - 4, Glynn - 5, Liberty - 5, Long - 3 and McIntosh - 3. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of a RC. Management believes that the CRC is currently accumulating sufficient financial resources to meet its financial obligations. Separate financial statements may be obtained from:

Coastal Regional Commission
127 F Street
Brunswick, Georgia 31520

CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013

B. Basis of Presentation

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the City as a whole. These statements distinguish between activities that are governmental in nature, which are normally supported by taxes and intergovernmental revenues; and business-type activities, which rely to a significant extent upon fees and charges for support. Interfund activities are generally eliminated to avoid the “doubling-up” effect on revenues and expenses.

The City’s net position is reported in three categories: net investment in capital assets; restricted net position; and unrestricted net position.

The caption “Net Investment in Capital Assets” consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Net position is reported as restricted when constraints placed upon its use are either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes results from special revenue funds and the restrictions on their net asset use. When both restricted and non-restricted resources are available for use, it is the City’s policy to use restricted resources first, then non-restricted resources, as they are needed.

The government-wide statement of activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the City and for each governmental function. Program revenues include charges paid by recipients for goods or services as well as grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function or business-type segment is self-supporting or relies upon general revenues of the City.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and proprietary funds are reported in separate columns in the fund financial statements. All other funds are aggregated and reported as non-major governmental or non-major proprietary funds.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures (expenses). Fund accounting segregates funds according to the intended purpose and is used to aid management in demonstrating compliance with financial-related legal and contractual provisions.

CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013

The following fund types and funds are used by the City:

Governmental Funds

General Fund: The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Capital Project Fund: The Capital Project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items. The SPLOST fund is a major fund, which accounts for the special purpose local option sales tax proceeds collected to fund approved capital expenditures.

Proprietary Fund

Enterprise Fund: Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The water and sewer enterprise fund is a major fund, which accounts for the operations of the City's utility.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within thirty days after year-end, except property taxes which are considered available 60 days after year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, sanitation fees, sales tax, franchise fees, grants from other governments, and interest on investments are susceptible to accrual. Revenues from fines, forfeits and penalties become measurable and available when cash is received by the City and are recognized as revenue at that time.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

D. Assets, Liabilities and Equity

1. Cash and Investments

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

2. Receivables and Payables

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property taxes, grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are included in the Deferred Inflows of Resources section in the fund financial statements in accordance with the modified accrual basis of accounting. The Deferred Inflows of Resources include unavailable property taxes totaling \$117,547. Accounts receivable comprise the majority of proprietary fund receivables.

Trade receivables are shown net of an allowance for uncollectibles. The water and sewer enterprise fund allowance for uncollectibles is \$120,000 at December 31, 2013. The allowance for uncollectibles for sanitation, shown in the general fund, is \$22,000 at December 31, 2013.

**CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013**

Property taxes are assessed as of January 1 and taxes were levied on August 20, 2013. Tax bills were rendered on September 18, 2013 and are considered past due 60 days after the tax billing date at which time the applicable property is subject to lien and interest is assessed. Penalties are assessed 90 days after the due date (the date interest is assessed).

3. Inventories and Prepaid Items

The City does not maintain any significant inventories. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the enterprise funds represent cash and cash equivalents and investments set aside for repayment of deposits to utility customers or construction of system assets with impact fees.

5. Capital Assets

General Capital Assets are capital assets, which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. General infrastructure assets acquired prior to July 1, 2003 are not reported in the basic financial statements. Capital assets utilized by the proprietary fund are reported both in the business-type activities column of the government-wide statement of net position and in the respective fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are reported at their fair value as of the date received. The City maintains a capitalization threshold of five thousand dollars (\$5,000). The City is only required to report major general infrastructure assets prospectively. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. 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.

All capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business - Type Activities Estimated Lives
Utility Plant and Equipment	-	20-50 years
Buildings and Improvements	20-50 years	20-50 years
Improvements other than buildings	10-50 years	-
Machinery, Equipment & Vehicles	3-20 years	3-20 years

CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
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6. Compensated Absences

The City's policy is to permit employees to accumulate vacation leave, based on years of service, from 0 to 15 days per year. Employees may accumulate vacation time up to 240 hours and will be paid if employment is terminated. Each permanent employee also will accrue up to 10 days of personal leave per year, and may accumulate up to 240 hours. Personal leave not used at termination will not be paid to the employee. Personal leave or vacation can be used for credits towards retirement, however this time will not be paid to the employee. Vacation pay is accrued when incurred in the proprietary funds and reported as a fund liability. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Long-term Obligations

In the government-wide financial statements and proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, or business-type activities Statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. 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 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.

8. Equity Classifications

Equity is classified as net position and displayed in three components in the government-wide financial statements.

a. Net investment in capital assets consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

b. Restricted net position consist of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted net position consists of all other net position that does not meet the definition of "restricted" or "net investment in capital assets".

CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Fund balance is reported in the governmental funds financial statements and generally represents the difference between current assets and current liabilities. Fund balance classifications represent a hierarchy based primarily on the extent to which the City is bound to honor constraints on specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

a. Nonspendable – Fund balances are classified as nonspendable when amounts cannot be spent because they are either i) in nonspendable form or ii) they are legally or contractually required to be maintained intact. The City includes items that are not expected to be converted to cash such as inventories and prepaid amounts.

b. Restricted – Fund balances are reported as restricted when their use is restricted for specific purposes including i) constraints on funds externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or ii) constraints imposed by law through constitutional provisions or enabling legislation.

c. Committed – Fund balances are reported as committed if their use is for a specific purpose as approved by formal action by the City Council (majority vote). Amounts committed cannot be used for any other purpose unless the City Council removes or changes the specific use by approving such action through resolution at a City Council meeting. Budget resolutions are considered a plan for specific use.

d. Assigned – Fund balances are reported as assigned when constrained by the City's intent to use the funds for specific purposes that are neither restricted nor committed. Assigned fund balance includes i) all remaining amounts (except negative balances) reported in governmental funds, other than the General fund, that are not classified as nonspendable, restricted or committed, and ii) amounts in the General Fund intended for a specific use identified by the City Council, and iii) amounts appropriated to eliminate a projected budget deficit in the subsequent year.

e. Unassigned – Fund balances are reported as assigned when the balances do not meet any of the above four criterion for classification. The City reports positive unassigned fund balance in only the General Fund. Negative unassigned fund balances may be reported in all governmental funds.

For purposes of fund balance disbursement, unless otherwise approved by City Council, the City will expend restricted fund balance when an expenditure is incurred for which both restricted and unrestricted fund balance is available. Next the City will expend committed fund balance when an expenditure is paid for which unrestricted fund balance is available. The City would next disburse fund balance assigned for purposes of the fund before disbursing other assigned fund balance amounts. In the General Fund, the City would disburse unassigned fund balance prior to disbursing fund balance assigned for financial policy reserve levels or amounts assigned to eliminate subsequent year's budget deficit.

CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013

E. Revenues, Expenditures and Expenses

1. Operating and Non-operating Revenues and Expenses

Operating revenues and expenses for the proprietary fund are those that result from providing services and producing and delivering goods and or services. Also included are all revenues and expenses not related to capital and related financing, non-capital financing, or investing activities. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, the City's policy is to use restricted resources first, then unrestricted resources as needed.

2. Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for governmental activities. Administrative overhead charges are made to various functions and are included in direct expenses. In the fund financial statements, governmental fund expenditures are classified as by character i.e. current (further classified by function), debt service, and capital outlay. Proprietary fund expenses are classified as operating and non-operating.

In the fund financial statements, governmental funds report expenditures of current financial resources. Proprietary funds report expenses relating to use of economic resources.

3. Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

4. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that may affect the amounts reported in the financial statements and the related notes. Accordingly, actual results could differ from these estimates.

**CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013**

NOTE 2. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS

A. Cash and Investments

General:

Individual bank accounts and investments are maintained in each fund of the City.

Deposits:

Custodial Credit Risk for deposits is the risk that, in the event of bank failure, a government's deposits may not be returned to it. At December 31, 2013 all of the City's deposits were either covered by federal depository insurance, a line of credit or collateralized by pledged collateral.

Georgia law governs collateral requirements and forms of collateral under O.C.G.A. Section 45-8-12 which is incorporated by reference within the City's Investment Policy. The City has no custodial credit risk policies requiring additional collateral. In summary, Georgia law states:

- All deposits shall be collateralized within 10 days of deposit by a surety bond, a guarantee of insurance, or collateral.
- The face value of any surety bond, guarantee of insurance or collateral shall be at least 110% of the public funds being secured, net of deposit insurance.
- If a depository elects the pooled method (O.C.G.A. Section 45-8-13.11), the aggregate market value of pledged securities may not be less than 110% of the daily pool balance.

Authorized security for deposits enumerated under law includes surety bonds, FDIC insurance, obligations of the United States or the State of Georgia, obligations of Georgia counties or municipalities, bonds of any Georgia public authority, industrial revenue bonds of any Georgia development authority, and obligations of any subsidiary corporation of the United States government fully guaranteed by the United States (such as Federal Home Loan Bank, Federal National Mortgage Association, etc).

Investments:

In its investment of public funds, the City follows state statutes and adopted investment policies. As of December 31, 2013 the investments of the City were:

Investment	Average Credit Rating	Fair Value	Average Maturity (Days)
Georgia Fund 1	AAAm	\$ 1,375,043	48

Under state law, investments of the City's public funds may be placed in obligations of (or obligations guaranteed by) the U.S. government, obligations of agencies of corporations in the U.S. government, obligations of any state or any political subdivision of any state, certificates of deposit or time deposits of financial institutions with deposits insured by FDIC, prime bankers acceptances, repurchase agreements, and the Georgia Fund 1. During the year the City invested public funds in the Georgia Fund 1.

CITY OF RICHMOND HILL
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The Georgia Fund 1 is considered to be a 2a7-like-pool that operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Georgia Fund 1 was created under O.C.G.A. 36-83-8 and is managed by the State of Georgia's Office of State Treasurer. The pool is not registered with the SEC as an investment company. The fair value of the pool is the same as the value of the pool shares. As a public fund, Georgia Fund 1 is exempt from any disclosure of custodial credit risk.

Deposit and investment transactions are subject to a variety of risks. The City seeks to promote the safety of principal, provide adequate liquidity for operational needs, earn market rates of return on investments consistent with liquidity needs and investment quality, and conform with legal requirements.

Interest rate risk is the risk that changes in interest rates that will adversely affect the value of an investment. The City's policy is that not more than 25% of the total portfolio may mature more than 1 year beyond the date of calculation.

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The City does not have a policy that addresses this risk.

Deposits and investments are reconciled between the financial statements and note disclosure as follows:

Reconciliation of financial statements to note:

Basic financial statements:

Cash and investments	\$ 7,485,619
Restricted cash	1,842,653
Total	<u>\$ 9,328,272</u>

Carrying Value:

Deposits	\$ 7,953,229
Investments	1,375,043
Total	<u>\$ 9,328,272</u>

B. Accounts Receivable

Receivables as of year-end for the government's individual major funds and non-major funds in the aggregate including the applicable allowance for uncollectible accounts are as follows:

Receivables:	Less:					
	Taxes	Intergovernmental	Accounts Receivable	Gross Receivables	Allowance for uncollectables	Net Receivables
General	\$ 276,007	\$ 949,795	\$ 628,015	\$ 1,853,817	\$ (89,601)	\$ 1,764,216
SPLOST		165,226		165,226		165,226
Non-major governmental	-	-	46,724	46,724	-	46,724
Water and Sewer	-	27,378	1,214,123	1,241,501	(120,000)	1,121,501
Total	<u>\$ 276,007</u>	<u>\$ 1,142,399</u>	<u>\$ 1,888,862</u>	<u>\$ 3,307,268</u>	<u>\$ (209,601)</u>	<u>\$ 3,097,667</u>

Substantially all receivables are expected to be collected within one year.

CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013

C. Capital Assets

Capital asset activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<i>Non-Depreciable Assets:</i>				
Land	\$ 2,082,956	\$ 175,000	\$ -	\$ 2,257,956
Construction in Progress	241,794	621,526	863,320	-
<i>Depreciable Assets:</i>				
Buildings and Improvements	8,769,082	926,762	-	9,695,844
Infrastructure and other structures	10,953,647	589,272	-	11,542,919
Machinery, Equipment & Vehicles	4,488,330	186,915	175,497	4,499,748
	<u>26,535,809</u>	<u>2,499,475</u>	<u>1,038,817</u>	<u>27,996,467</u>
<i>Accumulated Depreciation:</i>				
Buildings and Improvements	(1,757,048)	(292,707)	-	(2,049,755)
Infrastructure and other structures	(1,096,965)	(309,795)	-	(1,406,760)
Machinery, Equipment & Vehicles	(3,488,267)	(308,467)	(175,497)	(3,621,237)
	<u>(6,342,280)</u>	<u>(910,969)</u>	<u>(175,497)</u>	<u>(7,077,752)</u>
Total Governmental Activities	<u>20,193,529</u>	<u>1,588,506</u>	<u>863,320</u>	<u>20,918,715</u>
Business-Type Activities:				
<i>Non-Depreciable Assets:</i>				
Land	1,100,329	-	-	1,100,329
Construction in Progress	2,108,864	1,916,785	1,834,108	2,191,541
<i>Depreciable Assets:</i>				
Utility Plant and Equipment	21,738,699	1,918,321	-	23,657,020
Buildings	124,464	-	-	124,464
Machinery, Equipment & Vehicles	683,973	-	3,000	680,973
	<u>25,756,329</u>	<u>3,835,106</u>	<u>1,837,108</u>	<u>27,754,327</u>
<i>Accumulated Depreciation:</i>				
Utility Plant and Equipment	(5,559,063)	(559,842)	-	(6,118,905)
Buildings	(100,713)	(7,918)	-	(108,631)
Machinery, Equipment & Vehicles	(527,355)	(54,481)	(3,000)	(578,836)
	<u>(6,187,131)</u>	<u>(622,241)</u>	<u>(3,000)</u>	<u>(6,806,372)</u>
Total Business-Type Activities	<u>19,569,198</u>	<u>3,212,865</u>	<u>1,834,108</u>	<u>20,947,955</u>
Total Capital Assets	<u>\$39,762,727</u>	<u>\$ 4,801,371</u>	<u>\$ 2,697,428</u>	<u>\$41,866,670</u>

The beginning land balance was reduced by \$79,864 due to an amendment to the sales price and capital lease amount.

Depreciation expense was charged to governmental activities as follows:

General Government	\$ 53,305
Public Safety	233,591
Public Works	361,406
Culture and Recreation	90,206
Development	172,461
Total depreciation	<u>\$ 910,969</u>

CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
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The City has active construction projects as of year-end. The City's major commitments are as follows:

	Contract Balance
Water & Sewer	\$ 446,398
Total	\$ 446,398

D. Interfund Transactions and Balances

Interfund receivable and payable balances at December 31, 2013 are as follows:

Receivable Fund	Payable Fund	Amount
General	Non-major governmental	\$ 20,021
General	SPLOST	163,896
Non-major governmental	Non-major governmental	24,583
Total fund financial statements		\$ 208,500

These balances represent loans between the borrower fund and the lender fund. These balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made. Interfund receivables and payables are reported in the fund financial statements; however, they are eliminated in the government-wide financial statements if the interfund loan is between governmental funds.

A summary of interfund transfers by fund type is as follows:

Transfer from	Transfer to	Amount
Non-major governmental	General	\$ 238,838
Non-major governmental	Non-major governmental	159,301
Total fund financial statements		\$ 398,139

Interfund 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, 2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers are eliminated in the government-wide financial statements if the interfund transfer is within the governmental fund group.

**CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013**

E. Long-term receivables

On June 7, 2005, the City entered into an Intergovernmental Agreement with Bryan City, Georgia to construct a water and sewer line extension from the City's current water and sewer lines to the newly constructed City Sheriff's Complex. The City financed the water and sewer line extension project with a GEFA loan. The intergovernmental agreement stipulated that the County would reimburse the City for the cost of the extension project, upon completion of the project. The project was completed at a cost of \$680,710 that will be repaid in monthly installments of \$4,175 over 20 years at an interest rate of 4.13%.

The following is the repayment schedule:

Year	Principal	Interest	Total
2014	\$ 27,378	\$ 22,726	\$ 50,104
2015	28,533	21,571	50,104
2016	29,737	20,367	50,104
2017	30,993	19,111	50,104
2018	32,300	17,804	50,104
2019-2023	183,129	67,392	250,521
2024-2028	225,165	25,358	250,523
2029	4,161	14	4,175
Total Intergovernmental Receivable	<u>561,396</u>	<u>\$ 194,343</u>	<u>\$ 755,739</u>
Less: Current Portion	<u>(27,378)</u>		
Long-term Intergovernmental Receivable	<u>\$ 534,018</u>		

F. Leases

Capital Leases: The City has entered into lease agreements as lessee for financing the acquisition of land, buildings, vehicles, and other equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, the assets have been recorded at the present value of the future minimum lease payments as of the inception date in the general capital assets.

The assets acquired through capital leases are as follows:

Asset Class	Governmental Activities
Machinery and equipment	\$ 74,595
Less: accumulated depreciation	(63,938)
Total	<u>\$ 10,657</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2013, were as follows:

Year Ending December 31	Governmental Activities
2014	\$ 11,909
2015	11,909
Total minimum lease payments	<u>23,818</u>
Less: amount representing interest	853
Present value of minimum lease payments	<u>\$ 22,965</u>

CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013

G. Long-term Liabilities

Changes in Long-term Liabilities:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Compensated absences	\$ 121,281	\$ 133,593	\$ 121,327	\$ 133,547	\$ 70,781
Contractual obligation	3,882,376	3,847,000	4,033,160	3,696,216	266,679
Notes	-	810,000	6,872	803,128	42,079
Capital leases	572,000	-	549,035	22,965	11,295
Total Governmental Activities	<u>\$4,575,657</u>	<u>\$4,790,593</u>	<u>\$4,710,394</u>	<u>\$4,655,856</u>	<u>\$ 390,834</u>
Business-Type Activities:					
Compensated absences	\$ 6,142	\$ 6,514	\$ 5,170	\$ 7,486	\$ 3,968
Revenue bonds	28,000	-	28,000	-	-
GEFA loans	6,512,315	1,619,710	428,085	7,703,940	442,254
Total Business-Type Activities	<u>\$6,546,457</u>	<u>\$1,626,224</u>	<u>\$ 461,255</u>	<u>\$7,711,426</u>	<u>\$ 446,222</u>

The beginning capital lease balance was reduced by \$79,864 due to an amendment to the sales price which resulted in a reduction to the capital lease amount.

For the governmental activities, long-term liabilities are generally liquidated by the general fund. For business-type activities, long-term liabilities are liquidated by the water and sewer enterprise fund.

CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013

Governmental Activities:

Contractual Obligations: In 2013, the City entered into a contractual obligation with the Richmond Hill Area Convention and Visitors Bureau Authority (Authority), a discretely presented component unit of the City, related to the Richmond Hill Area Convention and Visitors Bureau Authority Refunding Revenue Bond (City Center Project), Series 2013 to make payments to the Authority sufficient to pay, when due, the principal of and interest on the Bond. The Bonds are limited obligations of the Authority, payable from payments made by the City to the Authority under the contractual obligation. The City is unconditionally obligated to make the payments required. The obligation of the City to make payments constitutes a general obligation of the City for which the full faith and credit of the City is pledged. A bank purchased the bonds in a private placement in the principal amount of \$3,847,000 at a rate of 3.55 percent and maturity of 12 years. The proceeds of the bond sale were used to currently refund the RHCVB Authority Revenue Bonds, Series 2009, which had a principal balance of \$3,832,707 and to cover accrued interest. The refunding was undertaken to reduce total future debt service payments in the amount of \$737,468.

The bond debt service requirements based on the amount drawn of \$3,847,000 are as follows:

Year	Principal	Interest	Total
2014	\$ 266,679	\$ 128,659	\$ 395,338
2015	276,438	118,901	395,339
2016	286,238	109,100	395,338
2017	297,027	98,311	395,338
2018	307,897	87,442	395,339
2019-2023	1,716,746	259,944	1,976,690
2024-2028	545,191	14,871	560,062
Total	<u>\$ 3,696,216</u>	<u>\$ 817,228</u>	<u>\$ 4,513,444</u>

Notes: On October 9, 2013, the City entered into an installment sales agreement for the purchase of land and buildings for use as a vehicle maintenance facility. According to the agreement, the interest in the facility will be transferred to the seller in the event of default or non-appropriation by the City. The \$810,000 in note proceeds were used for the cost of the above property. The note has an interest rate of 3.49% with a maturity date of October 9, 2028.

The note debt service requirements based on the amount of \$810,000 are as follows:

Year	Principal	Interest	Total
2014	\$ 42,079	\$ 27,602	\$ 69,681
2015	43,571	26,110	69,681
2016	45,116	24,565	69,681
2017	46,716	22,965	69,681
2018	48,372	21,309	69,681
2019-2023	268,845	79,559	348,404
2024-2028	308,429	28,361	336,790
Total	<u>\$ 803,128</u>	<u>\$ 230,471</u>	<u>\$ 1,033,599</u>

**CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013**

Business-Type Activities:

Revenue Bonds: The resolutions under which the bond series were issued provide that principal and interest are to be paid solely from the revenues of the system, which are pledged for that purpose. The bonds were liquidated during 2013.

Georgia Environmental Facilities Authority (GEFA) Loans: The City has obtained four GEFA loans for the development and expansion of its water and sewer systems and for the construction of the wastewater treatment facility and for a Floridian Aquifer well. The City has pledged its full faith and credit and revenue-raising power including its taxing power, for repayment of these obligations. The City has two loans in the construction phase. The Pump Station Rehabilitation and Energy Efficiency Upgrades and the Force Main Replacement loan (CWSRF-09-095) has a total project amount of \$3,187,500. Of this amount, \$2,500,000 is the loan portion. The City has expended \$3,161,294 on the project of which \$2,445,070 is the construction loan amount. The Construction of a new wastewater treatment facility and all necessary appurtenances loan (CWSRF-10-008) has a total project amount of \$4,000,000. Of this amount, \$3,500,000 is the loan portion. The City has expended \$1,562,279 on the project of which \$1,366,995 is the construction loan amount. The City incurred interest cost of \$229,690, of which \$71,518 was capitalized.

On February 1, 2011, the City approved a resolution for \$20 million to finance wastewater treatment plant and infrastructure upgrades of the Water and Sewer fund as part of a loan application submitted to Georgia Environmental Financing Agency (GEFA). During 2013, GEFA approved \$10 million of the \$20 million application; however, no draws were made.

The loans outstanding at year end are as follows:

Purpose	Original Issue	Interest Rate	Loan Payable
GEFA-Water and Sewer Expansion	\$ 225,470	4.24%	\$ 91,686
GEFA-Wastewater Treatment Facility and Improvements	4,924,203	3.00%	1,281,355
GEFA-Water and Sewer Lower Floridan Well, Tank and Water Main Extension	3,376,000	4.00%	2,518,834
GEFA- Pump Station Rehab- ilitation and Force Main Replacement - Construction Loan	2,500,000	3.00%	2,445,070
GEFA- Construction of new wastewater treatment facility and all necessary appurtenances	3,500,000	3.00%	1,366,995
Total loans			<u>7,703,940</u>
Less: current portion			442,254
Total long-term debt			<u><u>\$7,261,686</u></u>

**CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013**

GEFA loans debt service requirements to maturity are as follows:

Year	Principal	Interest	Total
2014	\$ 442,254	\$ 140,415	582,669
2015	457,283	125,385	582,668
2016	472,806	109,862	582,668
2017	488,953	93,716	582,669
2018	160,505	80,936	241,441
2019-2023	842,170	302,117	1,144,287
2024-2028	1,009,803	113,513	1,123,316
2029	18,101	63	18,164
Construction loan	3,812,065	-	3,812,065
Total	<u>\$ 7,703,940</u>	<u>\$ 966,007</u>	<u>\$ 8,669,947</u>

H. Segments of Enterprise Activities

Because the Water and Sewer Fund is a segment and is reported as a major fund in the fund financial statements, segment disclosures herein are not required.

I. Fund Balances/Restricted Net position

1. As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent which the City is bound to constraints on the specific purposes for which amounts in the funds can be spent. Fund balances for all the major and nonmajor funds were distributed as follows:

	General Fund	SPLOST	Other Governmental Funds	Total Governmental Funds
Fund Balances:				
Restricted for:				
Public Safety	\$ -	\$ -	\$ 2,757	\$ 2,757
Trade shows and conferences	-	-	163,400	163,400
Construction and capital outlay	-	901,259	-	901,259
Unassigned:	4,035,439	-	-	4,035,439
Total Fund Balances	<u>\$ 4,035,439</u>	<u>\$ 901,259</u>	<u>\$ 166,157</u>	<u>\$ 5,102,855</u>

Of the unassigned fund balance in the general fund, \$234,023 has been designated as an economic uncertainty reserve.

**CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013**

2. *Net Investment in Capital Assets* – The amounts are calculated as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net Capital Assets	\$ 20,918,715	\$ 20,947,955
Capital related debt	(4,522,309)	(7,146,423)
Net investment in capital assets	<u>\$ 16,396,406</u>	<u>\$ 13,801,532</u>

3. Restrictions of net position are used to indicate a portion of net position that has constraints placed on the use either by external groups or law. The City uses the following restrictions of net position:

Governmental Activities

Restricted for capital projects – This restriction represents amounts to be used for capital project expenditures as legally restricted through public referendum or contractual obligation.

Restricted for other purposes – This restriction represents \$166,157 in the nonmajor special revenue funds.

Business-type Activities

Reserves and restrictions are used to indicate a portion of the fund balance or net position is legally segregated for a specific future use. The City uses the following reserves/restrictions:

Restricted for system construction – Water and Sewer Enterprise Fund – This restriction (\$1,021,780) represents funds to be used for water and sewer system construction.

CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013

NOTE 3. OTHER INFORMATION

A. Employee Pension Plan

Plan Description. The City of Richmond Hill Pension Plan, covering all full-time employees, has a noncontributory plan for class 0 and 1 employees; however, employees who have elected for the enhanced retirement option must contribute 3% of their salary to the plan. These employees are considered class 2 and 3. Effective February 1, 2008, new hires and re-hired regular employees will be required to make contributions. Class 1 and 2 employees are police officers who do not contribute to social security under the plan provisions. Class 0 and 3 employees are all other employees of the City. The employees contributed \$81,127 to the plan during 2013.

The plan is administered by the Georgia Municipal Employees Benefit System (GMEBS), a state-wide, agent multiple-employer defined benefit plan. GMEBS handles all administrative and investment functions relative to the plan.

Benefits are fully vested after 5 years of service. Participants become eligible to retire at age 65, with 5 years or age 55 with 25 years of participation in the plan (or at age 55 with 5 years of service with reduced benefits). Upon eligibility to retire, participants are entitled to an annual benefit in the amount of 1.25% of final average earnings up to a participant's amount of covered compensation, plus 2.00% of final average earnings in excess of the participant's covered compensation, all multiplied by the participant's years of total credited service. If the participant is a police officer the participant is entitled to an annual benefit in the amount of 2.00% of final average earnings times the participant's years of total credited service. If the participant has elected the enhanced retirement option, participants are entitled to an annual benefit in the amount of 1.48% of final average earnings up to a participant's amount of covered compensation, plus 2.36% of final average earnings in excess of the participant's covered compensation, all multiplied by the participant/s years of total credited service. If the participant is a police officer who has elected the enhanced retirement option, the participant is entitled to an annual benefit in the amount of 2.4% of final average earnings times the participant's years of total credited service. These benefit provisions and all other requirements are established or amended by local ordinance.

The GMEBS issues a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained by writing to GMEBS, 201 Pryor St. S.W., Atlanta, Georgia 30303.

CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013

Funding Policy: The City's policy is to contribute the actuarially determined amount as recommended by GMEBS. The Board of Trustees of GMEBS has adopted an actuarial funding policy for determination of annual contributions and the systematic funding of liabilities arising under the plan. The annual recommended contribution is the sum of 1) the normal cost, 2) the closed level dollar amortization of the unfunded actuarial accrued liability over a period that ranges from 10 to 30 years based on the funding policy adopted by the GMEBS Board of Trustees, and 3) interest on these amounts from the valuation date to the date contributions are paid (assumed monthly). Well-funded plans may have a full credit applied to reduce the recommended contributions. This credit insures that contributions are not required if a plan's assets exceed the present value of future benefits. The recommended contributions under this policy for 2013 and 2012 are developed below.

	<u>2013</u>	<u>2012</u>
Normal Cost		
Plan Benefits	\$ 269,461	\$ 256,520
Administrative Expenses	18,006	16,900
Expected employee contributions	<u>(49,221)</u>	<u>(46,678)</u>
Employer normal cost	238,246	226,742
Amortization of the Unfunded Actuarial		
Accrued Liability	53,445	74,552
Adjustment to fiscal year	11,092	11,457
Recommended Contribution	<u>\$ 302,783</u>	<u>\$ 312,751</u>
Covered Payroll	<u>\$ 2,825,700</u>	<u>\$ 2,632,601</u>
Recommended Contribution as a Percentage of Covered Payroll	10.5%	11.7%

The above contributions meet the estimated minimum annual contribution under Public Retirement Systems Standards Law (Georgia Code Section 47-20-10).

Annual Pension Cost. For 2013, the City's annual pension cost of \$312,751 was equal to the City's required and actual contributions. The required contribution was determined as a part of the July 1, 2012 actuarial valuation using the projected unit credit actuarial cost method and the asset valuation method for developing the actuarial value of assets as described in the tables of Significant Actuarial Assumptions and Actuarial Assumptions and Methods. The period, and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years from 1984 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.

**CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013**

Significant Actuarial Assumptions

The significant actuarial assumptions used to compute the actuarial accrued liability and the annual recommended contribution of the plan meet the Actuarial Standard of Practice No. 4, Measuring Pension Obligations, establishing generally accepted actuarial principles and practices.

The significant actuarial assumptions used in the current valuation are:

rate of return on investment	7.75% per year
projected salary increases for	
-- inflation	3.5% per year
post retirement benefit increases	3.5% per year

Actuarial Assumptions and Methods

Economic Assumptions

Interest Rate:	
On-going plan basis	7.75%
Plan termination basis	3.80%
Annual Rates of increase in:	
Salaries	
Plus age and service based merit increases	3.50%
Future Social Security Wage Bases	3.50%
Inflation Rate and Cost of living adjustment	3.50%

Demographic Assumptions

Mortality:	
On-going plan basis	RP-2000 Combined Mortality Table
Plan termination basis	1994 Group Annuity Reserving Unisex Table
Disability	RP-2000 Disabled Retiree Mortality Table
Retirement	Employees: Earlier of 65 with 5 years of service and 60 with 25 years of service. Officials: Earlier of 65 and 60 with 25 years of service.
Form of Payment	Life annuity
Administrative Expenses	\$7,000 plus \$65 per participant, plus 0.05% of the market value of assets, plus \$10 per participant for electronic maintenance of employee contributions.

Actuarial Methods

Normal Cost and Actuarial Accrued Liability	Projected Unit Credit Cost Method
---	-----------------------------------

Actuarial Value of Assets:

The actuarial value of assets is calculated by adding the sum of the actuarial value at the beginning of the year and the cash flow during the year plus the assumed investment return, adjusted by 10 percent of the amount that the value exceeds or is less than the market value at the end of the year. The actuarial value is adjusted, if necessary, to be within 50% of market value of 2009, 44% of market value for 2010, 38% of market value for 2011, 32% of market value for 2012, 26% of market value for 2013, and 20% of market value for 2014 and later years.

**CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013**

Plan Changes:

There were no significant changes in methods or assumptions from the prior valuation.

Three-Year Trend Information

Fiscal Year Funding	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2011	\$ 316,551	100%	-
12/31/2012	297,262	100%	-
12/31/2013	312,751	100%	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability [AAL] --Entry Age (b)	Unfunded AAL [UAAL] (Funding Excess) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
10/1/2009	\$ 3,032,220	\$ 4,100,573	\$1,068,353	73.9%	\$ 2,297,510	46.5%
7/1/2010	3,477,765	3,941,248	463,483	88.2%	2,330,729	19.9%
7/1/2011	4,081,419	4,516,669	435,250	90.4%	2,560,448	17.0%
7/1/2012	4,630,993	5,156,177	525,184	89.8%	2,632,601	19.9%
7/1/2013	5,251,082	5,627,574	376,492	93.3%	2,825,700	13.3%

B. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation for which the City carries the following insurance coverage. There were no significant reductions of insurance coverage compared to the prior year. The City utilizes Lion Insurance Company for its workers compensation insurance. The City makes monthly payments to the company based on industry actuarial projections. An annual workers compensation audit is performed by the carrier which can either result in a refund of premium or additional charge over the base premium. No amount has been recorded in the financial statements as a contingency for additional assessments as management believes the likelihood for a substantial surcharge is remote. Settled claims have not exceeded coverage in any of the past three fiscal years.

Risk Pools

The City joined the Georgia Interlocal Risk Management Agency (GIRMA). Insurance coverage and deductible options for property, casualty and crime under the policy are selected by City's management based on the anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed by GIRMA, as well as following loss reduction and prevention procedures established by GIRMA. GIRMA's responsibility includes paying claims, and representing the City in defense and settlement of claims. GIRMA's basis for estimating the liabilities for unpaid claims is "IBNR" established by an actuary. The City has not compiled a record of the claims paid up to

CITY OF RICHMOND HILL
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2013

the applicable deductible for the prior year or the current fiscal year. The City is unaware of any claims which the City is liable (up to the applicable deductible) which were outstanding and unpaid at December 31, 2013. No provisions have been made in the financial statements for the year ended December 31, 2013 for any estimate of potential unpaid claims.

Self Insurance

The City pays unemployment claims to the state department of labor on a reimbursement basis. Liabilities for such claims are immaterial and are not accrued.

C. Commitments and Contingencies

The City receives a number of grants which are subject to program compliance audits by the grantors. Noncompliance with the terms and provisions of these grant agreements could result in contingent liabilities to the grantor agencies.

The City's attorney reported that there are no claims pending against the City. The City estimates the potential claims, if any, not covered by insurance would not be material.

Contractual Obligations:

The City has contracted with Braddy Enterprises Public Works Division, LLC for the operation of its water and sewer systems and for the operation of its public works department.

D. Subsequent Events

On March 18, 2014, the City awarded a contract for the construction of the wastewater treatment plant in the amount of \$22,365,000. A majority of the funding for this project will come from GEFA loans.

REQUIRED SUPPLEMENTARY INFORMATION OTHER
THAN MANAGEMENT'S DISCUSSION & ANALYSIS

CITY OF RICHMOND HILL, GEORGIA
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 December 31, 2013

A. Budgets and Budgetary Accounting

State law requires that the City adopt by ordinances or resolutions an annual balanced budget for its general fund and special revenue funds for the upcoming fiscal year (December 31). A budget is balanced when the sum of estimated revenues and appropriated fund balance is equal to appropriations. The legal level of budgetary control over expenditures is exercised by the City at the department level for its general and special revenue funds. Appropriations lapse at year-end.

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

Prior to year-end, the City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

1. Public hearings are conducted at the City Courthouse to obtain taxpayer comments.
2. Prior to January 1, the budget is legally enacted through approval by the City Council.
3. Budgets for the general fund and all special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Project length budgets are adopted for the capital projects funds.

The City Council has the authority to amend its budget as follows:

Any increase in appropriation in any fund for a department, whether accomplished through a change in anticipated revenues in any fund or through a transfer of appropriations among departments, shall require the approval of the City Council.

Supplemental increases in budget appropriations were properly approved by the City Council. For the year ended December 31, 2013, the following supplemental appropriations were approved:

<u>Fund Type</u>	<u>Original Appropriations</u>	<u>Supplemental Appropriations</u>	<u>Supplemental Decreases</u>	<u>Final Appropriations</u>
General	<u>\$ 7,885,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,885,000</u>

B. Excess of Expenditures Over Appropriation in Individual Funds

<u>Fund</u>	<u>Department</u>	<u>Unfavorable Variance</u>
General	Finance	\$ (11,929)
General	Fire Protection	(25,977)
General	Park	(43,524)
General	Debt Service	(85,775)

CITY OF RICHMOND HILL, GEORGIA

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
RESOURCES (Inflows):				
Taxes	\$ 5,846,000	\$ 5,846,000	\$ 5,793,410	\$ (52,590)
Licenses and permits	268,000	268,000	218,360	(49,640)
Intergovernmental revenues	-	-	4,453	4,453
Charges for services	835,000	835,000	817,674	(17,326)
Fines and forfeitures	690,500	690,500	609,301	(81,199)
Investment income	15,000	15,000	11,600	(3,400)
Miscellaneous revenue	5,500	5,500	10,516	5,016
Transfers in	225,000	225,000	238,838	13,838
Total revenues	7,885,000	7,885,000	7,704,152	(180,848)
CHARGES TO APPROPRIATIONS (Outflows)				
Current				
City council	50,200	50,200	47,135	3,065
General administration	817,366	817,366	759,169	58,197
Finance department	199,600	199,600	211,529	(11,929)
General government buildings	35,000	35,000	33,987	1,013
Municipal court	40,000	40,000	35,586	4,414
Police department	2,753,777	2,753,777	2,649,245	104,532
Custody of prisoners	15,000	15,000	10,582	4,418
Fire protection	665,062	665,062	691,039	(25,977)
Streets	1,355,000	1,355,000	1,329,480	25,520
Sanitation	785,000	785,000	751,375	33,625
Building inspection	609,034	609,034	595,300	13,734
Code enforcement	13,325	13,325	11,854	1,471
Special recreation projects	25,000	25,000	23,548	1,452
Park	358,925	358,925	402,449	(43,524)
Total Expenditures	7,722,289	7,722,289	7,552,278	170,011
Debt service				
Principal	128,010	128,010	216,930	(88,920)
Interest and fiscal agent fees	34,701	34,701	31,556	3,145
Total Debt Service	162,711	162,711	248,486	(85,775)
Transfers to other funds	-	-	-	-
Total charges to appropriations	7,885,000	7,885,000	7,800,764	84,236
Excess (deficiency) of resources over charges to appropriations	-	-	(96,612)	(96,612)
Fund balance allocation	-	-	96,612	96,612
Excess (deficiency) of resources over charges to appropriations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

COMBINING FUND FINANCIAL STATEMENTS AND
SCHEDULES AND OTHER SUPPLEMENTARY
INFORMATION

Non-major Funds

Non-major Governmental Funds

Special Revenue Funds:

The Special Revenue Funds are used to account for proceeds of specific revenue sources (other than expendable trusts, or for major capital projects) that are legally restricted to expenditure for specified purposes.

Confiscated Assets Fund – accounts for receipt of condemned monies awarded to the County by court order and expenditures of these funds.

Hotel/Motel Tax Fund – accounts for the hotel/motel taxes collected.

City Center Fund – accounts for operations of the City Center. Transfers from the hotel/motel tax fund provide the primary financing source for this fund. Expenditures of these funds are for the operations of the City Center which provides for conventions and trade show purposes.

CITY OF RICHMOND HILL, GEORGIA
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2013

Special Revenue Funds

	Confiscated Assets	Hotel/Motel Tax	City Center Fund	Total
ASSETS				
Cash and cash equivalents	\$ 6,906	\$ 22,458	\$ 138,817	\$ 168,181
Receivables	-	46,724	-	46,724
Due from other funds	-	-	24,583	24,583
Total assets	<u>\$ 6,906</u>	<u>\$ 69,182</u>	<u>\$ 163,400</u>	<u>\$ 239,488</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 4,149	\$ 24,578	\$ -	\$ 28,727
Due to other funds	-	44,604	-	44,604
Total liabilities	<u>4,149</u>	<u>69,182</u>	<u>-</u>	<u>73,331</u>
Fund balances:				
Restricted	<u>2,757</u>	<u>-</u>	<u>163,400</u>	<u>166,157</u>
Total fund balances	<u>2,757</u>	<u>-</u>	<u>163,400</u>	<u>166,157</u>
Total liabilities and fund balances	<u>\$ 6,906</u>	<u>\$ 69,182</u>	<u>\$ 163,400</u>	<u>\$ 239,488</u>

CITY OF RICHMOND HILL, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2013

	Special Revenue Funds			
	Confiscated Assets	Hotel/Motel Tax	City Center Fund	Total
REVENUES				
Taxes	\$ -	\$ 557,384	\$ -	\$ 557,384
Fines and forfeitures	3,597	-	-	3,597
Investment	-	-	273	273
Miscellaneous	2	-	1	3
Total revenues	<u>3,599</u>	<u>557,384</u>	<u>274</u>	<u>561,257</u>
EXPENDITURES				
Current:				
Public Safety	14,605	-	-	14,605
Housing and Development	-	159,245	119,578	278,823
Debt Service:				
Interest and other charges	-	-	45	45
Total expenditures	<u>14,605</u>	<u>159,245</u>	<u>119,623</u>	<u>293,473</u>
Excess (deficiency) of revenues over expenditures	<u>(11,006)</u>	<u>398,139</u>	<u>(119,349)</u>	<u>267,784</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	159,301	159,301
Transfers out	-	(398,139)	-	(398,139)
Total other financing sources and uses	<u>-</u>	<u>(398,139)</u>	<u>159,301</u>	<u>(238,838)</u>
Net change in fund balances	(11,006)	-	39,952	28,946
Fund balances - beginning	<u>13,763</u>	<u>-</u>	<u>123,448</u>	<u>137,211</u>
Fund balances - ending	<u>\$ 2,757</u>	<u>\$ -</u>	<u>\$ 163,400</u>	<u>\$ 166,157</u>

CITY OF RICHMOND HILL, GEORGIA
 BUDGETARY COMPARISON SCHEDULE
 SPECIAL REVENUE FUND – CONFISCATED ASSETS
 FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Fines and forfeitures				
Fines and forfeitures	\$ 10,000	\$ 10,000	\$ 3,599	\$ (6,401)
Total fines and forfeitures	<u>10,000</u>	<u>10,000</u>	<u>3,599</u>	<u>(6,401)</u>
TOTAL REVENUES	<u>10,000</u>	<u>10,000</u>	<u>3,599</u>	<u>(6,401)</u>
EXPENDITURES				
Current				
Police department	10,000	10,000	14,605	(4,605)
TOTAL EXPENDITURES	<u>10,000</u>	<u>10,000</u>	<u>14,605</u>	<u>(4,605)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>(11,006)</u>	<u>(11,006)</u>
Fund balance at beginning of year	<u>13,763</u>	<u>13,763</u>	<u>13,763</u>	<u>-</u>
Fund balance at end of year	<u>\$ 13,763</u>	<u>\$ 13,763</u>	<u>\$ 2,757</u>	<u>\$ (11,006)</u>

CITY OF RICHMOND HILL, GEORGIA
 BUDGETARY COMPARISON SCHEDULE
 SPECIAL REVENUE FUND – HOTEL/MOTEL TAX
 FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes				
Hotel/motel	\$ 519,000	\$ 519,000	\$ 557,384	\$ 38,384
Total taxes	519,000	519,000	557,384	38,384
TOTAL REVENUES	519,000	519,000	557,384	38,384
EXPENDITURES				
Current				
Housing and Development	150,000	150,000	159,245	(9,245)
TOTAL EXPENDITURES	150,000	150,000	159,245	(9,245)
Excess revenues over (under) expenditures	369,000	369,000	398,139	29,139
OTHER FINANCING SOURCES (USES)				
Transfers out	(369,000)	(369,000)	(398,139)	(29,139)
TOTAL OTHER FINANCING SOURCES (USES)	(369,000)	(369,000)	(398,139)	(29,139)
Net change in fund balance	-	-	-	-
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF RICHMOND HILL, GEORGIA
 BUDGETARY COMPARISON SCHEDULE
 SPECIAL REVENUE FUND – CITY CENTER FUND
 FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment income	\$ -	\$ -	\$ 273	\$ 273
Miscellaneous	-	-	1	1
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>274</u>	<u>274</u>
EXPENDITURES				
Current				
Housing and Development	144,000	144,000	119,578	24,422
Debt Service				
Principal	155,800	155,800	-	155,800
Interest	164,000	164,000	45	163,955
TOTAL EXPENDITURES	<u>463,800</u>	<u>463,800</u>	<u>119,623</u>	<u>344,177</u>
Excess revenues over (under) expenditures	<u>(463,800)</u>	<u>(463,800)</u>	<u>(119,349)</u>	<u>344,451</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	463,800	463,800	159,301	(304,499)
TOTAL OTHER FINANCING SOURCES (USES)	<u>463,800</u>	<u>463,800</u>	<u>159,301</u>	<u>(304,499)</u>
Net change in fund balance	-	-	39,952	39,952
Fund balance at beginning of year	123,448	123,448	123,448	-
Fund balance at end of year	<u>\$ 123,448</u>	<u>\$ 123,448</u>	<u>\$ 163,400</u>	<u>\$ 39,952</u>

COMPONENT UNIT

CITY OF RICHMOND HILL, GEORGIA

BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNIT –
CONVENTION AND VISITORS' BUREAU AUTHORITY

DECEMBER 31, 2013

ASSETS

Cash and cash equivalents	\$ 59,286
Receivables	29,439
Prepays	10,446
Total assets	<u>\$ 99,171</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable	\$ 968
Total liabilities	<u>968</u>

Fund balances:

Nonspendable	10,446
Restricted	<u>87,757</u>
Total fund balances	<u>98,203</u>
Total liabilities and fund balances	<u>\$ 99,171</u>

Reconciliation of the Component Unit Balance Sheet to the Statement of Net Position

Total fund balances	\$ 98,203
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Amounts reported for the component unit in the Statement of Net Position are different because:
Some liabilities, (such as Compensated Absences), are not due and payable in the current period and are not included in the component unit fund financial statement, but are included in the component unit Statement of Net Position.

(1,620)

Net Position of component unit in the Statement of Net Position	<u>\$ 96,583</u>
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CITY OF RICHMOND HILL, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 DISCRETELY PRESENTED COMPONENT UNIT –
 CONVENTION AND VISITORS' BUREAU AUTHORITY

FOR THE YEAR ENDED DECEMBER 31, 2013

REVENUES

Intergovernmental	\$ 159,245
Investment	195
Miscellaneous	6,075
Total revenues	<u>165,515</u>

EXPENDITURES

Current:	
Housing and Development	145,444
Total expenditures	<u>145,444</u>

Excess (deficiency) of revenues over expenditures	<u>20,071</u>
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Net change in fund balances	20,071
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Fund balances - beginning	<u>78,132</u>
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Fund balances - ending	<u><u>\$ 98,203</u></u>
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**Reconciliation of the Component Unit Statement of Revenues, Expenditures, and Changes
 in Fund Balance to the Statement of Activities**

Net change in fund balances	\$ 20,071
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Amounts reported for the component unit in the Statement of Activities are different because:

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in the component unit for compensated absences	631
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Net Position of component unit in the Statement of Net Position	<u><u>\$ 20,702</u></u>
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CITY OF RICHMOND HILL, GEORGIA
 BUDGETARY COMPARISON SCHEDULE
 DISCRETELY PRESENTED COMPONENT UNIT – CONVENTION AND VISITORS BUREAU
 FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental				
Intergovernmental	\$ 150,000	\$ 150,000	\$ 159,245	\$ 9,245
Total investment income	<u>150,000</u>	<u>150,000</u>	<u>159,245</u>	<u>9,245</u>
Investment income				
Interest income	-	-	195	195
Total investment income	-	-	195	195
Miscellaneous	-	-	6,075	6,075
Total miscellaneous revenue	-	-	6,075	6,075
TOTAL REVENUES	<u>150,000</u>	<u>150,000</u>	<u>165,515</u>	<u>15,515</u>
EXPENDITURES				
Current				
Economic Development and Assistance	150,000	150,000	145,444	4,556
TOTAL EXPENDITURES	<u>150,000</u>	<u>150,000</u>	<u>145,444</u>	<u>4,556</u>
Excess revenues over (under) expenditures	-	-	20,071	20,071
Fund balance at beginning of year	78,132	78,132	78,132	-
Fund balance at end of year	<u>\$ 78,132</u>	<u>\$ 78,132</u>	<u>\$ 98,203</u>	<u>\$ 20,071</u>

STATE MANDATED PROGRAM INFORMATION

CITY OF RICHMOND HILL, GEORGIA

SCHEDULE OF PROJECTS CONSTRUCTED WITH
SPECIAL ONE PERCENT SALES TAX PROCEEDS

For the Year Ended December 31, 2013

Project	Original Estimated Cost	Revised Estimated Cost	Prior Years	Current Year	Total
SPLOST 06-11:					
City Center	\$ 1,565,000	\$ 1,625,000	\$ 1,600,179	\$ -	\$ 1,600,179
Water, Sewer, Roads, Streets, Drainage, Parks/Recreation and Public Safety	3,173,047	-	-	-	-
Parks/Recreation - City Center		750,000	737,574	-	737,574
Park Land Acquisition		810,000	800,000	6,873	806,873
Park Equipment		125,000	69,284	-	69,284
Park Improvements		125,000	122,057	-	122,057
Amphitheatre		550,000	530,908	-	530,908
Casey Street		150,000	135,912	-	135,912
Cedar Street		50,000	41,497	-	41,497
Streetscape Project		530,000	525,400	-	525,400
Rushing Street		75,000	71,119	-	71,119
Streets Equipment		275,000	260,727	-	260,727
Sidewalks - Master Plan		50,000	24,385	-	24,385
Drainage		29,020	15,845	-	15,845
Drainage - Sandpiper Rd / Piercefield Dr		20,980	20,980	-	20,980
Traffic Light - Mulberry/US 17		200,000	31,799	155,619	187,418
Water and Sewer Utilities		400,000	367,091	-	367,091
Water and Sewer Equipment		261,905	162,497	-	162,497
Public Safety Equipment and Vehicles		375,000	363,848	-	363,848
Public Safety - Fire Station		400,000	387,589	-	387,589
Debt Service:					
Water/Sewer and Streets Equipment		50,000	35,725	11,908	47,633
Water/Sewer Vehicles		75,000	37,993	-	37,993
Public Safety Vehicles		396,094	215,233	180,861	396,094
Streets Vehicles		38,095	38,095	-	38,095
City Center		500,000	499,352	-	499,352
J F Gregory Park		-	-	153,321	153,321
Water/Sewer Infrastructure - GEFA Loans		630,000	630,000	-	630,000
Total	\$ 4,738,047	\$ 8,491,094	\$ 7,725,089	\$ 508,582	\$ 8,233,671

As of December 31, 2013, all funds from this SPLOST issue had been disbursed. This is the final schedule for this issue.

Note 1

The above schedule presents only the debt service on the capital leases. The financial statements for the SPLOST fund will include the equipment expenditures and capital lease debt service expenditures. This will result in a difference between the schedule and financial statements. Below is a reconciliation of the financial statements to the SPLOST Schedules.

Current year expenditures reported	\$ 2,050,497
Debt service	709,101
Refinancing bonds	3,832,707
Activity not reported on SPLOST Schedules:	
Refinancing bonds and accrued interest	(3,847,000)
Purchase of vehicle maintenance property with note proceeds	(810,000)
Total SPLOST Fund Expenditures	\$ 1,935,305
Schedules	
SPLOST 06-11	\$ 508,582
SPLOST 12-18	1,426,723
	\$ 1,935,305

CITY OF RICHMOND HILL, GEORGIA

SCHEDULE OF PROJECTS CONSTRUCTED WITH
SPECIAL ONE PERCENT SALES TAX PROCEEDS

For the Year Ended December 31, 2013

Project	Original Estimated Cost	Revised Estimated Cost	Prior Years	Current Year	Total
SPLOST 12-18:					
Roads, streets, bridges, sidewalks, and bicycle paths; cultural, recreational, historical and municipal facilities to include the City Center; water and sewer capital outlay projects; previously incurred general obligation debt; public safety facilities and capital equipment; stormwater and drainage improvements and capital equipment.	\$ 11,000,000	\$ 1,540,000	\$ -	\$ -	\$ -
General Administration Equipment		200,000	-	44,865	44,865
General Administration Software		65,000			
Parks/Recreation Improvements		300,000	-	-	-
Park Equipment		90,000	-	32,938	32,938
Road Paving		600,000	-	-	-
Traffic Light - Mulberry/US 17		70,000	-	68,455	68,455
Traffic Light - Timber Trail		85,000			
Sidewalks		233,000	-	-	-
Sidewalks - Ivy Street		67,000	57,113	9,846	66,959
Drainage - Master Plan		50,000	1,040	7,438	8,478
Drainage - Sandpiper Rd / Piercefield Dr		250,000	42,325	203,166	245,491
Streets Equipment		542,000	-	51,500	51,500
Streets - Vehicle Maintenance Building		20,000	-	17,715	17,715
Water and Sewer Infrastructure		275,000	-	-	-
Water and Sewer Equipment		575,000	-	-	-
Public Safety - Police Dept Building		275,000	89,577	184,470	274,047
Public Safety - Police Dept Equipment		1,150,000	-	29,600	29,600
Public Safety - Fire Dept Building Renovation		240,000			
Building and Zoning Equipment		78,000	-	28,012	28,012
Building and Zoning Building Improvements		50,000			
Debt Service:					
City Center		1,920,000	159,736	337,105	496,841
Streets - Vehicle Maintenance Building		25,000	-	11,613	11,613
Water/Sewer Infrastructure - GEFA Loans		2,000,000	-	400,000	400,000
Sommers Blvd		300,000			
Total	\$ 11,000,000	\$ 11,000,000	\$ 349,791	\$ 1,426,723	\$ 1,776,514

Note 1

The above schedule presents only the debt service on the capital leases. The financial statements for the SPLOST fund will include the equipment expenditures and capital lease debt service expenditures. This will result in a difference between the schedule and financial statements. Below is a reconciliation of the financial statements to the SPLOST Schedules.

Current year expenditures reported	\$ 2,050,497
Debt service	709,101
Refinancing bonds	3,832,707
Activity not reported on SPLOST Schedules:	
Refinancing bonds and accrued interest	(3,847,000)
Purchase of vehicle maintenance property with note proceeds	(810,000)
Total SPLOST Fund Expenditures	\$ 1,935,305
Schedules	
SPLOST 06-11	\$ 508,582
SPLOST 12-18	1,426,723
	\$ 1,935,305

CITY OF RICHMOND HILL, GEORGIA
SCHEDULE OF REQUIRED EXPENDITURES
GENERATED BY THE HOTEL/MOTEL TAX

For the year ended December 31, 2013

Revenue:	
Hotel/motel taxes	<u>\$ 557,384</u>
Expenditures:	
Tourism expenditures - Richmond Hill Convention and Visitors Bureau	\$ 159,245
Transfer to City Center Fund	<u>159,301</u>
Total expenditures	<u>\$ 318,546</u>
Percentage of expenditures to revenues	<u>57%</u>

SUPPLEMENTAL REPORTS



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

Honorable Mayor and Members of the City Council
City of Richmond Hill, Georgia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Richmond Hill, Georgia (City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. See findings 2013-001 through 2013-012.

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 also noted certain matters that we reported to management of the City in a separate letter dated June 30, 2014.

City of Richmond Hill's Response to Findings

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

Purpose of this Report

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

KRT, CPA&P.C.

Savannah, Georgia

June 30, 2014



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Honorable Mayor and Members of the City Council
Richmond Hill, Georgia

Report on Compliance for Each Major Federal Program

We have audited the compliance of the City of Richmond Hill, Georgia (City), with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with

types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2013-013 through 2013-014.

The City's responses to the internal controls over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose

KRT, CPA&P.C.

Savannah, Georgia
June 30, 2014

CITY OF RICHMOND HILL, GEORGIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass- through Number	Federal Expenditure
Environmental Protection Agency			
Pass through from the Georgia Environmental Finance Agency			
Clean Water State Revolving Fund	66.458	CWSRF 09-095	\$ 783,502
Clean Water State Revolving Fund	66.458	CWSRF 10-008	<u>1,107,289</u>
Total Environmental Protection Agency			<u>1,890,791</u>
Total Federal Expenditures			<u>\$ 1,890,791</u>

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of the City of Richmond Hill, Georgia (City) under programs of the federal government for the year ended December 31, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position or changes in net position of the City.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting.

CITY OF RICHMOND HILL, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

I. SCHEDULE OF FINDINGS AND QUESTIONED COSTS

A. Summary of Auditors' Results

Financial Statements

1. The auditors' report expresses an unmodified opinion on the basic financial statements of the City of Richmond Hill, Georgia (City).

2. Internal control over financial reporting:

- | | | | | | | |
|---|---|-------|-----|-------|-------|---------------|
| a | Material weakness(es) identified? | _____ | yes | _____ | X | no |
| b | Significant deficiency(ies) identified that are not considered to be material weaknesses? | _____ | X | yes | _____ | none reported |

3. Noncompliance material to financial statements noted?

_____	yes	_____	X	no
-------	-----	-------	---	----

Federal Awards

4. Internal control over major programs:

- | | | | | | | |
|---|---|-------|-----|-------|-------|---------------|
| a | Material weakness(es) identified? | _____ | yes | _____ | X | no |
| b | Significant deficiency(ies) identified that are not considered to be material weaknesses? | _____ | X | yes | _____ | none reported |

5. The auditors' report expresses an unmodified opinion for all major programs.

6. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

_____	X	yes	_____	no
-------	---	-----	-------	----

7. The programs tested as major programs include:

Program	CFDA No.
Clean Water State Revolving Fund	66.458

8. The threshold for distinguishing Types A and B programs was \$300,000.

9. The City was determined to be a low-risk auditee.

CITY OF RICHMOND HILL, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

B. Findings – Financial Statement Audit

Finding 2013-001

Condition: The implementation of the City's new software system was not properly tested and multiple errors were detected during the audit process with reports, beginning totals and account balances. In addition, monitoring and reviews of financial data by management to ensure accuracy were not completed, other than a general historical knowledge of revenues and expenditures by department.

Criteria: The accounting system of the City should be accurate and should produce reports that accurately represent account balances.

Cause: Reconciliations between the old system and new system were not completed at conversion and the City did not run systems parallel during the conversion phase to ensure accurate processing of data by the new system. In addition, staff appeared to have a lack of training on the use of the software.

Effect: Financial statements could be misstated.

Recommendation: We recommend proper planning, training and implementation of new software systems. We also recommend monthly reconciliations between subsystems and the general ledger be completed by management to provide proper controls over financial reporting.

Response: Management concurs with this finding.

Finding 2013-002 (Repeat)

Condition: Project budgets are not maintained in the City's project accounting records. Also, some projects have exceeded the project budget and we noted that there were a couple of instances where current year expenditures were not charged to a project.

Criteria: In order to properly manage and monitor capital projects, project budgets should be established in the project accounting records and reported to management and Council periodically.

Cause: In prior years, the accounting software did not provide for recording project budgets. The City does not have a formal procedure for adopting and amending project budgets.

Effect: The City could authorize project without sufficient funding available and there is an increased risk of noncompliance with budgetary requirements.

Recommendation: We recommend that the City adopt policies and procedures for adopting project length budgets. The policies and procedures should address project budget approval, approval process for project budget modifications, and monthly monitoring and oversight over actual costs against project budgets. Estimates for budgets should be established prior to the beginning of a project for each major cost component, i.e. engineering cost, construction cost, other cost, and contingencies. Also, a reconciliation of current year expenditures to the project accounting system should be prepared.

Response: Management concurs with this finding.

CITY OF RICHMOND HILL, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

Finding 2013-003 (Repeat)

Condition: A significant number of year-end audit adjustments were proposed during the audit. We do realize that the City implemented a new computer system during the year and this contributed to the errors.

Criteria: Management has the responsibility to ensure that the financial statements are materially correct.

Cause: Below is a list of items noted:

- a. There were a significant number of misclassified cash receipts.
- b. Multiple invoices paid in the subsequent year were not properly accrued to the correct year.
- c. New system implementation and insufficient training of staff on the use of the system resulted in a significant number of errors.
- d. Reliance on one employee to correct errors during the conversion process, perform year end closing procedures and reconciliation of subsystems to the general ledger.

Effect: The financial statements for the City could be materially misstated.

Recommendation: The City should review the processes over monthly and year-end closes. There should be a month end and year-end plan, identifying deliverables as well as the responsible individuals, which is consistently followed each month and at year-end.

Response: Management concurs with this finding.

Finding 2013-004

Condition: There is no process in place to account for permit numbers resulting in several breaks in sequence of permit numbers.

Criteria: Permit numbers should be sequential to maintain proper internal controls.

Cause: Permit numbers are pre-printed on the application, therefore, when someone comes in for an application they will sometimes take several and not turn in all applications. Also, staff will give applications out from their desk which are not in sequence.

Effect: The client is not able to keep track of the permits and there is a possibility that there could be permits that could be paid but not accounted for or permits that have not been paid for but issued.

Recommendation: We recommend that permit applications be printed without a permit number, and when the applications are returned, a permit number issued upon payment.

Response: Management concurs with this finding.

CITY OF RICHMOND HILL, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

Finding 2013-005

Condition: We were unable to determine completeness of the journal entry listing since sequential numbers were not assigned by the system or by staff.

Criteria: Journal entry numbers should be sequential to maintain proper internal controls.

Cause: New software does not automatically assign journal entry numbers and staff did not maintain a sequential listing to manually assign numbers.

Effect: There is a possibility that unauthorized journal entries could be prepared which will increase the risk that the financial statements are not accurately stated.

Recommendation: We recommend journal entries be assigned sequential numbers so completeness can be determined.

Response: Management concurs with this finding.

Finding 2013-006

Condition: Of the ten journal entries tested, nine were approved without supporting documentation attached and one was not approved. Supporting documentation could not be located for one of the ten entries.

Criteria: All journal entries should have supporting documentation attached and the supporting documentation should be used by management to review and approve all entries.

Cause: Management reviewed journal entries without proper supporting documentation and in one instance, the journal entry was not approved by management.

Effect: Unauthorized journal entries could be completed and not recognized by management.

Recommendation: We recommend journal entries have appropriate documentation attached and the documentation and journal entry should be reviewed by management.

Response: Management concurs with this finding.

CITY OF RICHMOND HILL, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

Finding 2013-007

Condition: Of the ten business licenses tested, seven were incorrectly charged based upon the revenue ordinance. In addition, the business licenses fee portion of the revenue ordinance is unclear and does not detail how to calculate business license fees.

Criteria: Fees for business licenses should be charged consistently in accordance with state law and the City's revenue ordinance should clearly explain how fees are calculated.

Cause: Incorrect entry of profitability class into system, insufficient detail in the revenue ordinance, and inconsistency in charging certain fees.

Effect: Loss of revenue due to undercharging or improper collection of revenue inconsistent with revenue ordinance and the inability to determine proper business licenses amounts based upon the ordinance.

Recommendation: We recommend businesses be properly categorized by their NAICS code and fees be consistently applied to all businesses. We also recommend reviewing the business license portion of the revenue ordinance for clarity.

Response: Management concurs with this finding.

Finding 2013-008

Condition: The central bank account reconciliation had an immaterial difference which was not located. In addition, numerous bank reconciliations had outstanding differences for several months due to improper postings.

Criteria: Differences in bank reconciliations should be researched and corrected in a timely manner.

Cause: Due to the large number of errors during the cashiering processes, the bank reconciliations were not corrected in a timely manner.

Effect: Losses could occur due to not detecting bank statement errors within the allotted time period established by the bank.

Recommendation: We recommend bank reconciliations be completed in a timely manner and additional training be provided to reduce posting errors.

Response: Management concurs with this finding.

CITY OF RICHMOND HILL, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

Finding 2013-009

Condition: A reconciliation process was not performed between the Utility Billing system and the general ledger, resulting in differences in customer deposit balances, collections and billings.

Criteria: Subsystems should reconcile to the general ledger.

Cause: Reconciliations were not completed.

Effect: Financial statements could be misstated.

Recommendation: The City should establish procedures for reconciling all subsystems to the general ledger on a monthly basis to ensure accurate financial data is maintained.

Response: Management concurs with this finding.

Finding 2013-010

Condition: Several exceptions were noted during expenditure testing.

1. An invoice was overpaid by \$1,000.
2. Approval was not noted on the documentation.
3. Several credit card receipts were not approved and did not state a business purpose.
4. A purchase order was used as documentation for payment.

Criteria: Cash disbursements should be accompanied by properly approved and adequate documentation.

Cause: Accounts Payable processing procedures not properly followed.

Effect: Increased risk of improper and unauthorized payments.

Recommendation: All checks presented for signature should have properly approved supporting documentation. In the rare cases where a payment has to be processed prior to receiving adequate supporting documentation (prepayments), a process should be implemented to ensure that all appropriate documents are subsequently obtained.

Response: Management concurs with this finding.

CITY OF RICHMOND HILL, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

Finding 2013-011

Condition: A contract was signed by a department head and quotes obtained for a project in excess of \$100,000 were not approved by Council.

Criteria: Council should approve purchases \$10,000 or greater unless budgeted in the department's budget.

Cause: Procurement policy is unclear when Council approval is required and who has authority to sign contracts.

Effect: Increased risk of improper and unauthorized purchases.

Recommendation: The City's procurement policy should be reviewed and clarified. We would also suggest that if departments are authorized to make capital asset purchases based on departmental budgets, a detail listing of such assets should be maintained and any modifications should be approved by Council.

Response: Management concurs with this finding.

Finding 2013-012

Condition: There were several departments that exceeded departmental budgets.

Criteria: Adherence with Council approved budgets.

Cause: Budget amendments not provided to Council.

Effect: Noncompliance with budgets.

Recommendation: Departments should monitor budgets throughout the year and request amendments as conditions change during the year.

Response: Management concurs with this finding.

CITY OF RICHMOND HILL, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

C. Findings and Questioned Costs – Major Federal Award Programs Audit

Environmental Protection Agency

Finding 2013-013

Clean Water State Revolving Fund – CFDA No. 66.458

Suspension and Debarment

Condition: Verification that vendors were not on the federal suspension and debarment listing was not performed by the City on required disbursements of the grant.

Criteria: Federal regulations require that grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, “Debarment and Suspension”.

Cause: Lack of effective internal controls over the monitoring of compliance requirements.

Effect: Potential non-compliance with Federal guidelines.

Known Questioned Cost: None identified.

Recommendation: Even though the City subsequently determined that the vendors were not on the suspension and debarment listing, formal internal control procedures should be established to ensure that vendors which are paid with federal funds are not on the federal suspension and debarment listing.

Response: Management concurs with this finding.

Finding 2013-014

Clean Water State Revolving Fund – CFDA No. 66.458

Reporting and Davis Bacon Act

Condition: During our review of the Clean Water State Revolving Fund loan, we noted that that City does not have documented federal grant or loan internal control processes for the administration of federally funded projects. Since the City infrequently receives federal funds, there is an increase the risk of noncompliance with federal requirements. The City appears to be in compliance with these compliance requirements; however, sufficient internal controls have not been implemented to detect or prevent noncompliance. Below are issues noted during our review of the CWSRF loan/grant program:

- a. The City does not reconcile the draw down requests to expenses recorded in the projects. Also, the City does not maintain a listing of invoices not reimbursed by the loan that are

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND STATUS OF PRIOR YEAR AUDIT FINDINGS
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charged to the projects. This could result in duplicate requests of invoices, invoices not drawn, etc.

- b. The City did not document that certified payrolls were compared to the approved wage determinations or contractor employee interviews to ensure compliance with the Davis Bacon Act.

Criteria: A-133 requires that grantees and subgrantees establish internal controls over each compliance requirement to reduce the risk of noncompliance to a low level.

Cause: Lack of documenting and implementing effective internal controls over compliance requirements.

Effect: Potential non-compliance with Federal guidelines.

Known Questioned Cost: None identified.

Recommendation: Policies and procedures should be documented and implemented that include the determination of all federal requirements associated with grants or loans and the control procedures over these compliance requirements. This will include how pertinent information is identified and distributed to the appropriate levels of management and staff critical to compliance, how risk of material non-compliance are identified at the beginning of the program, control activities to address risk of non-compliance, and communication to how non-compliance due to fraud or error should be communicated to the proper level of management and the reporting to those charged with governance.

Response: Management concurs with this finding.

II. STATUS OF PRIOR YEAR AUDIT FINDINGS

Finding 2011-05 and 2012-06

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Suspension and Debarment

Condition: Verification that vendors were not on the federal suspension and debarment listing was not performed by the City on required disbursements of the grant.

Status: See discussion at Finding 2013-013.