

CITY OF SPRINGFIELD, GEORGIA
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2006

City of Springfield, Georgia
Audit of Financial Statements
For The Year Ended December 31, 2006

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CAINES, HODGES, PACE & COMPANY, P.C.

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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Springfield, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Springfield, Georgia as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Springfield, Georgia's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City of Springfield, Georgia, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2007 on our consideration of the City of Springfield, Georgia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



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

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

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

Rincon, Georgia
May 31, 2007

City of Springfield, Georgia
Statement of Net Assets
December 31, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets:			
Cash and cash equivalents (Note 3A)	\$ 1,107,555	\$ 567,853	\$ 1,675,408
Restricted cash	30,091	66,560	96,651
Receivables:			
Accounts	2,755	61,922	64,677
Taxes	193,233		193,233
Interfund	404,334	(404,334)	0
Prepaid items	15,797	4,455	20,252
Capital Assets: (Note 3D)			
Nondepreciable capital assets	35,000	258,422	293,422
Depreciable capital assets, net	1,091,732	3,984,360	5,076,092
Total Assets	<u>2,880,497</u>	<u>4,539,238</u>	<u>7,419,735</u>
Liabilities			
Current Liabilities:			
Accounts payable	19,173	22,844	42,017
Accrued expenses	10,297	4,790	15,087
Accrued interest payable	7,508	3,053	10,561
Deferred revenue		41,543	41,543
Capital leases payable	76,880	13,040	89,920
Notes payable		116,505	116,505
Liabilities payable from restricted assets		66,560	66,560
Long-Term Liabilities: (Note 3F)			
Capital leases payable (net of current portion)	327,103	15,374	342,477
Notes payable (net of current portion)		159,626	159,626
Total Liabilities	<u>440,961</u>	<u>443,335</u>	<u>884,296</u>
Net Assets			
Invested in capital assets, net of related debt (Note 3H)	715,241	3,935,184	4,650,425
Restricted for capital projects	578,562		578,562
Unrestricted	1,145,733	160,719	1,306,452
Total Net Assets	<u>\$ 2,439,536</u>	<u>\$ 4,095,903</u>	<u>\$ 6,535,439</u>

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

City of Springfield, Georgia
Statement of Activities
For the Year Ended December 31, 2006

Function/Program	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary government						
Governmental activities						
General government						
Administration	\$ 96,889	\$ 33,271		\$ (65,618)		\$ (65,618)
City buildings	22,209			(22,209)		(22,209)
Other governmental services	130,337			(130,337)		(130,337)
Judicial - municipal court	56,114			(56,114)		(56,114)
Public safety - fire	82,827	29,970	72,275	19,418		19,418
Public safety - police	334,701	136,334		(198,367)		(198,367)
Public works - streets and lanes	201,608			(201,608)		(201,608)
Parks and recreation	43,958			(43,958)		(43,958)
Interest	16,589			(16,589)		(16,589)
Total governmental activities	<u>987,232</u>	<u>72,275</u>	<u>0</u>	<u>(715,382)</u>	<u>0</u>	<u>(715,382)</u>
Business-type activities:						
Water and sewer	760,776		452,421		231,857	231,857
Sanitation	129,281				(7,618)	(7,618)
Total business-type activities	<u>890,057</u>		<u>452,421</u>		<u>224,239</u>	<u>224,239</u>
Total primary government	<u>\$ 1,877,289</u>	<u>\$ 861,450</u>	<u>\$ 72,275</u>	<u>\$ (715,382)</u>	<u>224,239</u>	<u>(491,143)</u>
General revenues						
Property taxes				168,600		168,600
Local option sales tax				465,142		465,142
Franchise taxes				118,630		118,630
Motor vehicle tax				18,754		18,754
Real estate transfer tax				3,465		3,465
Intangible tax				9,037		9,037
Alcohol taxes				56,691		56,691
Insurance premium taxes				95,420		95,420
Railroad equipment taxes				292		292
Intergovernmental - special local option sales tax				390,890		390,890
Investment earnings				5,524	11,135	16,659
Miscellaneous				1,010	21,098	22,108
Total general revenues				<u>1,333,455</u>	<u>32,233</u>	<u>1,365,688</u>
Transfers				<u>(254,962)</u>	<u>254,962</u>	<u>0</u>
Total general revenues and transfers				<u>1,078,493</u>	<u>287,195</u>	<u>1,365,688</u>
Change in net assets				<u>363,111</u>	<u>511,434</u>	<u>874,545</u>
Net assets - beginning of year				<u>2,076,425</u>	<u>3,584,469</u>	<u>5,660,894</u>
Net assets - end of year				<u>\$ 2,439,536</u>	<u>\$ 4,095,903</u>	<u>\$ 6,535,439</u>

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

City of Springfield, Georgia
Balance Sheet
Governmental Funds
December 31, 2006

	General	Capital Projects Fund SPLOST	Total Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 565,058	\$ 542,497	\$ 1,107,555
Restricted cash and cash equivalents	30,091		30,091
Receivables			
Taxes	162,797	73,186	235,983
Accounts	2,755		2,755
Interfund	441,455		441,455
Prepaid items	15,797		15,797
Total assets	\$ 1,217,953	\$ 615,683	\$ 1,833,636
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 19,173		\$ 19,173
Accrued liabilities	10,297		10,297
Interfund		\$ 37,121	37,121
Deferred revenue	42,750		42,750
Total liabilities	72,220	37,121	109,341
Fund balances			
Reserved for			
Police department	30,091		30,091
Program purposes		578,562	578,562
Unreserved			
Undesignated, reported in:			
General fund	1,115,642		1,115,642
Total fund balances	1,145,733	578,562	1,724,295
Total liabilities and fund balances	\$ 1,217,953	\$ 615,683	\$ 1,833,636

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

City of Springfield, Georgia
Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Assets
December 31, 2006

Total governmental fund balances \$ 1,724,295

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

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. However, in the statement of net assets the cost of these assets are capitalized and expensed over their estimated lives through annual depreciation expense.

Cost of capital assets	\$ 2,136,323	
Less accumulated depreciation	<u>(1,009,591)</u>	1,126,732

Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore are deferred in the funds. Those revenues consist of :

Property tax revenues	42,750	
Less allowance for estimated uncollectible accounts	<u>(42,750)</u>	0

The capital lease liability and accrued interest are not due and payable in the current period and therefore are not reported in the funds:

Capital lease liability	(403,983)	
Accrued interest payable	<u>(7,508)</u>	<u>(411,491)</u>

Net assets of governmental activities \$ 2,439,536

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

City of Springfield, Georgia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	<u>General</u>	<u>Capital Projects Fund SPLOST</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 936,031	\$	\$ 936,031
Intergovernmental	72,275	390,890	463,165
Licenses and permits	33,271		33,271
Charges for services	29,970		29,970
Fines and forfeitures	136,334		136,334
Investment earnings	3,133	2,391	5,524
Miscellaneous	1,010		1,010
Total revenues	<u>1,212,024</u>	<u>393,281</u>	<u>1,605,305</u>
Expenditures			
Current			
General government			
Administration	95,689		95,689
City buildings	15,908		15,908
Other governmental services	130,337		130,337
Judicial - municipal court	56,114		56,114
Public safety			
Police	311,308		311,308
Fire	29,143		29,143
Public works - streets	171,192		171,192
Parks and recreation	34,629		34,629
Capital outlays	58,653	13,235	71,888
Debt service			
Principal	69,714		69,714
Interest	16,250		16,250
Total expenditures	<u>988,937</u>	<u>13,235</u>	<u>1,002,172</u>
Excess (deficit) of revenues over expenditures	<u>223,087</u>	<u>380,046</u>	<u>603,133</u>
Other financing sources (uses)			
Inception of capital lease	42,862		42,862
Transfer out to water/sewer fund		(254,962)	(254,962)
Total other financing sources (uses)	<u>42,862</u>	<u>(254,962)</u>	<u>(212,100)</u>
Net change in fund balances	265,949	125,084	391,033
Fund balances - beginning of year	<u>879,784</u>	<u>453,478</u>	<u>1,333,262</u>
Fund balances - end of year	<u>\$ 1,145,733</u>	<u>\$ 578,562</u>	<u>\$ 1,724,295</u>

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

City of Springfield, Georgia
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities
For the Year Ended December 31, 2006

Net changes in fund balances - total governmental funds \$ 391,033

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period.

Depreciation expense	\$ (116,332)	
Capital outlay	<u>61,897</u>	(54,435)

Interest expense reported in the statement of activities does not require the use of current financial resources and therefore is not reported as an expenditure in governmental funds.

Liability @ 12/31/06	\$ (7,508)	
Liability @ 12/31/05	<u>7,169</u>	(339)

The issuance of long-term debt (e.g., notes payable, capital leases) provides current financial resources to the governmental funds, but the receipt of proceeds from long-term debt increases long-term liabilities in the statement of net assets.

(42,862)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets.

69,714

Change in net assets of governmental activities

\$ 363,111

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

City of Springfield, Georgia
General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues				
Taxes	\$ 798,732	\$ 798,732	\$ 936,031	\$ 137,299
Intergovernmental	61,950	61,950	72,275	10,325
Licenses and permits	37,250	37,250	33,271	(3,979)
Charges for services	31,200	31,200	29,970	(1,230)
Fines and forfeitures	133,700	133,700	136,334	2,634
Investment earnings	800	800	3,133	2,333
Miscellaneous	24,050	24,050	1,010	(23,040)
Total revenues	<u>1,087,682</u>	<u>1,087,682</u>	<u>1,212,024</u>	<u>124,342</u>
Expenditures				
General government				
Administration	102,928	102,928	95,689	7,239
City buildings	21,850	21,850	15,983	5,867
Other governmental services	165,989	165,989	138,427	27,562
Judicial - municipal court	57,265	57,265	56,114	1,151
Public safety				
Police	337,346	337,346	354,656	(17,310)
Fire	85,150	85,150	91,803	(6,653)
Public works				
Streets and lanes	288,094	288,094	200,378	87,716
Parks and recreation	44,860	44,860	35,887	8,973
Total expenditures	<u>1,103,482</u>	<u>1,103,482</u>	<u>988,937</u>	<u>114,545</u>
Excess (deficit) of revenues over expenditures	(15,800)	(15,800)	223,087	238,887
Other financing sources				
Inception of capital lease			42,862	42,862
Net change in fund balances	<u>\$ (15,800)</u>	<u>\$ (15,800)</u>	265,949	<u>\$ 281,749</u>
Fund balances - beginning of year			<u>879,784</u>	
Fund balances - end of year			<u>\$ 1,145,733</u>	

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

City of Springfield, Georgia
Statement of Net Assets
Proprietary Funds
December 31, 2006

	Water and Sewer	Sanitation	Total
Assets			
Current assets			
Cash and cash equivalents			
Unrestricted	\$ 567,853		\$ 567,853
Restricted	66,560		66,560
Receivables			
Accounts	49,094	\$ 12,828	61,922
Prepaid expenses	4,455		4,455
Total current assets	687,962	12,828	700,790
Noncurrent Assets			
Capital Assets			
Nondepreciable capital assets	258,422		258,422
Depreciable capital assets, net	3,984,360		3,984,360
Total noncurrent assets	4,242,782	0	4,242,782
Total assets	4,930,744	12,828	4,943,572
Liabilities			
Current Liabilities			
Accounts payable	22,844		22,844
Accrued expenses	4,790		4,790
Accrued interest payable	3,053		3,053
Interfund payable	399,369	4,965	404,334
Deferred revenue	41,543		41,543
Capital lease payable	13,040		13,040
Notes payable	116,505		116,505
Current Liabilities Payable from Restricted Assets:			
Customer deposits	66,560		66,560
Total current liabilities	667,704	4,965	672,669
Long-term liabilities:			
Capital lease payable (net of current portion)	15,374		15,374
Notes payable (net of current portion)	159,626		159,626
Total long-term liabilities	175,000	0	175,000
Total liabilities	842,704	4,965	847,669
Net assets			
Invested in capital assets, net of related debt	3,935,184		3,935,184
Unrestricted	152,856	7,863	160,719
Total net assets	\$ 4,088,040	\$ 7,863	\$ 4,095,903

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

City of Springfield, Georgia
Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2006

	<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Operating revenues			
Charges for services	\$ 540,212	\$ 121,663	\$ 661,875
Miscellaneous	21,098		21,098
Total operating revenues	<u>561,310</u>	<u>121,663</u>	<u>682,973</u>
Operating expenses			
Salaries	239,250		239,250
Payroll taxes and employee benefits	64,274		64,274
Waste services contract		129,281	129,281
Uniforms and safety equipment	3,969		3,969
Utilities	94,945		94,945
Maintenance - repairs	40,847		40,847
Materials and supplies	76,424		76,424
Gas, oil and tires	13,447		13,447
Office supplies and expenses	5,855		5,855
Telephone	8,032		8,032
Insurance	19,878		19,878
Training	1,768		1,768
Miscellaneous	2,453		2,453
Depreciation	168,869		168,869
Total operating expenses	<u>740,011</u>	<u>129,281</u>	<u>869,292</u>
Operating income (loss)	<u>(178,701)</u>	<u>(7,618)</u>	<u>(186,319)</u>
Non-operating revenues (expenses)			
Impact fees	452,421		452,421
Investment earnings	11,135		11,135
Interest expense	(20,765)		(20,765)
Total non-operating revenues (expenses)	<u>442,791</u>	<u>0</u>	<u>442,791</u>
Income (loss) before transfers	264,090	(7,618)	256,472
Transfers from SPLOST	254,962		254,962
Net change in assets	519,052	(7,618)	511,434
Net assets beginning of year	<u>3,568,988</u>	<u>15,481</u>	<u>3,584,469</u>
Net assets end of year	<u>\$ 4,088,040</u>	<u>\$ 7,863</u>	<u>\$ 4,095,903</u>

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

City of Springfield, Georgia
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2006

	Water and Sewer	Sanitation	Total
Increase (decrease) in cash and cash equivalents			
Cash flows from operating activities			
Cash received from customers	\$ 600,004	\$ 120,562	\$ 720,566
Cash payments to employees for personal services	(303,524)		(303,524)
Cash payments for goods and services	(273,562)	(129,281)	(402,843)
Net cash provided by (used for) operating activities	22,918	(8,719)	14,199
Cash flows from noncapital financing activities			
Interfund payable	18,800	8,719	27,519
Cash flows from capital and related financing activities			
Principal paid on notes	(146,923)		(146,923)
Interest paid on debt	(22,758)		(22,758)
Transfer in from SPLOST fund	254,962		254,962
Payments for capital acquisitions	(352,948)		(352,948)
Proceeds from impact fees	452,421		452,421
Net cash used for capital and related financing activities	184,754	0	184,754
Cash flows from investing activities			
Investment earnings	11,135		11,135
Net increase in cash and cash equivalents	237,607	0	237,607
Cash and cash equivalents - beginning of year	396,806		396,806
Cash and cash equivalents - end of year	\$ 634,413	\$ 0	\$ 634,413

(continued)

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

City of Springfield, Georgia
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2006

	<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ (178,701)	\$ (7,618)	\$ (186,319)
Adjustments:			
Depreciation	168,869		168,869
(Increase) decrease in current assets			
Accounts receivable	(4,769)	(1,101)	(5,870)
Prepaid expense	(77)		(77)
Increase (decrease) in current liabilities			
Accounts payable	(6,727)		(6,727)
Accrued expenses	860		860
Deferred revenues	41,543		41,543
Customer deposits	1,920		1,920
Net cash provided by (used for) operating activities	<u>\$ 22,918</u>	<u>\$ (8,719)</u>	<u>\$ 14,199</u>

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

City of Springfield, Georgia
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2006

	<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ (178,701)	\$ (7,618)	\$ (186,319)
Adjustments:			
Depreciation	168,869		168,869
(Increase) decrease in current assets			
Accounts receivable	(4,769)	(1,101)	(5,870)
Prepaid expense	(77)		(77)
Increase (decrease) in current liabilities			
Accounts payable	(6,727)		(6,727)
Accrued expense	860		860
Deferred revenues	41,543		41,543
Customer deposits	1,920		1,920
Net cash provided by (used for) operating activities	<u>\$ 22,918</u>	<u>\$ (8,719)</u>	<u>\$ 14,199</u>

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

City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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

Note 1 - Summary of Significant Accounting Policies

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

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

1-A. Reporting Entity

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

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

1-B. Basis of Presentation

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

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

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

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

City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. The proprietary funds are classified as enterprise funds. The following is the City's major enterprise fund:

Water and Sewer Fund – This fund is used to account for the construction of facilities and operation of activities involved in providing water and sewer services to City residents.

Sanitation Fund – This fund is used to account for the operation of activities involved in providing solid waste collection and disposal to City residents.

City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

1-C. Measurement Focus

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

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

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

1-D. Basis of Accounting

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

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

Revenues - Non-exchange Transactions - Non-exchange transactions in which the City receives value without directly giving equal value in return, include sales taxes, property taxes, grants and donations. On an accrual basis, revenue from sales taxes is recognized in the period in which the taxable sale takes place. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (Note 3-C) Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions also must be available (i.e., collected within 60 days) before it can be recognized.

City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

1-E. Assets, Liabilities and Fund Equity

1-E-1 Cash, Cash Equivalents, and Investments

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

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

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

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

1-E-2 Receivables

All trade and property tax receivables are reported net of an allowance for uncollectibles, where applicable. Unbilled water and sewer charges are accrued as receivables and revenue at December 31, 2006.

City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

1-E-3 Interfund Balances

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

1-E-4 Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2006, are recorded as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. At the fund reporting level, an equal amount of fund balance is reserved as this amount is not available for general appropriation.

1-E-5 Capital Assets

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

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

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

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

City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

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

1-E-6 Compensated Absences

Vacation benefits are not accrued since the amount of the liability cannot be reasonably determined.

1-E-7 Accrued Liabilities and Long-term Obligations

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

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

1-E-8 Bond Premiums, Discounts and Issuance Costs

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

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

1-E-9 Fund Equity

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

Fund Balance – Generally, fund balance represents the difference between the current assets and current liabilities. The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available, spendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance that is available for appropriation in future periods. Designations are management's intent to set aside these resources for specific services.

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

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

City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

1-E-10 Operating Revenues and Expenses

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

1-E-11 Contributions of Capital

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

1-E-12 Interfund Activity

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

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

1-E-13 Estimates

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

1-E-14 Comparative Data

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

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City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 2 – Stewardship, Compliance and Accountability

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

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

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

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

2-B. Excess of Expenditures over Appropriations

The following departments had expenditures in excess of appropriations:

General Fund – public safety – police	\$17,310
General Fund – public safety – fire	6,653

The budget for 2006 was adopted in December, 2005. The general fund budget was amended once during 2006 for changing circumstances, however the amendment was not sufficient. The Mayor and Council are aware of the variances, and procedures are improving to better review budget-to-actual variances and make appropriate adjustments as circumstances warrant.

Note 3 - Detailed Notes on All Funds

3-A. Cash and Cash Equivalents

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk; however, as of December 31, 2006, the government is not exposed to custodial credit risk.

3-B. Receivables

Receivables at December 31, 2006, consisted of taxes, interest, and accounts (billings for user charges).

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

City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 3 - Detailed Notes on All Funds (continued)

3-C. Property Taxes

Property taxes are assessed based upon property values determined by the Effingham County Tax Assessor's Office at January 1, 2006. The levy date was August 9, 2006 the tax bills were mailed October 28, 2006, and were due December 30, 2006. The lien date is December 30, 2006.

3-D. Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2006, was as follows:

	<u>Balance</u> <u>01/01/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/06</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ <u>35,000</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>35,000</u>
Depreciable capital assets:				
Site improvements	18,906			18,906
Buildings	467,177	8,989		476,166
Machinery and equipment	960,472	10,046	40,980	929,538
Vehicles	263,156	42,862		306,018
Furniture and fixtures	17,019			17,019
Infrastructure	353,676			353,676
Total depreciable capital assets	<u>2,080,406</u>	<u>61,897</u>	<u>40,980</u>	<u>2,101,323</u>
Total capital assets	<u>2,115,406</u>	<u>61,897</u>	<u>40,980</u>	<u>2,136,323</u>
Accumulated depreciation:				
Site improvements	4,173	1,654		5,827
Buildings	175,258	13,303		188,561
Machinery and equipment	519,254	63,515	40,980	541,789
Vehicles	210,119	30,787		240,906
Furniture and fixtures	17,019			17,019
Infrastructure	8,416	7,073		15,489
Total accumulated depreciation	<u>934,239</u>	<u>116,332</u>	<u>40,980</u>	<u>1,009,591</u>
Governmental activities capital assets, net	<u>\$ 1,181,167</u>	<u>\$ (54,435)</u>	<u>\$ 0</u>	<u>\$ 1,126,732</u>

City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 3 - Detailed Notes on All Funds (continued)

Governmental activities depreciation expense:

General government	\$ 9,426
Public safety - police	22,907
Public safety - fire	49,758
Public works - streets and lanes	26,170
Parks and recreation	8,071
Total governmental activities depreciation expense	<u>\$ 116,332</u>

Capital asset activity for business-type activities for the year ended December 31, 2006, was as follows:

	<u>Balance 1/1/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/06</u>
Business-type activities:				
Water and sewer fund:				
Capital assets not being depreciated:				
Land and rights	\$ 41,147			\$ 41,147
Construction in progress	<u>59,244</u>	\$ 158,031		<u>217,275</u>
Total capital assets not being depreciated	<u>100,391</u>	<u>158,031</u>	<u>\$ 0</u>	<u>258,422</u>
Depreciable capital assets:				
Improvements - not building	6,291,186	194,917		6,486,103
Machinery and equipment	85,718			85,718
Vehicles	61,887			61,887
Computer equipment	<u>53,286</u>			<u>53,286</u>
Total depreciable capital assets	<u>6,492,077</u>	<u>194,917</u>	<u>0</u>	<u>6,686,994</u>
Total capital assets	<u>6,592,468</u>	<u>352,948</u>	<u>0</u>	<u>6,945,416</u>
Accumulated depreciation:				
Improvements - not building	2,378,666	150,213		2,528,879
Machinery and equipment	81,889	1,618		83,507
Vehicles	45,817	6,458		52,275
Computer equipment	<u>27,393</u>	<u>10,580</u>		<u>37,973</u>
Total accumulated depreciation	<u>2,533,765</u>	<u>168,869</u>	<u>0</u>	<u>2,702,634</u>
Water and sewer capital assets, net	<u>\$ 4,058,703</u>	<u>\$ 184,079</u>	<u>\$ 0</u>	<u>\$ 4,242,782</u>

City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 3 - Detailed Notes on All Funds (continued)

3-E. - Interfund Balances and Transfers

Interfund balances at December 31, 2006, consisted of the following:

- General fund receivable from the water and sewer fund for various expenses paid by general fund \$394,729.
- General fund receivable from SPLOST capital projects fund various expenses paid by general fund \$41,761.
- General fund receivable from the Sanitation fund for revenues received by the sanitation fund for the general fund \$4,965.
- SPLOST fund receivable from the Water/Sewer fund for various expenses paid by the SPOST fund for the water/sewer fund \$4,640.

3-F. Long-Term Debt

Governmental Activities

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

Capital lease payable in equal annual payments of approximately \$41,744 through August 15, 2015 including interest at 3.80%. The purpose of this lease was to purchase a fire truck. The original principal amount of the lease was \$341,595. The equipment acquired by the lease is included in governmental activities general capital assets in the amount of \$304,807 (cost of \$341,595 less accumulated depreciation of \$36,788). The outstanding balance of the corresponding liabilities is included in the governmental activities general long-term debt. Future minimum lease payments are as follows.

Year	Principal	Interest	Total
2007	\$ 29,669	\$ 12,424	\$ 42,093
2008	30,816	12,075	42,891
2009	32,008	10,928	42,936
2010	33,246	9,736	42,982
2011	34,531	8,498	43,029
2012-2016	152,005	22,184	174,189
	<u>\$ 312,275</u>	<u>\$ 75,845</u>	<u>\$ 388,120</u>

Capital lease payable in equal annual payments of approximately \$8,090 through March, 2009 including interest at 3.48%. The purpose of this lease was to purchase computer hardware and software for general accounting. The original principal amount of the lease was \$29,730. The equipment acquired by the lease is included in governmental activities general capital assets in the amount of \$25,564 (cost of \$28,597 less accumulated depreciation of \$3,033). The outstanding balance of the corresponding liabilities is included in the governmental activities general long-term debt. Future minimum lease payments are as follows.

City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 3 - Detailed Notes on All Funds (continued)

Year	Principal	Interest	Total
2007	7,301	789	8,090
2008	7,555	535	8,090
2009	7,818	272	8,090
	\$ <u>22,674</u>	\$ <u>1,596</u>	\$ <u>24,270</u>

Capital lease payable in equal annual payments of approximately \$14,262 through February 15, 2007 including interest at 2.97%. The purpose of this lease was to purchase a dump truck. The original principal amount of the lease was \$40,452. The equipment acquired by the lease is included in governmental activities general capital assets in the amount of \$16,991 (cost of \$40,452 less accumulated depreciation of \$23,461). The outstanding balance of the corresponding liabilities is included in the governmental activities general long-term debt. Future minimum lease payments are as follows.

Year	Principal	Interest	Total
2007	13,851	411	14,262
Total	\$ <u>13,851</u>	\$ <u>411</u>	\$ <u>14,262</u>

Capital lease payable in equal annual payments of approximately \$5,647 through February 15, 2007 including interest at 2.97%. The purpose of this lease was to purchase a truck. The original principal amount of the lease was \$16,018. The equipment acquired by the lease is included in governmental activities general capital assets in the amount of \$6,727 (cost of \$16,018 less accumulated depreciation of \$9,291). The outstanding balance of the corresponding liabilities is included in the governmental activities general long-term debt. Future minimum lease payments are as follows.

Year	Principal	Interest	Total
2007	5,604	44	5,648
Total	\$ <u>5,604</u>	\$ <u>44</u>	\$ <u>5,648</u>

Capital lease payable in equal annual payments of approximately \$6,944 through February 15, 2007 including interest at 2.97%. The purpose of this lease was to purchase a police vehicle. The original principal amount of the lease was \$19,675. The equipment acquired by the lease is included in governmental activities general capital assets in the amount of \$10,737 (cost of \$25,565 less accumulated depreciation of \$14,828). The outstanding balance of the corresponding liabilities is included in the governmental activities general long-term debt. Future minimum lease payments are as follows.

Year	Principal	Interest	Total
2007	6,717	227	6,944
Total	\$ <u>6,717</u>	\$ <u>227</u>	\$ <u>6,944</u>

City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 3 - Detailed Notes on All Funds (continued)

Capital lease payable in equal annual payments of approximately \$15,468 through March, 2009 including interest at 4.36%. The purpose of this lease was to purchase two police vehicles. The original principal amount of the lease was \$42,862. The vehicles acquired by the lease are included in governmental activities general capital assets in the amount of \$34,290 (cost of \$42,862 less accumulated depreciation of \$8,572). The outstanding balance of the corresponding liabilities is included in the governmental activities general long-term debt. Future minimum lease payments are as follows.

Year	Principal	Interest	Total
2007	13,738	1,730	15,468
2008	14,202	1,266	15,468
2009	14,922	546	15,468
	<u>\$ 42,862</u>	<u>\$ 3,542</u>	<u>\$ 46,404</u>

Business Type Activities

Georgia Environmental Facilities Authority – Contract 87-S21-WQ payable in equal quarterly installments of \$10,922 including interest at 5.3%, beginning February 1, 1999 and ending February 1, 2008. The purpose of the loan in the original principal amount of \$317,815 was to expand the water and sewer system. Annual debt service requirements to amortize the loan outstanding, as of December 31, 2006 follow:

Year	Principal	Interest	Total
2007	41,726	1,963	43,689
2008	10,779	143	10,922
Total	<u>\$ 52,505</u>	<u>\$ 2,106</u>	<u>\$ 54,611</u>

Georgia Environmental Facilities Authority – Contract 87-029-WQ payable in equal quarterly installments of \$10,481 including interest at 5.8%, beginning February 1, 1999 and ending February 1, 2008. The purpose of the loan in the original principal amount of \$298,504 was to expand the water and sewer system. Annual debt service requirements to amortize the loan outstanding, as of December 31, 2006 follow:

Year	Principal	Interest	Total
2007	39,871	2,055	41,926
2008	10,331	150	10,481
Total	<u>\$ 50,202</u>	<u>\$ 2,205</u>	<u>\$ 52,407</u>

City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 3 - Detailed Notes on All Funds (continued)

Georgia Environmental Facilities Authority – Contract 92-035-WS payable in equal quarterly installments of \$11,335 including interest at 6.5%, beginning August 1, 1994 and ending May 1, 2011. The purpose of the loan in the original principal amount of \$509,916 was to expand the water and sewer system. Annual debt service requirements to amortize the loan outstanding, as of December 31, 2006 follow:

Year	Principal	Interest	Total
2007	34,908	10,433	45,341
2008	37,233	8,108	45,341
2009	39,713	5,628	45,341
2010	42,358	2,983	45,341
2011	19,212	445	19,657
Total	\$ 173,424	\$ 27,597	\$ 201,021

Capital lease - The lease is payable in equal annual payments of approximately \$5,910 through February, 2007 including interest at 2.97%. The purpose of this lease was to purchase a vehicle for the water and sewer fund. The original principal amount of the lease was \$16,763. The vehicle acquired by the lease is included in business type activities capital assets in the amount of \$7,543 (cost of \$16,763 less accumulated depreciation of \$9,220). The outstanding balance of the corresponding liabilities is included in the governmental activities general long-term debt. Future minimum lease payments are as follows.

Year	Principal	Interest	Total
2007	5,739	171	5,910
Total	\$ 5,739	\$ 171	\$ 5,910

Capital lease – The lease is payable in equal annual payments of approximately \$8,090 through March, 2009 including interest at 3.48%. The purpose of this lease was to purchase computer hardware and software for general accounting. The original principal amount of the lease was \$29,730. The equipment acquired by the lease is included in governmental activities general capital assets in the amount of \$25,564 (cost of \$28,597 less accumulated depreciation of \$3,033). The outstanding balance of the corresponding liabilities is included in the governmental activities general long-term debt. Future minimum lease payments are as follows.

Year	Principal	Interest	Total
2007	7,301	789	8,090
2008	7,555	535	8,090
2009	7,819	271	8,090
	\$ 22,675	\$ 1,595	\$ 24,270

City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 3 - Detailed Notes on All Funds (continued)

Changes in Long-term Debt - Changes in the City's long-term obligations consisted of the following for the year ended December 31, 2006.

	Outstanding 1/1/06	Additions	Reductions	Outstanding 12/31/06	Amounts Due in One Year
Government activities					
Capital lease	\$ 341,595		\$ 29,320	\$ 312,275	\$ 29,669
Capital lease	29,730		7,056	22,674	7,301
Capital lease	27,301		13,450	13,851	13,851
Capital lease	10,811		5,207	5,604	5,604
Capital lease	13,216		6,499	6,717	6,717
Capital lease	8,182		8,182		
Capital lease		\$ 42,862		42,862	13,738
Total government activities	<u>\$ 430,835</u>	<u>\$ 42,862</u>	<u>\$ 69,714</u>	<u>\$ 403,983</u>	<u>\$ 76,880</u>
Business-type activities					
Capital lease	\$ 29,730		\$ 7,055	\$ 22,675	\$ 7,301
Capital lease	11,313		5,574	5,739	5,739
Capital lease					
	<u>41,043</u>	<u>\$ 0</u>	<u>12,629</u>	<u>28,414</u>	<u>13,040</u>
Georgia Environmental Facilities Authority					
87-S21-WQ	92,091		39,586	52,505	41,726
87-029-WQ	87,842		37,640	50,202	39,871
92-035-WS	206,152		32,728	173,424	34,908
CWSRF98-004HG	15,342		15,342		
SRF13094901	8,998		8,998		
	<u>410,425</u>	<u>0</u>	<u>134,294</u>	<u>276,131</u>	<u>116,505</u>
Total business-type activities	<u>\$ 451,468</u>	<u>\$ 0</u>	<u>\$ 146,923</u>	<u>\$ 304,545</u>	<u>\$ 129,545</u>

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

City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 3 - Detailed Notes on All Funds (continued)

3-G. Pension

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

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

Funding Policy - The Plan members are not required to contribute to the Plan. The City is required to contribute at an actuarially determined rate; the current rate is 8.3% of annual covered payroll. The contribution requirements of the City are established and may be amended by the GMEBS Board of Trustees.

Annual Pension Cost - The required contribution was determined as part of the September 1, 2004 actuarial valuation for the Plan using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8.0% per year investment rate of return (net of investment expenses) and (b) projected salary increases for inflation of 5.0% per year and increases for merit or seniority of 0.5% per year. The actuarial value of net assets is determined by a roll forward of prior year actuarial values combined with contributions, disbursements and expected return on investments, plus 10% of investment gains (losses) during the prior ten years. The period, and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years from 1987 and current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods as a level dollar amount. These periods, if applicable, are closed for this plan year.

Schedule of Funding Progress

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio (1)/(2)	Unfunded AAL- (UAAL) (2)-(1)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
09/01/04	\$ 373,542	\$ 448,688	83.25%	\$ 75,146	\$ 505,763	14.86%
09/01/05	430,945	458,982	93.89%	28,037	498,030	5.63%
09/01/06	484,252	492,258	98.37%	8,006	479,964	1.67%

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City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 3 - Detailed Notes on All Funds (continued)

Schedule of Employer Contributions				
Year Beginning September 1,	Annual Required Contribution	Percentage Contributed	Annual Pension Cost	Percentage Contributed
2003	\$ 52,649	100%	\$ 52,648	100%
2004	42,158	100%	42,158	100%
2005	34,892	100%	34,892	100%

3-H. Net Assets

Net assets on the City-wide statement of net assets as of December 31, 2006 are as follows:

	Governmental Activities	Business Type Activities
Investments in capital assets, net of related debt:		
Cost of capital assets	\$ 2,136,323	\$ 6,945,416
Less accumulated depreciation	1,009,591	2,702,634
Book value	1,126,732	4,242,782
Less capital related debt	411,491	307,598
Investments in capital assets, net of related debt	<u>\$ 715,241</u>	<u>\$ 3,935,184</u>

Note 4 - Other Notes

4-A. Risk Management

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

The City joined the Georgia Interlocal Risk Management Agency (GIRMA). Insurance coverage and deductible options for property, casualty and crime under the policy are selected by the City's management based on the anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed by GIRMA, as well as following loss reduction and prevention procedures established by GIRMA. GIRMA's responsibility includes paying claims, and representing the City in defense and settlement of claims. GIRMA's basis for estimating the liabilities for unpaid claims is "IBNR" established by an actuary. The City has not compiled a record of claims paid up to the applicable deductible for the prior year or the current fiscal year. The City is unaware of any claims which the City is liable (up to the applicable deductible) which were outstanding and unpaid at December 31, 2006. No provisions have been made in the financial statements for the year ended December 31, 2006 for any estimate of potential unpaid claims.

City of Springfield, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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

4-B. Contingent Liabilities

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

4-C. Joint Ventures

Under Georgia law, the City, in conjunction with other cities and counties in the coastal Georgia area, is a member of the Coastal Georgia Regional Development Center (RDC) and is required to pay annual dues thereto. Membership in an RDC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the RDC in Georgia. The RDC board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of an RDC. Separate financial statements may be obtained from Coastal Georgia Regional Development Center, P. O. Box 2917, Brunswick, Georgia 31521.

City of Springfield, Georgia
General Fund
Comparative Balance Sheet
December 31, 2006 and 2005

	2006	2005
<u>Assets</u>		
Cash and cash equivalents	\$ 565,058	\$ 319,098
Restricted cash and cash equivalents	30,091	18,023
Receivables:		
Taxes	162,797	162,979
Accounts	2,755	2,731
Interfund	441,455	413,937
Prepaid items	15,797	15,521
Total assets	\$ 1,217,953	\$ 932,289
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 19,173	\$ 14,146
Accrued expenses	10,297	7,720
Deferred revenue	42,750	30,639
Total liabilities	72,220	52,505
Fund balances		
Reserved for:		
Police department	30,091	18,023
Unreserved	1,115,642	861,761
Total fund balances	1,145,733	879,784
Total liabilities and fund balances	\$ 1,217,953	\$ 932,289

City of Springfield, Georgia
General Fund
*Comparative Statement of Revenues, Expenditures and
 Changes in Fund Balances*
 For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues		
Taxes	\$ 936,031	\$ 852,931
Intergovernmental	72,275	30,975
Licenses and permits	33,271	33,686
Charges for services	29,970	31,374
Fines and forfeitures	136,334	109,829
Investment earnings	3,133	1,475
Miscellaneous	1,010	13,570
Total revenues	<u>1,212,024</u>	<u>1,073,840</u>
Expenditures		
Current		
General Government		
Administration	95,689	98,010
City buildings	15,908	16,908
Other governmental services	130,337	99,850
Judicial - municipal court	56,114	51,118
Public Safety		
Police	311,308	327,088
Fire	29,143	26,319
Public Works		
Streets and lanes	171,192	163,932
Sanitation		
Parks and recreation	34,629	38,151
Capital outlay	58,653	444,150
Debt service		
Principal retirement	69,714	65,511
Interest and fiscal charges	16,250	4,280
Total expenditures	<u>988,937</u>	<u>1,335,317</u>
Excess (deficit) of revenues over expenditures	223,087	(257,382)
Other financing sources (uses)		
Inception of capital lease	<u>42,862</u>	<u>371,325</u>
Net change in fund balance	265,949	113,943
Fund balances -beginning of year	879,784	770,203
Reclassification of sanitation fund		<u>(4,362)</u>
Fund balances - end of year	<u>\$ 1,145,733</u>	<u>\$ 879,784</u>

City of Springfield, Georgia
SPLOST Fund
Comparative Balance Sheet
December 31, 2006 and 2005

	2006	2005
<u>Assets</u>		
Cash and cash equivalents	\$ 542,497	\$ 368,293
Receivables - taxes	73,186	122,306
Total assets	\$ 615,683	\$ 490,599
<u>Liabilities and Fund Balances</u>		
Liabilities		
Interfund balance	\$ 37,121	\$ 37,121
Fund balances		
Reserved for program purposes	578,562	453,478
Total liabilities and fund balances	\$ 615,683	\$ 490,599

City of Springfield, Georgia
SPLOST Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Years Ended December 31, 2006 and 2005

	2006			Variance Positive (Negative)	2005
	Original Budget	Final Budget	Actual		
Revenues					
Intergovernmental	\$ 235,000	\$ 235,000	\$ 390,890	\$ 155,890	\$ 351,937
Investment earnings	800	800	2,391	1,591	1,096
Total revenues	<u>235,800</u>	<u>235,800</u>	<u>393,281</u>	<u>157,481</u>	<u>353,033</u>
Expenditures					
Capital outlays					
General government - city buildings	10,575	10,575		10,575	
Public safety - fire department	3,525	3,525		3,525	
Public works - streets and lanes	70,500	60,200	13,235	46,965	25,570
Parks and recreation	11,750	10,300		10,300	
Total expenditures	<u>96,350</u>	<u>84,600</u>	<u>13,235</u>	<u>71,365</u>	<u>25,570</u>
Excess of revenues over expenditures	139,450	151,200	380,046	228,846	327,463
Other financing sources (uses)					
Transfers to water/sewer fund	<u>(138,650)</u>	<u>(150,400)</u>	<u>(254,962)</u>	<u>(104,562)</u>	
Net change in fund balance	\$ <u>800</u>	\$ <u>800</u>	125,084	\$ <u>124,284</u>	327,463
Fund balances - beginning of year			<u>453,478</u>		<u>126,015</u>
Fund balances - end of year			<u>\$ 578,562</u>		<u>\$ 453,478</u>

City of Springfield, Georgia
Water and Sewer Fund
Comparative Statement of Net Assets
December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Current assets		
Cash and cash equivalents:		
Unrestricted	\$ 567,853	\$ 332,166
Restricted	66,560	64,640
Accounts receivable	49,094	44,325
Prepaid expenses	4,455	4,378
Total current assets	<u>687,962</u>	<u>445,509</u>
Noncurrent assets		
Capital assets		
Nondepreciable capital asset	258,422	41,147
Depreciable capital assets, net	3,984,360	4,017,556
Total noncurrent assets	<u>4,242,782</u>	<u>4,058,703</u>
Total assets	<u>4,930,744</u>	<u>4,504,212</u>
Liabilities		
Current liabilities		
Accounts payable	22,844	29,571
Accrued expenses	4,790	3,930
Accrued interest payable	3,053	5,046
Interfund payable	399,369	380,569
Deferred revenue	41,543	
Capital lease payable	13,040	12,629
Notes payable	116,505	117,300
Current liabilities payable from restricted assets		
Customer deposits	66,560	64,640
Total current liabilities	<u>667,704</u>	<u>613,685</u>
Long-term liabilities:		
Capital lease payable	15,374	28,414
Notes payable	159,626	293,125
Total long-term liabilities	<u>175,000</u>	<u>321,539</u>
Total liabilities	<u>842,704</u>	<u>935,224</u>
Net assets		
Invested in capital assets, net of related debt	3,935,184	3,602,189
Restricted for capital improvements		
Unrestricted	152,856	(33,201)
Total net assets	<u>\$ 4,088,040</u>	<u>\$ 3,568,988</u>

City of Springfield, Georgia
Water and Sewer Fund
Comparative Statement of Revenues,
Expenses and Changes in Fund Net Assets
For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues		
Charges for services	\$ 540,212	\$ 479,716
Other revenues	21,098	33,995
Total operating revenues	<u>561,310</u>	<u>513,711</u>
Operating expenses		
Salaries	239,250	221,484
Payroll taxes and employee benefits	64,274	75,148
Uniforms and safety equipment	3,969	4,604
Professional fees		2,571
Utilities	94,945	76,675
Maintenance - repairs	40,847	49,293
Materials and supplies	76,424	91,978
Gas, oil and tires	13,447	10,555
Office supplies and expenses	5,855	8,622
Telephone	8,032	7,661
Insurance	19,878	18,903
Training	1,768	2,282
Miscellaneous	2,453	3,654
Depreciation	168,869	170,646
Total operating expenses	<u>740,011</u>	<u>744,076</u>
Operating loss	<u>(178,701)</u>	<u>(230,365)</u>
Non-operating revenues (expenses)		
Impact fees	452,421	142,185
Investment earnings	11,135	7,243
Interest expense	(20,765)	(24,725)
Total non-operating revenues (expenses)	<u>442,791</u>	<u>124,703</u>
Income (loss) before transfers	264,090	(105,662)
Transfer in from SPLOST fund	<u>254,962</u>	
Change in net assets	519,052	(105,662)
Net assets - beginning of year	<u>3,568,988</u>	<u>3,674,650</u>
Net assets - end of year	<u>\$ 4,088,040</u>	<u>\$ 3,568,988</u>

City of Springfield, Georgia
Sanitation Fund
Statement of Net Assets
December 31, 2006 and 2005

Assets	<u>2006</u>	<u>2005</u>
Current assets		
Accounts receivable	\$ 12,828	11,727
Interfund receivable		3,754
Total assets	<u>12,828</u>	<u>15,481</u>
 Liabilities		
Current liabilities		
Interfund payables	<u>4,965</u>	
Total liabilities	<u>4,965</u>	<u>0</u>
 Net Assets		
Unrestricted	<u>7,863</u>	15,481
Total net assets	<u>\$ 7,863</u>	<u>15,481</u>

City of Springfield, Georgia
Sanitation Fund
Statement of Revenues, Expenses
and Changes in Fund Net Assets
For the Year Ended December 31, 2006 and 2005

	2006	2005
Operating revenues		
Charges for services	\$ 121,663	\$ 127,439
Operating expenses		
Waste services contract	129,281	116,320
Operating income (loss)	(7,618)	11,119
Net assets - beginning of year	15,481	0
Reclassification from general fund		4,362
Net assets - end of year	\$ 7,863	\$ 15,481

CITY OF SPRINGFIELD, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH
SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Parks and recreation	\$ 260,261		\$ 260,261
Streets and drainage	1,339,140	\$ 13,235	1,352,375
Water and sewerage	<u>623,005</u>	<u>254,962</u>	<u>877,967</u>
	<u>\$ 2,222,406</u>	<u>\$ 268,197</u>	<u>\$ 2,490,603</u>

Total funds available for SPLOST projects at December 31, 2006 \$ 578,562

Prior to May, 2002, the City received approximately 5.51% of the special local option sales tax (SPLOST) collected by Effingham County, Georgia. In accordance with the referendum approved by voters the tax proceeds were to be used for road, street and bridge purposes, including road resurfacing and sidewalk construction and improvement; for water, sewer and drainage purposes; for public safety purposes; and for the purpose of capital outlay projects consisting of recreational facilities. The referendum does not specify individual projects to be completed with the taxes collected. In April 2002, a new referendum became effective at the expiration of the prior referendum. Under the new referendum, SPLOST would be imposed for a period of time not to exceed five years and for raising not more than \$19,000,000 for the purpose of funding capital outlay projects throughout the county and all municipalities including (i) drainage capital improvements, (ii) street and sidewalk improvements, (iii) public buildings (new county courthouse), (iv) water and sewer capital projects, (v) cultural facilities, recreation facilities and historic facilities (restoration of old county courthouse), and (vi) public safety equipment. Additionally, under the new referendum, SPLOST would be imposed for a period of time not to exceed five years and for the raising of not more than \$16,000,000 for the purpose of road, street and bridge projects. The city receives approximately 4.851% of the proceeds from the most recent referendum. For the year ended December 31, 2006, the City recognized \$390,890 of SPLOST revenues. From inception of the SPLOST in Effingham County, the City has received approximately \$2,973,000 and under the current referendum expects to receive an additional \$395,000 before the maximum allowed under the referendum is collected.

CAINES, HODGES, PACE & COMPANY, P.C.

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

To the Mayor and City Council
City of Springfield, Georgia

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Springfield, Georgia (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as 2006-1 through 2006-3 to be significant deficiencies in internal control over financial reporting.

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



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

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 2006-4.

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

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

Rincon, Georgia
May 31, 2007

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REPORTABLE CONDITIONS

2006-1 Cash reconciliations

Condition: Payroll cash account is not reconciled to the general ledger on a timely basis.

Context: Internal controls should be in place that provide reasonable assurance that all cash accounts under the control of the City are reconciled to the general ledger on a timely basis.

Effect: Because of the failure to require this cash account to be reconciled to the general ledger, errors or fraudulent transactions may remain undetected for extended periods of time and the financial statements may not be complete and result in inaccurate reporting.

Cause: This condition was encountered subsequent to a computer software conversion in 2005. Prior to the software conversion adjustments had to be made to the payroll checking account to adjust for deductions (federal, FICA and state withholding, and other deductions such as insurance taken out of payroll wages. With the new software these entries did not need to be made, however these entries were made through July 2006. An entry to correct these posting errors was not made throughout the year and the account was not reconciled to the general ledger.

Recommendation: Require all bank accounts to be reconciled to the general ledger on a timely basis, generally monthly.

Management response: Management agrees and will implement procedures to ensure that all bank accounts are reconciled to the general ledger on a timely basis.

2006-2 Accounts Receivable - consumer

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

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

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

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

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2006-2 Accounts Receivable - consumer (continued)

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

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

2006-3 Transaction Processing

Condition: In some areas, it appears the software processing the government's transactions has not been set up properly.

Context: Software parameters should be set correctly to ensure transactions are recorded and processed in an efficient and proper manner.

Effect: Because some settings in the government's software do not appear to be set properly, posting errors can occur quite frequently and remain undetected for long periods of time. As a result, information obtained from the government's accounting software may not be reliable.

Cause: System settings for processing some transactions appear to have been set up incorrectly during a software conversion, and have never been corrected.

Recommendation: Review system settings for the processing of transactions and make changes accordingly so that transactions are captured in the proper manner.

Management's response: Management agrees with the finding and will make necessary adjustments to system settings to alleviate incorrect transaction processing.

NON-COMPLIANCE

2006-4 Budgetary requirements

Condition: It appears that the City violated the state law by expending funds in excess of appropriations at the legal level of authority. The City's legal level of authority is at the department level. Expenditures exceeded appropriations in the public safety-police department and in public safety - fire department in the general fund, however, total expenditures in the general fund did not exceed appropriations.

Context: The government may not expend funds in excess of appropriations as it is a violation of state law. Expenditures have exceeded appropriations in the public safety-police department for the past three years.

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2006-4 **Budgetary requirements (continued)**

Effect: This condition indicates inadequate monitoring of expenditures, and the violation of state law.

Recommendation: Require budget to actual comparisons to be performed on an on-going basis and adopt procedures to amend the budget as circumstances warrant as provided by state law.

Management's response: Management agrees with the finding. While the City Council was aware of and approved the excess expenditures at the department level, a formal budget amendment was not made. In the future, budget amendments will be proposed to correct such events as necessary.