

City of Tybee Island, Georgia  
Financial Statements  
and  
Independent Auditors' Report  
For the year ended December 31, 2001

# KARP, RONNING & TINDOL

CERTIFIED PUBLIC ACCOUNTANTS

MARTIN L. KARP, CPA  
DENNIS W. RONNING, CPA  
RICHARD D. TINDOL, CPA  
BRADLEY A. LUCAS, CPA  
A. L. KARP (1925-1969)

123 ABERCORN STREET  
P. O. BOX 9550  
SAVANNAH, GEORGIA 31412  
912-232-0475 TELEPHONE  
912-232-0478 FACSIMILE  
888-261-8702 TOLL FREE  
krt@krtcpa.com

## INDEPENDENT AUDITORS' REPORT

To the Mayor and Council  
City of Tybee Island, Georgia

We have audited the accompanying general purpose financial statements of the City of Tybee Island, Georgia as of December 31, 2001, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Tybee Island, Georgia, as of December 31, 2001, and the results of its operations and cash flows of its proprietary fund type for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued a report dated June 14, 2002 on our consideration of the City of Tybee Island, Georgia's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The individual fund financial statements and schedules listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Tybee Island, Georgia. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Karp, Ronning & Tindol, P.C.

*Karp, Ronning & Tindol, P.C.*

Savannah, Georgia  
June 14, 2002

City of Tybee Island, Georgia  
Annual Financial Report  
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City of Tybee Island, Georgia  
 Combined Balance Sheet – All Fund Types and Account Groups  
 December 31, 2001

	Governmental Fund Types			Proprietary Fund Type	Account Groups		Totals Memorandum Only
	General	Special Revenue	Capital Projects	Enterprise	General Fixed Assets	General Long-term Debt	
<b>Assets and other debits</b>							
<b>Assets:</b>							
Cash and cash equivalents	\$ 2,881,718	\$ 435,321	\$ 1,564,800	\$ 642,915	\$ -	\$ -	\$ 5,524,754
Receivables - net of allowance for uncollectibles							
Taxes	111,300	-	-	-	-	-	111,300
Accounts	-	-	-	146,733	-	-	146,733
Other	7,928	-	-	-	-	-	7,928
Due from other funds	5,233	-	44,572	-	-	-	49,805
Due from other governments	-	-	-	-	-	-	-
Prepaid items	50,077	-	-	3,408	-	-	53,485
<b>Restricted assets:</b>							
Cash and cash equivalents	-	-	-	299,742	-	-	299,742
Advances to other funds	684,294	-	-	-	-	-	684,294
Plant and equipment - net, where applicable of accumulated depreciation	-	-	-	7,944,289	4,419,084	-	12,363,373
Other assets - net of amortization	-	-	-	60,530	-	-	60,530
<b>Other debits:</b>							
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	1,204,018	1,204,018
<b>Total assets and other debits</b>	<b>\$ 3,740,550</b>	<b>\$ 435,321</b>	<b>\$ 1,609,372</b>	<b>\$ 9,097,617</b>	<b>\$ 4,419,084</b>	<b>\$ 1,204,018</b>	<b>\$ 20,505,962</b>
<b>Liabilities, equity and other credits</b>							
<b>Liabilities:</b>							
Accounts payable	\$ 134,557	\$ 13,440	\$ -	\$ 271,459	\$ -	\$ -	\$ 419,456
Accrued payables	60,690	-	-	7,988	-	-	68,678
Due to other funds	44,572	-	-	5,233	-	-	49,805
Compensated absences payable	-	-	-	12,507	-	97,847	110,354
Current portion of long-term debt	-	-	-	34,942	-	-	34,942
<b>Payable from restricted assets:</b>							
Accrued interest	-	-	-	9,643	-	-	9,643
Current portion of revenue bonds	-	-	-	80,000	-	-	80,000
Advances from other funds	-	-	-	684,294	-	-	684,294
Long-term debt	-	-	-	4,347,812	-	1,106,171	5,453,983
Deferred revenue	102,518	-	-	-	-	-	102,518
<b>Total liabilities</b>	<b>342,337</b>	<b>13,440</b>	<b>-</b>	<b>5,453,878</b>	<b>-</b>	<b>1,204,018</b>	<b>7,013,673</b>
<b>Equity and other credits:</b>							
Investment in general fixed assets	-	-	-	-	4,419,084	-	4,419,084
Contributed capital	-	-	-	1,846,903	-	-	1,846,903
<b>Retained earnings:</b>							
Reserved for revenue bond retirement	-	-	-	252,079	-	-	252,079
Reserved for renewal and extension	-	-	-	47,663	-	-	47,663
Unreserved	-	-	-	1,497,094	-	-	1,497,094
<b>Fund balances:</b>							
Reserved for prepaid items	50,077	-	-	-	-	-	50,077
Reserved for non-current interfund advances	684,381	-	-	-	-	-	684,381
Reserved for grants	37,500	421,881	-	-	-	-	459,381
Reserved for special 1% sales tax projects	-	-	1,609,372	-	-	-	1,609,372
Designated for fire engine acquisition	90,000	-	-	-	-	-	90,000
Designated for gym construction	537,634	-	-	-	-	-	537,634
Designated for storm drainage	40,000	-	-	-	-	-	40,000
Unreserved, undesignated	1,958,621	-	-	-	-	-	1,958,621
<b>Total equity and other credits</b>	<b>3,398,213</b>	<b>421,881</b>	<b>1,609,372</b>	<b>3,643,739</b>	<b>4,419,084</b>	<b>-</b>	<b>13,492,289</b>
<b>Total liabilities, equity and other credits</b>	<b>\$ 3,740,550</b>	<b>\$ 435,321</b>	<b>\$ 1,609,372</b>	<b>\$ 9,097,617</b>	<b>\$ 4,419,084</b>	<b>\$ 1,204,018</b>	<b>\$ 20,505,962</b>

City of Tybee Island, Georgia  
 Combined Statement of Revenues, Expenditures, and  
 Changes in Fund Balances – All Governmental Fund Types  
 For the Year Ended December 31, 2001

	Governmental Fund Types			Total Memorandum Only
	General	Special Revenue	Capital Projects	
<b>Revenues:</b>				
Taxes	\$ 2,265,262	\$ 781,911	\$ -	\$ 3,047,173
Licenses and permits	196,629	-	-	196,629
Intergovernmental revenues	232,784	450,000	829,097	1,511,881
Charges for services	1,347,665	-	-	1,347,665
Fines, forfeitures and fees	261,610	-	-	261,610
Investment income	64,430	-	24,139	88,569
Miscellaneous revenue	164,105	-	-	164,105
Total revenues	<u>4,532,485</u>	<u>1,231,911</u>	<u>853,236</u>	<u>6,617,632</u>
<b>Expenditures:</b>				
Current:				
General government	726,717	-	-	726,717
Judicial	20,161	-	-	20,161
Public safety	1,270,371	-	-	1,270,371
Public works	1,320,350	-	-	1,320,350
Health and welfare	1,004	-	-	1,004
Culture and recreation	548,898	-	-	548,898
Housing and development	395,399	419,075	-	814,474
Total current	<u>4,282,900</u>	<u>419,075</u>	<u>-</u>	<u>4,701,975</u>
Capital outlay:				
General government	25,872	-	-	25,872
Public safety	86,466	-	-	86,466
Public works	50,936	-	60,463	111,399
Culture and recreation	54,022	-	-	54,022
Housing and development	46,864	-	-	46,864
Total capital outlay	<u>264,160</u>	<u>-</u>	<u>60,463</u>	<u>324,623</u>
Debt service:				
Principal	63,419	-	-	63,419
Interest	3,718	-	35,895	39,613
Total debt service	<u>67,137</u>	<u>-</u>	<u>35,895</u>	<u>103,032</u>
Total expenditures	<u>4,614,197</u>	<u>419,075</u>	<u>96,358</u>	<u>5,129,630</u>
Excess (deficiency) of revenues over expenditures	<u>(81,712)</u>	<u>812,836</u>	<u>756,878</u>	<u>1,488,002</u>
Other financing sources (uses):				
Capital lease proceeds	95,728	-	-	95,728
Loan proceeds	-	-	200,427	200,427
Operating transfer in	390,955	-	-	390,955
Operating transfer out	-	(390,955)	(37,388)	(428,343)
Total financing sources (uses):	<u>486,683</u>	<u>(390,955)</u>	<u>163,039</u>	<u>258,767</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	404,971	421,881	919,917	1,746,769
Fund balances - beginning of year	<u>2,993,242</u>	<u>-</u>	<u>689,455</u>	<u>3,682,697</u>
Fund balances - end of year	<u>\$ 3,398,213</u>	<u>\$ 421,881</u>	<u>\$ 1,609,372</u>	<u>\$ 5,429,466</u>

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

City of Tybee Island, Georgia  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance – Budget and Actual – General and Special Revenue Funds  
For the Year Ended December 31, 2001

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$ 2,462,600	\$ 2,265,262	\$ (197,338)	\$ 781,911	\$ 781,911	\$ -
Licenses and permits	170,200	196,629	26,429	-	-	-
Intergovernmental revenues	185,000	232,784	47,784	450,000	450,000	-
Charges for services	1,274,870	1,347,665	72,795	-	-	-
Fines, forfeitures and fees	235,500	261,610	26,110	-	-	-
Investment income	44,500	64,430	19,930	-	-	-
Miscellaneous revenue	184,650	164,105	(20,545)	-	-	-
<b>Total revenues</b>	<b>4,557,320</b>	<b>4,532,485</b>	<b>(24,835)</b>	<b>1,231,911</b>	<b>1,231,911</b>	<b>-</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General government	737,819	726,717	11,102	-	-	-
Judicial	22,500	20,161	2,339	-	-	-
Public safety	1,277,888	1,270,371	7,517	-	-	-
Public works	1,341,808	1,320,350	21,458	-	-	-
Health and welfare	4,000	1,004	2,996	-	-	-
Culture and recreation	560,358	548,898	11,460	-	-	-
Housing and development	433,573	395,399	38,174	840,956	419,075	421,881
<b>Total current</b>	<b>4,377,946</b>	<b>4,282,900</b>	<b>95,046</b>	<b>840,956</b>	<b>419,075</b>	<b>421,881</b>
<b>Capital outlay:</b>						
General government	92,500	25,872	66,628	-	-	-
Public safety	87,000	86,466	534	-	-	-
Public works	55,200	50,936	4,264	-	-	-
Culture and recreation	635,692	54,022	581,670	-	-	-
Housing and development	47,800	46,864	936	-	-	-
<b>Total capital outlay</b>	<b>918,192</b>	<b>264,160</b>	<b>654,032</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Debt service:</b>						
Principal	63,419	63,419	-	-	-	-
Interest	3,718	3,718	-	-	-	-
<b>Total debt service</b>	<b>67,137</b>	<b>67,137</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total expenditures</b>	<b>5,363,275</b>	<b>4,614,197</b>	<b>749,078</b>	<b>840,956</b>	<b>419,075</b>	<b>421,881</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(805,955)</b>	<b>(81,712)</b>	<b>724,243</b>	<b>390,955</b>	<b>812,836</b>	<b>421,881</b>
<b>Other financing sources (uses):</b>						
Capital lease proceeds	-	95,728	95,728	-	-	-
Operating transfer in	390,955	390,955	-	-	-	-
Operating transfer (out)	-	-	-	(390,955)	(390,955)	-
<b>Total financing sources (uses):</b>	<b>390,955</b>	<b>486,683</b>	<b>95,728</b>	<b>(390,955)</b>	<b>(390,955)</b>	<b>-</b>
<b>Excess (deficiency) of revenues and other sources over expenditures and other uses</b>	<b>(415,000)</b>	<b>404,971</b>	<b>819,971</b>	<b>-</b>	<b>421,881</b>	<b>421,881</b>
Fund balances - beginning of year	2,993,242	2,993,242	-	-	-	-
<b>Fund balances - end of year</b>	<b>\$ 2,578,242</b>	<b>\$ 3,398,213</b>	<b>\$ 819,971</b>	<b>\$ -</b>	<b>\$ 421,881</b>	<b>\$ 421,881</b>

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

City of Tybee Island, Georgia  
Statement of Revenues, Expenses, and  
Changes in Retained Earnings – Water and Sewer Enterprise Fund  
For the Year Ended December 31, 2001

Operating revenues:	
Water charges	\$ 577,390
Sewer charges	618,599
Stubbing fees	14,500
Tapping fees	28,050
Aid to construction	34,800
Other	<u>95,837</u>
Total operating revenues	<u>1,369,176</u>
Operating expenses:	
Personnel services	306,096
Administrative services	105,558
Depreciation	293,757
Repairs and maintenance	62,620
Utilities	80,327
Operating supplies	57,042
Other	<u>133,681</u>
Total operating expenses	<u>1,039,081</u>
Operating income (loss)	<u>330,095</u>
Nonoperating revenues (expenses)	
Interest earned on investments	22,929
Bond issuance costs	(4,199)
Interest expense	<u>(154,967)</u>
Total nonoperating revenues (expenses)	<u>(136,237)</u>
Income before operating transfers	193,858
Operating transfer in	<u>37,388</u>
Net income	231,246
Retained earnings, beginning of year	<u>1,565,590</u>
Retained earnings, end of year	<u><u>\$ 1,796,836</u></u>

City of Tybee Island, Georgia  
Statement of Cash Flows  
Water and Sewer Enterprise Fund  
For the Year Ended December 31, 2001

Cash flows from operating activities:	
Cash received from customers	\$ 1,514,040
Cash paid to vendors	(201,472)
Cash paid to employees	<u>(302,312)</u>
Net cash provided by operating activities	<u>1,010,256</u>
Cash flows from noncapital financing activities:	
Operating transfers from other funds	37,388
Interfund borrowings	<u>(608,858)</u>
Net cash provided by noncapital financing activities	<u>(571,470)</u>
Cash flows from capital and related financing activities:	
Proceeds of borrowing for capital purposes	1,811,099
Principal payments - bonds payable	(75,000)
Principal payments - notes payable	(27,164)
Principal payments - capital leases	(68,423)
Interest paid	(159,504)
Acquisition, construction, or improvement of capital assets	<u>(1,988,875)</u>
Net cash used by capital and related financing activities	<u>(507,867)</u>
Cash flows from investing activities:	
Interest received	<u>22,929</u>
Net cash provided by investing activities	<u>22,929</u>
Net increase (decrease) in cash and cash equivalents	(46,152)
Cash and cash equivalents, beginning of year	<u>988,809</u>
Cash and cash equivalents, end of year	<u>\$ 942,657</u>
Operating income (loss) <u>\$ 330,095</u>	
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	293,757
(Increase) decrease in accounts receivable	144,864
(Increase) decrease in prepaid items	438
Increase (decrease) in accounts payable and accrued expenses	237,318
Increase (decrease) in compensated absences	<u>3,784</u>
Total adjustments	<u>680,161</u>
Net cash provided by operating activities	<u>\$ 1,010,256</u>

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



## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Tybee Island, Georgia was organized October 15, 1887. The City operates under a council-administrator form of government and provides the following services as authorized by its charter: general administrative services, public safety (police and fire), highways and streets, sanitation, health and social services, culture and recreation, education, public improvements, and planning and zoning.

The accounting policies of the City of Tybee Island, Georgia conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

### A. Reporting Entity

Governmental Accounting Standards Board Statement No. 14 defines the reporting entity for determining which potential component units should be included in a primary government's financial statements. Inclusion is based on financial accountability or the fact that exclusion would make the financial statements misleading or incomplete. The criteria for determining financial accountability includes appointing a voting majority of an organization's governing body and (1) the ability of the City to impose it will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose financial burdens on the City. Using the above criteria, the City has no component units.

#### 1. Joint Venture

Under Georgia law, the City is a member of the Coastal Georgia Regional Development Commission and is required to pay annual dues thereto. During the year ended December 31, 2001, the City paid \$2,190 in such dues. 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 Commission, 2123 Riceboro Road, Augusta, Georgia 30904.

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

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with the legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The City has the following fund types and account groups:

*Governmental funds* are used to account for the City's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period. The City considers all revenues

available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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

Governmental funds include the following fund type:

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

The *capital projects funds* account for the receipt and use of the One Percent Special Local Option Sales Tax proceeds.

*Proprietary funds* are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Governmental Accounting and Standards Board (GASB) Statement #20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Funds, provides proprietary activities with a choice of authoritative guidance issued after November 30, 1989. The City has elected to follow GASB pronouncements exclusively after that date.

Proprietary funds include the following fund type:

The enterprise fund is used to account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

*Account Groups.* The general fixed assets account group is used to account for fixed assets not accounted for in the proprietary funds. The general long-term debt account group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of the proprietary funds.

## C. Assets, Liabilities and Equity

### 1. Deposits 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.

State statutes authorize the City to invest in obligations of the United States Government and agencies of corporations of the United States Government; obligations of any political subdivision of any state; certificates of deposit or time deposits of any national state bank or savings and loan which have deposits insured by the FDIC or FSLIC; prime bankers acceptances; repurchase agreements; and Georgia Fund I. Georgia Fund I was created under OCGA 36-83-8 and operates in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940 and is considered to be a 2a-7 like pool. The pool is not registered with

the SEC as an investment company. The fair value of the City's position in the pool is the same as the value of pool shares (\$1 per share value).

All investments are reported at fair value.

## **2. Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided and services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

All property tax and trade receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is \$17,700 at December 31, 2001.

Property taxes are levied as January 1<sup>st</sup> on property values assessed on the same date. Tax bills are rendered in two installments on April 30<sup>th</sup> and October 31<sup>st</sup> and are due 60 days after the respective installment date. Property taxes are considered past due 60 days after the second installment date at which time the applicable property is subject to lien and penalties and interest are assessed.

## **3. Interfund Receivables and Payables**

Short-term amounts owed between funds are classified as "due to/from other funds". Interfund loans are classified as "advances to/from other funds" and are offset by a fund balance reserve account.

## **4. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

## **5. Restricted Assets**

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The Sinking Fund is used to segregate resources accumulated for debt service payments. The Renewal and Extension Fund is used to report resources set aside to fund asset renewals and replacements.

## **6. Fixed Assets**

Fixed assets used in governmental fund types of the City are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair market value at the date of donation. Assets in the general fund fixed asset account group are not depreciated.

Public domain (infrastructure) general fixed assets (i.e., roads, bridges, sidewalks and other assets that are immovable and of value only to the City) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included in the general fixed asset group or capitalized in the proprietary fund.

Property, plant and equipment in the proprietary fund of the City are recorded at cost. Property, plant and equipment donated to the proprietary fund type operations are recorded at their estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized in the proprietary fund as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated in the proprietary fund of the City using the straight-line method over the following useful lives:

Assets	Years
Utility plant in service	5 – 50
Other equipment	3 – 10

**7. Compensated Absences**

It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave. Vacation pay is accrued when incurred in the proprietary fund and reported as a fund liability. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund. Amounts not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

**8. Long-term Obligation**

The City reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by the proprietary funds are reported as liabilities in the appropriate funds.

Bond issuance costs are amortized over the life of the bonds using the straight-line method.

**9. Fund Equity**

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Reservations of retained earnings are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change. The proprietary fund’s contributed capital represents equity acquired through capital grants and capital contributions from other governments, developers, customers or other funds.

**10. Memorandum Only**

The total columns on the combined statements are captioned “Memorandum Only” because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operation or cash flows in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

**11. Comparative Data / Reclassifications**

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the City’s financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year’s presentation.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary Information**

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

1. Prior to the beginning of the fiscal year, the various departments submit to the governing council a proposed operating budget for the fiscal year commencing the following January 1<sup>st</sup>. The operating budget includes the proposed expenditures and the means of financing them.
2. A public hearing is held prior to the beginning of the fiscal year to obtain taxpayer comments.
3. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Project length budgets are adopted for the capital projects fund.
6. The governing council must approve all revisions. Budget amounts are as originally adopted or modified by the governing council.
7. Appropriations lapse at year end; however, reappropriation of amounts to cover significant expenditures is made by Mayor and Council during the fiscal year as an amendment to the budget.
8. The legal level of budgetary control (level at which expenditures may not legally exceed the budget) is the department level.

Encumbrances represent commitments related to unperformed contracts for goods or services. Since no significant encumbrances exist at year-end, encumbrance accounting – under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation – is not utilized in the general fund.

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. Deposits and Investments**

The carrying amount of the City's cash-on-hand and deposits with financial institutions was \$2,642,500 and the bank balance was \$2,708,186. The bank balance was categorized as follows:

Amount insured by the FDIC or collateralized with securities held by the City in its name	\$ 225,293
Amount collateralized with securities held by the pledging financial institution's trust department in the City's name	<u>2,482,893</u>
Total bank balance	<u>\$ 2,708,186</u>

Investments at December 31, 2001, were \$3,181,997, which was deposited with the State of Georgia's Local Government Investment Pool.

**B. Receivables**

Receivables as of year-end, including the applicable allowances for uncollectible accounts are as follows:

Receivable	General	Enterprise	Total
Taxes	\$ 129,000	\$ -	\$ 129,000
Accounts	-	153,199	153,199
Other	<u>7,298</u>	<u>-</u>	<u>7,298</u>
Gross receivable	136,298	153,199	289,497
Less: allowance for uncollectibles	<u>(17,700)</u>	<u>(6,467)</u>	<u>(24,167)</u>
Net total receivables	<u>\$ 118,598</u>	<u>\$ 146,732</u>	<u>\$ 265,330</u>

**C. Fixed Assets**

A summary of changes in the general fixed asset account group for the year ended December 31, 2001, was as follows:

Asset Class	Balance 12/31/2000	Additions	Deletions	Balance 12/31/2001
Land	\$ 207,322	\$ -	\$ -	\$ 207,322
Building	1,169,640	-	-	1,169,640
Equipment	<u>2,888,184</u>	<u>153,938</u>	<u>-</u>	<u>3,042,122</u>
Totals	<u>\$ 4,265,146</u>	<u>\$ 153,938</u>	<u>\$ -</u>	<u>\$ 4,419,084</u>

A summary of changes in proprietary fund type fixed assets for the City at December 31, 2001 follows:

Asset Class	Balance 12/31/2000	Additions	Deletions	Balance 12/31/2001
Land	\$ 98,335	\$ -	\$ -	\$ 98,335
Utility plant in service	8,545,692	71,164	42,500	8,574,356
Equipment	456,682	19,144	-	475,826
Construction in process	<u>167,604</u>	<u>2,073,352</u>	<u>-</u>	<u>2,240,956</u>
Totals	<u>\$ 9,268,313</u>	<u>\$ 2,163,660</u>	<u>\$ 42,500</u>	11,389,473
				<u>(3,445,184)</u>
				<u>\$ 7,944,289</u>

**D. Interfund Receivables and Payables**

*Current Amounts Due To/From.* The composition of current interfund balances as of December 31, 2001, is as follows:

Receivable Fund	Payable Fund	Amount
1998 Special Purpose Sales Tax	General	\$ 44,572
General	Water and Sewer	5,233
		\$ 49,805

*Advances and Loans.* Interfund advances and loans at December 31, 2001 are as follows:

Receivable Fund	Payable Fund	Amount
General	Water and Sewer	\$ 684,294

**E. Leases**

*Capital Leases.* The following is an analysis of the leased property under capital leases by major classes:

Asset Description	General Long-term Debt	Water and Sewer Fund
Vehicles	\$ 136,864	\$ 35,708
Equipment	13,000	-
Less: depreciation	-	(14,283)
Total	\$ 149,864	\$ 21,425

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2001, were as follows:

Year Ending December 31,	General Long-term Debt		Enterprise Fund		Total
	Principal	Interest	Principal	Interest	
2002	\$ 45,838	\$ 3,917	\$ 6,252	\$ 77	\$ 56,084
2003	38,800	2,047	-	-	40,847
2004	21,533	418	-	-	21,951
2005	-	-	-	-	-
2006	-	-	-	-	-
Thereafter	-	-	-	-	-
Total	\$ 106,171	\$ 6,382	\$ 6,252	\$ 77	\$ 118,882

**F. Long-term Debt**

*Changes in General Long-term Liabilities.* During the year ended December 31, 2001, the following changes occurred in liabilities reported in the general long-term debt account group:

Liability Description	Balance 12/31/2000	Additions	Deletions	Balance 12/31/2001
Capital leases	\$ 73,863	\$ 95,728	\$ 63,420	\$ 106,171
Beach Renourishment advance	799,573	200,427		1,000,000
Compensated absences	74,917	22,930		97,847
	<u>\$ 948,353</u>	<u>\$ 319,085</u>	<u>\$ 63,420</u>	<u>\$ 1,204,018</u>

*Beach Renourishment Loan.* The City has entered into a loan agreement with Chatham County, Georgia for a principal amount of \$1,000,000. The proceeds were used to finance the City's share of costs related to certain beach renourishment projects. The City, as security for a source of repayment, has pledged an amount equal to the principal, proceeds that the City anticipates receiving as a result of any distribution from the 1998 – 2003 One Percent Special Local Option Sales Tax. The term of the loan agreement is not to exceed November 30, 2003 at which time the entire outstanding principal amount together with any accrued interest shall be due and payable unless paid sooner by the City. The interest rate is 3 ½ % per annum.

*Changes in Proprietary Fund Type Long-term Liabilities.* The following is a summary of changes in the long-term debt of the Water and Sewer fund for the year ended December 31, 2001:

*Revenue Bonds.* The City also issues bonds where the City pledges income derived for the

Liability Description	Balance 12/31/2000	Additions	Deletions	Balance 12/31/2001
Water and Sewer Revenue Bonds, Series 1994	\$ 1,885,000	\$ -	\$ 75,000	\$ 1,810,000
GEFA Loans	691,980	-	27,165	664,815
SRF Loan	-	1,981,686	-	1,981,686
Capital Lease	74,675	-	68,423	6,252
	<u>\$ 2,651,655</u>	<u>\$ 1,981,686</u>	<u>\$ 170,588</u>	<u>\$ 4,462,753</u>

acquired or constructed assets to pay debt service.

*GEFA Loans.* The City has entered into loan agreements with the Georgia Environmental Facilities Authority (GEFA), a state agency. The GEFA makes low interest long-term loans to fund improvements to publicly owned water and sewer systems. The SRF loan is in the construction phase and a payment schedule has not been determined at December 31, 2001. The \$1,981,686, which represents draws on the loan and accrued interest, will be classified as long-term until the permanent loan is executed.

The following shows the details of Water and Sewer fund long-term liabilities through December 31, 2001:

Liability Description / Purpose	Original Amount	Interest Rate	Balance 12/31/2001
Water and Sewer Revenue Bonds, Series 1994	\$ 2,205,000	4.30% - 6.75%	\$ 1,810,000
1984 GEFA - Water and Sewer Improvements	304,804	6.80%	198,914
1998 GEFA - Elevated Water Tank	453,800	4.55%	465,901
2000 SRF - Wastewater Treatment Plant Upgrade	1,981,686	3.00%	1,981,686
			<u>4,456,501</u>
			<u>(108,689)</u>
			<u>\$ 4,347,812</u>



The annual aggregate maturities for each debt obligation for the years subsequent to December 31, 2001, are as follows:

Year Ending December 31,	Beach Renourishment Advance		
	Principal	Interest	Total
2002	\$ 600,000	\$ 23,733	\$ 623,733
2003	400,000	5,236	405,236
2004	-	-	-
2005	-	-	-
2006	-	-	-
Thereafter	-	-	-
<b>Total</b>	<b>\$ 1,000,000</b>	<b>\$ 28,969</b>	<b>\$ 1,028,969</b>

Revenue Bonds

Year Ending December 31,	Water and Sewer Revenue Series 1994		
	Principal	Interest	Total
2002	\$ 80,000	\$ 93,315	\$ 173,315
2003	80,000	87,382	167,382
2004	85,000	80,861	165,861
2005	90,000	73,794	163,794
2006	95,000	66,108	161,108
Thereafter	1,380,000	194,906	1,574,906
<b>Total</b>	<b>\$ 1,810,000</b>	<b>\$ 596,366</b>	<b>\$ 2,406,366</b>

GEFA Loans

Year Ending December 31,	1984 GEFA Loan		1998 GEFA Loan		Total
	Principal	Interest	Principal	Interest	
2002	\$ 12,222	\$ 13,219	\$ 16,467	\$ 20,920	\$ 62,828
2003	13,075	12,366	17,230	20,158	62,829
2004	13,987	11,454	18,027	19,361	62,829
2005	14,962	10,479	18,861	18,526	62,828
2006	16,006	9,435	19,734	17,653	62,828
Thereafter	128,662	30,346	375,582	129,153	663,743
<b>Total</b>	<b>\$ 198,914</b>	<b>\$ 87,299</b>	<b>\$ 465,901</b>	<b>\$ 225,771</b>	<b>\$ 977,885</b>

Year Ending December 31,	2000 SRF Loan		
	Principal	Interest	Total
2002	\$ -	\$ -	\$ -
2003	-	-	-
2004	-	-	-
2005	-	-	-
2006	-	-	-
Thereafter	1,981,686	-	1,981,686
<b>Total</b>	<b>\$ 1,981,686</b>	<b>\$ -</b>	<b>\$ 1,981,686</b>

**G. Contributed Capital**

The changes in the City’s contributed capital accounts for its proprietary fund were as follows:

Contributed capital, beginning of year	\$ 1,846,903
Contributing sources:	
Other governments	-
Others	-
	<u>                    </u>
Contributed capital, end of year	\$ <u>1,846,903</u>

**H. Reserved Fund Balances / Retained Earnings and Restricted Asset Accounts**

*Reserved for prepaid items – General Fund.* This reserve is used to segregate a portion of fund balance to indicate that, prepaid items do not represent “available spendable resources” even though they are a component of net current assets.

*Reserved for non-current interfund advance – General Fund.* This reserve is used to segregate a portion of fund balance to indicate that, advances to other funds do not represent “available spendable resources” even though they are a component of current assets.

*Reserved for grants – General Fund.* This reserve is used to segregate unspent grant revenues.

*Reserved for beach renourishment – Grant Fund.* This reserve is used to segregate unspent grant revenues related to beach renourishment activities.

*Reserved for special 1 % sales tax projects – Capital Projects Fund.* This reserve represents funds to be used for approved special one percent sales tax projects.

*Reserved for revenue bond retirements – Water and Sewer Fund.* This reserve represents funds to be used for the retirement of Water and Sewer revenue bonds.

*Reserved for renewal and extension fund – Water and Sewer Fund.* This reserve represents future capital expenditures related to the Water and Sewer plant.

*Changes in Reservations and Designations.* The changes in the City’s reservations and designations were as follows:

Reservation / Designation	Beginning Balance	Change	Ending Balance
<b>General Fund</b>			
Reserved for prepaid items	\$ 55,359	\$ (5,282)	\$ 50,077
Reserved for non-current interfund advances	1,298,385	(614,091)	684,294
Reserved for grants	-	37,500	37,500
Designated for fire engine acquisition	65,000	25,000	90,000
Designated for gym construction	406,666	130,968	537,634
Designated for storm drainage	40,000	-	40,000
<b>Beach Renourishment Grant Fund</b>			
Reserved for grants	-	421,881	421,881
<b>Capital Projects Fund</b>			
Reserved for special 1% sales tax projects	689,455	919,917	1,609,372
<b>Water and Sewer Fund</b>			
Reserved for revenue bond retirement	249,497	2,582	252,079
Reserved for renewal and extension fund	46,015	1,648	47,663

The balances of the proprietary fund’s restricted asset accounts at December 31, 2001 are as follows:

Revenue bond sinking fund account	\$ 252,079
Revenue bond renewal and extension fund account	<u>47,663</u>
Total restricted assets	\$ <u>299,742</u>

#### IV. OTHER INFORMATION

##### A. 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:

*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 the City's management based on the anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed 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 – incurred but not reported (IBNR) – is established by an actuary. The City has not compiled a record of the 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, 2001. No provisions have been made in the financial statements for any estimate of potential claims.

The City has elected to be a member of the Georgia Municipal Association Workers' Compensation Self-Insurance Fund (GMAWCSIF), a risk management agency created under Georgia law. As a participant in the GMAWCSIF, 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 GMAWCSIF 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.

*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.

**B. Segment Information – Enterprise Fund**

The City maintains one enterprise fund. The Water and Sewer Fund accounts for the provision of basic water and sewer services to all citizens. Selected segment information for the year ended December 31, 2001, is as follows:

Operating revenue	\$ 1,369,176
Operating expenses:	
Depreciation	293,757
Other	745,324
Total operating expenses	<u>1,039,081</u>
Operating income	330,095
Net nonoperating revenues (expenses)	(136,237)
Operating transfer-in	<u>37,388</u>
Net income (loss)	<u>\$ 231,246</u>
Current assets	\$ 1,092,798
Current liabilities	<u>421,772</u>
Net working capital (deficit)	<u>\$ 671,026</u>
Total assets	\$ 9,097,617
Total liabilities	<u>5,453,878</u>
Fund equity	<u>\$ 3,643,739</u>
Long-term liabilities payable from operating revenue	<u>\$ 5,032,106</u>

**C. Contingent Liabilities**

The City receives a number of grants that 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.

Various claims are pending against the City. The City attorney estimates that the potential effect of these claims net of insurance coverage would not be material in relation to the overall financial statements.

**D. Employee Retirement Systems and Plans**

*Plan Description.* The City of Tybee Island Retirement Plan is a noncontributory plan covering all full-time employees. The plan is administered by the Georgia Municipal Employees Benefit System (GMEBS), a statewide, agent multiple-employer type plan. GMEBS handles all administrative and investment functions relative to the plan. Benefits are fully vested after 10 years of service. Participants become eligible to retire at age 65, with 5 years of participation in the plan. 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% of final average earnings in excess of the participant's covered compensation, all multiplied by the participant's years of total credited service. These benefit provisions and all other requirements are established 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 Street, SW, Atlanta, Georgia 30303.

*Funding Policy.* The City's policy is to contribute the actuarially determined amount as recommended by the actuary. Employees do not contribute to the plan. The Board of Trustees of the 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 level dollar amortization of the unfunded actuarial accrued liability (initial unfunded actuarial accrued liability over 30 years from 1988 and 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 from the end of the year during which such changes arise), and 3) interest on these amounts from the valuation date to the date contributions are paid (assumed monthly). The recommended contribution under this policy for the 2001 plan year is developed below.

	2001
Normal Cost	
Plan benefits	\$ 95,606
Administrative expenses	5,873
Amortization of the unfunded actuarial accrued liability	60,215
Interest	6,233
Recommended contribution	167,927
Covered payroll	1,514,810
Recommended contribution as a percentage of covered payroll	11.1%

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

*Annual Pension Cost.* For 2001, the City's annual pension costs of \$154,383 were equal to the City's required and actual contributions. The required contribution was determined as a part of the May 1, 2001 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 over 30 years from 1988 and changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for the plan provisions and 30 years for actuarial assumptions and cost methods as a level dollar. These amortization periods, if applicable, are open for this plan year.

*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.

**Actuarial Assumptions and Methods**

**Economic Assumptions**

Interest rate	8.0 %
Annual rates of increase in salaries	5.5 %
Future Social Security wage bases	5.5 %
Inflation rate	3.0 %

**Demographic Assumptions**

Mortality	1983 GAM Table	
Termination	<u>Age</u>	<u>Rate</u>
	20	.2580
	30	.1560
	40	.0945
	50	.0585
	60	---
Disability	50% of 1975 SSA Study	
Retirement	Employees: 65 with 5 years of service	
	Police: Earlier of 65 with 5 years of service or 60 with 20 years of service	
Form of payment	Life annuity	

**Actuarial Methods**

Normal Cost and Actuarial Accrued Liability	Projected Unit Credit
Actuarial Value of Assets	Roll forward prior year's actuarial value with contributions, disbursements, and expected return on investments, plus 10% of investment gains (losses) during 10 prior years.

*Concentrations.* At September 30, 2001 there were no investments (other than investments in securities issued or guaranteed by the U.S. government) in entities that represent 5% or more of the net assets of the pension plan.

***Schedule of Employer Contributions***

Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed	Net Pension Obligation
5/1/96	\$ 81,628	100%	-
5/1/97	88,752	100%	-
5/1/98	94,723	100%	-
5/1/99	96,877	100%	-
5/1/00	139,026	101%	-
5/1/01	162,054	100%	-

*Schedule of Funding Process*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued 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)
5/1/96	\$ 602,715	\$ 844,453	\$ 241,738	71.4%	\$ 1,138,043	21.2%
5/1/97	710,867	954,274	243,407	74.5%	1,235,283	19.7%
5/1/98	848,742	1,091,147	242,405	77.8%	1,294,764	18.7%
5/1/99	998,501	1,219,204	220,703	81.9%	1,336,419	16.5%
5/1/00	1,190,810	1,647,175	456,365	72.3%	1,431,393	31.9%
5/1/01	1,387,378	1,958,732	571,354	70.8%	1,514,810	37.7%

City of Tybee Island, Georgia  
General Fund  
Comparative Balance Sheets  
December 31, 2001 and 2000

	2001	2000
<b>Assets</b>		
Cash	\$ 2,881,718	\$ 1,795,229
Receivables:		
Taxes (net of allowance for uncollectibles of \$17,700)	111,300	90,331
Other receivables	7,928	3,455
Due from other funds	5,233	4,971
Due from other governments	-	32,583
Advances to other funds	684,294	1,298,385
Prepaid items	50,077	55,359
Total assets	\$ 3,740,550	\$ 3,280,313
<b>Liabilities and fund balance</b>		
Liabilities:		
Accounts payable	\$ 134,557	\$ 203,289
Accrued payables	60,690	46,469
Due to other funds	44,572	-
Deferred revenue	102,518	37,313
Total liabilities	342,337	287,071
Fund balance:		
Reserved for prepaid items	50,077	55,359
Reserved for grants	37,500	-
Reserved for non-current interfund advances	684,381	1,298,385
Designation for fire engine acquisition	90,000	65,000
Designated for gym construction	537,634	406,666
Designated for storm drainage	40,000	40,000
Unreserved, undesignated	1,958,621	1,127,832
Total fund balance	3,398,213	2,993,242
Total liabilities and fund balance	\$ 3,740,550	\$ 3,280,313



City of Tybee Island, Georgia  
General Fund  
Comparative Statements of Revenues, Expenditures, and Changes in Fund Balance  
For the Years Ended December 31, 2001 and 2000

	2001	2000
<b>Revenues:</b>		
Taxes	\$ 2,265,262	\$ 2,214,369
Licenses and permits	196,629	162,048
Intergovernmental revenues	232,784	70,995
Charges for services	1,347,665	1,270,040
Fines and forfeitures	261,610	262,675
Investment income	64,430	44,705
Miscellaneous revenue	164,105	178,302
Total revenues	4,532,485	4,203,134
<b>Expenditures:</b>		
<b>Current:</b>		
General governmental	726,717	551,526
Judicial	20,161	21,874
Public safety	1,270,371	1,201,430
Public works	1,320,350	1,232,120
Health and welfare	1,004	570
Culture and recreation	548,898	380,265
Housing and development	395,399	341,028
Total current	4,282,900	3,728,813
<b>Capital outlay:</b>		
General governmental	25,872	83,837
Public safety	86,466	77,518
Public works	50,936	93,750
Culture and recreation	54,022	14,158
Housing and development	46,864	60,800
Total capital outlay	264,160	330,063
<b>Debt service:</b>		
Principal	63,419	63,277
Interest	3,718	3,892
Total debt service	67,137	67,169
Total expenditures	4,614,197	4,126,045
Excess (deficiency) of revenues over (under) expenditures	(81,712)	77,089
<b>Other financing sources (uses):</b>		
Capital lease proceeds	95,728	53,956
Operating transfers in	390,955	410,203
Total financing sources (uses)	486,683	464,159
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	404,971	541,248
Fund balance, beginning of year	2,993,242	2,451,994
Fund balance, end of year	\$ 3,398,213	\$ 2,993,242

City of Tybee Island, Georgia  
General Fund  
Comparative Statements of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual  
For the Years Ended December 31, 2001 and 2000

	2001		Variance Favorable (Unfavorable)	2000
	Budget	Actual		Actual
<b>Revenues:</b>				
Taxes	\$ 2,462,600	\$ 2,265,262	\$ (197,338)	\$ 2,214,369
Licenses and permits	170,200	196,629	26,429	162,048
Intergovernmental revenues	185,000	232,784	47,784	70,995
Charges for services	1,274,870	1,347,665	72,795	1,270,040
Fines and forfeitures	235,500	261,610	26,110	262,675
Investment income	44,500	64,430	19,930	44,705
Miscellaneous revenue	184,650	164,105	(20,545)	178,302
Total revenues	<u>4,557,320</u>	<u>4,532,485</u>	<u>(24,835)</u>	<u>4,203,134</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General governmental	737,819	726,717	11,102	551,526
Judicial	22,500	20,161	2,339	21,874
Public safety	1,277,888	1,270,371	7,517	1,201,430
Public works	1,341,808	1,320,350	21,458	1,232,120
Health and welfare	4,000	1,004	2,996	570
Culture and recreation	560,358	548,898	11,460	380,265
Housing and development	433,573	395,399	38,174	341,028
Total current	<u>4,377,946</u>	<u>4,282,900</u>	<u>95,046</u>	<u>3,728,813</u>
<b>Capital outlay:</b>				
General governmental	92,500	25,872	66,628	83,837
Public safety	87,000	86,466	534	77,518
Public works	55,200	50,936	4,264	93,750
Culture and recreation	635,692	54,022	581,670	14,158
Housing and development	47,800	46,864	936	60,800
Total capital outlay	<u>918,192</u>	<u>264,160</u>	<u>654,032</u>	<u>330,063</u>
<b>Debt service:</b>				
Principal	63,419	63,419	-	63,277
Interest	3,718	3,718	-	3,892
Total debt service	<u>67,137</u>	<u>67,137</u>	<u>-</u>	<u>67,169</u>
Total expenditures	<u>5,363,275</u>	<u>4,614,197</u>	<u>749,078</u>	<u>4,126,045</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(805,955)</u>	<u>(81,712)</u>	<u>724,243</u>	<u>77,089</u>
<b>Other financing sources (uses):</b>				
Capital lease proceeds	-	95,728	95,728	53,956
Operating transfers in	390,955	390,955	-	410,203
Total financing sources (uses)	<u>390,955</u>	<u>486,683</u>	<u>95,728</u>	<u>464,159</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	<u>(415,000)</u>	<u>404,971</u>	<u>819,971</u>	<u>541,248</u>
Fund balance, beginning of year	<u>2,993,242</u>	<u>2,993,242</u>		<u>2,451,994</u>
Fund balance, end of year	<u>\$ 2,578,242</u>	<u>\$ 3,398,213</u>	<u>\$ 819,971</u>	<u>\$ 2,993,242</u>

City of Tybee Island, Georgia  
Special Revenue Funds  
Combining Balance Sheet  
December 31, 2001  
With Comparative Totals for 2000

	Beach Renourishment Grant Fund	Hotel - Motel Tax Fund	2001	2000
<b>Assets</b>				
Cash	\$ 421,881	\$ 13,440	\$ 435,321	\$ -
Total assets	\$ 421,881	\$ 13,440	\$ 435,321	\$ -
<b>Liabilities and fund balance</b>				
Liabilities:				
Accounts payable	\$ -	\$ 13,440	\$ 13,440	\$ -
Total liabilities	-	13,440	13,440	-
Fund balance:				
Reserved for beach renourishment	421,881	-	421,881	-
Unreserved, undesignated	-	-	-	-
Total fund balance	421,881	-	421,881	-
Total liabilities and fund balance	\$ 421,881	\$ 13,440	\$ 435,321	\$ -

City of Tybee Island, Georgia  
Special Revenue Funds  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
For the Year December 31, 2001  
With Comparative Totals for 2000

	Beach Renourishment Grant Fund	Hotel - Motel Tax Fund	2001	2000
<b>Revenues:</b>				
Taxes	\$ -	\$ 781,911	\$ 781,911	\$ 740,558
Intergovernmental	450,000	-	450,000	-
Interest earned	-	-	-	-
Total revenues	<u>450,000</u>	<u>781,911</u>	<u>1,231,911</u>	<u>740,558</u>
<b>Expenditures:</b>				
Current:				
Housing and development	28,119	390,956	419,075	370,279
Total current	<u>28,119</u>	<u>390,956</u>	<u>419,075</u>	<u>370,279</u>
Total expenditures	<u>28,119</u>	<u>390,956</u>	<u>419,075</u>	<u>370,279</u>
Excess (deficiency) of revenues over (under) expenditures	<u>421,881</u>	<u>390,955</u>	<u>812,836</u>	<u>370,279</u>
<b>Other financing sources (uses):</b>				
Operating transfers in (out)	-	(390,955)	(390,955)	(370,279)
Total financing sources (uses)	<u>-</u>	<u>(390,955)</u>	<u>(390,955)</u>	<u>(370,279)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	421,881	-	421,881	-
Fund balances, beginning of year	-	-	-	-
Fund balance, end of year	<u>\$ 421,881</u>	<u>\$ -</u>	<u>\$ 421,881</u>	<u>\$ -</u>

City of Tybee Island, Georgia  
 Beach Renourishment Grant Fund  
 Comparative Balance Sheets  
 December 31, 2001 and 2000

	2001	2000
<b>Assets</b>		
Cash	\$ 421,881	\$ -
Total assets	\$ 421,881	\$ -
<b>Liabilities and fund balance</b>		
Liabilities:		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
Fund balance:		
Reserved for beach renourishment	421,881	-
Total fund balance	421,881	-
Total liabilities and fund balance	\$ 421,881	\$ -

City of Tybee Island, Georgia  
 Beach Renourishment Grant Fund  
 Comparative Statements of Revenue, Expenditures, and Changes in Fund Balances  
 For the Years Ended December 31, 2001 and 2000

	2001	2000
Revenues:		
Intergovernmental	\$ 450,000	\$ -
Interest earned	-	-
Total revenues	450,000	-
Expenditures:		
Current:		
Housing and development	28,119	-
Total current	28,119	-
Total expenditures	28,119	-
Excess (deficiency) of revenues over (under) expenditures	421,881	-
Other financing sources (uses):		
Operating transfers in (out)	-	-
Total financing sources (uses)	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	421,881	-
Fund balance, beginning of year	-	-
Fund balance, end of year	\$ 421,881	\$ -

City of Tybee Island, Georgia  
 Beach Renourishment Grant Fund  
 Comparative Statements of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
 For the Years Ended December 31, 2001 and 2000

	2001		2000	
	Budget	Actual	Variance Favorable (Unfavorable)	Actual
Revenues:				
Intergovernmental	\$ 450,000	\$ 450,000	\$ -	\$ -
Interest earned		-	-	-
Total revenues	<u>450,000</u>	<u>450,000</u>	<u>-</u>	<u>-</u>
Expenditures:				
Current:				
Housing and development	450,000	28,119	421,881	-
Total current	<u>450,000</u>	<u>28,119</u>	<u>421,881</u>	<u>-</u>
Total expenditures	<u>450,000</u>	<u>28,119</u>	<u>421,881</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>421,881</u>	<u>421,881</u>	<u>-</u>
Other financing sources (uses):				
Operating transfers (out)	-	-	-	-
Total financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	<u>-</u>	<u>421,881</u>	<u>421,881</u>	<u>-</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ 421,881</u>	<u>\$ 421,881</u>	<u>\$ -</u>

City of Tybee Island, Georgia  
 Hotel – Motel Tax Fund  
 Comparative Balance Sheets  
 December 31, 2001 and 2000

	2001	2000
<b>Assets</b>		
Cash	\$ 13,440	\$ -
Total assets	\$ 13,440	\$ -
<b>Liabilities and fund balance</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 13,440	\$ -
Total liabilities	13,440	-
<b>Fund balance:</b>		
Unreserved, undesignated	-	-
Total fund balance	-	-
Total liabilities and fund balance	\$ 13,440	\$ -



City of Tybee Island, Georgia  
Hotel – Motel Tax Fund  
Comparative Statements of Revenue, Expenditures, and Changes in Fund Balances  
For the Years Ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Revenues:		
Taxes	\$ 781,911	\$ 740,558
Total revenues	<u>781,911</u>	<u>740,558</u>
Expenditures:		
Current:		
Housing and development	390,956	370,279
Total current	<u>390,956</u>	<u>370,279</u>
Total expenditures	<u>390,956</u>	<u>370,279</u>
Excess (deficiency) of revenues over (under) expenditures	<u>390,955</u>	<u>370,279</u>
Other financing sources (uses):		
Operating transfers in (out)	<u>(390,955)</u>	<u>(370,279)</u>
Total financing sources (uses)	<u>(390,955)</u>	<u>(370,279)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	-	-
Fund balance, beginning of year	-	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>

City of Tybee Island, Georgia  
Hotel – Motel Tax Fund  
Comparative Statements of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
For the Years Ended December 31, 2001 and 2000

	2001		Variance Favorable (Unfavorable)	2000
	Budget	Actual		Actual
Revenues:				
Taxes	\$ 781,911	\$ 781,911	\$ -	\$ 740,558
Total revenues	<u>781,911</u>	<u>781,911</u>	<u>-</u>	<u>740,558</u>
Expenditures:				
Current:				
Housing and development	390,956	390,956	-	370,279
Total current	<u>390,956</u>	<u>390,956</u>	<u>-</u>	<u>370,279</u>
Total expenditures	<u>390,956</u>	<u>390,956</u>	<u>-</u>	<u>370,279</u>
Excess (deficiency) of revenues over (under) expenditures	<u>390,955</u>	<u>390,955</u>	<u>-</u>	<u>370,279</u>
Other financing sources (uses):				
Operating transfers (out)	(390,955)	(390,955)	-	(370,279)
Total financing sources (uses)	<u>(390,955)</u>	<u>(390,955)</u>	<u>-</u>	<u>(370,279)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Tybee Island, Georgia  
 1998 Special Purpose Local Option Sales Tax Fund  
 Comparative Balance Sheets  
 December 31, 2001 and 2000

	2001	2000
<b>Assets</b>		
Cash	\$ 1,564,800	\$ 694,426
Receivables:		
Due from other funds	44,572	-
Total assets	\$ 1,609,372	\$ 694,426
<b>Liabilities and equity</b>		
Liabilities:		
Due to other funds	\$ -	\$ 4,971
Total liabilities	-	4,971
Fund Balance:		
Reserved for special 1% sales tax projects	1,609,372	689,455
Total fund balance	1,609,372	689,455
Total liabilities and equity	\$ 1,609,372	\$ 694,426

City of Tybee Island, Georgia  
 1998 Special Purpose Local Option Sales Tax Fund  
 Comparative Statements of Revenue, Expenditures, and Changes in Fund Balances  
 For the Years Ended December 31, 2001 and 2000

	2001	2000
<b>Revenues:</b>		
Intergovernmental revenues	\$ 829,097	\$ 713,819
Interest	24,139	22,431
Total revenues	853,236	736,250
<b>Expenditures:</b>		
Capital outlay:		
Public works	60,463	346,911
Total capital outlay	60,463	346,911
Debt service:		
Principal	-	200,427
Interest	35,895	38,099
Total debt service	35,895	238,526
Total expenditures	96,358	585,437
Excess (deficiency) of revenues over (under) expenditures	756,878	150,813
<b>Other financing sources (uses):</b>		
Loan proceeds - Chatham County, Georgia	200,427	-
Operating transfer out	(37,388)	(41,961)
Total financing sources (uses)	163,039	(41,961)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	919,917	108,852
Fund balance, beginning of year	689,455	580,603
Fund balance, end of year	\$ 1,609,372	\$ 689,455

City of Tybee Island, Georgia  
Water and Sewer Enterprise Fund  
Comparative Balance Sheets  
December 31, 2001 and 2000

	2001	2000
<b>Assets</b>		
Current assets:		
Cash	\$ 642,915	\$ 693,297
Accounts receivable (net allowance for uncollectibles)	146,733	291,597
Prepaid items	3,408	3,846
Total current assets	793,056	988,740
Restricted assets:		
Bond sinking fund	252,079	249,497
Renewal and extension fund	47,663	46,015
Total restricted assets	299,742	295,512
Fixed assets:		
Land	98,335	98,335
Utility plant in service	8,574,356	8,545,692
Other equipment	475,826	456,682
Accumulated depreciation	(3,445,184)	(3,193,927)
Construction in progress	2,240,956	167,604
Fixed assets (net of accumulated depreciation)	7,944,289	6,074,386
Other assets:		
Prepaid bond issuance costs	92,369	92,369
Less amortization	(31,839)	(27,641)
Total other assets	60,530	64,728
Total assets	\$ 9,097,617	\$ 7,423,366

(continued)

City of Tybee Island, Georgia  
Water and Sewer Enterprise Fund  
Comparative Balance Sheets  
December 31, 2001 and 2000

	2001	2000
<b>Liabilities and equity</b>		
Current liabilities payable from current assets:		
Accounts payable	\$ 271,459	\$ 36,575
Accrued payables	7,988	5,554
Due to other funds	5,233	-
Compensated absences	12,507	8,723
Notes payable - current	34,942	95,587
Total current liabilities payable from current assets	332,129	146,439
Current liabilities payable from restricted assets:		
Accrued interest on revenue bonds	9,643	9,981
Bonds payable - current	80,000	75,000
Total current liabilities payable from restricted assets	89,643	84,981
Other liabilities:		
Advances from other funds	684,294	1,298,385
Long-term debt:		
Bonds payable - Series 1994 Water and Sewer Revenue Bonds	1,730,000	1,810,000
Notes payable - Georgia Environmental Facilities Authority	2,617,812	671,068
Total other liabilities	5,032,106	3,779,453
Total liabilities	5,453,878	4,010,873
Equity:		
Contributed capital:		
Federal government	1,383,040	1,383,040
State government	350,940	350,940
Other funds	112,923	112,923
Total contributed capital	1,846,903	1,846,903
Retained earnings:		
Reserved for revenue bond retirement	252,079	249,497
Reserved for renewal and extension	47,663	46,015
Unreserved	1,497,094	1,270,078
Total retained earnings	1,796,836	1,565,590
Total equity	3,643,739	3,412,493
Total liabilities and equity	\$ 9,097,617	\$ 7,423,366

(concluded)

City of Tybee Island, Georgia  
Water and Sewer Enterprise Fund  
Comparative Statements of Revenue, Expenses, and Changes in Retained Earnings  
For the Years Ended December 31, 2001 and 2000

	2001	2000
Operating revenues:		
Water charges	\$ 577,390	\$ 594,216
Sewer charges	618,599	655,802
Stubbing fees	14,500	55,032
Tapping fees	28,050	63,376
Aid to construction	34,800	129,600
Other	95,837	94,778
Total operating revenues	1,369,176	1,592,804
Operating expenses:		
Personnel services	306,096	277,395
Administrative services	105,558	121,562
Depreciation	293,757	296,660
Repairs and maintenance	62,620	139,882
Utilities	80,327	73,425
Operating supplies	57,042	66,289
Other	133,681	123,487
Total operating expenses	1,039,081	1,098,700
Operating income (loss)	330,095	494,104
Nonoperating revenues (expenses):		
Interest earned on investments	22,929	33,681
Bond issuance costs	(4,199)	(4,199)
Gain (loss) on disposal of assets	-	(36,405)
Interest expense	(154,967)	(154,975)
Total nonoperating revenues (expenses)	(136,237)	(161,898)
Income before operating transfers	193,858	332,206
Operating transfer in	37,388	21,177
Net income	231,246	353,383
Retained earnings, beginning of year	1,565,590	1,212,207
Retained earnings, end of year	\$ 1,796,836	\$ 1,565,590

City of Tybee Island, Georgia  
Comparative Statements of Cash Flows  
For the Year Ended December 31, 2001

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,514,040	\$ 1,451,395
Cash paid to vendors	(201,472)	(508,566)
Cash paid to employees	<u>(302,312)</u>	<u>(290,424)</u>
Net cash provided by operating activities	<u>1,010,256</u>	<u>652,405</u>
Cash flows from noncapital financing activities:		
Operating transfers from other funds	37,388	21,177
Interfund borrowings	<u>(608,858)</u>	<u>218,383</u>
Net cash provided by noncapital financing activities	<u>(571,470)</u>	<u>239,560</u>
Cash flows from capital and related financing activities:		
Proceeds of borrowing for capital purposes	1,811,099	71,155
Principal payments - bonds payable	(75,000)	(70,000)
Principal payments - notes payable	(27,164)	(18,287)
Principal payments - capital leases	(68,423)	(101,165)
Interest paid	(159,504)	(155,284)
Acquisition, construction, or improvement of capital assets	<u>(1,988,875)</u>	<u>(528,283)</u>
Net cash used by capital and related financing activities	<u>(507,867)</u>	<u>(801,864)</u>
Cash flows from investing activities:		
Interest received	<u>22,929</u>	<u>33,681</u>
Net cash provided by investing activities	<u>22,929</u>	<u>33,681</u>
Net increase (decrease) in cash and cash equivalents	(46,152)	123,782
Cash and cash equivalents, beginning of year	988,809	865,027
Cash and cash equivalents, end of year	<u>\$ 942,657</u>	<u>\$ 988,809</u>
Operating income (loss)	<u>\$ 330,095</u>	<u>\$ 494,104</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	293,757	296,660
(Increase) decrease in accounts receivable	144,864	(141,409)
(Increase) decrease in prepaid items	438	(970)
Increase (decrease) in accounts payable and accrued expenses	237,318	17,049
Increase (decrease) in compensated absences	<u>3,784</u>	<u>(13,029)</u>
Total adjustments	<u>680,161</u>	<u>158,301</u>
Net cash provided by operating activities	<u>\$ 1,010,256</u>	<u>\$ 652,405</u>



City of Tybee Island, Georgia  
 Schedule of Projects Constructed with Special Sales Tax Proceeds  
 For the Year Ended December 31, 2001

Project	Original Estimated Cost	Revised Estimated Cost	Prior Years	Current Year	Total Cost
Drainage	\$ 2,000,000	\$ 1,900,000	\$ 370,584	\$ 43,815	\$ 414,399
Beach Renourishment	1,000,000	1,100,000	1,019,916	52,543	1,072,459
Other Capital Outlay Projects	696,428	696,428	94,887	37,388	132,275
Total	<u>\$ 3,696,428</u>	<u>\$ 3,696,428</u>	<u>\$ 1,485,387</u>	<u>\$ 133,746</u>	<u>\$ 1,619,133</u>

City of Tybee Island, Georgia  
Schedule of Required Expenditures Generated by the Hotel – Motel Tax  
For the Year Ended December 31, 2001

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Revenue:	
Hotel/Motel taxes	<u>\$ 781,911</u>
Expenditures:	
Tourism expenditures	<u>\$ 390,956</u>
Percentage of expenditures to revenues	<u>50%</u>

# KARP, RONNING & TINDOL

CERTIFIED PUBLIC ACCOUNTANTS

MARTIN L. KARP, CPA

DENNIS W. RONNING, CPA

RICHARD D. TINDOL, CPA

BRADLEY A. LUCAS, CPA

A. L. KARP (1925-1969)

123 ABERCORN STREET

P. O. Box 9550

SAVANNAH, GEORGIA 31412

912-232-0475 TELEPHONE

912-232-0478 FACSIMILE

888-261-8702 TOLL FREE

krt@krtcpa.com

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

Honorable Mayor and Members of the  
City Council  
City of Tybee Island, Georgia

We have audited the financial statements of the City of Tybee Island, Georgia, as of and for the year ended December 31, 2001, and have issued our report thereon dated June 14, 2002. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As a 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 grants, 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 that are required to be reported under *Government Auditing Standards*.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items TI00-1, TI00-2, TI00-3, TI00-4, TI00-5 and TI00-6.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, of the reportable conditions described above, we consider items TI01-1, TI01-2, TI01-3 and TI01-5 to be material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of City of Tybee Island, Georgia, in a separate letter dated June 14, 2002.

This report is intended solely for the information and use of management 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.

Karp, Ronning & Tindol, P.C.

*Karp, Ronning & Tindol, P.C.*

Savannah, Georgia  
June 14, 2002

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**Finding TI01-1**

Although the small size of the City's office staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both the physical assets and the related accounting records or to all phases of a transaction.

One of the most critical areas of separation is cash, where we noted the following:

1. The Finance Director also functions as the cashier and handles mail receipts.
2. Cashier receives payment, prepares the bank deposit, and has access to the accounts receivable subsidiary ledger.
3. Items returned by the bank (because of insufficient funds, etc.) are delivered to the cashier and investigated by the cashier.

The result is the danger that intentional or unintentional errors could be made and not detected. We suggest that management reevaluate the present system and make changes to provide as much separation as possible.

**Finding TI01-2**

Detailed fixed asset records were not available. The preparation of detailed property records aids in the accounting for property disposals, substantiate insurance claims for lost or damaged items, and provides controls to safeguard the assets.

The City should take appropriate action to establish accounting controls and procedures to provide for maintenance of complete fixed asset records. A written procedure statement could include the following:

1. A detailed property record for each asset.
2. A property identification number to be assigned and affixed to each asset.
3. A capitalization policy under which minor disbursements within a specified dollar amount would be immediately charged to operations.

At minimum, the detailed property records should include the following information:

1. Description, asset number, and location.
2. Acquisition cost and date of acquisition.
3. Assigned life and method of depreciation
4. Depreciation taken on an annual basis with the accumulation thereof.

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**Finding TI01-3**

The city's appropriation ordinance does not require the use of purchase orders. The purpose of a purchase order system is to control spending of the City's resources and to help ensure that the City pays only for items that are actually received. The system should provide for approval of purchases, including establishment of reasonable limitations on approval authority of specific individuals. For example, under the system, purchase of fixed assets in excess of a specified dollar limit might require Mayor and Council action; items purchased relatively infrequently, such as insurance policies and long-term service contracts, would be approved by the City Manager; and materials and supplies would be approved by department heads. A purchase order is usually in writing and is a legal document indicating an offer to buy. For most routine items, a purchase order is used to indicate the offer. A purchase order would be issued to a vendor for a specified item at a certain price to be delivered at or by a designated time. Prices and other terms would be included on purchase orders for use in job cost control and in the payment process. Purchase orders should be matched to vendor invoices to assure that only agreed upon prices are paid.

We recommend that management re-evaluate the current appropriations ordinance and consider requiring that purchase orders be utilized in the process of acquiring goods and services. Purchase orders should be:

1. Prenumbered and used in sequence.
2. Prepared on the basis of a purchase requisition approved by a responsible employee, usually a department head.
3. Limited to purchases less than a certain amount (to be determined by the governing body) on their face without prior approval of the governing body.

Purchase orders should require independent approval that:

1. An appropriation exists for the purchase
2. A sufficient amount is available in the appropriation account to which the purchase is chargeable.

**Finding TI01-4**

We noted that certain cash receipts were being posted to the general ledger through general journal entries and not being processed through centralized collections. While this may seem like a quick method of recording cash receipts it is generally less efficient and compromises controls established to ensure that all receipts received by the City are properly recorded and accounted for in the accounting records of the City.

We recommend the City process all amounts received through centralized collections in order to prepare a complete and accurate cash receipts journal of amounts received. Daily cash receipt listings should be maintained to support totals in the cash receipts journal.

**Finding TI01-5**

We noted that general ledger accounts for cash, accounts receivable, fixed assets and accounts payable were not reconciled to supporting documentation during the year ended December 31, 2001.

We recommend that City personnel reconcile the general ledger accounts for cash, accounts receivable and accounts payable on a monthly basis and that any reconciling items be investigated and cleared promptly. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

A cash reconciliation that reconciles from the bank balance to the general ledger balance should be prepared to determine that all cash transactions have been recorded properly and to discover bank errors.

A reconciliation of accounts receivable from the general ledger to the accounts receivable detail ledger should be prepared to check that the recording of transactions is accurate and proper and that any adjustments to or write-offs of accounts receivable have been approved. Such a reconciliation is a primary

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means of preventing or detecting an error or fraud in accounts receivable. For example, one way to conceal a misappropriation of cash is to record a fictitious entry in the accounts receivable subsidiary ledger.

A reconciliation of accounts payable from the general ledger to the outstanding accounts payable register should be prepared to determine that all additions to and payments of accounts payable are correctly recorded and to determine whether there are any disputed items.

Other account balances such as loan balances, fixed assets, etc., should also be adjusted to the correct balances on a monthly basis. These reconciliations and adjustments will ensure meaningful and accurate financial statements. The financial statements can then be used to help in the management decision-making process and budget planning.

**Finding TI01-6**

Even in this age of computerized data, significant volumes of paper documents and records are generated. During our audit we noticed that accounting records frequently could not be located when needed. The causes of the problems appeared to be:

- (a) Lack of a clearly specified system for filing records
- (b) Failure of those who removed records from the files to indicate who took the record
- (c) Failure to return the record to the files or misfiling it when it was returned
- (d) Lack of specific policies for removing prior year records from the files to a designated storage place

The result was that employees spent nonproductive time searching for needed documents. This condition could also present problems when we or other governmental agencies need documents in support of information subject to audit. We recommend that the following steps be taken:

- ✓ Decide on a systematic manner of filing documents, for example, tax reports alphabetically by payer and type of tax, receiving reports consecutively by number, vendor bills alphabetically by vendor name, journal entries by month, and so on. Describe the system in the accounting manual or post a description on the filing cabinets or in the storage room so that employees will know how to find and refile documents.
- ✓ Institute use of "sign-out" cards to be filled out when a document is removed, showing who took the record. The card should be placed in the file in place of the removed document.
- ✓ Establish a policy specifying which records should be retained permanently (perhaps on microfiche or scanned onto a computer disk after time) and which records should be kept only for a given period before being destroyed and how long that period should be. Also, decide on when records should be removed from more accessible files to other storage areas. For example, some cities keep the current and prior year records in the accounting department and store older records in off-premises warehouses. Assign personnel the responsibility to periodically clean out the files in accordance with the established policy.