

City of Adairsville, Georgia

Annual Financial Report

for the

Fiscal Year Ended December 31, 2011

By Authority of

The Mayor and City Council

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CITY OF ADAIRSVILLE, GEORGIA
Annual Financial Report
Year Ended December 31, 2011

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Council
Of the City of Adairsville, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Adairsville, Georgia, as of and for the year ended December 31, 2011, 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 Adairsville, 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Adairsville, Georgia as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows, 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 June15, 2012 on our consideration of the City of Adairsville, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis on pages 3 through 9 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Adairsville's basic financial statements. The Schedule of Special Purpose Local Option Sales Tax, as required by the Georgia code section OCGA §48-8-121, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in this schedule 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. The accompanying financial information listed as schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Adairsville, Georgia. The information in these schedules 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.

Williamson and Company

Williamson and Company
Certified Public Accountants
June 15, 2012

CITY OF ADAIRSVILLE, GEORGIA

Management's Discussion and Analysis

As management of the City of Adairsville, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Adairsville for the fiscal year ended December 31, 2011.

Financial Highlights

- The City of Adairsville's assets exceeded its liabilities at December 31, 2011, by $23,451,909 (net assets), an increase of $1,693,278 over the prior year. Of this amount, $4,272,286 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of December 31, 2011, the City of Adairsville's governmental funds reported combined ending fund balances of $2,695,535, a decrease of $500,335 from the prior year. Approximately $1,248,721 is available for spending at the government's discretion (unassigned fund balance).
- At the fiscal year end, unassigned fund balance for the general fund was $1,248,721 or 48 percent of general fund expenditures.
- The City's long-term debt at December 31, 2011, consisted of $130,000 in Water and Sewer Revenue Bonds; $3,018,218 in Georgia Environmental Finance Authority notes, $17,117 in capital leases and $18,123 in compensated absences. The City did not issue any new debt during the year.

Overview of the Financial Statements

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

Government-wide financial statements. The government-wide financial statements are designed to provide the reader with a broad overview of Adairsville's financial position in a manner similar to private-sector business. These statements include the Statement of Net Assets and the Statement of Activities and can be found on pages 13 through 15 of this report.

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

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., for uncollected taxes). Because the Statement of Activities separates program, or function revenue (revenue generated by specific functions through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a specific function), it shows to what extent each function must rely on taxes for funding. All changes in net assets are reported using the accrual basis of accounting which is similar to the method used by most private-sector enterprises. The accrual basis of accounting requires that revenues be reported when they are earned and expenses are reported when the goods and services are received, regardless of the timing of the cash flows. Items such as uncollected taxes and unpaid vendor invoices for items received during the fiscal year are included in the Statement of Activities as revenues and expenses, even though the cash associated with these items were not received nor distributed during the fiscal year.

The City of Adairsville has identified the Adairsville Development Authority as a component unit due to the significance of their operational and financial relationship with the City. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13 – 15 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Adairsville, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Adairsville can be divided into two categories: governmental funds and proprietary funds. Governmental funds are used to account for most or all of the City's tax-supported activities. Proprietary funds are used to account for the City's business-like activities, where all or a substantial portion of the costs of activities are supported by fees and charges paid directly by users of the services.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Adairsville maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the SPLOST (capital projects) fund are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Adairsville adopts an annual appropriated budget for its governmental funds. Budgetary comparison statements for these funds have been provided to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 16 through 21 of this report.

Proprietary funds. The City of Adairsville maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Adairsville uses enterprise funds to account for its Water and Sewer System and its Natural Gas System.

Individual fund data for the proprietary funds is provided in the form of combining statements. The proprietary fund combining statements follow the governmental fund combining statements in this report, on pages 22 through 25.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 27 through 43.

Government-wide Financial Analysis

Statement of Net Assets. As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. As of December 31, 2011, the City of Adairsville's combined (government and business-type activities) assets exceeded liabilities by $23,451,909. A significant portion of the City's net assets, 77 percent, is its investment in capital assets (e.g., land, buildings, infrastructure, and equipment), less related outstanding debt that was used to acquire those assets. Because Adairsville uses these capital assets to provide services to its residents, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Adairsville Net Assets
for the year ended December 31,

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	$ 3,402,368	$ 3,689,254	$ 3,276,107	$ 2,696,661	$ 6,678,475	$ 6,385,915
Capital Assets	5,896,145	4,694,139	15,415,917	15,638,769	21,312,062	20,332,908
Total Assets	9,298,513	8,383,393	18,692,024	18,335,430	27,990,537	26,718,823
Lon-term liabilities outstanding	12,826	139,528	2,743,308	1,170,457	$ 2,756,134	$ 1,309,985
Other liabilities	651,304	446,144	1,131,190	3,204,063	1,782,494	3,650,207
Total liabilities	664,130	585,672	3,874,498	4,374,520	4,538,628	4,960,192
Net assets:						
Invested in capital assets, net of related debt	5,879,028	4,648,739	12,270,802	12,086,778	$ 18,149,830	$ 16,735,517
Restricted	891,992	1,517,375	137,801	356,450	$ 1,029,793	$ 1,873,825
Unrestricted	1,863,363	1,631,607	2,408,923	1,517,682	4,272,286	3,149,289
Total net assets	$ 8,634,383	$ 7,797,721	$ 14,817,526	$ 13,960,910	$ 23,451,909	$ 21,758,631

An additional portion of the City's net assets for governmental activities, $891,992; and for business-type activities, $137,801, represent resources that are subject to external restrictions on how they may be used. Approximately 98 percent of the governmental restricted resources are proceeds from SPLOST funds for capital improvements projects for roads, sidewalks, sewer, and city hall. One hundred percent of the restricted amount for business-type activities is restricted to debt service. The remaining balances of unrestricted assets, $1,863,363 for governmental activities, and $2,408,923 for business-type activities may be used to meet the City's ongoing obligations to its citizens and creditors.

At December 31, 2011, the City of Adairsville is able to report positive balances in all categories of net assets, both for the government as a whole, and for its separate governmental and business-type activities.

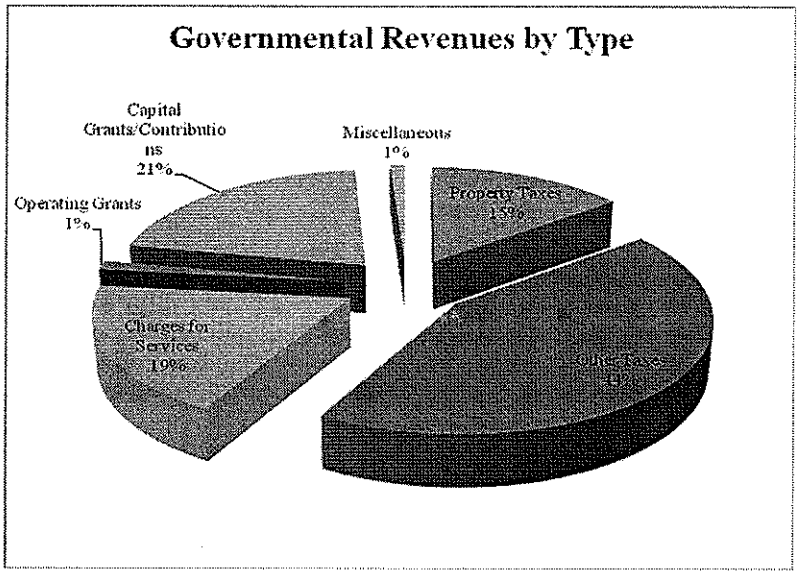
The City's property taxes decreased by $6,557, representing a 1.3 percent decrease from 2010. Other taxes increased by $65,222 or about 4.6 percent from last year. When compared to the prior year's decrease in property tax revenue of six percent, 2011's decrease of 1.3 percent is an early indicator that the local economy is beginning to show signs of improvement. Approximately 22 percent of the City's total revenue from governmental activities came from sales tax and 15 percent from property tax. Charges for goods and services provided about 19 percent of governmental revenue.

The City's largest expense is for Public Safety (Police, Court, and Other Contracted Public Safety Services), at $1,452,478 or 57 percent of total governmental expenses.

City of Adairsville's Changes in Net Assets
For the year ended December 31,
(as restated)

	Governmental Activities		Business-type Activities		Total	
Revenues:	2011	2010	2011	2010	2011	2010
Program Revenues:						
Charges for services	$ 634,490	$ 579,134	$ 5,082,193	$ 4,018,672	$ 5,716,683	$ 4,597,806
Operating grants and contributions	42,967	39,412	-	-	$ 42,967	$ 39,412
Capital grants and contributions	713,293	947,043	69,500	2,128	$ 782,793	$ 949,171
General Revenues:	-		-	-	$ -	$ -
Property taxes	494,342	500,899	-	-	$ 494,342	$ 500,899
Other taxes	1,483,184	1,417,962	-	-	$ 1,483,184	$ 1,417,962
Other	37,514	37,547	-	-	37,514	37,547
Total Revenues	3,405,790	3,521,997	5,151,693	4,020,800	8,557,483	7,542,797
Expenses:						
General government	707,283	794,062	-	-	$ 707,283	$ 794,062
Public safety	1,452,478	1,477,585	-	-	$ 1,452,478	$ 1,477,585
Public works	300,208	315,672	-	-	$ 300,208	$ 315,672
Public Services	159,521	129,802	-	-	$ 159,521	$ 129,802
Interest on long-term debt	337	1,415	-	-	$ 337	$ 1,415
Water and sewer	-	-	2,020,679	1,950,307	$ 2,020,679	$ 1,950,307
Gas	-	-	2,414,023	2,092,463	2,414,023	2,092,463
Total Expenses	2,619,827	2,718,536	4,434,702	4,042,770	7,054,529	6,761,306
Increase in net assets before transfers	785,963	803,461	716,991	(21,970)	1,502,954	781,491
Transfers	(82,939)	(90,257)	82,939	90,257	-	-
Change in net assets	703,024	713,204	799,930	68,287	1,502,954	781,491
Net assets - beginning, before restatement	-	-	-	-	-	-
Restatement	7,797,721	7,084,517	13,960,910	13,904,944	21,758,631	20,989,461
Restatement	133,638	-	56,686	(12,321)	190,324	(12,321)
Net assets - beginning, after restatement	7,931,359	7,084,517	14,017,596	13,892,623	21,948,955	20,977,140
Net assets ending	$ 8,634,383	$ 7,797,721	$ 14,817,526	$ 13,960,910	$ 23,451,909	$ 21,758,631

The $703,024 increase in net assets for governmental activities was attributable to revenues exceeding expenditures in the General Fund and the City's completion of a large capital project in the SPLOST capital projects fund. The $799,930 increase in net assets for business-type activities was primarily attributable to a change in water and sewer rates. A tiered rate structure was implemented early in the year for the water and sewer system which resulted in a substantial increase in revenue. Rates had not previously been adjusted in over ten years. Also a small capital contribution from the SPLOST capital projects fund in the amount of approximately $82,000 for system improvements added to the increase in net assets for the business-type funds.



Financial Analysis of the Government's Funds

As noted earlier, the City of Adairsville uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Adairsville ended the 2011 fiscal year with sound fund balances in its governmental funds. The combined fund balance for the governmental funds is $2,695,535. Of that amount, fund balances in the City's two major funds are $1,804,102 in the General Fund, and $859,378 in the SPLOST (capital projects) Fund. Approximately 47 percent of total governmental fund balances ($1,248,721 in the General Fund), is unassigned and available for spending in the coming year, $859,378 of which is restricted to SPLOST capital projects. The remainder of fund balance is categorized to indicate that it is not available for new spending because it has already been committed, assigned, or is nonspendable: 1) prepaid expenses ($37,857); 2) long-term receivable ($9,400); 3) assigned for economic development efforts ($507,565); 4) for construction ($359); and 5) for other restricted purposes ($4,697).

The General Fund is the primary operating fund of the City of Adairsville. At the end of the current fiscal year, unassigned fund balance of the General Fund was $1,248,721, while total fund balance was $1,804,102. As a measure of the City's liquidity, it may be useful to compare both the unassigned and total fund balance to total fund expenditures. Unassigned fund balance represents 48 percent of total General Fund expenditures, while total fund balance represents 69 percent of total governmental expenditures.

The fund balance of the General Fund increased by $123,033 during the fiscal year. Key factors in this increase are as follows:

- Total revenue decreased by $85,742 from the prior year, which is attributable to transportation grant funds for a capital improvement project received by the City in the prior year.
- Property tax revenue decreased by $6,557, but was offset by increases in other taxes.
- Total tax revenue increased $84,731, which is attributable to an increase in the City's allocation of insurance premium tax. Insurance premium tax is distributed by the State and is based on the decennial census. The City's population increased 83 percent since the 2000 census.

Proprietary Funds

The City of Adairsville's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The City's Enterprise Funds, the Water and Sewer System and the Natural Gas System, provide services to the general public and require periodic evaluation and determination of revenues.

Total revenue from the Water and Sewer System for 2011 (excluding interest) was $2,493,079, representing a 39 percent increase from 2010. While revenues for the System were up 39 percent, operating expenses increased by 5 percent. In early 2011, the City implemented the Phase I of a two-phase water and sewer service rate increase. The second phase of the increase is under consideration for implementation in July of 2012. Total operating revenue from the gas system was $2,489,049, representing an increase of 15 percent, while expenses also increased by 16 percent.

General Fund Budgetary Highlights

The legal level of control (the level at which expenditures cannot legally exceed appropriations) is at the department level. The City's primary budgeted fund is the General Fund. The Mayor and Council are required to adopt the City's budget in December of each year. The General Fund Budget was amended during the year for a decrease in appropriations of $112,505. The most notable expenditure amendments are as follows:

- The appropriation to Administration was decreased by $324,881, of which $157,795 was transferred to Streets and Roads to reclassify an appropriation for a streetscape project. The remainder of the decrease resulted from additional reclassification of budgeted expenses to "contracted public safety services" and "public services," in the amount of $46,396. The remaining decrease of $120,690 was the result of cost reduction initiatives implemented during the year.
- The appropriation to Police was decreased by $38,360 due to the retirement of two senior officers. Additionally, more efficient management of personnel resulted in a decrease in overtime expense.
- Some of the City's revenue sources, such as Insurance Premium Tax and Local Option Sales Tax are generally based upon decennial census data. The City's new allocation for Insurance Premium Tax based upon the 2010 census resulted in a 60 percent increase ($81,171) in that revenue source

At December 31, 2011, General Fund revenues were $10,594 greater than estimated. Expenditures were $69,002 less than estimated. After an operating transfer of hotel/motel tax into the general fund, there was an increase to fund balance of $123,033.

Capital Assets and Debt Administration

The City's investment in capital assets, for its governmental and business-type activities as of December 31, 2011, amounts to $18,149,830 (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings and systems, machinery and equipment, and construction in progress.

The total increase Adairsville's investment in capital assets for the current fiscal year was 9 percent. Additional information on the City's capital assets can be found in note 7 on pages 34 and 35 of this report.

Long-term debt. At December 31, 2011, the City of Adairsville had a total of $130,000 in outstanding bonded debt-water and sewer revenue bonds. The City also had two installment purchase agreements with a total outstanding balance of $17,117, and four Georgia Environmental Facilities Authority loans totaling $3,018,218. During 2011, the City also implemented a new personnel policy which allows employees to carry over up to 240 hours of unused accrued vacation. Accrued compensated absences at year end totaled $18,123 City wide.

Additional information on the City's long-term debt can be found in notes 8 and 9 on pages 36 through 38.

Economic Factors and Next year's Budgets and Rates

- The unemployment rate for Adairsville is 10.5 percent, compared to the state average of 9.4 percent is down from 11.6 percent in 2010.
- For the tax year 2011, the City's net tax digest decreased by $17,920 or 3 percent and the City to maintain its 2010 tax year millage rate.

Requests for Information

This financial report is designed to provide a general overview of the City of Adairsville's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Adairsville, City Manager, 116 Public Square, Adairsville, Georgia 30103.

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BASIC FINANCIAL STATEMENTS

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CITY OF ADAIRSVILLE, GEORGIA
Statement of Net Assets
December 31, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Adairsville Development Authority
Assets				
Cash	$ 3,073,517	$ 1,139,307	$ 4,212,824	$ 55,193
Receivables - Net	481,953	655,637	1,137,590	-
Prepaid Items	37,857	26,094	63,951	-
Inventory	-	74,586	74,586	-
Internal Balances	(1,239,787)	1,239,787	-	-
Due from Other Governments	179,313	-	179,313	-
Restricted Assets:				
Restricted Cash	869,515	137,801	1,007,316	-
Capital Assets				
Other Capital Assets-Net	4,365,099	15,244,035	19,609,134	326,771
Land and Construction in Progress	1,531,046	171,882	1,702,928	112,565
Unamortized Bond Issue Costs	-	2,895	2,895	-
Total Assets	9,298,513	18,692,024	27,990,537	494,529
Liabilities				
Accounts Payable	586,478	235,295	821,773	-
Accrued Liabilities	33,685	-	33,685	-
Customer Deposits	-	466,820	466,820	125
Interest Payable	-	19,397	19,397	-
Noncurrent Liabilities:				
Due Within One Year	31,041	409,678	440,719	-
Due In More Than One Year	12,926	2,743,308	2,756,234	9,400
Total Liabilities	664,130	3,874,498	4,538,628	9,525
Net Assets				
Invested In Capital Assets, Net of Related Debt	5,879,028	12,270,802	18,149,830	439,336
Restricted For:				
Construction	859,737	-	859,737	-
Debt Service	-	137,801	137,801	-
Drug Enforcement Activities	27,558	-	27,558	-
Other Purposes	4,697	-	4,697	-
Unrestricted	1,863,363	2,408,923	4,272,286	45,668
Total Net Assets	$ 8,634,383	$ 14,817,526	$ 23,451,909	$ 485,004

The accompanying notes are an integral part of this financial statement.

CITY OF ADAIRSVILLE, GEORGIA
Statement of Activities
For the Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Mayor and Council	$ 64,179	$ -	$ -	$ -
Administration	643,104	371,578	-	639,826
Police	1,138,912	201,355	42,967	-
Court Services	101,995	-	-	-
Contracted Public Safety Services	211,571	-	-	-
Public Services	159,521	61,392		
Streets and Roads	300,208	165	-	73,467
Interest on Long-term Debt	337	-	-	-
Total Governmental Activities	2,619,827	634,490	42,967	713,293
Business-type Activities:				
Water/Sewer	2,020,679	2,496,335	-	69,500
Gas	2,414,023	2,585,858	-	-
Total Business-type Activities	4,434,702	5,082,193	-	69,500
Total Primary Government	$ 7,054,529	$ 5,716,683	$ 42,967	$ 782,793
Component Unit:				
Adairsville Development Authority	$ 6,739	$ 1,823	$ -	$ -
Total Component Unit	$ 6,739	$ 1,823	$ -	$ -

The accompanying notes are an integral part of this financial statement.

CITY OF ADAIRSVILLE, GEORGIA
Statement of Activities
For the Year Ended December 31, 2011

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets			
	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Totals	Adairsville Development Authority
Primary Government:				
Governmental Activities:				
Mayor and Council	(64,179)		(64,179)	
Administration	368,300		368,300	
Police	(894,590)		(894,590)	
Fire	(101,995)		(101,995)	
Contracted Public Safety Services	(211,571)		(211,571)	
Public Services	(98,129)		(98,129)	
Streets and Roads	(226,576)		(226,576)	
Interest on Long-term Debt	(337)		(337)	
Total Governmental Activities	(1,229,077)		(1,229,077)	
Business-type Activities:				
Water/Sewer		$ 545,156	545,156	
Gas		171,835	171,835	
Total Business-type Activities		716,991	716,991	
Total Primary Government	(1,229,077)	716,991	(512,086)	
Component Unit:				
Adairsville Development Authority				$ (4,916)
Total Component Unit				(4,916)
General Revenues:				
Taxes:				
Property	494,342	-	494,342	-
Sales	742,021	-	742,021	-
Hotel/Motel	61,903	-	61,903	-
Insurance Premium	218,011	-	218,011	-
Malt & Mixed Beverage	91,809	-	91,809	-
Franchise	357,640	-	357,640	-
Other	11,800	-	11,800	-
Miscellaneous	27,041	-	27,041	-
Investment Earnings	10,473	-	10,473	-
Transfers	(82,939)	82,939	-	-
Total General Revenues and Transfers	1,932,101	82,939	2,015,040	-
Change in Net Assets	703,024	799,930	1,502,954	(4,916)
Net Assets - Beginning	7,797,721	13,960,910	21,758,631	489,920
Prior Period Adjustment	133,638	56,686	190,324	-
Net Assets - Ending	$ 8,634,383	$ 14,817,526	$ 23,451,909	$ 485,004

The accompanying notes are an integral part of this financial statement.

CITY OF ADAIRSVILLE, GEORGIA
Balance Sheet
Governmental Funds
December 31, 2011

	General	Capital Projects SPLOST 2008	Nonmajor Special Revenue Funds	Total Governmental Funds
Assets				
Cash	$ 3,073,517	$ -	$ -	$ 3,073,517
Receivables (Net of Allowance for Uncollectibles):				
Accounts	84	-	-	84
Taxes	467,972	-	4,497	472,469
Loan	9,400	-	-	9,400
Prepaid Items	37,857	-	-	37,857
Due from Other Governments	79,553	99,760	-	179,313
Cash - Restricted	559	841,398	27,558	869,515
Total Assets	$ 3,668,942	$ 941,158	$ 32,055	$ 4,642,155
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	$ 504,698	$ 81,780	$ -	$ 586,478
Accrued Wages Payable and Withholdings	33,685	-	-	33,685
Due to Other Funds	1,239,787	-	-	1,239,787
Deferred Revenues	70,136	-	-	70,136
Compensated Absences - Short-term	2,831	-	-	2,831
OPEB Liability - Short-term	13,703	-	-	13,703
Total Liabilities	1,864,840	81,780	-	1,946,620
Fund Balance:				
Nonspendable:				
Prepaid Items	37,857	-	-	37,857
Loans Receivable	9,400	-	-	9,400
Restricted For:				
Drug Enforcement Activities	-	-	27,558	27,558
Construction	359	859,378	-	859,737
Other Purposes	200	-	4,497	4,697
Assigned - Other Purposes	507,565	-	-	507,565
Unassigned	1,248,721	-	-	1,248,721
Total Fund Balances	1,804,102	859,378	32,055	2,695,535
Total Liabilities and Fund Balances	$ 3,668,942	$ 941,158	$ 32,055	$ 4,642,155

(Continued)

The accompanying notes are an integral part of this financial statement.

CITY OF ADAIRSVILLE, GEORGIA
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
December 31, 2011

(Continued)

Fund Balances - Total Governmental Funds		$ 2,695,535
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 are therefore not reported in the governmental funds.		
Governmental Capital Assets	7,998,671	
Less Accumulated Depreciation	(2,102,526)	5,896,145
Deferred revenue in the general fund represents property tax billed but uncollected and is eliminated in the statement of net assets.		70,136
Long-term liabilites are not due and payable in the current perod and therefore are not reported in the governmental funds.		
Compensated Absences	(10,316)	
Leases Payable	(17,117)	(27,433)
Net Assets of Governmental Activities		$ 8,634,383

The accompanying notes are an integral part of this financial statement.

CITY OF ADAIRSVILLE, GEORGIA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	General	Capital Projects SPLOST 2008	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	$ 1,921,012	$ -	$ 61,903	$ 1,982,915
Licenses and Permits	69,055	-	-	69,055
Intergovernmental	116,032	639,826	-	755,858
Fines and Forfeitures	182,034	-	19,320	201,354
Charges for Services	354,181	-	-	354,181
Contributions	402	-	-	402
Miscellaneous Income	27,041	-	-	27,041
Interest Income	10,437	9,898	36	20,371
Total Revenues	2,680,194	649,724	81,259	3,411,177
Expenditures				
Current Operating:				
Mayor and Council	64,179	-	-	64,179
Administration	568,427	-	-	568,427
Police	1,080,999	-	1,668	1,082,667
Court Service	101,733	-	-	101,733
Contracted Public Safety Services	211,571	-	-	211,571
Public Services	149,295	-	-	149,295
Streets and Roads	416,274	-	-	416,274
Debt Service:				
Principal	28,283	-	-	28,283
Interest	337	-	-	337
Capital Outlay:				-
Streets and Roads	-	1,205,807	-	1,205,807
Police	-	-	-	-
Water and Sewer	-	82,939	-	82,939
Total Expenditures	2,621,098	1,288,746	1,668	3,911,512
Excess (Deficiency) of Revenues Over Expenditures	59,096	(639,022)	79,591	(500,335)
Other Financing Sources (Uses)				
Transfers - Out	-	-	(63,937)	(63,937)
Transfers - In	63,937	-	-	63,937
Total Other Financing Sources (Uses)	63,937	-	(63,937)	-
Net Change in Fund Balances	123,033	(639,022)	15,654	(500,335)
Fund Balance - Beginning of Year	1,681,069	1,498,400	16,401	3,195,870
Fund Balance - End of Year	$ 1,804,102	$ 859,378	$ 32,055	$ 2,695,535

(Continued)

The accompanying notes are an integral part of this financial statement.

CITY OF ADAIRSVILLE, GEORGIA
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds To the Statement on Activities for the Year Ended December 31, 2011

(Continued)

Net Change in Fund Balances - Total Governmental Funds		$ (500,335)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.		
Expenditures for Capital Assets	1,389,627	
Less Current Year Depreciation	(198,848)	1,190,779
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		
Unavailable Deferred Property Tax Revenue		(5,388)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds.		
Repayment of Principal	28,283	
Net Change in Long-term Compensated Absences	(10,315)	17,968
Change in Net Assets of Governmental Activities		$ 703,024

The accompanying notes are an integral part of this financial statement.

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CITY OF ADAIRSVILLE, GEORGIA
Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund - Budget and Actual
For the Year Ended December 31, 2011

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
Revenues				
Taxes	$ 1,873,475	$ 1,878,000	$ 1,921,012	$ 43,012
Licenses and Permits	74,700	48,200	69,055	20,855
Intergovernmental	241,500	181,500	116,032	(65,468)
Fines and Forfeitures	190,200	171,600	182,034	10,434
Charges for Services	363,550	362,000	354,181	(7,819)
Contributions	-	300	402	102
Miscellaneous Income	22,380	21,300	27,041	5,741
Interest Income	16,300	6,700	10,437	3,737
Total Revenues	2,782,105	2,669,600	2,680,194	10,594
Expenditures				
Current:				
Mayor and Council	73,600	62,700	64,179	(1,479)
Administration	905,781	605,400	568,427	36,973
Police	1,126,060	1,087,700	1,080,999	6,701
Court Services	110,895	107,900	101,733	6,167
Contracted Public Safety Services	186,804	211,300	211,571	(271)
Public Services	118,900	140,800	149,295	(8,495)
Streets and Roads	286,605	444,400	416,274	28,126
Debt Service:				
Principal	28,285	28,700	28,283	417
Interest	1,175	1,200	337	863
Total Expenditures	2,838,105	2,690,100	2,621,098	69,002
Excess (Deficiency) of Revenues Over Expenditures	(56,000)	(20,500)	59,096	79,596
Other Financing Sources (Uses)				
Transfers - In	56,000	62,000	63,937	1,937
Total Other Financing Sources (Uses)	56,000	62,000	63,937	1,937
Net Change in Fund Balance	-	41,500	123,033	81,533
Fund Balance - Beginning of Year	1,681,069	1,681,069	1,681,069	-
Fund Balance - End of Year	$ 1,681,069	$ 1,722,569	$ 1,804,102	$ 81,533

The accompanying notes are an integral part of this financial statement.

CITY OF ADAIRSVILLE, GEORGIA
Statement on Net Assets
Proprietary Funds
December 31, 2011

	Gas	Water & Sewer	Total
Assets			
Current Assets:			
Cash	$ 669,518	$ 469,789	$ 1,139,307
Accounts Receivable - Net	355,602	300,035	655,637
Prepaid Items	5,326	20,768	26,094
Due From Other Funds	558,646	681,141	1,239,787
Inventory	41,423	33,163	74,586
Total Current Assets	1,630,515	1,504,896	3,135,411
Non-Current Assets:			
Restricted Assets:			
Bond Debt Service Cash	-	52,403	52,403
Bond Debt Service Reserve Cash	-	85,398	85,398
Capital Assets:			
Equipment	593,766	1,395,763	1,989,529
Buildings and Structures	79,510	105,490	185,000
Distribution and Collection Systems	2,481,300	18,285,484	20,766,784
Less Accumulated Depreciation	(1,410,273)	(6,287,005)	(7,697,278)
Land and Easements	3,500	16,852	20,352
Construction in Progress	30,072	121,458	151,530
Unamortized Bond Issue Costs	-	2,895	2,895
Total Non-Current Assets	1,777,875	13,778,738	15,556,613
Total Assets	$ 3,408,390	$ 15,283,634	$ 18,692,024

The accompanying notes are an integral part of this financial statement.

CITY OF ADAIRSVILLE, GEORGIA
Statement of Net Assets
Proprietary Funds
December 31, 2011

	Gas	Water & Sewer	Total
Liabilities			
Current Liabilities:			
Accounts Payable	$ 207,541	$ 27,754	$ 235,295
Customer Deposits	232,795	234,025	466,820
Interest Payable	-	19,397	19,397
Notes Payable	-	278,865	278,865
Compensated Absences	214	807	1,021
Revenue Bonds Payable	-	129,792	129,792
Total Current Liabilities	440,550	690,640	1,131,190
Noncurrent Liabilities:			
Compensated Absences	2,477	1,478	3,955
Notes Payable	-	2,739,353	2,739,353
Total Noncurrent Liabilities	2,477	2,740,831	2,743,308
Total Liabilities	443,027	3,431,471	3,874,498
Net Assets			
Invested In Capital Assets, Net Of Related Debt	1,777,875	10,492,927	12,270,802
Restricted			
Debt Service	-	137,801	137,801
Unrestricted	1,187,488	1,221,435	2,408,923
Total Net Assets	$ 2,965,363	$ 11,852,163	$ 14,817,526

The accompanying notes are an integral part of this financial statement.

CITY OF ADAIRSVILLE, GEORGIA
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Year Ended December 31, 2011

	Gas	Water & Sewer	Total
Operating Revenues			
Charges for Services	$ 2,485,091	$ 2,405,558	$ 4,890,649
Fees	2,855	87,247	90,102
Other Revenues	1,103	274	1,377
Total Operating Revenues	2,489,049	2,493,079	4,982,128
Operating Expenses			
Salaries, Wages and Employee Benefits	229,484	496,533	726,017
Cost of Gas for Resale	1,779,317	-	1,779,317
Services and Supplies	159,261	705,141	864,402
Insurance Expense	15,306	49,909	65,215
Administrative Expense	145,500	145,500	291,000
Depreciation Expense	85,155	451,539	536,694
Total Operating Expenses	2,414,023	1,848,622	4,262,645
Operating Income (Loss)	75,026	644,457	719,483
Nonoperating Revenues (Expenses)			
Interest Revenue	6,813	3,256	10,069
Interest Expense	-	(169,162)	(169,162)
Gas Rebates	89,996	-	89,996
Bond Issue Cost Amortization	-	(2,895)	(2,895)
Total Nonoperating Revenues (Expenses)	96,809	(168,801)	(71,992)
Income Before Contributions and Transfers	171,835	475,656	647,491
Capital Contributions - Capital Projects Funds	-	82,939	82,939
Capital Contributions - Other	-	69,500	69,500
	-	152,439	152,439
Change in Net Assets	171,835	628,095	799,930
Net Assets - Beginning	2,788,175	11,172,735	13,960,910
Prior Period Adjustment	5,353	51,333	56,686
Net Assets - Ending	$ 2,965,363	$ 11,852,163	$ 14,817,526

The accompanying notes are an integral part of this financial statement.

CITY OF ADAIRSVILLE, GEORGIA
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	Gas	Water & Sewer	Total
Cash Flows From Operations			
Receipts from Customers and Users	$ 2,699,866	$ 2,392,821	$ 5,092,687
Payments to Suppliers	(2,150,430)	(893,042)	(3,043,472)
Payments to/for Employees	(229,543)	(494,248)	(723,791)
Net cash Provided by (Used in) Operating Activities	319,893	1,005,531	1,325,424
Cash Flows from Noncapital Financing Activities			
Payments from Other Funds	(185,304)	-	(185,304)
Payments to Other Funds	-	(357,768)	(357,768)
Net Cash from Noncapital Financing Activities	(185,304)	(357,768)	(543,072)
Cash Flows from Capital and Related Financing Activities			
Principal Payments - Bonds	-	(120,000)	(120,000)
Principal Payments - Notes	-	(264,812)	(264,812)
Proceeds from Notes	-	-	-
Acquisition and Construction of Capital Assets	(44,654)	(116,748)	(161,402)
Interest Paid	-	(170,688)	(170,688)
Net Cash from Capital and Related Financing Activities	(44,654)	(672,248)	(716,902)
Cash Flows from Investing Activities			
Interest Received	6,813	3,256	10,069
Net Increase (Decrease) in Cash	96,748	(21,229)	75,519
Cash - January 1 (including $405,088 in restricted cash)	572,770	628,819	1,201,589
Cash - December 31 (including $137,801 in restricted cash)	$ 669,518	$ 607,590	$ 1,277,108
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:			
Operating Income	$ 75,026	$ 644,457	$ 719,483
Adjustments of Reconcile to Net Cash Provided by Operating Activities			
Depreciation	85,155	451,539	536,694
Note Reduction in Lieu of Cash	-	(19,863)	(19,863)
Gas Rebates	89,996	-	89,996
(Increase) Decrease in Accounts Receivable	119,272	(80,772)	38,500
(Increase) Decrease in Prepaid Items	(502)	(1,325)	(1,827)
(Increase) Decrease in Inventory	(26)	(397)	(423)
Increase (Decrease) in Accounts Payable & Accrued Payables	(47,827)	11,515	(36,312)
Increase (Decrease) in OPEB Liability	(2,750)	-	(2,750)
Increase (Decrease) in Customer Deposits	1,549	377	1,926
Net Cash Provided by (Used in) Operating Activities	$ 319,893	$ 1,005,531	$ 1,325,424
Noncash Investing, Capital and Financing Activities			
Acquisition of Capital Assets	$ -	$ (152,439)	$ (152,439)
Capital Contributions	-	152,439	152,439
OPEB Liability	(5,353)	(51,333)	(56,686)
Prior Period Adjustment for OPEB Liability	5,353	51,333	56,686
Net Cash from Noncash Activities	$ -	$ -	$ -

The accompanying notes are an integral part of this financial statement.

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Note 1. Summary of Significant Accounting Policies

The City of Adairsville was incorporated in February 1854. The City operates under an elected Mayor and Council. The City provides the following services: Public Works (Streets), Public Utilities (Gas and Water), Public Safety (Police), Public Services (which includes library and cultural) and General and Administrative Services.

A. Reporting Entity

The financial statements of the reporting entity include those of the City (the primary government) and its component units. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. As required by generally accepted accounting principles, certain potential component units are considered for inclusion in the reporting entity because of the significance of their operational or financial relationships with the City. The discretely presented component unit described below is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government:

Adairsville Development Authority - The Development Authority was created in 1986 for the purpose of improving the local economic base by promoting industrial and commercial development in the City of Adairsville. The Development Authority's board consists of 5 members appointed by the Mayor and City Council Members. The Authority has a December year-end and is presented as a governmental fund type. The Authority does not issue separate financial statements.

Related Organization

The Etowah Area Consolidated Housing Authority is a related organization that has not been included in the reporting entity. The Etowah Area Consolidated Housing Authority was formed when the Adairsville Housing Authority and the Cartersville Housing Authority were consolidated on April 1, 1998. The Authority provides low-income housing to eligible families in the Cities of Adairsville and Cartersville. The Authority's Board consists of five members, two appointed by the Adairsville City Council and three that are appointed by the Cartersville City Council. The City is not financially accountable (does not impose will or have a financial benefit or burden relationship) for the Authority.

B. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements, each of which present different views of the City. The government-wide and fund financial statements categorize primary activities as either governmental or business type. Fiduciary funds (if any) are not included in the government-wide statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, permits and fines, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate component units for which the primary government is financially accountable.

In the government-wide statement of net assets, governmental and business-type activities are presented on a consolidated basis and reflect full accrual, economic resources basis, which includes long-term assets and receivables as well as long-term debt and obligations.

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

Fund financial statements emphasize major funds in either the governmental or business-type category. Non-major governmental funds (if any) are reported as a separate column in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to the governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

The financial transactions of the City are recorded in individual funds which provide a separate set of self-balancing accounts that is comprised of assets, liabilities, reserves, fund equity, revenues and expenditures.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting,* as is the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the government receives the cash. In applying the susceptible to accrual concept, nonexchange transactions are recognized in accordance with GASB Statement 33.

The General Fund and the 2008 SPLOST Capital Project Fund are the major governmental funds that the City reports. The City has elected to present two special revenue funds – Confiscated Assets and Hotel/Motel Tax as nonmajor funds. The General Fund is the primary fund of the City and accounts for all financial resources of the general government except those required to be reported in the other

funds. The 2008 SPLOST Capital Projects Fund accounts for the acquisition and construction of major capital assets other than those accounted for by proprietary funds. The Confiscated Assets Fund accounts for cash received from confiscation or sale of assets acquired through confiscation. The Hotel/Motel Tax Fund accounts tax proceeds from the hotel/motel tax.

Proprietary funds are used to account for operations for which a fee is charged to external users for goods or services and the activity is intended to be self-supporting. The City has gas and water/sewer funds, both of which are presented as major funds. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the gas and water/sewer enterprise funds are charges to customers for sales and services. Both funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

D. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets were adopted for the General, Confiscated Assets and Hotel/Motel Tax special revenue funds. Annual appropriations lapse at fiscal year end.

The 2008 SPLOST Capital Projects Fund has a project length budget that was adopted when voters approved the SPLOST referendum. This budget is prepared based on the projected total of SPLOST revenues and capital outlays.

Encumbrance or commitments related to the unperformed contract for goods or services (if any) were for immaterial amounts and therefore are not reported as reservations of fund balances.

E. Assets, Liabilities, Net Assets or Equity

1. **Cash and Investments.** Cash includes amounts in demand and time deposits that must be by law insured or collateralized, and investments, if any, are limited by law and bond ordinances, to federal and state securities and stated at fair value.

2. **Receivables.** All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the enterprise funds are recognized at the end of the year on a pro rata basis. The estimated amount is based on billings during the month following the close of the fiscal year.

3. **Due to and Due from Other Funds/Internal Balances.** During the course of operations, numerous transactions occur between individual funds for goods provided, services rendered or interfund loans. The balances which represent receivables and payables between governmental and business-type activities are reported as internal balances. As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are administrative charges between the general fund and the gas and water/sewer funds. Elimination of these charges would distort the direct costs and revenues reported for the two funds. In the government-wide financial statements these balances are reported as internal balances.

4. **Restricted Cash.** Demand and time deposits set-aside for repayment of water and sewer revenue bonds are classified as restricted on the balance sheet because their use is limited by applicable bond covenants. The construction accounts are used to report proceeds restricted for use in construction. The revenue bond debt service accounts are used to segregate resources accumulated for debt service payments over the next twelve months. The revenue bond debt service reserve accounts are used to report resources set aside to make up potential future deficiencies in the revenue bond debt service accounts.

5. **Inventories and Prepaid Items.** The Water and Sewer Fund and Gas Fund inventories, if applicable, are valued at lower of cost or market using the first-in, first-out method. Prepaid items represent the amount paid in advance for insurance.

6. **Capital Assets.** Capital assets that cost more than $5,000 with an estimated useful life of more than one year are capitalized and depreciated. Capital assets, including property, plant, vehicles, equipment and infrastructure (streets, bridges, curbs, sidewalks, drainage and lighting systems) are reported in the applicable governmental or business-type activities columns in the government-wide statements. All capital assets are carried at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair value on the date of acquisition. Depreciation is computed on the straight-line basis over the estimated useful life of the asset.

   The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

   Interest is capitalized on proprietary fund assets acquired with debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

   General infrastructure assets acquired prior to July 1, 2003 are not reported in the basic financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to July 1, 2003.

7. **Compensated Absences.** Vested or accumulated vacation leave is recorded as an expense and a liability when incurred in the proprietary fund financial statements and as a liability in the governmental funds only in the government-wide financial statements. For the governmental activities, compensated absences are generally liquidated by the General Fund. The City's current policy allows employees to carryover a maximum of 240 hours of unused vacation.

8. **Long-term Debt, Bond Discounts and Issuance Costs.** Outstanding debt and other obligations are reported as a liability in the government-wide and proprietary financial statements. Bond discounts/premiums and issuance costs for proprietary funds are capitalized and amortized over the term of the respective bonds using a method that approximates the effective interest method. Bond discounts are presented as a reduction in the face amount of bonds payable and issuance costs are recorded as deferred charges.

   In the fund financial statements, governmental funds recognize bond premiums, discounts and bond issuance costs, during the current period. The face amount of the debt issued is reported as an other financing source.

9. **Pensions.** The provision for pension costs is recorded on the accrual basis and it is the City's policy to fund pension costs as they accrue.

10. **Fund Equity/Net Assets.** The governmental fund financial statements report restricted fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The unassigned portion represents an amount available for future operations.

    Unrestricted net assets for proprietary funds represent the net assets available for future operation. Restricted net assets represent assets that have been legally identified for specific purposes.

Note 2. Legal Compliance - Budgets

Georgia Law requires an annual balanced budget for the general and special revenue funds and a project length budget for each capital project fund. All departments of the City submit requests for appropriation to the City Finance Director so that a budget may be prepared. The budget is prepared by fund, function (department), and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

No later than 45 days prior to the beginning of the fiscal year, the proposed budget is presented to the Mayor and Council for review. The Council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget. Department heads may make transfers of appropriations within a department. The legal level of budgetary control is at the department level. Transfers of appropriations between departments must be approved by an affirmative vote of a majority of the Council, except for emergencies as defined by the charter and unanimously voted by council. The 2011 General Fund budget was voted upon and adopted by the City Council.

Expenditures exceeded budgeted appropriations in the following General Fund department.

Mayor and Council	$ 1,479
Contracted Public Safety Services	271
Public Services	8,495

Note 3. Deposits and Investments

Cash as of December 31, 2011 is as follows:

Statement of Net Assets:	
Cash	$ 4,212,824
Restricted Cash	1,007,316
Total	$ 5,220,140

The City has no investments other than cash.

The City does not have a formal policy that addresses custodial credit risk.

Component Unit:

Adairsville Development Authority:

Cash as of December 31, 2011 is as follows:

Statement of Net Assets:	
Cash	$ 55,193

The Authority does not have a formal policy that addresses custodial credit risk.

Note 4. Receivables

Receivables as of December 31, 2011 consist of the following:

	General	Hotel/ Motel	Gas	Water and Sewer	Total
Receivables:					
Accounts	$ 9,484	$ --	$ 382,218	$ 322,689	$ 714,391
Property Tax	124,655	--	--	--	124,655
Hotel/Motel Tax	--	4,497	--	--	4,497
Franchise Tax	352,762	--	--	--	352,762
Allowances for Uncollectibles	(9,445)	--	(26,616)	(22,654)	(58,715)
Net	$ 459,377	$ 4,497	$ 355,602	$ 300,035	$ 1,137,590

Due from other governments includes $64,560 of Local Option Sales Taxes due from the State of Georgia, $99,760 due from Bartow County, and $10,854 due from COPS Grant.

Note 5. Property Tax

Bartow County bills and collects the City's real and personal property taxes. The Bartow County Tax Assessors Office assesses property values as of January 1 each year. The City's millage rate of 3.64 mils was approved by the City Council August 15, 2011. The levy date was September 30, 2011 and taxes were due by December 1, 2011. After December 1, interest and penalties begin to accrue on unpaid balances and property is subject to lien.

All property tax revenue is recorded when it becomes measurable and available. Available means due, or past due, and receivable within the current period, and collected no later than 60 days after the close of the fiscal year.

Note 6. Interfund Receivables, Payables and Transfers

Due To/From Other Funds:

Interfund receivable and payable balances at December 31, 2011 were $ 1,239,787.

Due To	Due From	Amount
Gas	General	$ 558,646
Water	General	681,141
		$ 1,239,787

Interfund balances consist of routine transfers for payroll and related benefits that are reimbursed on a monthly basis.

Capital Contributions, Transfers, and Payments:

Routine transfers and payments between funds are to subsidize operations and capital asset acquisitions. Interfund capital contributions for the year ending December 31, 2011 were as follows:

Source Fund	Contribution to Fund	Amount
2008 SPLOST Capital Projects	Water/Sewer	$ 82,539

Transfers on the fund level statements are different because transfers of capital assets to a business-type fund are not reported in governmental funds.

Between Governmental Funds:

Source Fund	Transfer to Fund	Amount
Hotel/Motel	General Fund	$ 63,937

Note 7. Capital Assets

The following is a summary of the primary government capital asset activity during the fiscal year:

Governmental Activities

	January 1 2011	Additions	Deletions and Transfers	December 31 2011
Capital Assets Not Being Depreciated				
Land	$ 546,377	$ -	$ -	$ 546,377
Construction In Progress-Streetscape	17,734	163,155	-	180,889
Construction In Progress-Trail Grant	-	6,865	-	6,865
Construction In Progress-Capital Projects	114,867	1,205,807	523,759	796,915
Total Capital Assets Not Being Depreciated	678,978	1,375,827	523,759	1,531,046
Capital Assets Being Depreciated				
Buildings	2,206,780	-	-	2,206,780
Infrastructure	2,588,179	523,759	-	3,111,938
Equipment	1,135,107	13,800	-	1,148,907
Total Capital Assets Being Depreciated	5,930,066	537,559	-	6,467,625
Less Accumulated Depreciation For				
Buildings	701,794	72,851	11,227	763,418
Infrastructure	217,012	72,990	-	290,002
Equipment	996,099	53,007	-	1,049,106
Total Accumulated Depreciation	1,914,905	198,848	11,227	2,102,526
Capital Assets, Net	$ 4,694,139	$ 1,714,538	$ 512,532	$ 5,896,145

Included in additions are $163,155 in construction expenditures for the Streetscape Project, $6,865 for the trail grant project, $1,205,807 of construction expenditures from various SPLOST projects, of which $523,759 was capitalized as infrastructure for completion of the King Street Sidewalk Project.

Total governmental activities depreciation expense charged to functions/programs of the government are as follows:

Administration	$ 85,880
Court Services	262
Police	49,432
Public Services	46,183
Streets and Roads	17,091
Total Depreciation Expense	$ 198,848

Business-type Activities

	January 1 2011	Additions	Deletions and Transfers	December 31 2011
Capital Assets Not Being Depreciated				
Land	$ 20,352	$ -	$ -	$ 20,352
Construction In Progress-Capital Projects	127,019	153,846	129,335	151,530
Total Capital Assets Not Being Depreciated	147,371	153,846	129,335	171,882
Capital Assets Being Depreciated				
Equipment	1,828,536	160,993	-	1,989,529
Buildings	185,000	-	-	185,000
Utility Systems	20,638,447	128,337	-	20,766,784
Total Capital Assets Being Depreciated	22,651,983	289,330	-	22,941,313
Less Accumulated Depreciation For				
Equipment	990,368	113,146	-	1,103,514
Buildings	62,071	6,455	-	68,526
Utility Systems	6,108,146	417,092	-	6,525,238
Total Accumulated Depreciation	7,160,585	536,693	-	7,697,278
Capital Assets, Net	$ 15,638,769	$ (93,517)	$ 129,335	$ 15,415,917

Business-type activities construction in progress at year-end consists of various water/sewer system and gas system improvements totaling $151,330.

The primary government uses the following estimated useful lives to compute depreciation (straight-line method):

Equipment	3-10 years
Buildings	20-50 years
Utility System	20-75 years
Infrastructure	50 years

The following is a summary of component unit capital asset activity during the fiscal year:

Adairsville Development Authority

	January 1 2011	Additions	Deletions and Transfers	December 31 2011
Capital Assets Not Being Depreciated				
Land	$ 112,565	$ -	$ -	$ 112,565
Total Capital Assets Not Being Depreciated	112,565	-	-	112,565
Capital Assets Being Depreciated				
Buildings	350,080	-	-	350,080
Total Capital Assets Being Depreciated	350,080	-	-	350,080
Less Accumulated Depreciation For				
Buildings	19,282	4,027	-	23,309
Total Accumulated Depreciation	19,282	4,027	-	23,309
Capital Assets, Net	$ 443,363	$ (4,027)	$ -	$ 439,336

Note 8. Lease Obligations

The City has entered into various capital lease agreements through Ford Motor Credit, United Community Bank, and Northside Bank as lessee for financing the acquisition of vehicles and equipment. The interest rates on these leases range from 3.50% to 3.87%. If the leases are paid in full, the title to the property is transferred to the City. The City's equipment under lease has a cost of $78,630 with accumulated depreciation of $25,479. The following is a schedule of the future minimum lease payments under capital leases, and the present value of the net minimum lease payments at December 31, 2011:

Year Ending December 31	General Fund
2012	$ 14,822
2013	2,625
Minimum lease payments for all capital leases	17,447
Less Interest	(330)
Present value of minimum lease payments	$ 17,117

The City has no operating lease obligations.

Note 9. Outstanding Debt

Debt outstanding as of December 31, 2011 is composed of the following:

Primary Government

Revenue Bonds	Date of Issue	Interest Rate	Date Final Payment Due	Amount Issued	Amount Outstanding
Business-type Activities:					
Water & Sewer Revenue Bonds – System Additions	03-25-93	3.5 – 6.0%	12-01-2012	$ 2,180,000	$ 130,000

The following schedule presents debt service requirements to maturity for revenue bonds:

	Business-type Activities	
Year Ending December 31	Principal	Interest
2012	$ 130,000	$ 7,800

Notes Payable

	Date of Issue	Interest Rate	Date Final Payment Due	Amount Issued	Amount Outstanding
Business-type Activities:					
Water and Sewer Fund					
GEFA Note – System Additions	08-01-96	5.12%	05-01-2016	510,854	164,907
GEFA Note – System Additions	06-01-98	5.86%	06-01-2018	2,745,554	1,257,482
GEFA Note – System Additions	08-25-03	3.98%	10-01-2024	1,172,080	862,059
GEFA Note – System Additions	07-26-05	4.20%	02-01-2029	809,928	733,770
Total Water and Sewer Fund					3,018,218
Total Business-type Activities					$ 3,018,218

The following schedule presents debt service requirements to maturity for notes payable:

Year Ending December 31	Business-type Activities Principal	Interest
2012	$ 278,865	$ 141,775
2013	293,898	126,743
2014	309,608	111,032
2015	326,222	94,418
2016	322,932	77,066
2017-2021	875,723	201,861
2022-2026	486,944	69,114
2027-2029	124,026	5,937
Total	$ 3,018,218	$ 827,946

Note Payable – Bartow County

During 2000, the City took ownership of the newly constructed Hall Station Road waterline extension. Under terms of an agreement dated April 8, 1998, Bartow County constructed the waterline at a cost of $667,793.87, and upon completion transferred ownership to the City, with the City to supply water to the County until such time as the County has been reimbursed for the full cost of constructing the line. Under the terms of the agreement the City assumes an obligation to repay the county, credits the County for its monthly water charges and applies the amount to the outstanding principal balance. There are no stated payment amounts, payment date, number of payments or interest rate. The repayment of this note is entirely contingent upon the quantity of water used by the County on a monthly basis. The schedule above assumes an average water usage of $50,000 per year until pay-off. The note was retired in the current year.

Leases Payable

	Date of Issue	Interest Rate	Date Final Payment Due	Amount Issued	Amount Outstanding
Governmental Activities:					
Police – Vehicles	03/09	3.87%	03/04/12	$ 20,105	$ 4,292
Police – Vehicles	03/10	3.87%	03/15/13	29,866	12,825
					$ 17,117

Changes in long-term liabilities

The following is a summary of the City's debt transactions for the year ended December 31, 2011:

	Balance January 1	Additions	Reductions	Balance December 1	Due Within One Year
Governmental Activities					
Capital Leases	$ 45,400	$ -	$ 28,283	$ 17,117	$ 14,507
Compensated Absences	-	28,038	14,891	13,147	2,831
OPEB Liability	129,563	6,551	122,411	13,703	13,703
Total Governmental Activities	$ 174,963	$ 34,589	$ 165,585	$ 43,967	$ 31,041
Business-type Activities					
Revenue Bonds 1993 Issue	$ 250,000	$ -	$ 120,000	$ 130,000	$ 130,000
Less Deferred Amounts Issuance Discount	(903)	-	(695)	(208)	(208)
Notes Payable	3,302,893	-	284,675	3,018,218	278,865
Compensated Absences	-	13,847	8,871	4,976	1,021
OPEB Liability	59,436	-	59,436	-	-
Total Business-type Activities	$ 3,611,426	$ 13,847	$ 472,287	$ 3,152,986	$ 409,678

During the year, the City modified its personnel policy to allow unused vacation to be carried over to the following fiscal year up to a maximum of 240 hours. Compensated absences for governmental activities are liquidated in the General Fund.

Prior Years' Debt Defeasance

In prior years, the City defeased the 1983 Water and Sewer revenue bonds by placing a portion of the proceeds from new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the City's financial statements. On December 31, 2010, $345,000 of outstanding 1983 bonds is considered defeased.

Component Unit

Notes Payable

The Development Authority borrowed money from the City in order to purchase, develop and market property in the Georgia North Industrial Park. As of December 31, 2010 the Development Authority owed $9,400. There are no specific terms for repayment of the loan and no interest rate.

	Balances 01/01/11	Additions	Reductions	Balances 12/31/11	Amounts Due Within One Year
Development Authority Due to General Fund-Land	$ 9,400	$ --	$ --	$ 9,400	$ --

Note 10. Pension Plan

Plan Description. The City has a non-contributory defined benefit plan covering all full time employees. The plan, the City of Adairsville Retirement Plan, is administered by the Georgia Municipal Employees Benefit System (GMEBS), a statewide, agent multiple-employer type plan. GMEBS policy direction and oversight for the fund is provided by a 15 member board comprised of elected and appointed officials from the fund's membership. GMEBS handles all administrative and investment functions relative to the plan. The City established its plan effective June 1, 1985, and the authority to establish, amend or discontinue the plan remains with the City. The plan provides pension benefits and death and disability benefits for all employees that have been employed full time for one year. Members may retire at 65 years of age with 5 years of service or 60 years of age with

25 years of service. Early retirement is possible at age 55 with 10 years of service. Elected officials may retire at age 65. Benefits are calculated at 1.25% to 2.0% of the average monthly earnings for the period of the five highest years prior to retirement.

The Georgia Municipal Employees Benefit System issues a publicly available annual financial report that includes financial statements and required supplementary information. This report may be obtained by contacting the Georgia Municipal Employees Benefit System, C/O Georgia Municipal Association – Risk Management and Employee Benefit Services, 201 Pryor Street, SW, Atlanta, Georgia 30303.

Funding Policy and Annual Contributions. The funding policy for the plan is to contribute an amount equal to the recommended contribution in each year. The recommended contribution meets the guidelines for calculating an annual required contribution set forth in Paragraphs 9-10 of the Statement No. 27. The annual minimum contribution is the sum of 1) the normal cost, 2) the level dollar amortization of the unfunded actuarial accrued liability (initial unfunded accrued liability over 30 years from 1985 and changes in the unfunded actuarial accrued liabilities 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 which such changes arise, and 3) interest on these amounts from the valuation date to the date contributions are paid (assumed monthly). These amortization periods, if applicable, are closed for this plan year.

The Plan is subject to the minimum funding standards of the Public Retirement Systems Standards Law (Georgia Code Section §47-20-10). According to the latest actuarial valuation, dated July 1, 2011, the estimated minimum annual contribution under these funding standards is $100,934.

According to the annual plan valuation dated July 1, 2011, the recommended contribution to the plan for the coming year is $100,934 ($0 employee and $100,934 employer; 0% employee and 8.22% employer of covered payroll respectively), and the recommended contribution to the plan for the previous year was $154,853 ($0 employee and $154,853 employer, 0% employee and 12.20% employer of covered payroll). Covered payroll for each year is $1,206,999 and $1,247, respectively.

Funded Status. GASB No. 27 requires disclosure of the City's annual pension cost, percentage of annual pension cost contributed and net pension obligation for the most recent three years.

Three-Year Trend information

Fiscal Year Ending	Employer Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
2011	$ 154,853	100.0%	$ 0
2010	173,354	100.0%	0
2009	177,158	100.0%	0

Significant Actuarial Assumptions. A variety of significant actuarial assumptions are used to compute the actuarial accrued liability and the annual recommended contribution and these assumptions are summarized below:

Investment rate of return	7.75% per year
Projected salary increases for	
Cost of Living Adjustments	3.5% per year
Merit or seniority	3.5% per year
Annual rates of increase in:	
Salaries	3.5%
Future Social Security Wage Base	3.5%
Cost of living adjustment	3.5%
Post retirement benefit increases	3.5% per year
Actuarial Methods:	
Normal Cost and Actuarial Accrued Liability	Projected Unit Credit
Actuarial Value of Assets	Sum of the actuarial value at the beginning of the year and the cash flow during year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at the end of the year. The actuarial value is adjusted, if necessary, to be within 50% of market value for 2009, 44% of market value for 2010, 38% of market value for 2011, 32% of market value for 2012, 26% of market value for 2013, and 20% of market value for 2014 and later years.

As of July 1, 2011, employee membership data related to the current plan membership was as follows:

Number of retirees and beneficiaries currently receiving benefits	24
Number of terminated employees entitled to benefits, but not yet receiving them	14
Number of Active Plan Participants	
Vested	16
Nonvested	26
Total	80

Information regarding the funding status of the plan as of the July 1, 2011 valuation is as follows:

Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability	Actuarial Value Of Assets As A % Of Actuarial Accrued Liability	Annual Covered Payroll	Ratio Of The Unfunded Actuarial Accrued Liability To Annual Covered Payroll
July 1, 2011	$ 2,619,022	$ 2,795,548	$ 176,526	93.69%	$ 1,206,999	14.63%
July 1, 2010	2,438,973	2,748,812	309,839	88.73%	1,247,642	24.83%
October 1, 2009	2,194,978	2,630,217	435,239	83.45%	1,432,751	30.38%

Note 11. Restricted Assets and Restricted Net Assets

Restricted Assets

The City is required to establish and maintain restricted cash accounts to comply with bond covenants and external legal requirements. The revenue bond debt service and reserve cash accounts are restricted for payment of bond principal and interest and certain construction funds are restricted for specified capital projects or improvements.

The balances of the Water and Sewer Fund restricted asset accounts are as follows:

Revenue Bond Debt Service Cash Account	$ 52,403
Revenue Bond Reserve Cash Account	85,398
Total Restricted Assets	$ 356,450

Based on the required balances and the actual balance in the revenue bond and construction cash accounts, the City is in compliance with the bond ordinance and grant requirements.

Restricted Net Assets

Restrictions are used to indicate that a portion of the net assets is not available for expenditures or expenses and is legally segregated for a specific future use. The City uses the following:

Governmental Funds:

Restricted for drug enforcement activities – Created to segregate money received from federal or state sources that restrict use for law enforcement purposes only.

Restricted for construction – Created to segregate money received from SPLOST and certain grant proceeds.

Restricted for hotel/motel tax – Created to segregate money received from hotel/motel tax.

An additional reserve for other purposes includes money that the City has designated for economic development purposes. There are no external restrictions on these funds so they are not restricted in the government-wide statements.

Business-type activities:

Restricted for Debt Service - The City's bond covenants require certain reservations of the Water and Sewer Fund's net assets for payments of bond principal and interest.

Restricted for Construction – Revenues are restricted for use on specific projects.

Note 12. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

Note 13. Other Information

Vacation and Sick Leave

City employee's vacation days accrue at a rate of 6.67 hours per month for one through nine years of service; 10 hours per month for ten through nineteen years of service; and 13/38 hours per month for twenty years of service and above. Up to a maximum of 240 hours of vacation may be accrued. Sick leave accrues at a rate of 5 hours per month.

Note 14. Risk Management

At year-end, there were no legal actions taken by or against the City that would have an adverse effect on the City's financial condition. The City is exposed to various risk of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries commercial insurance. This City is self insured related to unemployment compensation. There have been no significant reductions in insurance coverage from the prior year.

During the past three years, the costs of any settlements have not exceeded insurance coverage.

Note 15. Joint Venture

The City of Adairsville is a member of the Northwest Regional Commission (NWRGC). The NWRGC was created under the laws of the State of Georgia and cities and counties in the area served by the NWRGC are required to be members. The membership of the NWRGC includes 15 counties and 49 municipalities. Bartow County pays annual membership dues on behalf of the City. The City has no equity interest in the NWRGC nor does the City materially contribute to the continued existence of the NWRGC. The Official Code of Georgia Annotated Section §50-8-39.1 states that in the event the

NWRGC ceases operation, the membership can be assessed for any debt or obligation of the NWRGC. Separate financial statements may be obtained from the Northwest Regional Commission, P. O. Box 1798, Rome, Georgia 30162.

Note 16. Hotel/Motel Tax Revenues and Tourism Expenditures

The City of Adairsville levies a 5 percent hotel/motel tax in accordance with the provisions of the Official Code of Georgia section §48-13-51. This code section requires that the City expend an amount equal to the amount by which the total taxes collected under this section exceed the taxes that would be collected at a rate of 3 percent. For the year ended December 31, 2011, the total amount the City collected was $61,903 and the amount collected above the 3 percent rate was $24,761. In accordance with a contractual agreement, 100% of this amount was paid from the general fund to the Cartersville-Bartow County Convention and Visitors Bureau for tourism promotion.

Note 17. Special Purpose Local Option Sales Tax

In November 2008, Bartow County voters approved a referendum on the question of "yes/no shall a special one percent sales and use tax be imposed in Bartow County for a period of time not to exceed twenty calendar quarters, or until there is collected net proceeds of $200,000,000, for various capital outlay purposes". Actual collection of the tax began April 1, 2008 and is projected to end March 31, 2014. The City of Adairsville's distributive share of this amount is projected to be $6,012,000 or 3.34%. The City is to use the proceeds from the tax for various infrastructure and water/sewer improvements.

Note 18. Post Employment Health Care Benefits

In February 2011, the City modified its Post Employment Benefits plan which discontinued benefits except for retired employees already participating in the plan and current employees who will have achieved twenty years of continuous service and have reached the age of fifty-five before December 31, 2011. Based on the new plan, the City is recognizing a short-term OPEB liability in the General Fund for the three active plan participants. Three additional employees could qualify for the benefit under the new plan if they elected to do so. The City does not consider the potential long-term liability for the current or potential participants as material to the financial statements and will continue to report the short-term liability in the financial statements until the plan has expired in 2020.

Note 19. Construction Commitments

The City had no outstanding construction commitments as of December 31, 2011.

Note 20. Prior Period Adjustment

Prior period adjustments were recognized in the General Fund in the current year related to the OPEB plan amendment discussed in Note 18 and for the correction of past depreciation expense discussed in Note 7. The OPEB plan adjustment increased net assets by $122,411 and removed the long-term liability in the same amount. The depreciation expense adjustment decreased accumulated depreciation in the General Fund by $11,227 and increased net assets by the same amount.

A prior period adjustment was recognized in the Water Fund related to the OPEB plan amendment discussed in Note 18 which increased net assets by $51,333 and decreased the long-term OPEB liability by the same amount. The Gas Fund also recognized a prior period adjustment related to the OPEB plan amendment increasing net assets by $5,353 and decreasing the long-term OPEB liability by the same amount.

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COMBINING AND INDIVIDUAL FUND STATEMENTS

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CITY OF ADAIRSVILLE, GEORGIA
Schedule of Revenues, Expenditures, and Changes in Fund Balance
2008 SPLOST Capital Project Fund - Budget and Actual
For the Year Ended December 31, 2011

	Project Length Budgeted Amounts			
	Original	Final	Current Year Actual	Variance with Final Budget
Revenues				
Intergovernmental	$ 6,012,000	$ 6,012,000	$ 639,825	$ (5,372,175)
Interest Income	-	-	9,898	9,898
Total Revenues	6,012,000	6,012,000	649,723	(5,362,277)
Expenditures				
Capital Outlay:				
General Government Projects	1,500,000	1,500,000	-	1,500,000
Streets and Roads Projects	1,552,000	1,552,000	1,205,807	346,193
Total Expenditures	3,052,000	3,052,000	1,205,807	1,846,193
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,960,000	2,960,000	(556,084)	(3,516,084)
Other Financing Sources (Uses)				
Capital Contributions (Water and Sewer Projects)	(2,960,000)	(2,960,000)	(82,939)	2,877,061
Total Other Financing Sources (Uses)	(2,960,000)	(2,960,000)	(82,939)	2,877,061
Net Change in Fund Balance	-	-	(639,023)	(639,023)
Fund Balance (Deficit) - Beginning of Year	1,498,400	1,498,400	1,498,400	-
Fund Balance (Deficit) - End of Year	$ 1,498,400	$ 1,498,400	$ 859,377	$ (639,023)

CITY OF ADAIRSVILLE, GEORGIA
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2011

	Special Revenue Funds		
	Confiscated Assets	Hotel/Motel Tax	Total Nonmajor Governmental Funds
Assets			
Receivables (Net of Allowance for Uncollectibles):			
Taxes	$ -	$ 4,497	$ 4,497
Cash - Restricted	27,558	-	27,558
Total Assets	$ 27,558	$ 4,497	$ 32,055
Fund Balances			
Restricted For:			
Drug Enforcement Activities	$ 27,558	-	$ 27,558
Other Purposes	-	4,497	4,497
Total Fund Balances	$ 27,558	$ 4,497	$ 32,055

CITY OF ADAIRSVILLE, GEORGIA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2011

	Special Revenue Funds		
	Confiscated Assets	Hotel/Motel Tax	Total Nonmajor Governmental Funds
Revenues			
Taxes	$ -	$ 61,903	$ 61,903
Fines and Forfeitures	19,320	-	19,320
Interest Income	36	-	36
Total Revenues	19,356	61,903	81,259
Expenditures			
Current:			
Police	1,668	-	1,668
Total Expenditures	1,668	-	1,668
Excess (Deficiency) of Revenues Over Expenditures	17,688	61,903	79,591
Other Financing Sources (Uses)			
Transfers - Out	-	(63,937)	(63,937)
Total Other Financing Sources (Uses)	-	(63,937)	(63,937)
Net Change in Fund Balances	17,688	(2,034)	15,654
Fund Balance - Beginning of Year	9,870	6,531	16,401
Fund Balance - End of Year	$ 27,558	$ 4,497	$ 32,055

CITY OF ADAIRSVILLE, GEORGIA
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Confiscated Asset Special Revenue Fund - Budget and Actual
For the Year Ended December 31, 2011

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
Revenues				
Fines and Forfeitures	$ 19,320	$ 19,320	$ 19,320	$ -
Interest Income	36	36	36	-
Total Revenues	19,356	19,356	19,356	-
Expenditures				
Current:				
Police	1,668	1,668	1,668	-
Total Expenditures	1,668	1,668	1,668	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	17,688	17,688	17,688	-
Net Change in Fund Balance	17,688	17,688	17,688	-
Fund Balance - Beginning of Year	9,870	9,870	9,870	-
Fund Balance - End of Year	$ 27,558	$ 27,558	$ 27,558	$ -

CITY OF ADAIRSVILLE, GEORGIA
Schedule of Revenues, Expenditures, and Changes In Fund Balance
Hotel/Motel Tax Special Revenue Fund - Budget and Actual
For the Year Ended December 31, 2011

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
Revenues				
Taxes	$ 56,000	$ 62,000	$ 61,903	$ (97)
Total Revenues	56,000	62,000	61,903	(97)
Excess (Deficiency) of Revenues Over (Under) Expenditures	56,000	62,000	61,903	(97)
Other Financing Sources (Uses)				
Transfers - Out	(56,000)	(62,000)	(63,937)	(1,937)
Total Other Financing Sources (Uses)	(56,000)	(62,000)	(63,937)	(1,937)
Net Change in Fund Balance	-	-	(2,034)	(2,034)
Fund Balance (Deficit) - Beginning of Year	6,531	6,531	6,531	-
Fund Balance (Deficit) - End of Year	$ 6,531	$ 6,531	$ 4,497	$ (2,034)

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COMPLIANCE SECTION

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LLOYD WILLIAMSON
CHRISTIAN HATCH

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
Adairsville, Georgia

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Adairsville, Georgia, as of and for the year ended December 31, 2011, which collectively comprise the City of Adairsville, Georgia's basic financial statements and have issued our report thereon dated June 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of City of Hartwell, Georgia, in a separate letter dated June 15, 2012.

This report is intended solely for the information and use of the Mayor, City Council and management, and is not intended to be and should not be used by anyone other than these specified parties.

Williamson and Company

Williamson and Company
Certified Public Accountants
June 15, 2012

CITY OF ADAIRSVILLE, GEORGIA
Schedule of Special Purpose Local Option Sales Tax
Year Ended December 31, 2011

Project	Estimated Cost		Expenditures		
	Original	Current	Prior Years	Current Year	Total
SPLOST II (2008-2013)					
General Government Projects					
New City Hall	$ 1,500,000	$ 1,500,000	$ -	$ -	$ -
Water and Sewer Projects					
Upgrade Capacity at Waster Water Plant #1	1,000,000	1,000,000	-	-	-
Two-Million Gallon Water Reservoir	650,000	650,000	213,552	13,384	226,936
Two-Million Gallon Relief Tank	650,000	650,000	-	-	-
Jarrett Loop Water Main Extension	300,000	300,000	-	-	-
Pleasant Valley Waterline Loop	60,000	60,000	-	-	-
Emergency Power Supply-Sewer Plant #1	150,000	150,000	45,128	34,735	79,863
Emergency Power Supply-Sewer Plant #2	150,000	150,000	45,129	34,820	79,949
Total Water and Sewer	2,960,000	2,960,000	303,809	82,939	386,748
Street and Road Projects					
Rebuild Martin Luther King Blvd.	207,000	207,000	7,965	-	7,965
Road Stripping and Incidentals	84,000	84,000	-	-	-
Curb & Gutter Summer Street and Sidewalk	517,000	517,000	35,499	436,055	471,554
Curb & Gutter Martin Luther King and Sidewalk	400,000	400,000	54,519	262,877	317,396
Curb & Gutter King Street and Sidewalk	344,000	344,000	16,884	506,875	523,759
Total Miscellaneous Projects	1,552,000	1,552,000	114,867	1,205,807	1,320,674
Total for SPLOST II Projects	$ 6,012,000	$ 6,012,000	$ 418,676	$ 1,288,746	$ 1,707,422

This schedule is presented on the accrual basis of accounting.