CITY OF CORNELIA

CORNELIA, GEORGIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2011

CITY OF CORNELIA, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2011

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CITY OF CORNELIA, GEORGIA
ANNUAL FINANCIAL REPORT
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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

June 20, 2012

Honorable Mayor and
Members of the City Council
City of Cornelia
Cornelia, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Cornelia, 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 Cornelia, Georgia's Management. Our responsibility is to express opinions on these financial statements based on the 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 basic 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 aggregate discretely presented component units each major fund and the aggregate remaining fund information of the City of Cornelia, Georgia as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof 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 June 20, 2012 on our consideration of the City of Cornelia, Georgia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an intergral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The City has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison schedule identified as Exhibit 8 in the Financial Section of the accompanying table of contents is not part of the basic financial statements but is 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cornelia, Georgia's basic financial statements. The combining fund schedules and the state reporting section with the special purpose local option sales tax report are presented for purposes of additional analysis and are not a required part of the basic financial statements. The special purpose local option sales tax report 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.

Duncan & Kitchens, LLC

BASIC FINANCIAL STATEMENTS

CITY OF CORNELIA, GEORGIA
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

EXHIBIT 1

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash	$ 2,186,268	$ 6,114,214	$ 8,300,482	$ -
Taxes Receivable	1,210,795		1,210,795	-
Accounts Receivable	113,026	439,909	552,935	-
Grants Receivable			-	
Intergovernmental Receivable	200,086	(200,086)		
Capital Assets				
Non-Depreciable	169,976	344,616	514,592	-
Depreciable Assets, Net	4,246,052	24,154,107	28,400,159	-
TOTAL CAPITAL ASSETS	4,416,028	24,498,723	28,914,751	-
TOTAL ASSETS	$ 8,126,203	$ 30,852,760	$ 38,978,963	$ -
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 106,459	$ 109,325	$ 215,784	$ -
Accrued Payroll	69,703	38,728	108,431	-
Payroll Taxes Withheld and Accrued	6,878	10,400	17,278	-
Current Portion of Long-Term Debt	25,327	719,799	745,126	-
Water Deposits		23,082	23,082	-
Noncurrent Liabilities				
Long-Term Notes Payable	82,279	7,544,204	7,626,483	-
TOTAL LIABILITIES	290,646	8,445,538	8,736,184	-
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	4,308,422	16,234,720	20,543,142	-
Restricted for:				
Capital Projects	516,086		516,086	
Tourism	48,880		48,880	
Unrestricted Assets	2,962,169	6,172,502	9,134,671	-
TOTAL NET ASSET	$ 7,835,557	$ 22,407,222	$ 30,242,779	$ -

The accompanying notes are an integral part of this statement.

CITY OF CORNELIA, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

EXHIBIT 2

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Unit
Primary Government								
Governmental Activities								
General Government	$ 285,457	$ 152,759	$	$ 335,950	$ 203,252	$	$ 203,252	$ -
Better Hometown	56,520				(56,520)		(56,520)	
City Manager	216,090				(216,090)		(216,090)	
Human Resources	87,349			6,000	(81,349)		(81,349)	
Police	1,358,007	300,452			(1,057,555)		(1,057,555)	-
Fire	762,195	140,453			(621,742)		(621,742)	-
Streets & Sanitation	478,898	290,304			(188,594)		(188,594)	-
Public Buildings	293,055				(293,055)		(293,055)	-
Recreation Department	194,516	37,560		38,592	(118,364)		(118,364)	-
Planning Department	202,060	34,012			(168,048)		(168,048)	-
Community Development	65,889				(65,889)		(65,889)	
Maintenance and Mechanical	145,120				(145,120)		(145,120)	-
Interest on long-term debt	6,660				(6,660)		(6,660)	
Total Governmental Activities	4,151,816	955,540		380,542	(2,815,734)		(2,815,734)	-
Business-type Activities								
Water and Sewer	4,147,889	5,737,358		264,940		1,854,409	1,854,409	-
Total Business-type Activities	4,147,889	5,737,358		264,940		1,854,409	1,854,409	-
Total Primary Government	$ 8,299,705	$ 6,692,898	$	$ 645,482	(2,815,734)	1,854,409	(961,325)	-
General Revenues:								
Taxes:								
Property					1,475,785		1,475,785	-
Franchise					475,396		475,396	-
Motel Tax					197,469		197,469	
Beer and Wine					125,811		125,811	-
Insurance Premium					195,122		195,122	-
Unrestricted Investment Earnings					2,685	25,293	27,978	-
Intergovernmental					14,094		14,094	
Miscellaneous					57,955		57,955	-
Donations					7,539		7,539	
Transfers					700,000	(700,000)		-
Total General Revenues and Transfers					3,251,856	(674,707)	2,577,149	-
Change in Assets					436,122	1,179,702	1,615,824	-
Net Assets at Beginning of Year					7,399,435	21,227,520	28,626,955	-
Net Assets - End of Year					$ 7,835,557	$ 22,407,222	$ 30,242,779	$ -

The accompanying notes are an integral part of this statement.

CITY OF CORNELIA, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

EXHIBIT 3

	GENERAL FUND	SPLOST V CAPITAL PROJECTS	NONMAJOR GOVERNMENTAL FUNDS	GOVERNMENTAL FUNDS
ASSETS				
Cash	$ 1,601,338	$ 516,086	$ 68,844	$ 2,186,268
Taxes Receivable	1,210,795			1,210,795
Accounts Receivable	113,026			113,026
Due from Other Funds	200,086			200,086
TOTAL ASSETS	$ 3,125,245	$ 516,086	$ 68,844	$ 3,710,175
LIABILITIES				
Accounts Payable	$ 106,459	$	$	$ 106,459
Accrued Payroll	69,703			69,703
Payroll Taxes Withheld and Accrued	6,878			6,878
Deferred Revenue - Taxes	290,861			290,861
TOTAL LIABILITIES	473,901			473,901
FUND BALANCE				
Restricted				
Capital Outlay Projects		516,086		516,086
Tourism			48,880	48,880
Committed				
Skate Park			13,351	13,351
Pet Friends			1,587	1,587
Better Hometown			5,026	5,026
Unassigned	2,651,344			2,651,344
TOTAL FUND BALANCE	2,651,344	516,086	68,844	3,236,274
TOTAL LIABILITIES AND FUND BALANCE	$ 3,125,245	$ 516,086	$ 68,844	$ 3,710,175

Capital Projects Fund

Adjustments to the Statement of Net Assets

Fund Balance	$ 3,236,274
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds	4,416,028
Other long-term assets are not available to pay for current-period expenditures and therefore are offset by deferred revenue in the governmental funds	290,861
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	(107,606)
Net Assets of Governmental Activities (Exhibit "1")	$ 7,835,557

The accompanying notes are an integral part of this statement.

EXHIBIT 4

CITY OF CORNELIA, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	GENERAL FUND	SPLOST V CAPITAL PROJECTS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes				
Property	$ 1,469,764	$	$	$ 1,469,764
Franchise	475,396			475,396
Motel			197,469	197,469
Beer and Wine	125,811			125,811
Insurance Premium	195,121			195,121
License and Permits	152,759			152,759
Charges for Services	604,237			604,237
Fines and Forfeitures	198,544			198,544
Interest Income	1,171	1,438	76	2,685
Intergovernmental	14,094	335,950		350,044
Grants	44,592			44,592
Donations	-		7,539	7,539
Miscellaneous	57,955			57,955
TOTAL REVENUE	3,339,444	337,388	205,084	3,881,916
EXPENDITURES				
Current:				
General Government	117,046	186,465	93,509	397,020
Better Hometown	39,121		17,399	56,520
City Manager	216,090			216,090
Human Resources	87,349			87,349
Police Department	1,281,893			1,281,893
Fire Department	704,645	438,548		1,143,193
Streets and Sanitation	456,109			456,109
Public Buildings and Library	293,055			293,055
Recreation Department	194,516			194,516
Planning Department	202,060			202,060
Community Development	65,889			65,889
Maintenance and Mechanical	145,120			145,120
Debt Service				
Principal Retirement	61,319			61,319
Interest and Fiscal Charges	6,660			6,660
TOTAL EXPENDITURES	3,870,872	625,013	110,908	4,606,793
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(531,428)	(287,625)	94,176	(724,877)
OTHER FINANCING SOURCES (USES)				
Interfund Transfers	771,949	-	(71,949)	700,000
TOTAL OTHER FINANCING SOURCES (USES)	771,949	-	(71,949)	700,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES (USES) OVER (UNDER) EXPENDITURES	240,521	(287,625)	22,227	(24,877)
FUND BALANCE - BEGINNING OF YEAR	2,410,823	803,711	46,617	3,261,151
FUND BALANCE - END OF YEAR	$ 2,651,344	$ 516,086	$ 68,844	$ 3,236,274

Adjustments to the Statement of Activities	
Net Change in Fund Balance	$ (24,877)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which Capital Outlays ($653,914) exceeded Depreciation ($ 260,255).	393,659
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	6,021
Proceeds from financing, such as capital leases, are recognized in the statement of activities, whereas they recognized as other financing sources in the	
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in statement of net assets.	61,319
Change in net assets of governmental activities (Exhibit 2)	$ 436,122

The accompanying notes are an integral part of this statement.

CITY OF CORNELIA, GEORGIA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2011

EXHIBIT 5

	BUSINESS TYPE ACTIVITIES WATER AND SEWER ENTERPRISE FUND
ASSETS	
Current Assets:	
Cash	$ 6,114,214
Accounts Receivable	439,909
Total Current Assets	6,554,123
Non-current Assets:	
Capital Assets	
Assets not being depreciated	344,616
Asset being depreciated	35,768,649
Accumulated Depreciation	(11,614,542)
Total Non-current Assets	24,498,723
TOTAL ASSETS	$ 31,052,846
LIABILITIES AND FUND EQUITY	
Current Liabilities	
Accounts Payable	$ 109,325
Accrued Payroll	38,728
Payroll Taxes Withheld and Accrued	10,400
Due to General Fund	200,086
Current Portion of Long-term Notes	719,799
Total Current Liabilities	1,078,338
Non-current Liabilities	
Water Deposits	23,082
Long-term Notes Payable	7,544,204
Total Non-current Liabilities	7,567,286
TOTAL LIABILITIES	8,645,624
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	16,234,720
Unrestricted Assets	6,172,502
TOTAL NET ASSETS	22,407,222
TOTAL LIABILITIES AND NET ASSETS	$ 31,052,846

The accompanying notes are an integral part of this statement.

CITY OF CORNELIA, GEORGIA
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

EXHIBIT 6

	ENTERPRISE FUND
OPERATING REVENUES	
Water Sales	$ 2,892,048
Sewer Fees	2,702,442
Fines and Surcharges	20,691
Water and Sewer Taps	114,977
Miscellaneous Receipts	7,200
TOTAL OPERATING REVENUES	5,737,358
OPERATING EXPENSES - By Department	
Administration	328,892
Water Plant	920,665
Disposal Plant	1,063,694
Water & Sewer System - Crew	458,896
Maintenance and Mechanical	343,718
Depreciation	844,230
TOTAL OPERATING EXPENSES	3,960,095
OPERATING INCOME	1,777,263
NON-OPERATING REVENUES (EXPENSE)	
Interest Income	25,293
Interest Expense	(187,794)
TOTAL NON-OPERATING INCOME (EXPENSE)	(162,501)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	1,614,762
Transfer to General Fund	(700,000)
Capital Contributions	264,940
CHANGE IN NET ASSETS	1,179,702
TOTAL NET ASSETS - BEGINNING OF YEAR	21,227,520
TOTAL NET ASSETS - END OF YEAR	$ 22,407,222

The accompanying notes are an integral part of this statement.

CITY OF CORNELIA, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

EXHIBIT 7

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$ 5,737,358	
Payments to Suppliers	(2,302,502)	
Payments to Employees	(1,090,098)	
NET CASH PROVIDED BY OPERATING ACTIVITIES		$ 2,344,758
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to other funds	(700,000)	
NET CASH USED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES		(700,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds for Debt	2,965,611	
Proceeds from Fieldale Farms, Inc.	83,160	
Proceeds from Habersham County Board of Education	181,780	
Principal Paid on Notes	(1,572,812)	
Interest Paid	(187,794)	
Acquisition Of Capital Assets	(2,838,065)	
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES		(1,368,120)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Earned	25,293	
NET CASH PROVIDED BY INVESTING ACTIVITIES		25,293
NET INCREASE IN CASH AND CASH EQUIVALENTS		301,931
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		5,812,283
CASH AND CASH EQUIVALENTS AT END OF YEAR		$ 6,114,214
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating Income (Loss)		$ 1,777,263
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By Operating Activities		
Depreciation	$ 844,230	
(Increase) Decrease in Accounts Receivable	22,636	
Increase (Decrease) in Customer Deposits	21,664	
Increase (Decrease) in Due to General Fund	(9,737)	
Increase (Decrease) in Accounts Payable	(310,086)	
Increase (Decrease) in Accrued Payroll	1,127	
Increase (Decrease) in Payroll Taxes Payable	(2,339)	
TOTAL ADJUSTMENTS		567,495
NET CASH PROVIDED BY OPERATING ACTIVITIES		$ 2,344,758

The accompanying notes are an integral part of this statement.

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

The City of Cornelia was incorporated under the laws of the State of Georgia in 1887 and operates under an elected mayor-commission for of Government. The City's combined financial statements include the accounts of all the City's operations.

The financial statements of the City of Cornelia have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, the City has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for proprietary funds.

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

A. Financial Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The criteria for including organizations as component units within the City's reporting entity, as set forth in section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

-the organization is legally separate
-the City holds the corporate powers of the organization
-the City appoints a voting majority of the organization's board
-the City is able to impose its will on the organization
-the organization has the potential to impose a financial benefit/burden on the City
-there is a fiscal dependency by the organization on the City

Discretely presented component units: The Downtown Development Authority is governed by a separate board and is a separate legal, public body corporate and political created and existing under instrumentality of the City of Cornelia for the purpose of revitalizing and developing the central business district of Cornelia, Georgia.

The above component unit's financial statements are reflected in the City's financial statements under the Discretely Presented Component Unit Caption. The Authority is currently active but is without assets, liabilities, revenue or expenditures. No separate statements are available.

Related organizations:
The Cornelia Housing Authority administers Federal funding and/or other financing for improvement of housing conditions in the City. The five citizens who serve as the Governing Board are appointed by the City Commission. The City has no significant influence over the management, budget or policies of the Cornelia Housing Authority. The Authority reports independently.

NOTE 1 – (Continued)

Basis of Presentation

The basic financial statements of the City are composed of the following:

Government-wide financial statements
Fund financial statements
Notes to the financial statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type.

Government-wide and Fund Financial Statements

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transactions. These statements distinguish between the *governmental* and *business-type* activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (recreation, public safety, street and sanitation, etc.) which are otherwise being supported by general Governmental revenues (property, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contribution. The program revenues must be directly associated with the function (public safety, public works, recreation, etc.) or a business-type activity. The City does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The governmental funds major fund statements in the fund financial statements are presented on current financial resources and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental funds are presented on a different measurement focus and basis of accounting than the government-wide statement's governmental column, reconciliation is presented which briefly explains the adjustments necessary to reconcile funds based on financial statements with the governmental column of the government-wide presentation.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and /or other financial resources together with all related liabilities and residual equities balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

NOTE 1 – (Continued)

The focus of the revised model is on the City as a whole and the fund financial statements, including the major funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

Management's Discussion and Analysis - GASB Statements No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of " management's discussion and analysis" (MD & A). This analysis is similar to analysis the private sector provides in their annual reports. (Not Included)

Government-Wide Financial Statements – The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as building and other capital assets, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

Schedule of Net Assets – The Schedule of Net Assets is designed to display the financial position of the primary government (government and business-type activities). Governments will report all capital assets in the government-wide Schedule of Net Assets and will report depreciation expense the cost of "using up" capital assets in the Schedule of Activities. The net assets of a government will be broken down into three categories -1) invested in capital assets, net of related debt:; 2) restricted and 3) unrestricted.

Schedule of Program Activities – The new government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

Budgetary Comparison Schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budget over the course of the year for a variety of reasons. Under the new reporting model, governments will continue to provide budgetary comparison information in their annual reports. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

1. **Governmental Funds**

Governmental Funds are those through which most governmental functions typically are financed.

General Fund

The General Fund is the primary operating fund of the City. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income. The General Fund is considered a major fund for reporting purposes.

NOTE 1 – (Continued)

The SPLOST V Capital Projects Fund accounts for the funds from the City's share of the Habersham County Special Purpose Local Option Sales Tax. The SPLOST V Fund is considered a major fund for reporting purposes.

Special Revenue Funds

The *Special Revenue Funds* account for revenues derived from specific sources (other than capital projects) that are restricted by legal and regulatory provisions to finance specific activities. The Special revenue funds are not considered a major fund for reporting purposes.

2. **Proprietary Fund:** The Government reports the following proprietary fund:

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses 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 Water and Sewer enterprise fund are charges to customers for sales and service. The Water enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses of the enterprise fund include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The proprietary fund applies Financial Accounting Standards (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30. 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

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.

Enterprise Funds These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods and services to the general public on a continuing basis be financed primarily through user charges.

The Water and Sewer enterprise funds report the activities of the City's water and sewer systems.

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

C. – Measurement Focus, Basis of Accounting

Government-wide and Proprietary Financial Statements. The government-wide and proprietary financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

NOTE 1 – (Continued)

Revenue from grants, entitlements and donations is recognized in the fiscal year in which the eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 90 days after year-end except for property taxes for which 60 days after year end applies. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and adjustments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

D. - Budgets and Budgetary Accounting

The City Commission annually adopts budgets for the General Fund of the Primary Government. All appropriations are legally controlled at the departmental level for the General Fund. On December 7, 2007 the City Commission adopted the original budget. There were no budget amendments made during the year. The budgets are integrated into the accounting system, and the budgetary, as presented in financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the Budgetary Comparison Schedule for the General Fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditures are recorded to reserve that portion of the applicable appropriation - is not utilized by the City of Cornelia.

E. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, certificates of deposit and money market accounts. State statutes authorize the City to invest only in obligations of the United States and of its agencies and instrumentality's, or bonds or certificates of indebtedness of the State of Georgia and of its agencies and instrumentality's, or certificates of deposit of banks which have deposits insured by the FDIC with any uninsured amounts collateralized by direct obligations of the United States or State of Georgia.

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

F. Receivables

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

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

NOTE 1 – (Continued)

G. Inventories and Prepaid Items

The cost of supplies is recorded as expenditure at the time the individual items are purchased. The amount of inventory on hand is insignificant and therefore not recorded. Certain amounts for insurance reflecting costs applicable to future accounting periods are recorded as prepaid items.

H. Restricted Assets

The "Capital Projects Fund" account is set up to accumulate funds for the future capital outlay projects of the City. The City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transaction.

I. Capital Assets

Capital outlays are recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent that the City's capitalization threshold is met. The City capitalizes asset purchases valued at $5,000 or more. Depreciation is recorded on general fixed assets on a government-wide basis. Capital outlays of the Proprietary Fund are recorded as fixed assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the government-wide basis. All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

Major outlays of capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the assets constructed. No interest was capitalized during 2011.

Infrastructure (roads, bridges and traffic lights) acquired prior to January 1, 2000 have not been reported.

J. Compensated Absences

The City's policy does not allow the accumulation of vacation pay beyond a six-month period subsequent to year-end. Vacation taken subsequent to year-end requires approval of the department head and the City Manager and is lost if not taken by the end of the six-month period. The amount of 2011 vacation time taken in 2012 could not be reasonably estimated but it deemed to be immaterial. Sick pay benefits are nonvesting accumulating rights and are not accrued as allowed by FASB-43 (Accounting for Compensated Absences).

K. Long-Term Obligations

The City reports long-term debt of governmental activities at face value in the Government-wide Statement of Net Assets. Long-term debt is not reported for governmental activities in the fund financial statements. Long-term debt and other obligations financed by the proprietary fund are reported as liabilities in both the Government-wide and fund financial statements.

NOTE 1 – (Continued)

L. Contributions of Capital

Contributed capital is recorded in the proprietary fund when capital grants or contributions are received from developers, customers or other funds.

M. Fund Equity/Net Assets

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

Fund Balance – Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- *Nonspendable* –Fund balances are reported as nonspendable when the amounts cannot be spent because they are either (a) not in spendable form (i.e. items that are not expected to be converted to cash like inventories and prepaid items) or (b) legally or contractually required to be maintained intact.
- *Restricted* – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- *Committed* – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the adoption of a resolution prior to the end of the fiscal year. In order to modify or rescind the commitment, the City Council must adopt another resolution.
- *Assigned*- Fund balances are reported as assigned when the amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted or committed. Through resolution, the City Council has authorized the City's finance director to assign fund balances.
- *Unassigned* – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balances only in the general fund. Negative unassigned fund balances may be reported in all other governmental funds.

Net Assets – Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt used for the acquisition, construction, or improvement of those assets. In determining the outstanding balance of any borrowing, proceeds of that debt which has not been spent is deducted. Accounts payable for costs related to acquisition, construction, or improvement of those capital assets is considered debt for this calculation. Net assets are reported as restricted as described in the fund balance section above. All other assets are reported as unrestricted.

NOTE 1 – (Continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then committed, assigned, and unassigned (or restricted) resources as they are needed.

N. Interfund Activity

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

Interfund transactions are either, loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriated and are subject to elimination upon consolidation. Services, deemed to be reasonably equivalent in value, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other Interfund transactions are presented as transfers. Transfers within governmental activities and within business-type activities are eliminated upon consolidation.

O. Internal Activity

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/ expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

P. Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

On or before the end of December of each year, all departments of the City submit requests for appropriation to the City's Management so that a budget may be prepared. The budget is prepared by fund, function and activity and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

Before December 31st the Proposed Budget is presented to the City's Council for review. The City Council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the City's Management. The revenue estimates must be changed by an affirmative vote of a majority of the City Council. The budget was not amended during the year.

NOTE 3 – DEPOSITS

At December 31, 2011 the carrying amount of the City's deposits was $ 8,300,482 and the bank balance was $8,350,498. All bank balances of deposits as of December 31, 2011 are entirely insured or collateralized with securities held by the City's agent in the City's name.

NOTE 4 - RECEIVABLES

Receivables at December 31, 2011 consisted of the following:

	General Fund	Enterprise Fund	Total
Receivables:			
Taxes	$ 1,210,795	$	$ 1,210,795
Service Fees	113,026		113,026
Water and Sewer Receivables		439,909	439,909
Total Receivables	$ 1,323,821	$ 439,909	$1,763,730

The delinquent taxes receivable account represents uncollected tax levies. No allowance for uncollectible taxes has been provided as delinquent taxes are considered fully collectible.

Property taxes are assessed as of January 1, 2011 on property values. Taxes were levied on December 21, 2011 for the 2011 tax year, and were due on February 21, 2012. All unpaid taxes levied on December 21, 2011 become delinquent as of February 21, 2012. Interest and penalties accrue after February21, 2012.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within 60 days after year end.

Due to the high collection rate in the Enterprise Fund, no allowance has been made for bad debts.

NOTE 5 – INTERFUND BALANCES

DUE TO - FROM OTHER FUNDS

Receivable Fund	Payable Fund	Amount
General	Water and Sewer	200,086
Total		$ 200,086

NOTE 5 – (Continued)

INTERFUND TRANSFERS

	Major Funds			Nonmajor Funds	
	General	Proprietary	Governmental		Combined
Transfer Out To:					
Major Funds					
General	$ -	$ (700,000)	$ (75,038)		$ (775,038)
Nonmajor Funds					
Governmental	(3,089)		-	-	(3,089)
Transfer In From.					
Major Funds					
General	-	-	3,089		3,089
Proprietary Fund	700,000	-	-		700,000
Nonmajor Funds					
Governmental	75,038	-	-		75,038
Total	$ 771,949	$ (700,000)	$ (71,949)		$ -

Interfund transfers are used to 1) move revenues from the fund that statute or budget requires them to the fund that statute or budget requires to expend them, and 2) use restricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers are eliminated in the government-wide financial statements if the interfund transfer is within the governmental fund group or business-type group.

NOTE 6 - CHANGES IN FIXED ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

Governmental-Type Activities:

	Balance 01/01/11	Additions	Deletions	Balance 12/31/11
Capital Assets Not being Depreciated				
Land	$ 158,955	$ 11,021	$	$ 169,976
Depreciable Assets				
Building	$ 2,403,881	$ 560,632	$	$ 2,964,513
Furniture & Equipment	458,482			458,482
Fire Equipment	962,257			962,257
Police Equipment	923,185			923,185
Sanitation and Streets	713,118	28,900		742,018
Streetscape Project	1,789,548	53,360		1,842,908
Total Depreciable Assets	7,250,471	642,892		7,893,363

NOTE 6 – (Continued)

Less: Accumulated Depreciation				
Building	1,231,863	57,108		1,288,971
Furniture & Equipment	168,513	10,074		178,587
Fire Equipment	573,646	68,004		641,650
Police Equipment	723,733	76,115		799,848
Sanitation and Streets	611,494	37,261		648,755
Streetscape Project	77,807	11,693		89,500
Total Accumulated Depreciation	3,387,056	260,255		3,647,311
Net Depreciable Assets	3,863,415	382,637		4,246,052
Governmental activities assets, net	$ 4,022,370	$ 393,658	$	$ 4,416,028

Depreciation was charged to governmental functions as follows:

General Government Administration	$ 74,902
Police	76,114
Fire	57,549
Streets and Sanitation	51,690
Total	$ 260,255

Business-Type Activities:

	Balance 01/01/11	Additions	Deletions	Balance 12/31/11
Capital Assets Not being Depreciated				
Land	$ 344,616	$	$	$ 344,616
Depreciable Assets				
Building	$ 90,012	$	$	$ 90,012
Equipment	1,950,707			1,950,707
Water Plant	6,925,542	91,383		7,016,925
Sewer Plant	11,438,004	2,027,199		13,465,203
Water and Sewer System	12,526,319	719,483		13,245,802
Total Depreciable Assets	32,930,584	2,838,065		35,768,649
Less: Accumulated Depreciation				
Building	81,911	8,282		90,193
Equipment	1,024,798	84,583		1,109,381
Water Plant	2,309,033	109,751		2,418,784
Sewer Plant	3,809,190	329,250		4,138,440
Water & Sewer System	3,545,380	312,364		3,857,744
Total Accumulated Depreciation	10,770,312	844,230		11,614,542
Net Depreciable Assets	22,160,272	1,993,835		24,157,107
Business -Type activities assets, net	$ 22,504,888	$ 1,993,835	$	$ 24,498,723

NOTE 6 – (Continued)

In the governmental and business-type activities, the following estimated useful lives are used to compute depreciation using the straight-line method:

General Government Buildings	40 Years
Streetscape	40 Years
Streets and Sanitation	5-20 Years
Water and Sewer System	50 Years
Utility Plant	50 Years
Machinery and Equipment	5-20 Years

NOTE 7 - LONG-TERM DEBT

The following is a summary of Long-Term Debt transactions of the City for the year ended December 31, 2011

	Water Fund
Payable December 31, 2010	$ 6,871,204
New Debt	2,965,611
Debt Retired	(1,572,812)
Payable December 31, 2011	$ 8,264,003

Business Type Activities

	GEFA Sewer Extension	GEFA Sewer Treatment Facilities	GEFA Radio Meter Readers	GEFA Sewer Interceptor	GEFA Lift Station	Total
2012	$293,956.27	$ 189,306.40	$ 40,448.60	$ 126,830.70	$ 69,257.08	$ 719,799.05
2013	305,353.68	196,622.69		132,111.26	72,203.78	706,291.41
2014	317,192.96	204,221.72		137,611.68	75,218.71	734,245.07
2015	329,491.31	212,114.45		143,341.09	78,376.89	763,323.74
2016	342,266.50	220,312.20		149,309.05	81,648.53	793,536.28
2017-202	1,885,881.94	713,352.89		573,261.33	462,750.23	3,635,246.39
2022-2026					568,388.73	568,388.73
2027-2029					343,172.84	343,172.84
Total	3,474,142.66	1,735,930.35	40,448.60	1,262,465.11	1,751,016.79	8,264,003.51
Less:						
Payable within one year	293,956.27	189,306.40	40,448.60	126,830.70	69,257.08	719,799.05
Total Due after one year	$ 3,180,186.39	$1,546,623.95	$	$1,135,634.41	$1,681,759.71	$7,544,204.46

The amount of interest expense for the year in the Water and Sewer Fund was $ 187,794.

The proprietary fund has incurred debt for the construction and improvement of water and sewer facilities. This debt is reported in the Proprietary Fund since it is expected to be repaid from Proprietary Fund Revenues.

NOTE 7 – (Continued)

This debt is however backed by the full faith and credit of the government and is considered general obligation debt.

Notes Payable – Georgia Environmental Facilities Authority For renovation of the Sewer Treatment Facilities in the City. Total original amount of the loan was $3,498,138. Principal and interest shall be due and payable in one hundred twenty equal monthly payments in the amount of $35,101.93 each, on the first day of each month thereafter. The first payment was December 1, 2011. The note bears interest at 3.81% per annum.

Amortization of this loan is as follows:

Year	Principal	Interest	Total
2012	$ 293,956.27	$ 127,266.89	$ 421,223.16
2013	305,353.68	115,869.48	421,223.16
2014	317,192.96	104,030.20	421,223.16
2015	329,491.31	91,731.85	421,223.16
2016	342,266.50	78,956.66	421,223.16
2017-2021	1,885,881.94	185,131.45	2,071,013.39
	$ 3,474,142.66	$ 702,986.53	$ 4,177,129.19

Notes Payable – Georgia Environmental Facilities Authority For renovation of the Sewer Treatment Facilities in the City. Total original amount of the loan was $3,406,505. Principal and interest shall be due and payable in seventy-nine equal quarterly payments in the amount of $63,190.50 each, on the first day of each third month thereafter. The first payment was July 1, 2000. The note bears interest at 3.97% per annum.

Amortization of this loan is as follows:

Year	Principal	Interest	Total
2012	$ 189,306.40	$ 63,455.60	$ 252,762.00
2013	196,622.69	56,139.31	252,762.00
2014	204,221.72	48,540.28	252,762.00
2015	212,114.45	40,647.55	252,762.00
2016	220,312.20	32,449.80	252,762.00
2017-2021	713,352.89	44,932.89	758,285.78
	$ 1,735,930.35	$ 286,165.43	$ 2,022,095.78

GMA Badger Automatic Meter Reading System On June, 26, 2009, the City entered into a capital lease with Georgia Municipal Association Inc. for the acquisition of Badger Orion Automatic Meter Reading System. This lease qualifies as a capital lease for accounting purposes (title transfers at end of lease term) and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of inception. The original amount of the lease was $158,796. The lease is payable in four annual payments of $41,771.27 beginning August 1, 2009. This lease has an interest rate of 3.27% per annum. The assets are recorded in the Water Fund.

NOTE 7 – (Continued)

The following is a schedule of the future minimum lease payments under the capital lease, and the present value of the net minimum lease payments at December 31, 2011:

Amortization of this loan is as follows:

Year	Principal	Interest	Total
2012	$ 40,448.60	$ 1,322.67	$ 41,771.27
	$ 40,448.60	$ 1,322.67	$ 41,771.27

Notes Payable – Georgia Environmental Facilities Authority To finance the construction of a Sewer Interceptor Line. Total amount of loan approved is $2,291,632.16. Principal and interest shall be due and payable in one payment in the amount of $36,746.85, seventy-two quarterly payments of $44,164.58 and one final installment in the amount of $44,164.63 commencing on the first day of the third month after the month of the date of commencing payments and continuing on the first day of each third month thereafter. The first payment was March 1, 2002. The note bears interest at 4.10% per annum.
Amortization of this loan is as follows:

Year	Principal	Interest	Total
2012	$ 126,830.70	$ 49,827.62	$ 176,658.32
2013	132,111.26	44,547.16	176,658.42
2014	137,611.68	39,046.64	176,658.42
2015	143,341.09	33,317.23	176,658.42
2016	149,309.05	27,349.27	176,658.32
2017-2021	573,261.33	45,042.84	618,304.17
	$ 1,262,465.11	$ 239,130.76	$ 1,501,595.87

Notes Payable – Georgia Environmental Facilities Authority To finance the construction of a Sewage Lift Station. Total amount of loan approved is $1,906,936.60. Principal and interest shall be due and payable in two hundred and thirty nine monthly payments of $11,676.80 and one final installment in the amount of $388.33 commencing on the first day of the third month after the month of the date of commencing payments and continuing on the first day of each third month thereafter. The first payment was August 1, 2009. The note bears interest at 4.12% per annum.

Amortization of this loan is as follows:

Year	Principal	Interest	Total
2012	$ 69,257.08	$ 70,862.12	$ 140,119.20
2013	72,203.78	67,915.42	140,119.20
2014	75,218.71	64,900.49	140,119.20
2015	78,376.89	61,742.31	140,119.20
2016	81,648.53	58,470.67	140,119.20
2017-2021	462,750.23	237,845.77	700,596.00
2022-2026	568,388.73	132,207.27	700,596.00
2027-2029	343,172.84	24,419.16	367,592.00
	$ 1,751,016.79	$ 718,363.21	$ 2,469,380.00

NOTE 7 – (Continued)

General Fund

The General Fund has incurred debt for various vehicles and equipment. This debt is reported in the General Fund since it is expected to be repaid from General Fund revenues. This debt is backed by the full faith and credit of the government and is considered general obligation debt.

	Governmental Activities
Payable December 31, 2010	$ 168,926
New Debt	
Debt Retired	(61,319)
Payable December 31, 2011	$ 107,606

Governmental Type Activities

	USDA Fire Equip.	USDA Police Cars	Total
2012	$ 7,852.91	$ 17,474.08	$ 25,326.99
2013	8,176.84	18,173.04	26,349.88
2014	8,514.14	18,899.96	27,414.10
2015	8,864.30	19,650.92	28,515.22
Total	33,408.19	91,000.00	$ 107,606.19
Less:			
Payable within one year	7,852.91	17,474.08	25,326.99
Total Due after one year	$ 25,555.28	$ 56,723.92	$ 82,279.20

The amount of interest expense for the year in the General Fund was $ 6,660.

Notes Payable – USDA On April 28, 2010 the city entered into a loan to finance the purchase of a "Jaws of Life" apparatus and a Cascade Recharge System with 2 compressors and 2 fill stations for the fire department. Total amount of loan was $40,950.00. Principal and interest shall be due and payable in five annual payments in the amount of $9,231.00, commencing on April 28, 2011 and continuing on the 28th day of April until paid. The note bears interest at 4.125% per annum.

Amortization of this loan is as follows:

Year	Principal	Interest	Total
2012	$ 7,852.91	$ 1,378.09	$ 9,231.00
2013	8,176.84	1,054.16	9,231.00
2014	8,514.14	716.86	9,231.00
2015	8,864.30	365.65	9,229.95
	$ 33,408.19	$ 3,514.76	$ 36,922.95

NOTE 7 – (Continued)

Notes Payable – USDA On March 31, 2010 the city entered into a loan to finance the purchase of a Five new Police Cars for the Police Department. Total amount of loan was $91,000.00. Principal and interest shall be due and payable in five annual payments in the amount of $20,442.00, commencing on April 28, 2011 and continuing on the 28th day of April until paid. The note bears interest at 4.00% per annum.

Amortization of this loan is as follows:

Year	Principal	Interest	Total
2012	$ 17,474.08	$ 2,967.92	$ 20,442.00
2013	18,173.04	2,268.96	20,442.00
2014	18,899.96	1,542.04	20,442.00
2015	19,650.92	786.04	20,436.96
	$ 74,198.00	$ 7,564.96	$ 81,762.96

NOTE 8 - EMPLOYEE RETIREMENT PLAN

PLAN DESCRIPTION

The City, by ordinance, on August 1, 1972, established a retirement plan for its employees to be funded through the Georgia Municipal Employees Benefit System (GMEBS), an agent, multiple-employer type defined benefit pension plan. The Georgia Municipal Employees Benefit System issues a stand-alone financial report that included a schedule of member net assets, listing the net assets held by the City of Cornelia. That report may be obtained by writing to the Georgia Municipal Association, 201 Pryor Street, SW, Atlanta, Georgia 30303. The City is required to contribute at an actuarially determined rate. The actuarial valuation date was July 1, 2010.

Employees are not required to contribute to the plan. The contribution requirement of the City is established and may be amended by the Board of Trustees of the Georgia Municipal Employees Benefit System.

The City's plan, City of Cornelia Retirement Plan, provides retirement and death and disability benefits for all employees that have been employed full time for one year.

Members may retire on reaching age 65 and five years of service have been completed. Benefits are calculated at 1.0 % to 1.75% of the average earnings for the period of the five highest years prior to retirement. Members are vested after ten years of service have been completed.

The Plan's financial statements are prepared on an accrual basis, modified to include unrealized gains or losses on marketable securities owned by the Plan and increments in the cash value of death benefits.

Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable.

The amounts shown below as the " actuarial accrued liability" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the plan on a going concern basis, and assess progress made in accumulating sufficient assets to pay benefits when due. The measure is the actuarial value of credited projected benefits and is independent of the funding method used to determine contributions to the plan.

NOTE 8 – (Continued)

The Actuarial Value of Assets is determined by rolling forward the prior year's actuarial value with contributions, disbursements, and expected return on investments, adding 10% of Investment gains (losses) during the 10 prior years.

Significant actuarial assumptions used to compute contribution requirements include: (A) A rate of return on the investment of present and future assets of 7.75% per year compounded annually, with an inflation component of 3.50% (B) Projected Salary Increases of 3.5% and (C) the assumption that benefits will not increase after retirement.

The actuarial cost method used for this report is known as the Aggregate Method. This method determines the total cost of the projected pension benefits of all employees combined. This total cost is then spread over the average future remaining years to retirement for the employees. If benefits are related to compensation, the cost is spread as a level percentage of compensation. The portion of cost which is attributed to each year is called the Normal Cost. This method does not identify or separately amortize unfunded actuarially liabilities.

RECOMMENDED CONTRIBUTIONS

The Board of Trustees of the Georgia Municipal Employees Benefit System has adopted an actuarial funding policy for determination of annual contributions and the systematic funding of liabilities arising under the plan.

The annual recommended contribution is the sum of 1) the normal cost, 2) the level dollar amortization of the unfunded actuarial accrued liability (initial unfunded actuarial accrued liability over 30 years from 1981 and changes in the unfunded actuarial liability over 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods from the end of the year during which such changes arise), and 3) interest on these amounts from the valuation date to the date contributions are paid (assumed monthly). The Georgia Municipal Employees Benefit Systems' unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The recommended contribution under the policy for 2011 is as follows:

STATE FUNDING STANDARDS

The Plan is subject to minimum funding standards of the Public Retirement Systems Standard Law (Georgia Code Section 47-20-10). The required minimum annual contribution under these standards is $172,678. The GMEBS Board of Trustees has adopted an actuarial funding policy which requires a different funding level than the estimated minimum annual contribution to minimize fluctuations in annual contribution amounts and to accumulate sufficient funds to secure benefits under the plan. If the employer contributes the recommended contribution developed under the actuarial funding policy each year, the Plan will meet applicable funding standards.

Contributions Required and Made

As a participant in the GMEBS, the City receives a separate annual valuation as of September 1 each year. The City is required to pay the annual contribution of GMEBS on a monthly basis. The City's contribution to the plan was all made in accordance with actuarially determined requirements. Employees are not required to contribute to the Plan. Total pension costs paid was $225,308 for the fiscal year ended December 31, 2010, which includes amortization of past service cost over 31 years. The City's total payroll for the year ending December 31, 2011 was $3,077,346. Total covered payroll was $2,512,128.

NOTE 8 – (Continued)

Ten Year Trend Information for
The City of Cornelia Retirement Plan

Fiscal Year Beginning	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12-31-02	$ 59,721	100.%	0
12-31-03	64,268	100.%	0
12-31-04	72,381	100.%	0
12-31-05	94,226	100.%	0
12-31-06	75,156	100.%	0
12-31-07	93,968	100.%	0
12-31-08	107,863	100.%	0
12-31-09	261,993	100.%	0
12-31-10	225,308	100.%	0
12-31-11	230,404	100.%	0

Required Supplementary Information for
The City of Cornelia Retirement Plan
Analysis of Funding Progress

Fiscal Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Funded Ratio (a/b)	Unfunded AAL (UALL) (b-a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)*
9-1-2002	2,335,814	1,997,848	117.0%	(337,966)	1,572,092	0.0%
9-1-2003	2,414,328	2,044,510	118.0%	(369,818)	1,446,042	0.0%
9-1-2004	2,516,241	2,176,872	116.0%	(339,369)	1,541,415	0.0%
9-1-2005	2,623,033	2,309,974	114.0%	(313,059)	1,622,806	0.0%
9-1-2006	2,745,425	2,370,931	115.8%	(374,494)	1,419,315	0.0%
9-1-2007	2,883,068	2,600,960	110.85%	(282,108)	1,808,973	0.0%
9-1-2008	2,962,713	2,811,853	105.39%	(150,860)	2,210,869	0.0%
5-01-2009	1,965,104	3,014,387	65.19%	1,049,283	2,431,103	43.16%
07-01-2010	2,577,749	3,184,599	80.94%	606,850	2,237,334	27.12%
7-01-2011	2,754,487	3,312,080	83.16%	557,593	2,512,128	22.20%

** Not less than zero.*

Effect of plan changes on the actuarial accrued liability of any current-year changes in assumption or benefit provisions is:
The plan provision valued and the actuarial assumptions are the same as those used in the preceding valuation.

The effect on the recommended contributions of any current-year changes in actuarial assumptions, benefit provisions or actuarial funding method is:
The plan provisions valued and the actuarial assumptions and cost methods are the same as those used to determine the contribution requirement for the preceding year.

NOTE 9 – CONTINGENT LIABILITIES

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 collected, may constitute a liability of the applicable funds. The amount, if any which may be disallowed by the grantor cannot be determined at this time although the government expects such amount, if any, to be immaterial.

The City is a defendant in various lawsuits. The financial statements do not include accrual of provisions for loss contingencies that may result from these proceedings. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's counsel that an adverse resolution on all of these matters would not have a material effect on the financial condition of the government.

NOTE 10– ECONOMIC DEPENDENCY/MAJOR CUSTOMERS

The City's Enterprise Fund for Water and Sewer Services has sales to a single customer which comprises more than ten percent of the total revenue for the enterprise fund. Sales to this customer for 2011 were $ 3,960,821.

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to , and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has insurance coverage with the Georgia Municipal Association. Insurance coverage and deductible options for property, casualty and crime under the policy are selected by City's management based on anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed by the Association, as well as following loss reduction and prevention procedures established by the Association. The Association's responsibility includes paying claims, and representing the City in defense and settlement of claims. The Association's basis for estimating the liabilities for unpaid claims is established by the actuary. The City has not compiled a record of the claims paid up to the applicable deductible for the prior year or the current fiscal year. The City is unaware of any claims for which the City is liable (up to the applicable deductible) which were outstanding and unpaid at December 31, 2011. No provisions have been made in the financial statements for the year ended December 31, 2011 for any estimate of unpaid claims.

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

NOTE 12– GEORGIA MOUNTAIN REGIONAL COMMISSION

The City of Cornelia , in conjunction with cities and counties in the Northeast Georgia area, is a member of the Georgia Mountains Commission. Membership in an Regional Commission is automatic for each municipality and county in the state. The official Code of Georgia Section 50-8-34 (Georgia Planning Act of 1989)

NOTE 12 – (Continued)

provides for the organizational structure of the Commissions. Each county and municipality in the state is required by law to pay minimum annual dues to the Commission During its year ended December 31, 2011, the City paid $4,253 in such dues. The Commission Board membership includes the chief elected official of each county and the chief elected official of each municipality. The County Board members and municipal Board members from the same county elect one member of the Board who is a resident (but not an elected or appointed official or employee of the county or municipality) to serve as the non-public Board member from a County. Separate financial statements can be obtained from:

Georgia Mountains Commission
1310 W. Ridge Road
Gainesville, Georgia 30501

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines Commissions as "public agencies and instrumentalities of their members". Georgia laws also provide that the member governments are liable for any debts or obligations of a Commission beyond its resources. (O.C.G.A. 50-8-39.1)

NOTE 13 – HOTEL MOTEL TAX

As required by code section 48-13-51 of the O.C.GA the City is required to spend 40% of the first 5% of the tax assessed on the promotion of tourism and trade. In addition, 50% of the amount assessed over 5% must also be expended of promotion of tourism and trade.

	Amount
Collections	$ 197,469
Habersham Chamber of Commerce	45,623
Tourism and Promotion Expenditures	39,289

REQUIRED SUPPLEMENTARY INFORMATION
(unaudited)

In accordance with the Governmental Accounting Standards Board Statement No. 34,
The following information is a required part of the financial statements.

CITY OF CORNELIA, GEORGIA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

EXHIBIT 8

	ORIGINAL BUDGET	BUDGET AS AMENDED	ACTUAL	VARIANCE FROM AMENDED
REVENUES				
Taxes				
Property	$ 1,314,908	$ 1,314,908	$ 1,469,764	$ 154,856
Franchise	420,000	420,000	475,396	55,396
Beer and Wine	136,000	136,000	125,811	(10,189)
Insurance Premium	210,000	210,000	195,121	(14,879)
License and Permits	155,000	155,000	152,759	(2,241)
Charges for Services	645,000	645,000	604,237	(40,763)
Fines and Forfeitures	320,000	320,000	198,544	(121,456)
Interest Income	6,000	6,000	1,171	(4,829)
Intergovernmental	8,000	8,000	14,094	6,094
Grants	115,000	115,000	44,592	(70,408)
Donation	-	0	0	0
Miscellaneous	21,200	21,200	57,955	36,755
TOTAL REVENUE	3,351,108	3,351,108	3,339,444	(11,664)
EXPENDITURES				
Current:				
General Government	167,600	190,999	117,046	73,953
Better Hometown	49,612	49,612	39,121	10,491
City Manager	248,918	239,319	216,090	23,229
Human Resources	101,832	101,532	87,349	14,183
Police Department	1,383,949	1,377,949	1,281,893	96,056
Fire Department	718,351	718,351	704,645	13,706
Streets and Sanitation	515,573	515,573	456,109	59,464
Public Buildings	317,610	310,110	293,055	17,055
Recreation Department	263,898	263,898	194,516	69,382
Planning Department	208,500	215,834	202,060	13,774
Community Development	78,763	71,429	65,889	5,540
Maintenance and Mechanical	177,502	177,502	145,120	32,382
Debt Service				
Principal Retirement	62,000	62,000	61,319	681
Interest and Fiscal Charges	7,000	7,000	6,660	340
TOTAL EXPENDITURES	4,301,108	4,301,108	3,870,872	430,236
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(950,000)	(950,000)	(531,428)	418,572
OTHER FINANCING SOURCES (USES)				
Prior Year Fund Balance	-	-		
Interfund Transfers	950,000	950,000	771,949	(178,051)
Proceeds from Debt				
TOTAL OTHER FINANCING SOURCES (USES)	950,000	950,000	771,949	(178,051)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES (USES) OVER (UNDER) EXPENDITURES	-	-	240,521	240,521
FUND BALANCE - BEGINNING OF YEAR			2,410,823	
FUND BALANCE - END OF YEAR			$ 2,651,344	

BUDGETARY ACCOUNTING AND CONTROL

The City Commission annually adopts budgets for the General Fund of the Primary Government. All appropriations are legally controlled at the departmental level for the General Fund. There were no budget amendments made during the year. The budgets are integrated into the accounting system, and the budget, as presented in financial statements for all funds with annual budgets; compare the expenditures with actual budgets.

All budgets are presented on the modified accrual basis of accounting. Accordingly, the Budgetary Comparison Schedule for the General Fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders, contracts and other commitments for the expenditures are recorded to reserve that portion of the applicable appropriation-, is not utilized by the City of Cornelia.

OTHER SUPPLEMENTARY INFORMATION

CITY OF CORNELIA, GEORGIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011

SCHEDULE 1

	SKATE PARK	PET FRIENDS	BETTER HOMETOWN	HOTEL/ MOTEL TAX	TOTAL
ASSETS					
Cash	$ 13,351	$ 1,587	$ 5,026	$ 48,880	$ 68,844
TOTAL ASSETS	$ 13,351	$ 1,587	$ 5,026	$ 48,880	$ 68,844
LIABILITIES	$	$	$	$	$
TOTAL LIABILITIES					
FUND BALANCE					
Reserved	13,351	1,587	5,026	48,880	68,844
TOTAL LIABILITIES AND FUND BALANCE	$ 13,351	$ 1,587	$ 5,026	$ 48,880	$ 68,844

CITY OF CORNELIA, GEORGIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

SCHEDULE 2

REVENUES	SKATE PARK	PET FRIENDS	BETTER HOMETOWN	HOTEL/ MOTEL TAX	TOTAL
Hotel/Motel Tax	$	$	$	$ 197,469	$ 197,469
Donations	-	1,530	6,009		7,539
Interest	-	-	1	75	76
TOTAL REVENUE	-	1,530	6,010	197,544	205,084
EXPENDITURES					
Tourism and Promotion	-	-	17,399	84,912	102,311
Supplies	-	750		7,847	40
TOTAL EXPENDITURES	-	750	17,399	92,759	110,908
EXCESS -DEFICIENCY REVENUES OVER EXPENDITURES	-	780	(11,389)	104,785	94,176
OTHER FINANCING SOURCES(USES)					
Operating Transfers In(Out)					
General Fund	-	-	3,089	(75,038)	(71,949)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-	780	(8,300)	29,747	22,227
FUND BALANCES BEGINNING OF YEAR	13,351	807	13,326	19,133	46,617
FUND BALANCES END OF YEAR	$ 13,351	$ 1,587	$ 5,026	$ 48,880	$ 68,844

CITY OF CORNELIA, GEORGIA SCHEDULE 3

SUPPLEMENTARY INFORMATION

SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX

FOR THE YEAR ENDED DECEMBER 31, 2011

	Original Estimated Costs	Expenditures		
		Prior Years	Current Year	Total
Habersham County, Georgia Splost V				
Water	$ 1,146,719	$ 150,541	$ -	$ 150,541
Sewer	1,000,000	700,000	-	700,000
Public Safety	400,000	-	438,548	438,548
Roads and Bridges	378,477	-	-	-
Public Facilities	256,000	10,000	186,465	196,465
Recreation	100,000	25,000	-	25,000
	$ 3,281,196	$ 885,541	$ 625,013	$ 1,510,554

OTHER REPORTS

DUNCAN & KITCHENS, LLC
Certified Public Accountants
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Joe Kitchens, CPA

Members of
American Institute and
Georgia Society of
Certified Public Accountants

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

June 20, 2012

Honorable Mayor and
Members of the City Council
City of Cornelia
Cornelia, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Cornelia, Georgia, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report dated June 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in 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 City of Cornelia, 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 Cornelia, Georgia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Cornelia, 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 City of Cornelia, 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*.

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

Duncan & Kitchens, LLC