CITY OF CORNELIA

CORNELIA, GEORGIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2012

CITY OF CORNELIA, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2012

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CITY OF CORNELIA, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

June 19, 2013

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 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors Responsibility

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

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

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

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 Cornelia, Georgia as of December 31, 2012, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 33 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

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 as a whole. The combining and individual fund financial statements and schedule, and the special purpose local option sales tax report are presented for purposes of additional analysis and are not part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The combining and individual fund financial statements and schedules, the special purpose local option sales tax report, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules, the special purpose local option sales tax report, and the schedule of expenditures of federal awards are fairly presented in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2013 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 integral 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.

Duncan & Kitchens, LLC

Duncan & Kitchens, LLC

BASIC FINANCIAL STATEMENTS

CITY OF CORNELIA, GEORGIA
STATEMENT OF NET POSITION
DECEMBER 31, 2012

EXHIBIT 1

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
ASSETS				
Current Assets				
Cash	$ 2,327,471	$ 6,735,485	$ 9,062,956	$ 1,957
Taxes Receivable	923,838	-	923,838	-
Accounts Receivable	113,648	447,745	561,393	-
Grants Receivable	-	-	-	-
Intergovernmental Receivable	339,418	(339,418)	-	-
Total Current Assets	3,704,375	6,843,812	10,548,187	1,957
Noncurrent Assets				
Non-Depreciable	169,976	344,616	514,592	-
Depreciable Assets, Net	4,223,659	24,977,173	29,200,832	-
Total Noncurrent Assets	4,393,635	25,321,789	29,715,424	-
TOTAL ASSETS	$ 8,098,010	$ 32,165,601	$ 40,263,611	$ 1,957
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 87,807	$ 137,756	$ 225,563	$ -
Accrued Payroll	42,896	23,834	66,730	-
Payroll Taxes Withheld and Accrued	6,311	10,141	16,452	-
Current Portion of Long-Term Debt	45,450	706,865	752,315	-
Water Deposits	-	22,380	22,380	-
Total Current Liabilities	182,464	900,976	1,083,440	
Noncurrent Liabilities				
Long-Term Notes Payable	95,773	7,115,098	7,210,871	-
Total Noncurrent Liabilities	95,773	7,115,098	7,210,871	-
TOTAL LIABILITIES	278,237	8,016,074	8,294,311	-
NET POSITION				
Net Investment in Capital Assets	4,252,412	17,499,825	21,752,237	-
Restricted for:				
Capital Projects	766,901		766,901	
Tourism	87,113		87,113	
Unrestricted Assets	2,713,347	6,649,702	9,363,049	1,957
TOTAL NET POSITION	$ 7,819,773	$ 24,149,527	$ 31,969,300	$ 1,957

The accompanying notes are an integral part of this statement.

CITY OF CORNELIA, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Primary Government					
Governmental Activities					
General Government	$ 265,051	$ 150,950	$	$	$ (114,101)
Better Hometown	75,360				(75,360)
City Manager	220,880				(220,880)
Human Resources	87,776			6,000	(81,776)
Police	1,214,831	236,752		9,997	(968,082)
Fire	741,428	103,559			(637,869)
Streets & Sanitation	544,954	276,805			(268,149)
Public Buildings	339,291				(339,291)
Recreation Department	102,451	38,110		98,000	33,659
Planning Department	222,520	30,714			(191,806)
Maintenance and Mechanical	137,281				(137,281)
Interest on long-term debt	4,346				(4,346)
Total Governmental Activities	3,956,169	836,890		113,997	(3,005,282)
Business-type Activities					
Water and Sewer Fund	4,598,782	5,939,068		965,794	2,306,080
Water and Sewer Authority	222,243	120,000			(102,243)
Total Business-type Activities	4,821,025	6,059,068		965,794	2,203,837
Total Primary Government	8,777,194	6,895,958		1,079,791	(801,445)
Component Unit					
Downtown Development Authority	5,227				(5,227)

	Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Unit
Change in Net Position				
Net (expense) revenue	$ (3,005,282)	$ 2,203,837	$ (801,445)	$ (5,227)
General Revenues:				
Taxes:				
Property	1,074,501		1,074,501	
Sales	334,280		334,280	
Franchise	500,693		500,693	
Motel Tax	202,913		202,913	
Beer and Wine	149,409		149,409	
Insurance Premium	207,252		207,252	
Unrestricted Investment Earnings	990	5,601	6,591	
Intergovernmental	13,217		13,217	
Miscellaneous	27,303		27,303	
Donations	11,806		11,806	7184
Transfers	467,133	(467,133)		
Total General Revenues and Transfers	2,989,497	(461,532)	2,527,965	7,184
Change in net position	(15,785)	1,742,305	1,726,520	1,957
Net Position at Beginning of Year	7,835,558	22,407,222	30,242,780	
Net Position - End of Year	$ 7,819,773	$ 24,149,527	$ 31,969,300	$ 1,957

The accompanying notes are an integral part of this statement.

CITY OF CORNELIA, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

EXHIBIT 3

	GENERAL FUND	SPLOST V CAPITAL PROJECTS	NONMAJOR GOVERNMENTAL FUNDS	GOVERNMENTAL FUNDS
ASSETS				
Cash	$ 1,458,303	$ 766,901	$ 102,267	$ 2,327,471
Taxes Receivable	923,838			923,838
Accounts Receivable	113,648			113,648
Due from Other Funds	339,418			339,418
TOTAL ASSETS	$ 2,835,207	$ 766,901	$ 102,267	$ 3,704,375
LIABILITIES				
Accounts Payable	$ 87,807	$	$	$ 87,807
Accrued Payroll	42,896			42,896
Payroll Taxes Withheld and Accrued	6,311			6,311
TOTAL LIABILITIES	137,014			137,014
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue -property taxes	69,497			69,497
FUND BALANCE				
Restricted for:				
Capital Outlay Projects		766,901		766,901
Tourism and Promotion			87,113	87,113
Assigned				
Skate Park			13,377	13,377
Pet Friends			1,777	1,777
Unassigned	2,628,696			2,628,696
TOTAL FUND BALANCE	2,628,696	766,901	102,267	3,497,864
TOTAL LIABILITIES AND FUND BALANCE	$ 2,835,207	$ 766,901	$ 102,267	$ 3,704,375

Capital Projects Fund

Adjustments to the Statement of Net Position

Fund Balance	$ 3,497,864
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds	4,393,635
Long-term assets (receivables) are not available to pay current period expenditures and, therefore, are deferred in the funds Property Taxes	69,497
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	(141,223)
Net Position of Governmental Activities (Exhibit "1")	$ 7,819,773

The accompanying notes are an integral part of this statement.

CITY OF CORNELIA, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 20112

EXHIBIT 4

	GENERAL FUND	SPLOST V CAPITAL PROJECTS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes				
Property	$ 1,295,866	$	$	$ 1,295,866
Franchise	500,693			500,693
Motel			202,913	202,913
Beer and Wine	149,409			149,409
Insurance Premium	207,252			207,252
License and Permits	150,950			150,950
Charges for Services	552,491			552,491
Fines and Forfeitures	139,449			139,449
Interest Income	146	695	149	990
Intergovernmental	13,217	334,280		347,497
Grants	107,997			107,997
Donations	2,325		9,481	11,806
Miscellaneous	27,303			27,303
TOTAL REVENUE	3,147,098	334,975	212,543	3,694,616
EXPENDITURES				
Current:				
General Government	102,331		87,286	189,617
Better Hometown	60,996		14,364	75,360
City Manager	220,880			220,880
Human Resources	87,776			87,776
Police Department	1,147,540			1,147,540
Fire Department	683,470			683,470
Streets and Sanitation	566,615	6,000		572,615
Public Buildings and Library	290,759	48,532		339,291
Recreation Department	223,452	29,628		253,080
Planning Department	222,520			222,520
Maintenance and Mechanical	137,281			137,281
Debt Service				
Principal Retirement	46,101			46,101
Interest and Fiscal Charges	4,346			4,346
TOTAL EXPENDITURES	3,794,067	84,160	101,650	3,979,877
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(646,969)	250,815	110,893	(285,261)
OTHER FINANCING SOURCES (USES)				
Proceeds from Debt	79,718			79,718
Interfund Transfers	544,603	-	(77,470)	467,133
TOTAL OTHER FINANCING SOURCES (USES)	624,321	-	(77,470)	546,851
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES (USES) OVER (UNDER) EXPENDITURES	(22,648)	250,815	33,423	261,590
FUND BALANCE - BEGINNING OF YEAR	2,651,344	516,086	68,844	3,236,274
FUND BALANCE - END OF YEAR	$ 2,628,696	$ 766,901	$ 102,267	$ 3,497,864

Adjustments to the Statement of Activities	
Net Change in Fund Balance	$ 261,590
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 Depreciation (262,104) exceeded Capital Outlays (239,711)	(22,393)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(221,365)
Proceeds from financing, such as capital leases, are recognized in the statement of activities, whereas they recognized as other financing sources in the	(79,718)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in statement of net assets.	46,101
Change in net position of governmental activities (Exhibit 2)	$ (15,785)

The accompanying notes are an integral part of this statement.

CITY OF CORNELIA, GEORGIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

EXHIBIT 5

	BUSINESS TYPE ACTIVITIES		
	WATER AND SEWER ENTERPRISE FUND	CORNELIA WATER AND SEWER AUTHORITY	TOTAL
ASSETS			
Current Assets:			
Cash	$ 6,639,783	$ 95,702	$ 6,735,485
Accounts Receivable	447,745		447,745
Total Current Assets	7,087,528	95,702	7,183,230
Non-current Assets:			
Capital Assets			
Assets not being depreciated	344,616		344,616
Asset being depreciated	26,336,144	11,103,212	37,439,356
Accumulated Depreciation	(11,849,293)	(612,890)	(12,462,183)
Total Non-current Assets	14,831,467	10,490,322	25,321,789
TOTAL ASSETS	$ 21,918,995	$ 10,586,024	$ 32,505,019
LIABILITIES			
Current Liabilities			
Accounts Payable	$ 137,756	$	$ 137,756
Accrued Payroll	23,834		23,834
Payroll Taxes Withheld and Accrued	10,141		10,141
Due to General Fund	339,418		339,418
Current Portion of Long-term Notes	7,875	698,990	706,865
Total Current Liabilities	519,024	698,990	1,218,014
Non-current Liabilities			
Water Deposits	22,380		22,380
Long-term Notes Payable	16,427	7,098,671	7,115,098
Total Non-current Liabilities	38,807	7,098,671	7,137,478
TOTAL LIABILITIES	557,831	7,797,661	8,355,492
NET POSITION			
Invested in Capital Assets, Net of Related Debt	6,553,999	95,703	6,649,702
Unrestricted	14,807,165	2,692,660	17,499,825
TOTAL NET POSITION	21,361,164	2,788,363	24,149,527

The accompanying notes are an integral part of this statement.

CITY OF CORNELIA, GEORGIA EXHIBIT 6
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	WATER AND SEWER ENTERPRISE FUND	CORNELIA WATER AND SEWER AUTHORITY	TOTAL
OPERATING REVENUES			
Water Sales	$ 2,918,207	$	$ 2,918,207
Sewer Fees	2,926,334		2,926,334
Fines and Surcharges	32,737		32,737
Water and Sewer Taps	59,250		59,250
Rent		120,000	120,000
Miscellaneous Receipts	2,540		2,540
TOTAL OPERATING REVENUES	5,939,068	120,000	6,059,068
OPERATING EXPENSES - By Department			
Administration	310,766	128	310,894
Water Plant	1,144,441		1,144,441
Disposal Plant	1,178,426		1,178,426
Water & Sewer System - Crew	605,506		605,506
Maintenance and Mechanical	392,424		392,424
Depreciation	634,792	212,849	847,641
TOTAL OPERATING EXPENSES	4,266,355	212,977	4,479,332
OPERATING INCOME	1,672,713	(92,977)	1,579,736
NON-OPERATING REVENUES (EXPENSE)			
Capital Grants	509,469		509,469
Interest Income	5,601		5,601
Interest Expense	(332,427)	(9,266)	(341,693)
TOTAL NON-OPERATING INCOME (EXPENSE)	182,643	(9,266)	173,377
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	1,855,356	(102,243)	1,753,113
Tansfers In (Out)	(3,357,739)	2,890,606	(467,133)
Capital Contributions	456,325		456,325
CHANGE IN NET POSITION	(1,046,058)	2,788,363	1,742,305
TOTAL NET POSITION - BEGINNING OF YEAR	22,407,222		22,407,222
TOTAL NET POSITION - END OF YEAR	$ 21,361,164	$ 2,788,363	$ 24,149,527

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, 2012

EXHIBIT 7

	WATER AND SEWER ENTERPRISE FUND	CORNELIA WATER AND SEWER AUTHORITY	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers	$ 5,939,068	$ 120,000	$ 6,059,068
Payments to Suppliers	(2,400,994)	(128)	(2,401,122)
Payments to Employees	(1,086,498)		(1,086,498)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,451,576	119,872	2,571,448
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfer(To) From other funds	(3,357,739)	2,890,606	(467,133)
NET CASH USED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	(3,357,739)	2,890,606	(467,133)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Grants	509,469		509,469
Transfer of Assets to Water and Sewer Authority	10,703,171		10,703,171
Proceeds for Debt	32,867	7,812,564	7,845,431
Proceeds from Fieldale Farms, Inc.	456,325		456,325
Principal Paid on Notes	(8,272,568)	(14,903)	(8,287,471)
Interest Paid	(332,426)	(9,266)	(341,692)
Acquisition Of Capital Assets	(1,670,707)	(10,703,171)	(12,373,878)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	1,426,131	(2,914,776)	(1,488,645)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Earned	5,601		5,601
NET CASH PROVIDED BY INVESTING ACTIVITIES	5,601		5,601
NET INCREASE IN CASH AND CASH EQUIVALENTS	525,569	95,702	621,271
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,114,214		6,114,214
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 6,639,783	$ 95,702	$ 6,735,485
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating Income (Loss)	$ 1,672,713	$ (92,977)	$ 1,579,736
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By Operating Activities			
Depreciation	$ 634,792	$ 212,849	$ 847,641
(Increase) Decrease in Accounts Receivable	(7,836)		(7,836)
Increase (Decrease) in Customer Deposits	(702)		(702)
Increase (Decrease) in Due to General Fund	139,332		139,332
Increase (Decrease) in Accounts Payable	28,431		28,431
Increase (Decrease) in Accrued Payroll	(14,894)		(14,894)
Increase (Decrease) in Payroll Taxes Payable	(260)		(260)
TOTAL ADJUSTMENTS	778,863	212,849	991,712
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 2,451,576	$ 119,872	$ 2,571,448

The accompanying notes are an integral part of this statement.

NOTE 1 - 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

In evaluating how to define the government for financial purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GASB Statement 14, "The Financial Reporting Entity" and GASB Statement 39 "Determining Whether Certain Organizations are Component Units". The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of organizations governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government.

Blended Component Units: - Blended component units, although legally separate entities, are, in substance, part of the Government's operations.

City of Cornelia Water and Sewer Authority – On May 5, 2011, the City of Cornelia created the City of Cornelia Water and Sewer Authority, under the provisions of the Official Code of Georgia Annotated Section 12-8-50. The Authority consists of five directors who are appointed by the City of Cornelia Council. The authority is blended with the Water and Sewer Enterprise fund since all services benefit the City of Cornelia. Separate financial statements are not issued for the Authority.

Discretely Presented Component Units: - Discretely presented component units are reported in a separate column in the combined financial statements to emphasize it is legally separate from the Government.

Cornelia Downtown Development Authority – The Cornelia Downtown Development Authority (CDDA) was created through a resolution from the Cornelia City Commission in 1982 and was reactivated in the summer of 2011. The CDDA was established as a legally separate entity, which operates pursuant to the Official Code of Georgia Annotated. The Authority consists of ten members appointed by the City Council and three ex-officio members. The Downtown Development Authority provides for the vitalization of the downtown area of the City of Cornelia.

NOTE 1 – (Continued)

The City of Cornelia Downtown Development Authority is reported in a separate column. Separate financial statements are not issued for the Authority.

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.

B. 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 Position, 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.

NOTE 1 – (Continued)

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.

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. (MD&A is not included in this report).

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 Position – The Schedule of Net Position 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.

NOTE 1 – (Continued)

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.

Capital Projects Fund

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 funds:

The City reports the following major enterprise funds:

The Water and Sewer Enterprise Fund- This fund is used to account for activities connected with the development, operation and maintenance of water and sewer services in the City of Cornelia.

The City of Cornelia Water and Sewer Authority- This is a legally separate entity that is reported as blended with the Water and Sewer Enterprise Fund since all services benefit the City of Cornelia.

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. – Revenues and Expenditures/Expenses

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 or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. 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 Water and Sewer funds are charges to customers for sales and services. 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 non-operating revenues and expenses.

E. - 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, 2012 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.

NOTE 1 – (Continued)

F. 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.

G. 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.

H. 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.

I. 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.

J. 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,

NOTE 1 – (Continued)

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 2012.

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

K. 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 2012 vacation time taken in 2013 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).

L. Unavailable Revenue

Property tax revenues are recognized when they become both measurable and available in the fund statements. Available means when due, or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Property tax revenues not expected to be available for the current period are reflected as unavailable revenue.

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grant and reimbursement revenues, if any, received in advance of expenses/expenditures are reflected as unearned revenue.

M. 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.

N. Contributions of Capital

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

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

NOTE 1– (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The government funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

P. Net Position Flow Assumption

Sometimes the government will funds outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Q. Fund Balance Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements as a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted funds balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is depleted last.

R. Fund Balance/Net Position

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

Fund Balance – Generally, fund balance represents the difference between the current assets and current liabilities. In accordance with Governmental Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balance 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 City 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.

NOTE 1 – (Continued)

- *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 nor 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 Position – In the government-wide and proprietary financial statements, net position is classified in the following categories:

- *Invested in Capital Assets, Net of related Debt-* This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- *Restricted Net Position-* This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.
- *Unrestricted Net Position-* This amount is all net position that does not meet the definition of "invested in capital assets, net of related debt" or "restricted net position."

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

S. 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.

T. 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.

NOTE 1 – (Continued)

U. 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 – DEPOSIT AND INVESTMENT RISK

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned. The City has no formal policy, but follows the State of Georgia requirement that all deposits be federally insured or fully collateralized. At December 31, 2012 the City had no uninsured, uncollateralized deposits.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Stat of Georgia law limits investments to include certificates of deposit, repurchase agreements, direct and agency obligations of the United States, obligations of the State of Georgia or other states; obligations of other political subdivisions of the State of Georgia, and pooled investment programs of the State of Georgia. The City has no investment policy that would further limit the investment choices. Investments are to be reported at fair value.

Concentration of Credit Risk

The City has no formal policy on the amount the City may invest in any one issuer.

Foreign Currency Risk

The City has no investments denominated in a foreign currency.

NOTE 4 - RECEIVABLES

Receivables at December 31, 2012 consisted of the following:

	General Fund	Enterprise Fund	Total
Receivables:			
Taxes	$ 923,838	$	$ 923,838
Service Fees	113,648		113,648
Water and Sewer Receivables		447,745	447,745
Total Receivables	$ 1,037,486	$ 447,745	$ 1,485,231

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, 2012 on property values. Taxes were levied on November 8, 2012 for the 2012 tax year, and were due on January 8, 2013. All unpaid taxes levied on December 21, 2012 become delinquent as of January 9, 2013. Interest and penalties accrue after January 9, 2013.

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	339,418
Total		$ 339,418

INTERFUND TRANSFERS

	Major Funds		Nonmajor Funds	
	General	Proprietary	Governmental	Combined
Transfer Out To:				
Major Funds				
General	$	$ (500,000)	$ (77,470)	$ (577,470)
Proprietary	(32,867)			(32,867)
Transfer In From:				
Major Funds				
General Fund		32,867		32,867
Proprietary Fund	500,000		-	500,000
Nonmajor Funds				
Governmental	77,470	-	-	77,470
Total	$ 544,603	$ (467,133)	$ (77,470)	$ -

NOTE 5 – (Continued)

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, 2012 was as follows:

Governmental-Type Activities:

	Balance 01/01/12	Additions	Deletions	Balance 12/31/12
Capital Assets Not being Depreciated				
Land	$ 169,976	$	$	$ 169,976
Depreciable Assets				
Building	$ 2,964,513	$	$	$ 2,964,513
Furniture & Equipment	458,482			458,482
Fire Equipment	962,257			962,257
Police Equipment	923,185	9,364		932,549
Sanitation and Streets	742,018	79,718		821,736
Streetscape Project	1,842,908	150,629		1,993,537
Total Depreciable Assets	7,893,363	239,711		8,133,074
Less: Accumulated Depreciation				
Building	1,288,971	57,514		1,346,485
Furniture & Equipment	178,587	10,146		188,733
Fire Equipment	641,650	68,487		710,137
Police Equipment	799,848	76,656		876,504
Sanitation and Streets	648,755	37,526		686,281
Streetscape Project	89,500	11,775		101,275
Total Accumulated Depreciation	3,647,311	262,104		3,909,415
Net Depreciable Assets	4,246,052	(22,393)		4,223,659
Governmental activities assets, net	$ 4,416,028	$ (22,393)	$	$ 4,393,635

Depreciation was charged to governmental functions as follows:

General Government Administration	$ 75,434
Police	76,655
Fire	57,958
Streets and Sanitation	52,057
Total	$ 262,104

NOTE 6 – (Continued)

Business-Type Activities:

	Balance 01/01/12	Additions	Deletions	Balance 12/31/12
Capital Assets Not being Depreciated				
Land	$ 344,616	$	$	$ 344,616
Depreciable Assets				
Building	$ 90,011	$	$	$ 90,011
Equipment	1,950,707	89,950		2,040,657
Water Plant	7,016,925	197,474		7,214,399
Sewer Plant	13,465,203	64,821		13,530,024
Water and Sewer System	13,245,802	1,318,463		14,564,265
Total Depreciable Assets	35,768,648	1,670,708		37,439,356
Less: Accumulated Depreciation				
Building	90,013	8,315		98,508
Equipment	1,109,381	84,925		1,194,306
Water Plant	2,418,784	110,194		2,528,978
Sewer Plant	4,138,440	330,580		4,469,020
Water & Sewer System	3,857,744	313,626		4,171,370
Total Accumulated Depreciation	11,614,542	847,641		12,462,183
Net Depreciable Assets	24,154,106	823,067		24,977,173
Business -Type activities assets, net	$ 24,498,722	$ 823,067	$	$ 25,321,789

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

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, 2011	$ 107,606
New Debt	79,718
Debt Retired	(46,101)
Payable December 31, 2012	$ 141,223

Governmental Type Activities

	USDA Fire Equip.	USDA Police Cars	BBT Garbage Truck	Total
2013	$ 8,176.84	$ 18,173.04	$ 19,100.31	$ 45,450.19
2014	8,514.14	18,899.96	19,642.76	47,056.86
2015	8,864.30	19,650.92	20,200.62	48,715.84
Total	25,555.28	56,723.92	58,943.69	141,222.89
Less:				
Payable within one year	8,176.84	18,173.04	19,100.31	45,450.19
Total Due after one year	$ 17,378.44	$ 38,550.88	$ 39,843.38	$ 95,772.70

The amount of interest expense for the year in the General Fund was $ 4,346.

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
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
	$ 25,555.28	$ 2,136.67	$ 27,691.95

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
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
	$ 56,723.92	$ 4,597.04	$ 61,320.96

Notes Payable – BBT - On April 27, 2012 the City entered into a loan with BBT Governmental to finance the purchase of a 2012 Isuzu Garbage Truck for the Streets and Sanitation Department. Total amount of loan was $79,718.00. Principal and interest shall be due and payable in four annual payments in the amount of $20,774.31, commencing on May 18, 2012 and continuing annually on May 18th until paid. The note bears interest at 2.84% per annum.

Amortization of this loan is as follows:

Year	Principal	Interest	Total
2013	$ 19,100.31	$ 1,674.00	$ 20,774.31
2014	19,642.76	1,131.55	20,774.31
2015	20,200.62	573.69	20,774.31
	$ 58,943.69	$ 3,379.24	$ 62,322.93

The following is a summary of Long-Term Debt transactions of the City for the year ended December 31, 2012

	Enterprise Funds
Payable December 31, 2011	$ 8,264,004
New Debt	7,845,430
Debt Retired	(8,287,471)
Payable December 31, 2012	$ 7,821,963

NOTE 7 – (Continued)

	Business Type Activities				
	BBT Skid Steer	CBT Sewer Facilities	CBT Sewer Facilities	CBT Sewer Facilities	Total
2013	$ 7,874.88	$ 90,374.74	$ 447,099.91	$ 161,515.94	$ 706,868.47
2014	8,098.53	93,398.11	459,002.97	165,815.95	726,315.56
2015	8,328.53	96,522.61	471,222.94	170,230.44	746,304.52
2016		99,620.69	483,549.92	174,683.59	757,854.20
2017		103,084.31	496,641.70	179,413.02	779,139.03
2018-2022		569,417.51	2,122,282.19	766,688.56	3,458,388.26
2023-2027		647,096.32			647,096.32
Total	24,301.94	1,699,514.29	4,479,799.63	1,618,347.50	7,821,963.36
Less: Payable within one year	7,874.88	90,374.74	447,099.91	161,515.94	706,865.47
Total Due after one year	$ 16,427.06	$ 1,609,139.55	$ 4,032,699.72	$ 1,456,831.56	$ 7,115,097.89

The amount of interest expense for the year in the Water and Sewer Fund was $ 341,693.

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.

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

Notes Payable – BBT - On April 16, 2012 the City entered into a loan with BBT Governmental to finance the purchase of a New Holland L230 Skid Steer Loader for the Water and Sewer Fund. Total amount of loan was $32,867. Principal and interest shall be due and payable in four annual payments in the amount of $8,565.06, commencing on May 18, 2012 and continuing annually on May 18th until paid. The note bears interest at 2.84% per annum.

Amortization of this loan is as follows:

Year	Principal	Interest	Total
2013	$ 7,874.88	$ 690.18	$ 8,565.06
2014	8,098.53	466.53	8,565.06
2015	8,328.53	236.53	8,565.06
	$ 24,301.94	$ 1,393.24	$ 25,695.18

NOTE 7 – (Continued)

Notes Payable – Community Bank and Trust

During the year the City transferred certain assets held in the water and sewer utility fund to the City of Cornelia Water and Sewer Authority. These assets were from the wastewater treatment facility. The Authority then obtained new financing with Community Bank and Trust at a lower interest rate. The proceeds from three loans were used to pay off the City's debt to the Georgia Environmental Facilities Authority.

The description and amortization of these loans is as follows:

On October 31, 2012, the City entered into a loan with Community Bank and Trust to pay off loans with the Georgia Environmental Facilities Authority. The original amount of this loan was $1,714,417.28. Principal and interest shall be due and payable in one hundred eighty monthly payments in the amount of $12,084.53, commencing on November 30, 2012, and continuing monthly until October 30, 2027. The note bears interest at 2.84% per annum.

Amortization of this loan is as follows:

Year	Principal	Interest	Total
2013	$ 90,374.74	$ 54,639.62	$ 145,014.36
2014	93,398.11	51,616.25	145,014.36
2015	96,522.61	48,491.75	145,014.36
2016	99,620.69	45,393.67	145,014.36
2017	103,084.31	41,930.05	145,014.36
2018-2022	569,417.51	155,654.29	725,071.80
2023-2027	647,096.32	53,806.42	700,902.74
	$ 1,699,514.29	$ 451,532.05	$ 2,151,046.34

On October 31, 2012, the City entered into a loan with Community Bank and Trust to pay off loans with the Georgia Environmental Facilities Authority. The original amount of this loan was $4,479,799.69. Principal and interest shall be due and payable in 36 quarterly payments in the amount of $140,195.43, commencing on January 30, 2013, and continuing monthly until October 31, 2021. The note bears interest at 2.60% per annum.

Amortization of this loan is as follows:

Year	Principal	Interest	Total
2013	$ 447,099.91	$ 113,681.81	$ 560,781.72
2014	459,002.97	101,778.75	560,781.72
2015	471,222.94	89,558.78	560,781.72
2016	483,549.92	77,231.80	560,781.72
2017	496,641.70	64,140.02	560,781.72
2018-2022	2,122,282.19	120,844.69	2,243,126.88
	$ 4,479,799.63	$ 567,235.85	$ 5,047,035.48

NOTE 7 – (Continued)

On October 31, 2012, the City entered into a loan with Community Bank and Trust to pay off loans with the Georgia Environmental Facilities Authority. The original amount of this loan was $1,618,347.50. Principal and interest shall be due and payable in 36 quarterly payments in the amount of $140,195.43, commencing on January 30, 2013, and continuing monthly until October 31, 2021. The note bears interest at 2.60% per annum.

Amortization of this loan is as follows:

Year	Principal	Interest	Total
2013	$ 161,515.94	$ 41,068.46	$ 202,584.40
2014	165,815.95	36,768.05	202,584.40
2015	170,230.44	32,353.56	202,584.40
2016	174,683.59	27,900.41	202,584.40
2017	179,413.02	23,170.98	202,584.00
2018-2022	766,688.56	43,656.37	810,344.93
	$ 1,618,347.50	$ 204,917.83	$ 1,823,265.33

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, 2012.

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

NOTE 8 – (Continued)

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.

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 2012 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 $207,021. 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 $261,194 for the fiscal year ended December 31, 2012,

NOTE 8 – (Continued)

which includes amortization of past service cost over 31 years. The City's total payroll for the year ending December 31, 2012 was $3,077,346. Total covered payroll was $2,677,627.

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
12-31-03	$ 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
12-31-12	261,194	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)*
9-1-2003	$ 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%
5-1-2009	1,965,104	3,014,387	65.19%	1,049,283	2,431,103	43.16%
7-1-2010	2,577,749	3,184,599	80.94%	606,850	2,237,334	27.12%
7-1-2011	2,754,487	3,312,080	83.16%	557,593	2,512,128	22.20%
7-1-2012	2,962,090	3,586,741	82.58%	624,651	2,677,627	23.33%

* *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 2012 were $ 4,072,403.

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 a 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 Regional Commission
P.O. Box 1720
Gainesville, Georgia 30503

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	$ 202,913
Habersham Chamber of Commerce	44,657
Cornelia Hospitality and Tourism Board	42,629

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, 2012

EXHIBIT 8

	ORIGINAL BUDGET	BUDGET AS AMENDED	ACTUAL	VARIANCE FROM AMENDED
REVENUES				
Taxes				
Property	$ 1,231,560	$ 1,231,560	$ 1,295,866	$ 64,306
Franchise	420,000	420,000	500,693	80,693
Beer and Wine	121,200	121,200	149,409	28,209
Insurance Premium	210,000	210,000	207,252	(2,748)
License and Permits	160,000	160,000	150,950	(9,050)
Charges for Services	611,000	611,000	552,491	(58,509)
Fines and Forfeitures	230,200	230,200	139,449	(90,751)
Interest Income	4,000	4,000	146	(3,854)
Intergovernmental	15,000	15,000	13,217	(1,783)
Grants	314,500	314,500	107,997	(206,503)
Donation	0	0	2,325	2,325
Miscellaneous	116,600	116,600	27,303	(89,297)
TOTAL REVENUE	3,434,060	3,434,060	3,147,098	(286,962)
EXPENDITURES				
Current:				
General Government	194,600	185,100	102,331	82,769
Better Hometown	61,229	61,229	60,996	233
City Manager	245,957	235,757	220,880	14,877
Human Resources	105,377	100,577	87,776	12,801
Police Department	1,244,277	1,244,277	1,147,540	96,737
Fire Department	733,412	733,412	683,470	49,942
Streets and Sanitation	1,089,456	1,089,456	566,615	522,841
Public Buildings	333,185	357,685	290,759	66,926
Recreation Department	623,558	623,558	223,452	400,106
Planning Department	246,939	246,939	222,520	24,419
Maintenance and Mechanical	166,486	166,486	137,281	29,205
Debt Service				
Principal Retirement	50,000	50,000	46,101	3,899
Interest and Fiscal Charges	5,000	5,000	4,346	654
TOTAL EXPENDITURES	5,099,476	5,099,476	3,794,067	1,305,409
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,665,416)	(1,665,416)	(646,969)	1,018,447
OTHER FINANCING SOURCES (USES)				
Prior Year Fund Balance	665,416	665,416		(665,416)
Proceeds from Debt	0	0	79,718	79,718
Interfund Transfers	1,000,000	1,000,000	544,603	(455,397)
TOTAL OTHER FINANCING SOURCES (USES)	1,665,416	1,665,416	624,321	(1,041,095)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES (USES) OVER (UNDER) EXPENDITURES	-	-	(22,648)	(22,648)
FUND BALANCE - BEGINNING OF YEAR			2,651,344	
FUND BALANCE - END OF YEAR			$ 2,628,696	

CITY OF CORNELIA, GEORGIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
ON BUDGETARY ACCOUNTING AND CONTROL
YEAR ENDED DECEMBER 31, 2012

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, 2012

SCHEDULE 1

	SKATE PARK	PET FRIENDS	HOTEL/ MOTEL TAX	TOTAL
ASSETS				
Cash	$ 13,377	$ 1,777	$ 87,113	$ 102,267
TOTAL ASSETS	$ 13,377	$ 1,777	$ 87,113	$ 102,267
LIABILITIES	$	$	$	$
TOTAL LIABILITIES				
FUND BALANCES				
Restricted for:				
Tourism and Promotion			87,113	87,113
Assigned for:				
Skate Park	13,377			13,377
Pet Friends		1,777		1,777
TOTAL FUND BALANCES	13,377	1,777	87,113	102,267
TOTAL LIABILITIES AND FUND BALANCE	$ 13,377	$ 1,777	$ 87,113	$ 102,267

CITY OF CORNELIA, GEORGIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

SCHEDULE 2

	SKATE PARK	PET FRIENDS	BETTER HOMETOWN	HOTEL/ MOTEL TAX	TOTAL
REVENUES					
Hotel/Motel Tax	$	$	$	$ 202,913	$ 202,913
Donations	-	190	9,291		9,481
Interest	26	-	47	76	149
TOTAL REVENUE	26	190	9,338	202,989	212,543
EXPENDITURES					
Tourism and Promotion	-	-	14,364	87,286	101,650
Supplies	-	-		-	-
TOTAL EXPENDITURES	-	-	14,364	87,286	101,650
EXCESS -DEFICIENCY REVENUES OVER EXPENDITURES	26	190	(5,026)	115,703	110,893
OTHER FINANCING SOURCES(USES)					
Operating Transfers In(Out)					
General Fund	-	-	-	(77,470)	(77,470)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	26	190	(5,026)	38,233	33,423
FUND BALANCES BEGINNING OF YEAR	13,351	1,587	5,026	48,880	68,844
FUND BALANCES END OF YEAR	$ 13,377	$ 1,777	$ -	$ 87,113	$ 102,267

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, 2012

	Original Estimated Costs	Expenditures		
		Prior Years	Current Year	Total
Habersham County, Georgia SPLOST V				
Water	$ 1,146,719	$ 150,540	$ -	$ 150,540
Sewer	1,000,000	700,000	-	700,000
Public Safety	400,000	438,548	-	438,548
Roads and Bridges	378,477	-	6,000	6,000
Public Facilities	256,000	196,465	48,532	244,997
Recreation	100,000	25,000	29,628	54,628
	$ 3,281,196	$ 1,510,553	$ 84,160	$ 1,594,713

SINGLE AUDIT SECTION

This section contains reports required by OMB A-133 and grantor agencies.

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Certified Public Accountants

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

Independent Auditor's Report

June 19, 2013

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

We have audited, in accordance with the standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cornelia, Georgia, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Cornelia, Georgia's basic financial statements and have issued our report thereon dated June 19, 2013.

Internal Control over Financial Reporting

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

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 that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency. This is reported as item 2012-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 Audit Standards*.

City of Cornelia, Georgia's Response to Findings

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

Purpose of this Report

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

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Independent Auditor's Report

June 19, 2013

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

Report on Compliance for Each Major Program

We have audited the City of Cornelia, Georgia's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2012. The City of Cornelia, Georgia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibilities

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

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

Opinion on Each Major Federal Program

In our opinion, the City of Cornelia, Georgia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control over Compliance

Management of the City of Cornelia, Georgia, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Cornelia, Georgia's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Duncan & Kitchens, LLC

Duncan & Kitchens, LLC

CITY OF CORNELIA, GEORGIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

DERAL GRANT/PASS THROUGH GRANTOR/PROGRAM TITLE	CFDA Number	Agency or Pass-Through Grantor Number	Expenditures
United States Department of Housing and Urban Development			
Entitlement Grant	14.218	11p-x-068-2-5347	$ 40,887
Entitlement Grant	14.218	10p-x-068-2-5224	468,582
Total U.S. Department of Housing and Urban Development			509,469
Total Expenditure of Federal Awards			$ 509,469

See accompanying note to Schedule of Expenditures of Federal Awards

CITY OF CORNELIA, GEORGIA
NOTES SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS FOR THE
YEAR ENDED DECEMBER 31, 2012

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the SEFA) includes the federal grant activity of the City of Cornelia, Georgia, under programs for the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1) Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2) Pass-through entity identifying numbers are presented where available.

CITY OF CORNELIA, GEORGIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

1. SUMMARY OF AUDITOR'S RESULTS

A. Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified:	None noted
Are any significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial Statements noted?	None noted

B. Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	None noted
Significant deficiencies identified not considered material weaknesses:	None noted
Type of auditor's report issued on compliance of major programs:	Unqualified
Any audit findings disclosed that are required to be Reported in accordance with Circular A-133, Section .510(a)?	No
Identification of major program:	
14.218 Community Development Block Grant/Entitlement Grants	
Dollar threshold used to distinguish Between Type A and Type B programs:	$300,000
Auditee qualified as low risk auditee?	No

2. FINDINGS-FINANCIAL STATEMENTS AUDIT

A. SIGNIFICANT DEFICIENCY

12-1

Condition: City personnel may require additional training in the application of generally accepted accounting principles and the preparation of financial statements. Currently, the City relies on the external auditors for technical assistance in applying generally accepted accounting principles and the preparation of the financial statements. This is common in governments of similar size and structure of the City. This does not indicate that the Finance Director is not trained to perform the daily accounting functions, but that the City has elected as a cost benefit to outsource this expertise to their auditors. As required, we have indicated this as a significant deficiency in our on Internal Control and Compliance.

Criteria: The City should possess the ability to prepare its own financial statements or have access to someone with adequate technical training and education to review the financial statements prepared by others.

Cause: The City staff does not have the accounting skill necessary to prepare financial statements in accordance with accounting principles generally accepted in the United States.

Effect: The City does not possess adequate capabilities to prepare financial statements in accordance with accounting principles generally accepted in the United States.

Recommendation: The City should continue to receive training in identification and application of generally accepted accounting principles and the preparation of the City's financial statements.

Management Response: The City agrees with the finding.

B. MATERIAL NONCOMPLIANCE

None Reported

3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The audit of our basic financial statements and schedule of expenditures of federal awards disclosed no audit findings or questioned costs which are required to be reported under section 510(a) of OMB A-133.