CITY OF EAST ELLIJAY, GEORGIA

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CITY OF EAST ELLIJAY, GEORGIA
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CITY OF EAST ELLIJAY, GEORGIA

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Honorable Mack West, Mayor
and Members of the City Council
East Ellijay, Georgia

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of East Ellijay, Georgia as of and for the year ended June 30, 2012 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of East Ellijay's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of East Ellijay, Georgia, as of June 30, 2012, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2012 on our consideration of the City of East Ellijay's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 9 and 17 be presented to supplement the basic financial statements. Such information, although not a 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 of 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

of America, which consisted of inquiries of management about the methods of 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of East Ellijay's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The Schedule of Projects Constructed with Special Purpose Local Option Sales Tax is presented for purposes of additional analysis as required by the Official Code of Georgia Section 48-4-121, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the Schedule of Projects Constructed with Special Purpose Local Option Sales Tax 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

East Ellijay, Georgia
November 5, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THE AUDIT FOR 2012

As management of City of East Ellijay, Georgia, we offer readers of the City of East Ellijay's financial statements this narrative overview and analysis of the financial activities of the City of East Ellijay for the fiscal year ended June 30, 2012. The audit is required by Georgia law. The Statement of Net Assets and the Statement of Activities will provide a picture about the activities of the City, and the Fund financial statements will provide a more detailed view of the City's services and the revenue dedicated to provide them.

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expenses, and Changes in Fund Balance. The expenses are listed in the first column with the revenues from that particular program reported to the right. The result is a Net (Expenses) Revenue report. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues and if it is self-financing through fees, insurance, or grants.

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets begins on page 11. The Statement of Activities begins on page 12. These statements include all assets and liabilities using the full accrual basis of accounting. All of the 2012 year revenues and expenses are taken into account regardless of when cash is received or paid. The difference between income received and liabilities incurred will paint a picture of the City's health.

REPORTING THE CITY'S FUNDS

The Fund financial statements begin on page 13 and provide detailed information about the funds. Some funds are required to be established by State law. However, the City can establish other funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the City's finances is, "Is the city as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which are the government-wide statements, report information about the City as a whole and about its activities

in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expense are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. One can think of the City's net assets, the difference between assets and liabilities, as one way to measure the City's financial health. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors need to be considered, however, such as expansion and maintenance of infrastructure in the City, to assess the overall health of the City.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental funds. These funds are added together and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the government-wide financial statements.

This report includes two schedules (pages 14 and 16) which reconcile the amounts reported on the governmental fund financial statements (modified accrual basis of accounting) with the governmental activities reported on the government-wide financial statements (accrual basis of accounting).

CONDENSED STATEMENTS OF NET ASSETS

Table 1 below presents the City's Condensed Statement of Net Assets as of June 30, 2012.

	Governmental Activities	
	2012	2011
Current and other assets	$ 2,301,327	$ 2,174,393
Capital assets	4,276,738	4,263,515
Total assets	6,578,065	6,437,908
Current liabilities	14,328	38,748
Total liabilities	14,328	38,748
Net assets		
Invested in capital assets	4,276,738	4,263,515
Restricted for capital projects	333,897	223,959
Reserved for other purposes	12,047	2,703
Unrestricted	1,941,055	1,908,983
Total net assets	$ 6,563,737	$ 6,399,160

The largest component of the City's net assets is its investment in capital assets (e.g. land, infrastructure, buildings, equipment, and other). The City uses these capital assets to provide services to the citizens and the businesses in the City; consequently, these net assets are not available for future spending. The largest remaining portion of net assets is unrestricted, which can be used to finance government operations.

CONDENSED STATEMENT OF ACTIVITIES

Table 2 below presents the City's Condensed Statement of Activities for the year ended June 30, 2012. Over time, increases and decreases in net assets measure whether the City's financial position in improving in deteriorating.

Table 2: Condensed Statement of Activities

	Governmental Activities	
	2012	2011
Revenues		
Program revenues		
Charges for services	$ 307,861	$ 309,350
Operating contributions	3,407	-
Capital contributions	156,179	108,103
General revenues		
Taxes		
Sales	596,714	629,505
Other	269,672	282,248
Unrestricted investment earnings	28,110	27,950
Gain on sale of capital assets	850	6,802
Miscellaneous	1,074	92
Total revenues	1,363,867	1,364,050
Expenses		
General government	237,342	244,481
Judicial	148,773	145,678
Public safety	576,476	609,873
Public works	143,002	157,458
Housing and development	93,697	96,018
Total expenses	1,199,290	1,253,508
Increase in net assets	164,577	110,542
Net assets – beginning	6,399,160	6,288,618
Net assets – ending	$ 6,563,737	$ 6,399,160

During the year ended June 30, 2012, the net assets of the government activities increased $164,577 or 2.6%. Approximately 44% of the City's governmental activities revenues came from sales taxes and approximately 20% came from other taxes.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

As of the close of the year, the City's governmental funds reported a combined ending fund balance of $2,209,915 with $1,848,069 reported as unassigned fund balance, $345,944 restricted for capital projects and program purposes and $8,902 nonspendable due to prepaid insurance.

The General Fund is the operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was $1,848,069. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance to total fund expenditures for fiscal year 2012. Unassigned fund balance represents 160% of total General Fund expenditures. The net change in the General fund's fund balance for the year ended June 30, 2012 was an increase of $57,188.

General Fund Budgetary Highlights

The City did not exceed the appropriated amounts in any budget category.

Capital Asset Activity

At June 30, 2012, the City reported $4,276,738 in capital assets. Refer to note 3 on page 25 of the financial statements for more information.

In conclusion, the City of East Ellijay finished the year with an increase in fund balance and net assets. Also, there were no significant budget overruns that were not covered by unexpected revenue. Fiscal management has been sound while providing the services that the citizens expect and deserve.

This financial report is designed to provide a general overview of the City of East Ellijay's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report of request for additional financial information should be addressed to City of East Ellijay, PO Box 1060; East Ellijay, Georgia 30539.

BASIC FINANICAL STATEMENTS

CITY OF EAST ELLIJAY, GEORGIA
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
ASSETS	
Current Assets	
Cash	$ 2,098,117
Taxes receivable	23,411
Fines receivable, net	129,891
Intergovernmental receivables	41,006
Prepaid Items	8,902
Total Current Assets	2,301,327
Noncurrent Assets	
Capital assets	
Land and other assets, not being depreciated	3,559,740
Depreciable assets, net	716,998
Total Noncurrent Assets	4,276,738
TOTAL ASSETS	$ 6,578,065
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	$ 14,328
Total Current Liabilities	14,328
Net Assets	
Invested in capital assets	4,276,738
Restricted for:	
Capital Projects	333,897
Program purposes:	
Public Safety	1,507
Housing and Development	6,011
Public Works	4,529
Unrestricted	1,941,055
Total Net Assets	6,563,737
TOTAL LIABILITIES AND NET ASSETS	$ 6,578,065

The notes to financial statements are an integral part of this statement.

CITY OF EAST ELLIJAY, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net Revenue (Expense) and Changes in Net Assets: Primary Government: Governmental Activities
Primary government					
Governmental activities					
General government	$ 242,187	$ 60,603	$ -	$ -	$ (181,584)
Judicial	148,773	-	-	-	(148,773)
Public safety	576,476	247,258	3,407	-	(325,811)
Public works	143,002	-	-	156,179	13,177
Housing and development	88,852	-	-	-	(88,852)
Total governmental activities	$ 1,199,290	$ 307,861	$ 3,407	$ 156,179	(731,843)
General revenues					
Taxes					
General sales and use taxes					370,449
Selective sales and use taxes					226,265
Franchise taxes					150,640
Business taxes					119,032
Unrestricted investment earnings					28,110
Miscellaneous					1,074
Gain on sale of capital assets					850
Total general revenues					896,420
Change in net assets					164,577
Net assets, beginning of year					6,399,160
Net assets, end of year					$ 6,563,737

The notes to financial statements are an integral part of this statement.

CITY OF EAST ELLIJAY, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	Major		Nonmajor	
ASSETS	General Fund	SPLOST	Governmental Funds	Total
Cash	$ 178,202	$ 324,400	$ 13,124	$ 515,726
Certificates of deposit	1,582,391	-	-	1,582,391
Receivables				
Taxes	23,411	-	-	23,411
Fines, net of allowance	129,891	-	-	129,891
Intergovernmental	31,509	9,497	-	41,006
Prepaid Items	8,902	-	-	8,902
TOTAL ASSETS	$ 1,954,306	$ 333,897	$ 13,124	$ 2,301,327
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	$ 13,251	$ -	$ 1,077	$ 14,328
Deferred revenues	84,084	-	-	84,084
Total Liabilities	97,335	-	1,077	98,412
Fund Balances				
Nonspendable	8,902	-	-	8,902
Restricted for:				
Capital Projects	-	333,897	-	333,897
Public Safety	-	-	1,507	1,507
Housing and Development	-	-	6,011	6,011
Public Works	-	-	4,529	4,529
Unassigned	1,848,069	-	-	1,848,069
Total Fund Balances	1,856,971	333,897	12,047	2,202,915
TOTAL LIABILITIES AND FUND BALANCES	$ 1,954,306	$ 333,897	$ 13,124	$ 2,301,327

The notes to financial statements are an integral part of this statement.

CITY OF EAST ELLIJAY, GEORGIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATMENT OF NET ASSETS
JUNE 30, 2012

Total fund balance - governmental funds	$	2,202,915
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets of $4,685,497 net of accumulated depreciation of $408,759, are not current financial resources and, therefore, are not reported in the funds, but are reported in the government activities of the Statement of Net Assets.		4,276,738
Other long term assets reported are not available to pay for current period expenditures and, therefore are deferred in the fund financial statements.		84,084
Net assets of governmental activities	$	6,563,737

The notes to financial statements are an integral part of this statement.

CITY OF EAST ELLIJAY, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Major		Nonmajor	
	General Fund	SPLOST	Funds	Total
REVENUES				
General sales and use taxes	$ 370,449	$ -	$ -	$ 370,449
Selective sales and use taxes	226,265	111,430	-	337,695
Other taxes	269,672	-	-	269,672
Fines and forfeitures	254,685	-	-	254,685
Licenses and permits	60,603	-	-	60,603
Intergovernmental	-	-	44,341	44,341
Contributions	-	-	3,407	3,407
Investment earnings	28,068	408	42	28,518
Miscellaneous	1,074	-	-	1,074
Total revenues	1,210,816	111,838	47,790	1,370,444
EXPENDITURES				
Current				
General government	223,534	-	4,845	228,379
Judicial	148,773	-	-	148,773
Public safety	556,867	-	4,607	561,474
Public works	132,552	-	79	132,631
Housing and development	58,640	-	30,212	88,852
Capital outlay				
Public safety	25,982	-	-	25,982
Public works	8,130	1,900	16,392	26,422
Total expenditures	1,154,478	1,900	56,135	1,212,513
Excess (Deficiency) of Revenues Over Expenditures	56,338	109,938	(8,345)	157,931
Other Financing Sources				
Proceeds from sale of vehicle	850	-	-	850
Net change in fund balances	57,188	109,938	(8,345)	158,781
Fund balances, beginning of year	1,799,783	223,959	20,392	2,044,134
Fund balances, end of year	$ 1,856,971	$ 333,897	$ 12,047	$ 2,202,915

The notes to financial statements are an integral part of this statement.

CITY OF EAST ELLIJAY, GEORGIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - governmental funds		$ 158,781
Amounts reported for governmental activities in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. However, in the government-wide financial statements, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of $52,404 exceeded depreciation expense of $39,181 in the current period.		13,223
Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues at the fund financial reporting level.		
Fines and forfeitures:		
Deferred June 30, 2011	(91,511)	
Deferred June 30, 2012	(84,084)	(7,427)
Change in net assets of governmental activities		$ 164,577

The notes to financial statements are an integral part of this statement.

CITY OF EAST ELLIJAY, GEORGIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts Budgetary Basis (See Note 1.C.)	Variance Final with Budget
	Original	Final		
REVENUES				
Taxes	$ 867,500	$ 867,500	$ 866,386	$ (1,114)
Fines and forfeitures	210,000	210,000	254,685	44,685
Licenses and permits	35,000	35,000	60,603	25,603
Charges for services	100	100	-	(100)
Investment earnings	20,000	20,000	28,068	8,068
Miscellaneous	-	-	1,074	1,074
Total revenues	1,132,600	1,132,600	1,210,816	78,216
EXPENDITURES				
General government:				
Executive	50,991	58,991	58,252	(739)
General administration	210,800	210,800	165,282	(45,518)
Judicial				
Municipal court	155,900	155,900	148,773	(7,127)
Public safety				
Police	557,000	563,700	537,849	(25,851)
Fire	45,000	45,000	45,000	-
Public works				
Highways and streets	157,500	151,300	106,166	(45,134)
Solid waste	39,000	39,000	34,516	(4,484)
Housing and development				
Planning/code	70,100	62,100	58,640	(3,460)
Total expenditures	1,286,291	1,286,791	1,154,478	(132,313)
Excess (Deficiency) of Revenues Over Expenditures	(153,691)	(154,191)	56,338	210,529
Other Financing Sources				
Proceeds from sale of vehicle	-	-	850	850
Net change in fund balances	(153,691)	(154,191)	57,188	211,379
Fund balances, beginning of year	1,799,783	1,799,783	1,799,783	-
Fund balances, end of year	$ 1,646,092	$ 1,645,592	$ 1,856,971	$ 211,379

The notes to financial statements are an integral part of this statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. The Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The City's basic financial statements include the City's accounts of all operations. The criteria for including organizations within the City's reporting entity, as set forth in Governmental Accounting Standards Board's Statement No. 14 (GASB 14), "The Financial Reporting Entity," is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. As of June 30, 2012, there were no component units to be included in the financial statements of the City.

B. Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Generally, municipalities' funds are grouped into two broad fund categories and four generic fund types for financial statement presentation purposes. The City's funds are grouped as one broad fund category and two generic fund types. Governmental funds include the general fund, capital projects fund and special revenue funds.

C. Basis of Accounting

Government-Wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements

for governmental funds. The statement of net assets and the statement of activities display information about the City, the primary government, as a whole.

Transfers between funds reported in the governmental activities column are eliminated.

The government-wide statement of activities presents a comparison between expenses and program revenues for each governmental program of the City. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expense identifies the extent to which each program is self-financing or draws from the general revenues of the City.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. It is the City's policy to utilize restricted resources, when available for use, before utilizing unrestricted resources.

Fund Financial Statements

Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measureable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the revenue sources must be deemed both measurable and available. This is defined as the revenue source being collectible within the current year or within sixty days of year-end and is available to pay obligations of the current period. This includes investment earnings, fines and

forfeitures, and state-levied locally shared taxes. Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made or, when received in advance, deferred until expenditures are made. The City of East Ellijay, Georgia does not levy any property taxes.

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Fines receivable for the fiscal year ended 2012 totaled $259,781. An allowance for uncollectible fines of $129,890 was established resulting in a net receivable of $129,891 reported on the financial statements.

Expenditure recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. Allocations of costs such as depreciation are not recognized in the governmental funds.

The City reports the following major governmental funds:

General Fund – This is the City's primary operating fund. This fund accounts for all financial resources of the general government except those required to be accounted for in another fund.

SPLOST Fund – The Special Purpose Local Option Sales Tax Fund (SPLOST) is used to account for the revenues and expenditures related to the 2009 1% Special Local Option Sales Tax, authorized by special election, that is to be used for road, street and bridge purposes.

Additionally, the City reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are restricted for specific purposes. Special Revenue Funds of the City include the Hotel/Motel Fund and the Confiscated Assets Fund.

Capital Project Fund – Capital Project Funds are used to account for the proceeds of specific revenue sources that are restricted for specific capital projects. Capital Project Funds of the City include the CDBG Grant Fund.

D. Budgets and Budgetary Accounting

The Mayor prepares a draft of the annual budget which is presented to the City Council for review and the proposed budget is discussed and finalized. Any change to original budgeted items must be approved by the Council. The proposed budget is advertised in a local newspaper giving notice regarding a public hearing in which local citizens may give their input regarding the proposed budget. The City also places a copy of the proposed budget on file for public inspection prior to the actual approval. Once all of these steps have been taken, the City Council and Mayor then formally adopt the annual balanced budget in a legally permissible manner. The legal level of control of the budget of the City of East Ellijay, Georgia is at the department level. All appropriations lapse at year end.

Budgets have been legally adopted for all funds. Budgets are adopted on a basis consistent with generally accepted accounting principles, and on the same basis of accounting used by each fund to which the budget applies.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and classed as follows: operating expenditures, capital outlay, and debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. Budget revisions at this level are subject to final review by the City Council. No expenditure exceeded appropriated amounts during fiscal year 2012.

E. Encumbrances

Encumbrance accounting involves recording purchase orders, contracts, and other commitments for the expenditures of monies in order to reserve that portion of the applicable appropriation. Encumbrance accounting is not employed by the City as it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control at this time.

F. Cash and Investments

Cash includes amounts in demand deposits. Statutes authorize the City to invest in obligations of the U.S. Government, U.S. Government agencies, the State of Georgia, other counties, and municipal corporations and political subdivisions of the State of Georgia which are rated "AA" or better by Moody's Investors Service, Inc., negotiable certificates of deposit issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking associations, U.S. Government or Agency collateralized repurchase agreements obligations, and pooled investment programs sponsored by the State of Georgia for the investment of local government funds. The City had no investments during fiscal year 2012.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

H. Capital Assets

Capital assets are defined by the government as assets with an initial individual cost of more than $5,000 and infrastructure with a cost of more than $20,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets include all roads, bridges and other infrastructure assets acquired subsequent to July 1, 2003. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life is not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure	10-50 years
Buildings	50 years
Building improvements	20 years
Vehicles	2-15 years
Office equipment	3-15 years
Computer equipment	3-15 years

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, results could differ from those estimates.

J. Compensated Absences

City employees are granted vacation and sick leave in varying amounts. It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits up to the end of the year, at which time any vacation or sick pay not yet used is lost and cannot be carried forward to the subsequent year. Therefore, there is no accumulated compensated absence liability as of the fiscal year end.

K. Fund Equity

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

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

- *Nonspendable* – Fund balances are reported as Nonspendable when 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) 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 enabling legislation adopted by the City or through external restriction imposed by creditors, grantors, or laws and regulations of other governments.
- *Assigned* – Fund balances are reported as assigned when amounts are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed (i.e., an appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget). However, an assignment of fund balance can not cause a deficit in unassigned fund balance to occur.
- *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 balance only in the General Fund. Negative unassigned fund balances may be reported in all other governmental funds.

Flow Assumptions – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed.

Net Assets – Net assets represents the difference between the assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings used (i.e., the amount that the City has spent) for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted as described in the fund balance section above. All other net assets are reported as unrestricted.

2. SUMMARY OF DEPOSITS

Following is a reconciliation of the City's cash and certificates of deposit balances as of June 30, 2012:

	Government-wide Statement of Net Assets
Cash	$ 515,726
Certificates of deposit	1,582,391
Total	$ 2,098,117

It is the City's policy for deposits to be secured at 110% by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation insurance.

At year end, the carrying amount of the City's demand and time deposits was $2,098,117, and the bank balance was $2,099,863. The bank balances differ from the carrying amounts due to outstanding checks, deposits in transit, and reconciling items. The City's deposits are covered by Federal Depository Insurance or by collateral held by a pledging financial institution's agency in the City's name.

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning of Year	Increases	Decreases	End of Year
Governmental activities				
Non-depreciable capital assets				
Land	$ 3,559,740	$ -	$ -	$3,559,740
Total capital assets not being depreciated	3,559,740	-	-	3,559,740
Depreciable capital assets				
Infrastructure	143,136	18,292	-	161,428
Buildings	531,436	-	-	531,436
Land improvements	15,820	-	-	15,820
Machinery and equipment	139,373	8,130	-	147,503
Vehicles	266,302	25,982	(22,714)	269,570
Total depreciable capital assets	1,096,067	52,404	(22,714)	1,125,757
Less accumulated depreciation				
Infrastructure	15,400	5,103	-	20,503
Buildings	66,176	10,629	-	76,805
Land improvements	8,690	1,355	-	10,045
Machinery and equipment	96,006	6,093	-	102,099
Vehicles	206,020	16,001	(22,714)	199,307
Total accumulated depreciation	392,292	39,181	(22,714)	408,759
Total depreciable capital assets, net	703,775	13,223	-	716,998
Governmental activities capital assets, net	$ 4,263,515	$ 13,223	$ -	$ 4,276,738

Depreciation expense charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	$ 13,808
Public safety	15,002
Public works	10,371
Total	$ 39,181

4. DUE FROM OTHER GOVERNMENTS

Due from other governments consist of the local option sales tax of $31,509 receivable from the State of Georgia and special purpose local option sales tax of $9,497 receivable from Gilmer County government totaling $41,006 as of June 30, 2012.

5. RETIREMENT PLANS

Plan Description. The City's defined benefit pension plan, City of East Ellijay Retirement Plan (CEERP), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CEERP is affiliated with the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer pension plan administered by the Georgia Municipal Association. The GMEBS assigns authority to establish and amend the benefit provisions of the plans that participate in GMEBS to the respective employer entities and, for the CEERP that authority rests with the City. The Georgia Municipal Association issued a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained by writing to the Georgia Municipal Association or by calling (404) 688-0472.

Funding Policy. The City is required to contribute at an actuarially determined amount annually to the CEERP. The contribution amount is determined using actuarial methods and assumptions approved by the GMEBS Board of Trustees and meets applicable State of Georgia funding standards. The recommended contribution for the plan year beginning January 1, 2012 of $33,939 is 8.15% of annual covered payroll, and includes the annual required contribution, administrative fees, and an adjustment for timing contributions over twelve months. The City's actual contribution during the year ended June 30, 2012 of $49,254 was based, in part, on the previous recommended contribution for the plan year beginning January 1, 2011. Plan members are not required to contribute to the plan. Only the City makes contributions to the plan. Employees become eligible after the first 6 months of employment and become vested in the plan after five years of service if hired or rehired after 11-1-04, and five years of service if hired or rehired before 11-1-04, with service prior to 4-1-83 not to be credited. Contributions and interest forfeited by employees who leave employment before five years of service are used to reduce the City's current period contribution requirement.

Annual Pension Cost. The funding policy for the plan is to contribute an amount equal to the recommended contribution as determined by the plan's actuary. The chart below shows the annual pension costs for the current year and the prior two years.

Plan Year Beginning	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
1-1-2012	$ 49,254	100%	$0
1-1-2011	$ 50,058	100%	$0
3-1-2011	$ 55,410	100%	$0

As of the most recent valuation date of January 1, 2012, the funded status of the plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Unfunded/ (Surplus)(UAAL) (B) – (A)	Funded Ratio (A) / (B)	Annual Covered Payroll(C)	UAAL as a % of Covered Payroll
1/1/2012	$ 483,376	$ 504,463	$ 21,087	95.82%	$ 409,323	5.15%

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of January 1, 2012.

The methods and assumptions used in the January 1, 2012 actuarial valuation are as follows:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Closed Level Dollar for remaining unfunded liability
Remaining Amortization Period	Remaining amortization period varies for the bases, with a net effective amortization period of 10 years
Asset Valuation Method	Sum of actuarial value at the beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at end of year. The actuarial value is adjusted, if necessary, to be within 50% of market value for 2009, 44% of market value for 2011, 38% of market value for 2012, 32% of market value for 2012, 26% of market value for 2013, and 20% of market value for 2014 and later years.

Actuarial Assumptions:

Net Investment Rate of Return	7.75%
Projected Salary Increases	3.50% plus age and service based merit increases
Cost of Living Adjustments	0.00%
Inflation Adjustment	3.50%

As of January 1, 2012, the most recent date of the actuarial valuation, plan membership was as follows:

Retirees and beneficiaries	3
Terminated plan members entitled to, but not receiving benefits	12
Active plan members	15
Total	30

6. COMMITMENTS, CONTINGENT LIABILITIES AND SUBSEQUENT EVENTS

The City has entered into various agreements and contracts in the normal course of business. Such agreements do not give rise to assets or liabilities considered to be material at June 30, 2012.

7. RISK MANAGEMENT

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

There are no significant reductions of insurance coverage compared to the prior year. Settled claims have not exceeded the commercial excess coverage in any of the past three fiscal years.

Risk Pools

The City has insurance coverage with a local insurance agency. Insurance coverage and deductible options for property, casualty, and crime under the policy are selected by the City's management based on anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed by the agency, as well as following loss reduction and prevention procedures established by the agency. The agency's responsibility includes paying claims, and representing the City in defense and settlement of claims. The agency's basis for estimating the liabilities for unpaid claims is established by an actuary. The City has not compiled a record of the claims paid up to the applicable deductible for the prior year or the current fiscal year. The City is unaware of any claims which the City is liable up to the applicable deductible which were outstanding and unpaid at June 30, 2012. No provisions have been made in the financial statements for the year ended June 30, 2012 for any estimate of potential unpaid claims.

The City has elected to be a member of the Georgia Municipal Association Workers' Compensation Self-Insurance Fund (GMWACSIF), a risk management agency created under Georgia law. As a participant in the GMWACSIF, 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 statue creating GMWACSIF 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 basic financial statements for this contingency, as management believes the likelihood for assessment is remote.

8. JOINT VENTURE ORGANIZATION

The City of East Ellijay, Georgia in conjunction with cities and counties in the five (5) county Northwest Georgia area, are members of the Northwest Georgia Regional Commission (NWGRC). Membership in a regional development center is automatic for each municipality and county in the state. The official Code of Georgia Section 50-8-34 (Georgia Planning Act of 1989) provided for the organizational structure of the NWGRC's. Each county and municipality in the state is required by law to pay minimum annual dues to the NWGRC. The City paid their annual dues to the NWGRC for the year ended June 30, 2012. The NWGRC 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 nonpublic Board member from a county.

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defined these commissions as "public agencies and instrumentalities of their member." Georgia laws also provide that the member governments are liable for any debts or obligations of the regional commission beyond its resource (O.C.G.A. 50-8-39.1).

A copy of the audited financial statements of the Northwest Georgia Regional Commission may be obtained from their office at 1 Jackson Hill Drive, Rome, Georgia 30162.

9. HOTEL/MOTEL TAX

The City has levied a 3% lodging tax. During 2012, the City collected $23,341 of lodging tax. The City is required by State law to expend a percentage of the total taxes collected which is not less than the percentage of tax collections expended for such purposes during the immediately preceding fiscal year. The City spent the amount required in accordance with a funding agreement between the City and the Gilmer County Chamber of Commerce. The City has therefore complied with the provisions of OCGA 48-13-51 of the State of Georgia.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EAST ELLIJAY, GEORGIA
SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Funded Status

The table below sets forth required supplementary information to be disclosed in the schedule of funding progress. The items presented are based on the actuarial valuation date.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded ALL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1-1-2012	$ 483,376	$ 504,463	$ 21,087	95.82%	$ 409,323	5.15%
1-1-2011	$ 412,486	$ 457,936	$ 45,450	90.08%	$ 395,403	11.49%
1-1-2010	$ 342,429	$ 440,771	$ 98,342	77.69%	$ 391,934	25.09%
3-1-2009	$ 260,454	$ 413,211	$152,757	63.03%	$ 418,109	36.54%

Effect of Plan Changes on the Actuarial Accrued Liability

The effect on the actuarial accrued liability of any current-year changes in actuarial assumptions or benefit provisions is:

> The plan provisions valued and the actuarial assumptions are not the same as those used in the preceding valuation. Assumptions were changed for mortality, salary increases, net investment return and inflation in the most recent valuation.

Effect of Plan Changes on Recommended Contributions

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 not the same as those used to determine the contribution requirement for the preceding year. When assumptions are changed, the contribution requirement is adjusted to take into account a change in experience anticipated for all future years.

OTHER SUPPLEMENTARY INFORMATION

CITY OF EAST ELLIJAY, GEORGIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	Special Revenue Funds		Capital Projects Fund	
ASSETS	Confiscated Assets	Hotel/Motel	CDBG Grant	Total
Cash	$ 1,507	$ 7,088	$ 4,529	$ 13,124
Receivables (net)				
Intergovernmental	-	-	-	-
TOTAL ASSETS	$ 1,507	$ 7,088	$ 4,529	$ 13,124
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	$ -	$ 1,077	$ -	$ 1,077
Liabilities	$ -	$ 1,077	$ -	$ 1,077
Fund Balances				
Restricted				
Public Safety	1,507	-	-	1,507
Housing and Development	-	6,011	-	6,011
Public Works	-	-	4,529	4,529
Total Fund Balances	1,507	6,011	4,529	12,047
TOTAL LIABILITIES AND FUND BALANCES	$ 1,507	$ 7,088	$ 4,529	$ 13,124

CITY OF EAST ELLIJAY, GEORGIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Special Revenue Funds		Capital Projects Fund	
	Confiscated Assets	Hotel/Motel	CDBG Grant	Total
REVENUES				
Intergovernmental	$ -	$ 23,341	$ 21,000	$ 44,341
Contributions	3,407	-	-	3,407
Investment earnings	4	38	-	42
Total revenues	3,411	23,379	21,000	47,790
EXPENDITURES				
Current				
General government	-	4,845	-	4,845
Judicial	-	-	-	-
Public safety	4,607	-	-	4,607
Public works	-	-	79	79
Housing and development	-	30,212	-	30,212
Capital Outlay				
Pulic works	-	-	16,392	16,392
Total expenditures	4,607	35,057	16,471	56,135
(Deficiency) of Revenues Over Expenditures	(1,196)	(11,678)	4,529	(8,345)
Fund balances, beginning of year	2,703	17,689	-	20,392
Fund balances, end of year	$ 1,507	$ 6,011	$ 4,529	$ 12,047

CITY OF EAST ELLIJAY, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Project	Estimated Cost		Expenditures			Estimated % of Completion
	Original	Current	Prior Years	Current Year	Total	
2009 SPLOST						
Road, street and bridge purposes to include sidewalks and bicycle paths	$ 1,054,900	$ 1,054,900	$ 70,648	$ 1,900	$ 72,548	6.88%
	$ 1,054,900	$ 1,054,900	$ 70,648	$ 1,900	$ 72,548	

INTERNAL CONTROL AND COMPLIANCE

WELCH WALKER
& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

489 HIGHLAND CROSSING SUITE #208
EAST ELLIJAY, GA 30540
PH (706) 515-2000 FAX (706) 515-2011

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*

Honorable Mack West, Mayor

and Members of the City Council

City of East Ellijay, Georgia

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of East Ellijay ,Georgia, as of and for the year ended June 30, 2012, which collectively comprise the City of East Ellijay's basic financial statements and have issued our report thereon dated November 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of City of East Ellijay, in a separate letter dated November 5, 2012.

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

East Ellijay, Georgia
November 5, 2012