# CITY OF ELLIJAY, GEORGIA

## FINANCIAL REPORT

## For the Year Ended December 31, 2010

CITY OF ELLIJAY, GEORGIA
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December 31, 2010


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# FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Al Hoyle, Mayor
and Members of City Council
City of 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 Ellijay, Georgia, as of and for the year ended December 31, 2010, 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 Ellijay, Georgia's management. Our responsibility is to express opinions on these financial statements based on our audit.

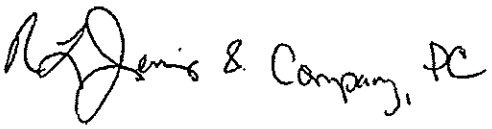
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 Ellijay, Georgia, as of December 31, 2010, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2011, on our consideration of the City of Ellijay, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 schedule of funding progress for the City of Ellijay Retirement Plan on pages 3 through 5 and page 24, respectively, 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 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 Ellijay, Georgia's financial statements as a whole. The combining 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 Local Option Sales Tax is presented for purposes of additional analysis as required by Official Code of Georgia section 48-8-121 and is not a required part of the financial statements. The combining nonmajor fund financial statements and the Schedule of Projects Constructed with Special 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.



Ellijay, Georgia
June 30, 2011

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## USING THE AUDIT FOR 2010

The Statement of Net Assets and the Statement of Activities will provide a picture about the activities of the City. Financial Fund 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 or grants.

## REPORTING THE CITY AS A WHOLE

The Statement of Net Assets begins on page 6. The Statement of Activities begins on page 7. These statements include all assets and liabilities using the accrual basis of accounting. All of the 2010 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 8 and provide detailed information about the funds. Some funds are required to be established by State law and by bond covenants. However, the City establishes other funds to help it 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

Condensed Statements of Net Assets

Table 1 below presents the City's condensed Statement of Net Assets as of December 31, 2009 and 2010. The City does not maintain any business-type activities, therefore, only governmental activities are presented.

Table 1: Condensed Statement of Net Assets

| | Governmental Activities 2009 | Governmental Activities 2010 | Changes |
|---|---|---|---|
| Assets | | | |
| Current and other assets | $ 1,117,212 | $ 1,012,522 | ($ 104,690) |
| Capital assets | 4,504,738 | 4,566,143 | 61,405 |
| Total Assets | $ 5,621,950 | $ 5,578,665 | ($ 43,285) |
| Liabilities | | | |
| Other liabilities | $ 99,525 | $ 181,814 | $ 82,289 |
| Long-term liabilities | 879,600 | 796,268 | ( 83,332) |
| Total Liabilities | 979,125 | 978,082 | ($ 1,043) |

(continued)

| | | | |
|---|---|---|---|
| Net Assets | | | |
| Invested in capital assets, net of related debt | 3,625,138 | 3,797,044 | $ 171,906 |
| Restricted | 284,353 | 311,317 | 26,964 |
| Unrestricted | 733,334 | 492,222 | ( 241,112) |
| Total Net Assets | 4,642,825 | 4,600,583 | ( 42,242) |
| Total Liab. and Net Assets | $ 5,621,950 | $ 5,578,665 | ($ 43,285) |

The largest component of the City's net assets is its investment in capital assets (e.g. land, infrastructure, buildings, equipment, and other), less any related debt outstanding that was needed to acquire or construct the assets. The City uses these capital assets to provide services to the citizens and businesses in the City; consequently, these net assets are not available for future spending. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The 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 years ended December 31, 2009 and 2010. Over time, increases and decreases in net assets measure whether the City's financial position is improving or deteriorating.

Table 2: Condensed Statement of Activities

| | Governmental Activities 2009 | Governmental Activities 2010 | Changes |
|---|---|---|---|
| Revenues: | | | |
| Program revenues: | | | |
| Charges for services | $ 247,066 | $ 206,366 | ($ 40,700) |
| Capital grants & contributions | - | 348,386 | 348,386 |
| Operating grants & contributions | 317,576 | 14,200 | ( 303,376) |
| General revenues: | | | |
| Property taxes | 292,945 | 239,752 | ( 53,193) |
| Sales taxes | 1,009,851 | 692,907 | ( 316,944) |
| Other revenues and taxes | 414,957 | 385,140 | ( 29,817) |
| Total Revenues | 2,282,395 | 2,282,395 | ($395,644) |
| Expenses: | | | |
| General government | 404,466 | 439,388 | 34,922 |
| Public safety | 1,069,197 | 1,146,169 | 76,972 |
| Public works | 1,251,812 | 178,654 | (1,073,158) |
| Culture and recreation | 9,589 | 13,039 | 3,450 |
| Judicial | 17,364 | 10,202 | ( 7,162) |
| Housing and development | 34,646 | 42,443 | 7,797 |
| Interest on long-term debt | 48,191 | 32,239 | ( 15,952) |
| Total Expenses | 2,835,265 | 1,862,134 | ( 973,131) |
| Change in net assets | ( 552,870) | 24,617 | 577,487 |
| Beginning net assets | 5,341,634 | 4,642,825 | ( 698,809) |
| Prior Period Adjustment | ( 145,939) | ( 66,859) | 79,080 |
| Ending net assets | $4,642,825 | $ 4,600,583 | ($ 42,242) |

During the year ending December 31, 2010 the net assets of the government activities decreased $42,242.

Approximately 13% of the City's revenues came from property taxes and approximately 57% came from other taxes. 11% of the City's revenue was derived from charges for services. The City's expenses cover a range of services with 10% related to public works, 62% related to public safety, and 24% related to general governmental activities.

## 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 $786,666 with $472,349 reported as unreserved fund balance and the remaining amount of $311,317 reserved for specific purposes.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the fund balance for the General Fund was $450,112. None of this amount is reserved. As a measure of the General Fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Fund balance represents 26% of total General Fund expenditures. The net change in the General Fund's fund balance for the year ended December 31, 2010 was an decrease of $159,393. The primary reason for the decrease in the fund balance was due to a decrease in the current years expected revenues.

## GENERAL FUND BUDGETARY HIGHLIGHTS

During 2010, the City adopted a budget of $1,709,236 in revenues with the use of excess fund balance of $46,000 and $1,755,236 in expenditures. The City did revise this budget for expenditures during the year to $1,757,136.

The actual operating revenues of the General Fund were less than budgeted amounts by $161,039. The major factors contributing to this decrease were that actual sales taxes received were $82,600 less than the budgeted amount of $1,131,000, which gave a total of $1,048,400. In addition, actual property tax revenues were $278,608, compared to a budgeted amount of $349,736. The factors contributing to the decrease in revenues is mainly attributable to the current downturn in the economy.

The actual operating expenditures of the General Fund were less than budgeted amounts by $ 49,405. The primary cause for this was due to the fact that actual expenditures for general government was $397,775 and for public safety were $958,901, compared to budgeted amounts of $423,265 and $973,551 respectively.

## CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

At December 31, 2010, the City reported $4,566,143 in capital assets for governmental activities. Major capital asset transactions during the year included the construction in progress of sewer lines that will be operating under the Ellijay-Gilmer City Water and Sewer Authority when completed. Refer to Note 4 to the financial statements for additional information on capital assets.

At December 31, 2010, the City reported long-term debt of $796,268. This debt includes capital leases being repaid for the purchase of police cars, a fire truck and the capital lease obtained for the public safety building. Refer to Note 8 to the financial statements for additional information on long-term debt.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact:

City of Ellijay
197 North Main Street
Ellijay, Georgia 30540
Telephone: 706-634-4711

# BASIC FINANCIAL STATEMENTS

# CITY OF ELLIJAY, GEORGIA
## STATEMENT OF NET ASSETS
## December 31, 2010

| | Governmental Activities |
|---|---|
| Assets | |
| Cash | $ 584,626 |
| Certificates of deposit | 92,052 |
| Receivables | 214,299 |
| Due from other governments | 120,583 |
| Other assets | 962 |
| Capital assets: | |
| Nondepreciable capital assets | 689,292 |
| Depreciable capital assets, net | 3,876,851 |
| Total Assets | $ 5,578,665 |
| Liabilities and Net Assets | |
| Liabilities: | |
| Accounts payable and accrued expenses | $ 159,531 |
| Deferred revenues | 22,283 |
| Long-term Liabilities: | |
| Due within one year | 114,534 |
| Due in more than one year | 681,734 |
| Total Liabilities | 978,082 |
| Net Assets: | |
| Invested in capital assets, net of related debt | 3,797,044 |
| Restricted for: | |
| Capital projects | 282,621 |
| Tourism | 6,820 |
| Public safety | 2,651 |
| Cemetary maintenance | 19,225 |
| Unrestricted | 492,222 |
| Total Net Assets | 4,600,583 |
| Total Liabilities and Net Assets | $ 5,578,665 |

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

**CITY OF ELLIJAY, GEORGIA**
**STATEMENT OF ACTIVITIES**
**For the Year Ended December 31, 2010**

| Functions/Programs | Expenses | Program Revenue: Charges for Services | Program Revenue: Operating Grants and Contributions | Program Revenue: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets: Governmental Activities |
|---|---|---|---|---|---|
| Primary Government: | | | | | |
| *Governmental Activities* | | | | | |
| General government | $ 439,388 | $ 42,371 | $ - | $ - | $ (397,017) |
| Judicial | 10,202 | - | - | - | (10,202) |
| Public safety | 1,146,169 | 157,645 | 14,200 | - | (974,324) |
| Public works | 178,654 | - | - | 348,386 | 169,732 |
| Culture and recreation | 13,039 | - | - | - | (13,039) |
| Housing and development | 42,443 | 6,350 | - | - | (36,093) |
| Interest on long-term debt | 32,239 | - | - | - | (32,239) |
| Total Governmental Activities | $ 1,862,134 | $ 206,366 | $ 14,200 | $ 348,386 | (1,293,182) |
| General revenues: | | | | | |
| Taxes: | | | | | |
| Property taxes, levied for general purposes | | | | | 239,752 |
| Franchise and miscellaneous taxes | | | | | 256,831 |
| Business taxes | | | | | 105,279 |
| Sales taxes | | | | | 692,907 |
| Unrestricted investment earnings | | | | | 6,190 |
| Miscellaneous | | | | | 16,840 |
| Total general revenues | | | | | 1,317,799 |
| Change in net assets | | | | | 24,617 |
| Net assets - beginning of year, as restated | | | | | 4,575,966 |
| Net assets - end of year | | | | | $ 4,600,583 |

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

CITY OF ELLIJAY, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010

| | General Fund | Capital Projects Fund | SPLOST Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| Assets | | | | | |
| Cash | $ 222,899 | $ 3,327 | $ 277,849 | $ 80,551 | $ 584,626 |
| Certificates of deposit | 79,151 | - | - | 12,901 | 92,052 |
| Taxes receivable, net | 142,915 | - | - | 416 | 143,331 |
| Due from other funds | 45,866 | - | - | - | 45,866 |
| Due from other governments | 51,947 | 48,001 | 20,635 | - | 120,583 |
| Other receivables | 70,968 | - | - | - | 70,968 |
| Prepaid expenses | 962 | - | - | - | 962 |
| Total Assets | $ 614,708 | $ 51,328 | $ 298,484 | $ 93,868 | $ 1,058,388 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | $ 50,307 | $ 52,076 | $ 7,891 | $ 4,293 | $ 114,567 |
| Due to other funds | - | 33,908 | 7,972 | 3,986 | 45,866 |
| Deferred revenue | 75,608 | - | - | - | 75,608 |
| Other accrued expenses | 38,681 | - | - | - | 38,681 |
| Total Liabilities | 164,596 | 85,984 | 15,863 | 8,279 | 274,722 |
| Fund balances: | | | | | |
| Reserved for: | | | | | |
| Capital projects | - | - | 282,621 | - | 282,621 |
| Tourism | - | - | - | 6,820 | 6,820 |
| Public safety | - | - | - | 2,651 | 2,651 |
| Cemetery maintenance | - | - | - | 19,225 | 19,225 |
| Unreserved | 450,112 | (34,656) | - | - | 415,456 |
| Unreserved, reported in non-major: | | | | | |
| Special revenue funds | - | - | - | 56,893 | 56,893 |
| Total Fund Balances | 450,112 | (34,656) | 282,621 | 85,589 | 783,666 |
| Total Liabilities and Fund Balances | $ 614,708 | $ 51,328 | $ 298,484 | $ 93,868 | $ 1,058,388 |

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

## CITY OF ELLIJAY, GEORGIA
## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
## TO THE STATEMENT OF NET ASSETS
## December 31, 2010

| | | | |
|---|---|---|---|
| Total fund balance, governmental funds | | | $ 783,666 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | | | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. | | | 4,566,143 |
| Certain other long-term assets, such as deferred taxes, are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. | | | 53,325 |
| Some liabilities, are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. These liabilities include the following: | | | |
| | Capital leases | $ (769,099) | |
| | Compensated absences | (27,169) | |
| | Accrued interest | (6,283) | (802,551) |
| Net Assets of Governmental Activities in the Statement of Net Assets | | | $ 4,600,583 |

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

CITY OF ELLIJAY, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2010

| | General Fund | Capital Projects Fund | SPLOST Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Property taxes | $ 278,608 | $ - | $ - | $ - | $ 278,608 |
| Sales and miscellaneous taxes | 1,048,400 | - | - | 6,617 | 1,055,017 |
| Fines and forfeitures | 157,433 | - | - | - | 157,433 |
| Licenses and permits | 45,483 | - | - | - | 45,483 |
| Intergovernmental | - | 101,001 | 246,070 | 14,200 | 361,271 |
| Charges for services | 212 | - | - | 600 | 812 |
| Investment earnings | 4,751 | 2 | 1,315 | 1,437 | 7,505 |
| Miscellaneous | 13,310 | - | - | 6,168 | 19,478 |
| Total Revenues | 1,548,197 | 101,003 | 247,385 | 29,022 | 1,925,607 |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 397,775 | - | - | 17,038 | 414,813 |
| Public safety | 958,901 | - | - | 18,659 | 977,560 |
| Public works | 103,304 | 200 | - | - | 103,504 |
| Judicial | 10,002 | - | - | 200 | 10,202 |
| Culture and recreation | 3,124 | - | - | - | 3,124 |
| Housing and development | 30,795 | - | - | 11,648 | 42,443 |
| Capital Outlay: | | | | | |
| Public safety | 58,748 | - | - | - | 58,748 |
| Public works | - | 101,000 | 156,047 | - | 257,047 |
| Debt Service: | | | | | |
| Principal | 110,501 | - | - | - | 110,501 |
| Interest | 34,581 | - | - | - | 34,581 |
| Total Expenditures | 1,707,731 | 101,200 | 156,047 | 47,545 | 2,012,523 |
| Excess (Deficiency) of Revenues over Expenditures | (159,534) | (197) | 91,338 | (18,523) | (86,916) |
| Other Financing Sources (Uses): | | | | | |
| Transfers in | 141 | - | - | - | 141 |
| Transfers out | - | (141) | - | - | (141) |
| Total Other Financing Sources and Uses | 141 | (141) | - | - | - |
| Net Change in fund balances | (159,393) | (338) | 91,338 | (18,523) | (86,916) |
| Fund balances - beginning of year, as restated | 609,505 | (34,318) | 191,283 | 104,112 | 870,582 |
| Fund balances - end of year | $ 450,112 | $ (34,656) | $ 282,621 | $ 85,589 | $ 783,666 |

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

# CITY OF ELLIJAY, GEORGIA
## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
## For the Year Ended December 31, 2010

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds: | $ | (86,916) |
| Amounts reported for Governmental Activities in the Statement of Activities are different because: | | |
| Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. | | |
| This is the amount by which capital outlays of $307,000 exceeded depreciation of $245,594 in the current period. | | 61,406 |
| Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. | | (38,856) |
| Governmental funds report capital lease proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of capital leases as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount of capital lease principal payments during the current period. There were no capital lease proceeds. | | 110,501 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds: | | |
| Accrued compensated absenses | | (23,860) |
| Accrued interest | | 2,342 |
| Change in net assets of governmental activities | $ | 24,617 |

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

CITY OF ELLIJAY, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended December 31, 2010

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance with Final Budget Over (Under) |
|---|---|---|---|---|
| *Revenues:* | | | | |
| Property taxes | $ 349,736 | $ 349,736 | $ 278,608 | $ (71,128) |
| Sales and miscellaneous taxes | 1,131,000 | 1,131,000 | 1,048,400 | (82,600) |
| Fines and forfeitures | 171,500 | 171,500 | 157,433 | (14,067) |
| Licenses and permits | 40,000 | 40,000 | 45,483 | 5,483 |
| Charges for services | 10,500 | 10,500 | 212 | (10,288) |
| Investment earnings | 5,000 | 5,000 | 4,751 | (249) |
| Miscellaneous | 1,500 | 1,500 | 13,310 | 11,810 |
| Total Revenues | 1,709,236 | 1,709,236 | 1,548,197 | (161,039) |
| *Expenditures:* | | | | |
| Current: | | | | |
| General government | | | | |
| Legislative | 26,648 | 30,648 | 30,344 | (304) |
| Executive and administrative | 396,117 | 392,617 | 367,431 | (25,186) |
| Judicial | | | | |
| Court | 21,576 | 10,576 | 10,002 | (574) |
| Public safety | | | | |
| Police | 632,674 | 680,574 | 671,504 | (9,070) |
| Fire | 284,023 | 292,977 | 287,397 | (5,580) |
| Public works | | | | |
| Streets and sidewalks | 121,592 | 103,592 | 103,154 | (438) |
| Culture and recreation | | | | |
| Parks | - | 4,000 | 3,124 | (876) |
| Housing and development | | | | |
| Better Hometown | 31,670 | 35,500 | 30,795 | (4,705) |
| Planning and zoning | 45,500 | 1,670 | 150 | (1,520) |
| Capital outlay: | | | | |
| Public safety | | - | | |
| Police | 26,000 | 59,900 | 58,748 | (1,152) |
| Fire | 86,500 | - | - | - |
| Public works | | | | |
| Streets and sidewalks | 29,793 | - | - | - |
| Debt service: | | | | |
| Principal | 41,882 | 110,501 | 110,501 | - |
| Interest and other charges | 11,261 | 34,581 | 34,581 | - |
| Total Expenditures | 1,755,236 | .1,757,136 | 1,707,731 | (49,405) |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | (46,000) | (47,900) | (159,534) | (111,634) |
| Other Financing Sources (Uses) | | | | |
| Transfers In | - | - | 141 | 141 |
| Transfers out | - | - | - | - |
| Use of excess (addition to) fund balance | 46,000 | 47,900 | - | (47,900) |
| Total Other Financing Sources and Uses | 46,000 | 47,900 | 141 | (47,759) |
| Net Change in Fund Balances | - | - | (159,393) | (159,393) |
| Fund Balances, beginning of year, as restated | 609,505 | 609,505 | 609,505 | - |
| Fund Balances, end of year | $ 609,505 | $ 609,505 | $ 450,112 | $ (159,393) |

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

# NOTES TO FINANCIAL STATEMENTS

CITY OF ELLIJAY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

## 1. SUMMARY OF ACCOUNTING POLICIES

The financial statements of the City of 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 December 31, 2010, there are no component units included in the financial statements of the City.

The City of Ellijay Housing Authority is recognized as a related organization of the City in that the City appoints the board members of the Authority. It exists in order to provide housing for low-income individuals that reside in the City limits and meet certain eligibility requirements. Payments in lieu of taxes are made to the City rather than property taxes.

### 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.

The City's funds are grouped into one broad fund and two generic fund types for financial statement presentation purposes. Government funds include the general, special revenue, and capital projects funds.

### C. BASIS OF ACCOUNTING

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements (i.e., the statement of net assets and statement of activities) are prepared using the economic resources measurement focus and the accrual basis of accounting and display information about the reporting government as a whole. The effect of interfund activity has been eliminated from these statements. Transfers between funds reported in the governmental activities column are eliminated. 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 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 and 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 expenses 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, or laws or regulations of 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 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 measurable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within sixty days of year-end and available to pay obligations of the current period). This includes investment earnings, income taxes withheld by employers, estate taxes, fines and forfeitures and state-levied locally shared taxes (including motor vehicle fees). 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.

Property taxes, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property tax receivables are recorded and deferred until they become available. The City considers revenues to be available if they are collected within sixty days of the end of the fiscal year.

Other revenues, including licenses and permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

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. However, principal and interest on debt which has not matured are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

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

The City reports the following major governmental funds:

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

Capital Projects Fund: This fund accounts for the acquisition of fixed assets or construction of major capital projects, such as Streetscape projects and the CDBG sewer line grant and construction.

SPLOST Fund: This fund accounts for the financial resources provided by the 1% Gilmer County Special Purpose Local Option Sales Tax and expenditures for road and street purposes as called for in the referendum.

**D. ENCUMBRANCES**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**E. CASH AND INVESTMENTS**

Cash includes amounts in demand deposits. Statutes authorize the City to invest in U.S. Government obligations, U.S. Government agency obligations, State of Georgia obligations, obligations of other counties, 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 of trust company organized under the laws of any state of the United States of America or any national banking association, repurchase agreements when collateralized by U.S. Government or agency obligations, and pooled investment programs sponsored by the State of Georgia for the investment of local government funds. The City held no investments, other than certificates of deposit, during the current fiscal year.

**F. CAPITAL ASSETS**

All assets over the capitalization threshold of $5,000 with a useful life extending beyond one year are capitalized and depreciated over time using the straight line method. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. General infrastructure assets include all roads and 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 assets' lives are not capitalized.

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

| Asset Class | Estimated Useful Lives |
|---|---|
| Infrastructure | 50 |
| Buildings | 25 |
| Building improvements | 20 |
| Vehicles | 2-15 |
| Office equipment | 3-15 |
| Computer equipment | 3-15 |

### G. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2010 are recorded as prepaid items.

### H. COMPENSATED ABSENCES

All full-time employees accumulate vacation benefits in varying annual amounts. On termination and retirement, employees are paid for unused accumulated vacation up to maximum amounts as set by the Mayor and Council. The City's sick leave policy provides for an accumulation of earned sick leave. Sick leave does not vest for retirement or termination purposes. Unused sick leave may be used for long-term illnesses that may occur.

The liability for compensated absences in the government-wide statements consists of unpaid, accumulated annual vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

### I. DEFERRED REVENUES

Funds collected in advance for licenses are recorded as revenue in the year for which licenses are valid and deferred in the current year. The deferred portion of property taxes is the portion that is not collectible within sixty days of the fiscal year end.

### J. 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

## 2. DEPOSITS

Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than Federal and State government instruments) to be collateralized by depository insurance, obligations of the U.S. Government, or bonds of public authorities, counties or municipalities. As of December 31, 2010, the City had no bank balance that was exposed to custodial credit risk.

## 3. RECEIVABLES

Collection of each year's property taxes by the City is not always completed in the current year. Consequently, current year property taxes receivable are only measurable based on actual collections within sixty days of the fiscal year end at which time the audit is completed. Those current and prior year property taxes that are collected within sixty days of the fiscal year end are susceptible to accrual and therefore are accrued and reflected in revenue. Taxes receivable are shown net of an allowance for doubtful accounts of $21,976. Collections within sixty days of the fiscal year end are recorded as revenue and those receivables, which are not collected within the specified time period, are shown as deferred revenues on the balance sheet when material.

Sanitation fees receivable is included in accounts receivable. No allowance for uncollectible sanitation fees has been calculated due to immateriality.

Fines receivable for the fiscal year ended 2010 totaled $119,164. An allowance for uncollectible fines of $60,268 was established resulting in a net receivable of $58,896 reported on the financial statements.

The City's property tax calendar for both the 2010 real and personal property tax bills was as follows:

| | |
|---|---|
| Levy date | November 15, 2010 |
| Due date | January 20, 2011 |
| Delinquent date | January 21, 2011 |
| Lien date | March 21, 2011 |

## 4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

| | Beginning Balances | Additions | Deletions | Ending Balances |
|---|---|---|---|---|
| Governmental Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 415,068 | $ - | $ - | $ 415,068 |
| Construction in Progress | 133,504 | 140,720 | - | 274,224 |
| Total capital assets not being depreciated | 548,572 | 140,720 | - | 689,292 |
| | | | | |
| Capital assets being depreciated: | | | | |
| Infrastructure | 1,122,922 | 107,900 | - | 1,230,822 |
| Buildings | 2,550,141 | - | - | 2,550,141 |
| Land Improvements | 167,619 | - | - | 167,619 |
| Machinery and equipment | 513,615 | 23,939 | - | 537,554 |
| Vehicles | 944,581 | 34,440 | - | 979,021 |
| Total capital assets being depreciated | 5,298,878 | 166,279 | - | 5,465,157 |
| | | | | |
| Less accumulated depreciation: | | | | |
| | | | | |
| Infrastructure | (198,345) | (64,935) | - | (263,280) |
| Buildings | (239,490) | (50,934) | - | (290,424) |
| Land Improvements | (94,891) | (10,830) | - | (105,721) |
| Machinery and equipment | (345,436) | (31,233) | - | (376,669) |
| Vehicles | (464,550) | (87,662) | - | (552,212) |
| | | | | |
| Total accumulated deprecation | (1,342,712) | (245,594) | - | (1,588,306) |
| | | | | |
| Total capital assets being depreciated, net | 3,956,166 | (79,315) | - | 3,876,851 |
| | | | | |
| Governmental activities capital assets, net | $ 4,504,738 | $ 61,405 | $ - | $ 4,566,143 |

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

| | |
|---|---|
| *Governmental activities:* | |
| General government | $ 21,879 |
| Public safety | 146,977 |
| Public works | 66,823 |
| Culture and recreation | 9,915 |
| Total | $ 245,594 |

## 5. INTERFUND BALANCES AND ACTIVITY

### A. INTERFUND RECEIVABLES/PAYABLES

Balances due to/from other funds at December 31, 2010 consist of the following:

| | |
|---|---|
| $ 33,908 | Due from the Capital Projects Fund to the General Fund for operating expenditures |
| 7,972 | Due from the SPLOST Fund to the General Fund for allocation of payroll expenditures |
| 3,986 | Due from nonmajor fund to the General Fund for operating expenditures |
| $ 45,866 | |

Interfund balances are expected to be repaid within one year from the date of the financial statements.

### B. TRANSFERS TO/FROM OTHER FUNDS

Transfers to/from other funds consist of the following at December 31, 2010:

| | |
|---|---|
| $ 141 | Transfer from the Capital Projects Fund to the General Fund for operating expenditures |

## 6. INTERGOVERNMENTAL RECEIVABLES

Balances due from other governments include the following:

| | |
|---|---|
| General Fund | |
| Georgia Department of Revenue | $ 51,947 |
| Capital Projects Fund | |
| Georgia Department of Community Affairs | $ 48,001 |
| SPLOST Fund | |
| Gilmer County government | $ 20,635 |

## 7. DEFICIT FUND BALANCE

The Capital Projects Fund had a deficit fund balance of $34,656 at December 31, 2010. The City expects to generate future revenues to offset these deficits. The City's General Fund has an adequate surplus to provide for the deficit fund balances in the event that sufficient revenues cannot be generated.

## 8. CHANGES IN LONG TERM DEBT

The City has entered into capital leases for the purchase of fixed assets. The following is a summary of capital leases for governmental-type activities at December 31, 2010:

| | |
|---|---|
| Municipal Asset Management, fire truck lease payable in annual installments of $53,143, including interest at 4.05%. Original balance of $429,993, matures June 2015. | $ 236,260 |
| United Community Bank, fire station lease payable in monthly installments of $7,662, including interest at 4.19%. Original balance of $750,000, matures December, 2017. | 532,839 |
| | $ 769,099 |

Future minimum payments under these capital leases consisted of the following at December 31, 2010:

| | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 114,534 | $ 30,548 | $ 145,082 |
| 2012 | 119,328 | 25,754 | 145,082 |
| 2013 | 124,321 | 20,761 | 145,082 |
| 2014 | 129,524 | 15,558 | 145,082 |
| 2015 -2017 | 281,392 | 15,557 | 296,949 |
| | $ 769,099 | $ 108,178 | $ 877,277 |

The following total represents capital assets purchased with the above capital leases and the related accumulated depreciation:

| | Asset | Accumulated Depreciation | Net Book Value |
|---|---|---|---|
| Fire station building | $ 1,718,212 | $ 103,093 | $ 1,615,119 |
| Fire truck | 434,123 | 171,840 | 262,283 |
| | $ 2,152,335 | $ 274,933 | $ 1,877,402 |

The following represents the changes in long-term debt from the previous year:

| Governmental Activities: | Beginning Balance (as restated) | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Capital leases | $ 879,600 | $ - | $ 110,501 | $ 769,099 | $ 114,534 |
| Compensated absences | 3,309 | 23,860 | - | 27,169 | - |
| | $ 882,909 | $ 23,860 | $ 110,501 | $ 796,268 | $ 114,534 |

Compensated absences are generally liquidated by the general fund and are therefore included in the above schedule.

## 9. HOTEL/MOTEL LODGING TAX

The City has levied a 5% lodging tax. During the year ended December 31, 2010, the City collected a total of $6,787. The code section of state law requires that the City expend an amount equal to 40% to promote tourism. For the year ended December 31, 2010, the City expended $3,588, or approximately 53%, for the required purpose of tourism and therefore, was in compliance with the provisions of Section 48-13-51 of the Official Code of Georgia. Note that the totals reflect the cash activity of the tax collected and expended, which excludes any accrued collections and expenditures at the end of the fiscal year.

## 10. DEFINED BENEFIT PENSION PLAN

*Plan Description.* The City's defined benefit pension plan, the City of Ellijay Retirement Plan (the "Plan"), provides retirement disability, and death benefits to plan members and beneficiaries. The Plan 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 the authority to establish and amend the benefit provisions of the participating plans to the respective employer entities; for the Plan, the authority rests with the City. GMEBS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Georgia Municipal Association, Employee Benefit Section, 201 Pryor Street, SW, Atlanta, GA 30303-3606, or calling (404) 688-0472.

*Funding Policy.* The City is required to contribute at an actuarially determined rate. Due to the change in plan year from January 1st to July 1st, the contributions made to the plan during the reestablishment period were not recalculated but where contributed at the same amount as was determined as of the January 1, 2009 valuation or 6.98% of annual covered payroll. The most current valuation date of the plan was July 1, 2010 which reflects that the required contribution current rate of 5.59% of annual covered payroll which will begin with the fiscal year starting July 1, 2010. Participating employees become eligible after the first full calendar year of employment and become vested in the plan after five years of service. Employees may not contribute to this plan. The City's contributions to the plan totaled $39,195. The contribution requirements of the City are established and may be amended by the GMEBS Board of Trustees.

*Plan Membership*
At July 1, 2010, the most recent date of actuarial valuation, plan membership consisted of:

| | |
|---|---|
| Disabled employees, retirees, and beneficiaries currently receiving benefits | 11 |
| Terminated employees entitled to benefits but not yet receiving benefits | 12 |
| Active plan members | 21 |
| Total participants | 44 |

*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. Due to the change in the plan's fiscal year beginning date from January 1 to July 1, the City's recommended contribution was not recalculated by the actuary during the reestablishment period but were made as determined by the January 1, 2009 actuarial valuation. The chart below shows the annual pension cost for the current year and the prior two years along with the percentage actually contributed by the City.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**
(Unaudited)

| Fiscal Period Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| December 31, 2010 | $39,195 | 100% | $ - |
| December 31, 2009 | $39,195 | 100% | $ - |
| December 31, 2008 | $29,526 | 100% | $ - |

As of the most recent valuation date, July 1, 2010, the funded status of the Plan was as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded/ (Surplus) AAL (UAAL) (b) – (a) | Funded Ratio (a)/(b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b) – (a)] / (c) |
|---|---|---|---|---|---|---|
| 7/1/2010 | $ 588,594 | $ 570,172 | $ (18,422) | 103.23 % | $ 480,808 | 0.00 % |

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear 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 July 1, 2010.

The assumptions used in the July 1, 2010 actuarial valuation are as follows:

| | |
|---|---|
| Actuarial Cost Method | Projected Unit Credit |
| Actuarial 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 the end of the year. The actuarial value is adjusted to be within 44% of market value for 2010. |
| Assumed Rate of Return on Investments | 7.75% on-going basis |
| Projected Salary Increases | 3.5% plus age and service based on merit increases |
| Cost-of-Living Adjustment | 0.00% |
| Amortization Method | Closed level dollar for remaining unfunded liability |
| Remaining Amortization Period | N/A |

## 11. LEGAL COMPLIANCE - BUDGETS

The applicable statutes of the State of Georgia require the City to operate under an annual balanced budget adopted by resolution. A budget is defined as being balanced when the sum of estimated net revenues and appropriated fund balance is equal to appropriations. Each fund's appropriated budget is prepared on a detailed line-item basis with revenues being budgeted by source and expenditures being budgeted by line-item. The legal level of control for the City's budget is at the departmental level. Budget revisions at this level are subject to final review by the Mayor and City Council.

Annual budgets were adopted for the General Fund only and on a basis consistent with generally accepted accounting principles and on the same basis of accounting used by the fund to which the budget applies. All appropriations lapse at year end.

## 12. RISK MANAGEMENT

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

*Risk Pools*

The City has insurance coverage with a local agency. Insurance coverage and deductible options for property, casualty and crime under the policy are selected by the City's management based on the anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed 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 establishing 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 that the City is liable (up to the applicable deductible) which were outstanding and unpaid at December 31, 2010. No provisions have been made in the financial statements for the year ended December 31, 2010 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 (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 determined on the basis of actuarial projections of losses. With payment of the City's annual contribution, the City has effectively transferred the risk and responsibility for payment of its workers' compensation claims. However, the enabling statute creating the GMAWCSIF permits the fund to levy an assessment upon its members to make up any deficiency the fund may have in surplus reserves. No amount has been recorded in the financial statements for this contingency, as management believes the likelihood for assessment is remote. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

There were 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.

## 13. JOINT VENTURE

The City, in conjunction with cities and counties in the fifteen (15) county Northwest Georgia area are members of the Northwest Georgia Regional Commission (NWGRC), formerly known as the North Georgia Regional Development Center, which merged with Coosa Valley Regional Development Center in 2009 as mandated by State law. Membership in a 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) provides for the organizational structure of regional development centers and was amended in 2008 to consolidate the existing centers into organizations called Regional Commissions (RCs). Each county and municipality in the State is required by law to pay minimum annual dues to the RC. The City paid their annual dues to the NWGRC for the year ended December 31, 2010. The RC Board membership includes 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.

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RDCs (later transferred to RCs) "public agencies and instrumentalities of their members". Georgia laws also provide that the member governments are liable for any debts or obligations of an RC beyond its resources, (O.C.G.A. 50-8-39.1).

Complete financial statements of the NWGRC can be obtained directly from their office at the following address:

Northwest Georgia Regional Commission
503 West Waugh Street
Dalton, GA 30720

## 14. COMMITMENTS AND CONTINGENT LIABILITIES

There are no suits pending on unasserted claims that would result in material liabilities to the City. 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 December 31, 2010.

## 15. PRIOR PERIOD ADJUSTMENT

The City has determined that a restatement is required to adjust amounts of revenue accrued as local option sales tax and the accrual of wages payable, which resulted in an overstatement of fund balance in the prior period. The following adjustment was needed to correct the fund balance as of December 31, 2009:

*General Fund*

| | |
|---|---|
| Fund balance, December 31, 2009, as originally reported | $ 670,424 |
| Adjustment to increase accrued wages | (11,498) |
| Adjustment to reduce overstated revenue for LOST | (49,421) |
| Fund balance, December 31, 2009, restated | $ 609,505 |

*SPLOST 2009 Fund*

| | |
|---|---|
| Fund balance, December 31, 2009, as originally reported | $ 210,915 |
| Adjustment to reduce overstated revenue for SPLOST | (19,632) |
| Fund balance, December 31, 2009, as restated | $ 191,283 |

*Multiple Grant Fund*

| | |
|---|---|
| Fund balance, December 31, 2009, as originally reported | $ (4,240) |
| Adjustment to increase grant revenue earned | 13,692 |
| Fund balance, December 31, 2009, as restated | $ 9,452 |

The prior period adjustment also impacted the previously reported balance of net assets of the governmental activities as follows:

| | |
|---|---|
| Net assets, December 31, 2009, as originally reported | $ 4,642,825 |
| Adjustment to increase accrued wages | (11,498) |
| Adjustment to reduce overstated revenue for LOST | (49,421) |
| Adjustment to reduce overstated revenue for SPLOST | (19,632) |
| Adjustment to increase grant revenue earned | 13,692 |
| Net assets, December 31, 2009, as restated | $ 4,575,966 |

# REQUIRED SUPPLEMENTARY INFORMATION

## CITY OF ELLIJAY, GEORGIA
## SCHEDULE OF FUNDING PROGRESS FOR THE
## CITY OF ELLIJAY RETIREMENT PLAN
## For the Year Ended December 31, 2010

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded/ (Surplus) AAL (UAAL) (b) - (a) | Funded Ratio (a)/(b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c) |
|---|---|---|---|---|---|---|
| 07/01/10 | $ 588,594 | $ 570,172 | $ (18,422) | 103.23% | $ 480,808 | 0.00% |
| 01/01/09 | $ 431,423 | $ 535,645 | $ 104,222 | 80.54% | $ 561,606 | 18.56% |
| 01/01/08 | $ 511,788 | $ 494,159 | $ (17,629) | 103.57% | $ 561,108 | 0.00% |

Note: See assumptions used for these schedules disclosed in the notes to financial statements.

# OTHER SUPPLEMENTARY INFORMATION

CITY OF ELLIJAY, GEORGIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2010

| | Special Revenue Funds | | | | | |
|---|---|---|---|---|---|---|
| | Multiple Grant Fund | Better Hometown Fund | Confiscated Assets | Cemetery Fund | Hotel/Motel Fund | Total |
| Assets | | | | | | |
| Cash | $ 7,839 | $ 6,820 | $ 2,700 | $ 10,310 | $ 52,882 | $ 80,551 |
| Certificates of deposit | - | - | - | 12,901 | - | 12,901 |
| Due from other funds | - | - | - | - | - | - |
| Taxes receivable | - | - | - | - | 416 | 416 |
| Total Assets | $ 7,839 | $ 6,820 | $ 2,700 | $ 23,211 | $ 53,298 | $ 93,868 |
| Liabilities and Fund Balances | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | $ 1,843 | $ - | $ 49 | $ - | $ 2,401 | $ 4,293 |
| Due to other funds | - | - | - | 3,986 | - | 3,986 |
| Total Liabilities | 1,843 | - | 49 | 3,986 | 2,401 | 8,279 |
| Fund balances: | | | | | | |
| Reserved for: | | | | | | |
| Tourism | - | 6,820 | - | - | - | 6,820 |
| Public safety | - | - | 2,651 | - | - | 2,651 |
| Cemetery maintenance | - | - | - | 19,225 | - | 19,225 |
| Unreserved | 5,996 | - | - | - | 50,897 | 56,893 |
| Total Fund Balances | 5,996 | 6,820 | 2,651 | 19,225 | 50,897 | 85,589 |
| Total Liabilities and Fund Balances | $ 7,839 | $ 6,820 | $ 2,700 | $ 23,211 | $ 53,298 | $ 93,868 |

CITY OF ELLIJAY, GEORGIA
COMBINING STATEMENT OF OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2010

| | Special Revenue Funds | | | | | |
|---|---|---|---|---|---|---|
| | Multiple Grant Fund | Better Hometown Fund | Confiscated Assets | Cemetery Fund | Hotel/Motel Fund | Total |
| Revenues: | | | | | | |
| Selective sales taxes | $ - | $ - | $ - | $ - | $ 6,617 | $ 6,617 |
| Intergovernmental | 14,200 | - | - | - | - | 14,200 |
| Charges for services | - | - | - | 600 | - | 600 |
| Investment earnings | 332 | 30 | 122 | 201 | 752 | 1,437 |
| Miscellaneous | - | 5,700 | 468 | - | - | 6,168 |
| Total Revenues | 14,532 | 5,730 | 590 | 801 | 7,369 | 29,022 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General government | - | - | - | 17,038 | - | 17,038 |
| Judicial | 200 | - | - | - | - | 200 |
| Public safety | 17,788 | - | 871 | - | - | 18,659 |
| Housing and development | - | 9,247 | - | - | 2,401 | 11,648 |
| Total Expenditures | 17,988 | 9,247 | 871 | 17,038 | 2,401 | 47,545 |
| Excess (deficiency) of Revenues over Expenditures Before Other Financing Sources (Uses) | (3,456) | (3,517) | (281) | (16,237) | 4,968 | (18,523) |
| Other Financing Sources (Uses) | | | | | | |
| Transfers in | - | - | - | - | - | - |
| Transfers out | - | - | - | - | - | - |
| Total Other Financing Sources (Uses) | - | - | - | - | - | - |
| Net change in fund balances | (3,456) | (3,517) | (281) | (16,237) | 4,968 | (18,523) |
| Fund Balances - beginning of year, as restated | 9,452 | 10,337 | 2,932 | 35,462 | 45,929 | 104,112 |
| Fund Balances - end of year | $ 5,996 | $ 6,820 | $ 2,651 | $ 19,225 | $ 50,897 | $ 85,589 |

CITY OF ELLIJAY, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
For the Year Ended December 31, 2010

| PROJECT | Estimated Cost | | Expenditures | | | Estimated % of Completion |
|---|---|---|---|---|---|---|
| | Original | Current | Prior Years | Current Year | Total | |
| SPLOST 2009 | | | | | | |
| Road, street and bridge purposes, which purposes may include sidewalks and bicycle paths | $ 2,355,500 | $ 2,355,500 | $ 121,557 | $ 156,047 | 277,604 | 12% |

**Note A:** **Basis of Accounting** ---This schedule has been prepared on the modified accrual basis of accounting.

# INTERNAL CONTROL AND COMPLIANCE

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Georgia Society of
Certified Public Accountants


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

To the Honorable Al Hoyle, Mayor
and Members of City Council
City of Ellijay, Georgia

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Ellijay, Georgia, as of and for the year ended December 31, 2010, which collectively comprise the City of Ellijay, Georgia's basic financial statements and have issued our report thereon dated June 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting referenced at 2009-1 and 2008-1. 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. We also consider items 2009-1 and 2008-1 to be material weaknesses as described above.

Compliance and Other Matters

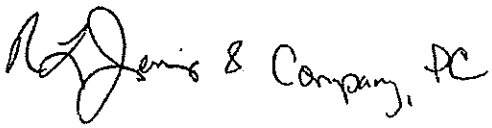
As part of obtaining reasonable assurance about whether City of Ellijay, Georgia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and 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 one instance of noncompliance or other

matters that are required to be reported under *Government Auditing Standards* as described in the accompanying Schedule of Findings and Responses at item 2009-2.

We noted certain matters that we reported to management of City of Ellijay, Georgia, in a separate letter dated June 30, 2011.

City of Ellijay, Georgia's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit City of Ellijay, Georgia's response and, accordingly, we express no opinion on it.

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.



Ellijay, Georgia
June 30, 2011

***Repeat finding from prior years:***

**2008-1 Segregation of Duties**

*Criteria:* Segregation of employees' duties is a common practice in an effective internal control structure. Policies should be in place requiring the segregation of duties involving cash receipts, cash disbursements, payroll, general ledger and bank reconciliation.

*Condition/Context*: During the course of the audit, we noted that duties are not segregated as to prevent employees from being placed in a position to have absolute control over functions of cash receipts, disbursements, general ledger and similar duties.

*Effect*: Without segregation of duties within these functions, there is increased exposure that someone could intentionally or unintentionally misappropriate the City's assets.

*Cause:* The limited number of employees at City Hall and the resulting overlapping of duties cause segregation of duties to be difficult.

*Recommendation:* To the extent possible, duties should be segregated to maintain the best control system possible. We feel segregation of duties could be improved if different employees performed the separate duties of processing cash receipts and cash disbursements, and maintaining the general ledger. In situations where additional personnel are not available, an effort should be made to divide the duties of the available personnel in such a manner as to achieve the greatest possible segregation of duties. Increased Council involvement in the City's finances is also encouraged to strengthen internal controls. When these suggestions are implemented, the City's system of internal control will be enhanced, so that the risk of employee misappropriation of assets is reduced.

*Response:* The lack of segregation of duties is a recurring item that due to the limited number of employees is difficult to accomplish. Management plans to continue close involvement with the City's finances to aid in this matter.

**2009-1 General Ledger Maintenance**

*Criteria:* The City is responsible for preparing annual financial statements in accordance with generally accepted accounting principles (GAAP). Recording transactions on an accrual basis (or where applicable, the modified accrual basis) is in accordance with GAAP and provides more meaningful financial information.

*Condition/Context*: Although the year-end financial statements are prepared on the appropriate accrual basis (modified accrual basis, where applicable), the City maintains its general ledger on a cash basis throughout the year. The City has relied on the external auditors in the past to provide the information for certain accrual entries, including taxes receivable, intergovernmental receivables, accounts receivable (billed and unbilled), accounts payable, accrued expenses, and deferred revenues.

*Effect:* Failure to record accruals of revenue and expenditures (expenses) distorts the financial information that is provided to management and the City Council, and may lead to critical financial decisions being made on erroneous data.

*Cause:* There is no routine preparation or reconcilement of detailed account balances for the accrual adjusting entries in order to post to the appropriate general ledger accounts.

*Recommendation:* We realize that the procedure of maintaining the City's general ledger on the accrual/modified accrual basis throughout the year can be a time consuming task. Therefore, we suggest that the City implement a procedure in which books are kept on a cash basis, and accrual adjustments are made prior to year-end. Interim financial information could then be maintained on the cash basis to simplify the monthly reporting procedures. This practice would enable the City to enjoy the best features of both methods: properly adjusted accrual financial reporting for year-end accounting, and more easily produced interim financial statements for monthly reporting to the City Council.

*Response:* The City agrees with this finding and will implement the recording of accrual adjustments into the City's accounts at year-end.

**2009-2 Budget Preparation**

*Criteria:* The City is responsible for adopting an annual balanced budget for each special revenue fund in accordance with Official Code of Georgia section 36-81-3.

*Condition/Context*: The City should have adopted annual balanced budgets for the Multiple Grant Fund, Better Hometown Fund, Confiscated Assets Fund, Cemetery Fund and the Hotel Motel Fund in order to comply with State statutes.

*Effect:* The absence of adopted annual budgets for special revenue funds results in non-compliance with State law. In addition, the budgetary process is a management tool that is helpful in tracking revenues and expenditures and providing a basis for analysis of actual results to management's expectations.

*Cause:* Although the City adopted annual balanced budgets for the General Fund and the SPLOST Fund, due to limited activity in special revenue funds, budgets for these funds were not prepared.

*Recommendation:* In order to comply with State law and to better manage revenues and expenditures in each fund, we recommend that management prepared annual balanced budgets for all special revenue funds through the established budgetary process.

*Response:* The City agrees with this finding and will adopt annual balanced budgets for each special revenue fund in the future.