CITY OF ELLIJAY, GEORGIA

FINANCIAL REPORT

For the Year Ended December 31, 2011

CITY OF ELLIJAY, GEORGIA
TABLE OF CONTENTS
December 31, 2011

	PAGE
FINANCIAL SECTION	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-5
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	6
Statement of Activities	7
Fund Financial Statements:	
Balance Sheet – Governmental Funds	8
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	9
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	11
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	12
Notes to Financial Statements	13-24
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Funding Progress for the City of Ellijay Retirement Plan	25
OTHER SUPPLEMENTARY INFORMATION:	
Combining Balance Sheet – Nonmajor Governmental Funds	26
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	27
Schedule of Projects Constructed with Special Purpose Local Option Sales Tax	28
INTERNAL CONTROL AND COMPLIANCE SECTION	
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*	29-30
Schedule of Findings and Responses	31-32

*****

FINANCIAL SECTION

RL Jennings & Company, PC

Accountants & Consultants

142 River Terrace
PO Box 2683
Ellijay, GA 30540
706-276-3700
Fax 706-276-3710

Member of
American Institute of
Certified Public Accountants
Georgia Society of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and Members
of the City Council of
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, 2011, 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.

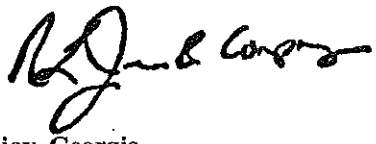
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2011, 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 18, 2012, 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 25 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 18, 2012

USING THE AUDIT FOR 2011

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 2011 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, 2010 and 2011.

Table 1: Condensed Statement of Net Assets

	Governmental Activities 2010	Governmental Activities 2011	Changes
Assets			
Current and other assets	$ 1,012,522	$ 743,767	$ (268,755)
Capital assets	4,566,143	4,837,032	270,889
Total Assets	$ 5,578,665	$ 5,580,799	$ 2,134
Liabilities			
Other liabilities	$ 181,814	$ 163,045	$ (18,769)
Long-term liabilities	796,268	669,333	(126,935)
Total Liabilities	978,082	832,378	(145,704)
Net Assets			
Invested in capital assets, net of related debt	3,797,044	4,182,056	385,012
Restricted	311,317	137,120	(174,197)
Unrestricted	492,222	429,245	(62,977)
Total Net Assets	4,600,583	4,748,421	147,838
Total Liabilities and Net Assets	$ 5,578,665	$ 5,580,799	$ 2,134

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, 2010 and 2011. 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 2010	Governmental Activities 2011	Changes
Revenues:			
Program revenues:			
Charges for services	$ 206,366	$ 242,114	$ 35,748
Capital grants & contributions	348,386	519,625	171,239
Operating grants & contributions	14,200	-	(14,200)
General revenues:			
Property taxes	239,752	304,223	64,471
Sales taxes	692,907	698,150	5,243
Other revenues and taxes	385,140	365,207	(19,933)
Total Revenues	1,886,751	2,129,319	242,568
Expenses:			
General government	439,388	444,497	5,109
Public safety	1,146,169	1,055,801	(90,368)
Public works	178,654	378,255	199,601
Culture and recreation	13,039	15,258	2,219
Judicial	10,202	11,974	1,772
Housing and development	42,443	61,920	19,477
Interest on long-term debt	32,239	29,902	(2,337)
Total Expenses	1,862,134	1,997,607	135,473
Change in net assets	24,617	131,712	107,095
Beginning net assets	4,642,825	4,600,583	(42,242)
Prior Period Adjustment	(66,859)	16,126	82,985
Ending net assets	$ 4,600,583	$ 4,748,421	$ 147,838

During the year ending December 31, 2011 the net assets of the government activities increased $147,838.

Approximately 14% of the City's revenues came from property taxes and approximately 50% 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 19% related to public works, 53% related to public safety, and 23% 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 $552,458 with $398,190 reported as unassigned fund balance and the remaining amount of $154,268 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 $416,086, of which is $17,148 is nonspendable due to reserve for prepaid items. As a measure of the General Fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Fund balance represents 25% of total General Fund expenditures. The net change in the General Fund's fund balance for the year ended December 31, 2011 was a decrease of $50,152. The primary reason for the decrease in the fund balance was due to the forgiveness of an interfund loan made to a capital projects in a previous year.

GENERAL FUND BUDGETARY HIGHLIGHTS

During 2011, the City adopted a budget of $1,707,000 in revenues and $1,707,000 in expenditures. There was one budget revision for year 2011. Actual operating revenues of the General Fund fell short by $560, while actual operating expenditures were less than anticipated amounts by $1,408.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

At December 31, 2011, the City reported $4,837,032 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, 2011, the City reported long-term debt of $669,333. This debt consists primarily of 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

CITY OF ELLIJAY, GEORGIA
STATEMENT OF NET ASSETS
December 31, 2011

	Governmental Activities
Assets	
Cash	$ 279,328
Certificates of deposit	82,886
Receivables	213,600
Due from other governments	150,805
Other assets	17,148
Capital assets:	
Nondepreciable capital assets	983,070
Depreciable capital assets, net	3,853,962
Total Assets	$ 5,580,799
Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued expenses	$ 141,715
Deferred revenues	21,330
Long-term liabilities:	
Due within one year	119,328
Due in more than one year	550,005
Total Liabilities	832,378
Net Assets:	
Invested in capital assets, net of related debt	4,182,056
Restricted for:	
Capital projects	115,679
Tourism and community development	5,713
Public safety	2,935
Cemetary maintenance	12,793
Unrestricted	429,245
Total Net Assets	4,748,421
Total Liabilities and Net Assets	$ 5,580,799

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, 2011

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	$ 444,497	$ 45,037	$ -	$ -	$ (399,460)
Judicial	11,974	-	-	-	(11,974)
Public safety	1,055,801	184,651	-	-	(871,150)
Public works	378,255	-	-	519,625	141,370
Culture and recreation	15,258	8,501	-	-	(6,757)
Housing and development	61,920	3,925	-	-	(57,995)
Interest on long-term debt	29,902	-	-	-	(29,902)
Total Governmental Activities	$ 1,997,607	$ 242,114	$ -	$ 519,625	(1,235,868)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					304,223
Franchise taxes					268,566
Business taxes					92,226
Sales taxes					698,150
Unrestricted investment earnings					1,718
Miscellaneous					2,697
Total general revenues					1,367,580
Change in net assets					131,712
Net assets - beginning of year, as restated					4,616,709
Net assets - end of year					$ 4,748,421

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

CITY OF ELLIJAY, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2011

	General Fund	Capital Projects Fund	SPLOST Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash	$ 131,437	$ 3,232	$ 117,375	$ 27,284	$ 279,328
Certificates of deposit	80,050	-	-	2,836	82,886
Taxes receivable, net	164,497	-	-	338	164,835
Due from other funds	28,058	-	-	-	28,058
Due from other governments	57,299	70,745	22,761	-	150,805
Other receivables	48,765	-	-	-	48,765
Prepaid expenses	17,148	-	-	-	17,148
Total Assets	$ 527,254	$ 73,977	$ 140,136	$ 30,458	$ 771,825
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 18,460	$ 74,725	$ 1,191	$ 4,225	$ 98,601
Due to other funds	-	-	23,266	4,792	28,058
Deferred revenue	54,820	-	-	-	54,820
Other accrued expenses	37,888	-	-	-	37,888
Total Liabilities	111,168	74,725	24,457	9,017	219,367
Fund balances:					
Nonspendable	17,148	-	-	-	17,148
Restricted	-	-	115,679	3,127	118,806
Assigned	-	-	-	18,314	18,314
Unassigned	398,938	(748)	-	-	398,190
Total Fund Balances (Deficit)	416,086	(748)	115,679	21,441	552,458
Total Liabilities and Fund Balances	$ 527,254	$ 73,977	$ 140,136	$ 30,458	$ 771,825

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, 2011

Total fund balance, governmental funds			$ 552,458
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.			4,837,032
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.			33,490
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	$ (654,976)	
	Compensated absences	(14,357)	
	Accrued interest	(5,226)	(674,559)
Net Assets of Governmental Activities in the Statement of Net Assets			$ 4,748,421

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, 2011

	General Fund	Capital Projects Fund	SPLOST Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	$ 324,058	$ -	$ -	$ -	$ 324,058
General and selective sales tax	623,073	-	-	5,892	628,965
Franchise taxes	268,566	-	-	-	268,566
Insurance premium taxes	75,938	-	-	-	75,938
Alcohol beverage taxes	69,185	-	-	-	69,185
Financial institution taxes	16,288	-	-	-	16,288
Fines and forfeitures	180,679	-	-	3,712	184,391
Licenses and permits	48,542	-	-	-	48,542
Intergovernmental	-	271,744	247,458	-	519,202
Charges for services	680	-	-	8,501	9,181
Investment earnings	1,334	-	423	384	2,141
Miscellaneous	2,097	-	-	600	2,697
Total Revenues	1,610,440	271,744	247,881	19,089	2,149,154
Expenditures:					
Current:					
General government	423,216	-	-	-	423,216
Public safety	909,017	-	-	9,449	918,466
Public works	119,931	-	-	7,141	127,072
Judicial	11,974	-	-	-	11,974
Culture and recreation	5,342	-	-	-	5,342
Housing and development	39,965	-	-	21,647	61,612
Capital Outlay:					
Public safety	17,157	-	-	-	17,157
Public works	-	271,744	414,823	-	686,567
Debt Service:					
Principal	114,122	-	-	-	114,122
Interest	30,960	-	-	-	30,960
Total Expenditures	1,671,684	271,744	414,823	38,237	2,396,488
Excess (Deficiency) of Revenues over Expenditures	(61,244)	-	(166,942)	(19,148)	(247,334)
Other Financing Sources (Uscs):					
Transfers in	45,000	33,908	-	-	78,908
Transfers out	(33,908)	-	-	(45,000)	(78,908)
Total Other Financing Sources and Uses	11,092	33,908	-	(45,000)	-
Net Change in fund balances	(50,152)	33,908	(166,942)	(64,148)	(247,334)
Fund balances - beginning of year, as restated	466,238	(34,656)	282,621	85,589	799,792
Fund balances - end of year	$ 416,086	$ (748)	$ 115,679	$ 21,441	$ 552,458

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, 2011

Net change in fund balances - total governmental funds:	$	(247,334)
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 $531,528 exceeded depreciation of $260,639 in the current period.		270,889
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.		(19,836)
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.		114,123
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 absences		12,812
Accrued interest		1,058
Change in net assets of governmental activities	$	131,712

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, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Property taxes	$ 288,263	$ 325,000	$ 324,058	$ (942)
Sales and miscellaneous taxes	1,080,825	1,054,000	1,053,050	(950)
Fines and forfeitures	157,000	180,000	180,679	679
Licenses and permits	39,200	48,000	48,542	542
Charges for services	1,500	1,000	680	(320)
Investment earnings	5,000	1,000	1,334	334
Miscellaneous	500	2,000	2,097	97
Total Revenues	1,572,288	1,611,000	1,610,440	(560)
Expenditures:				
General government				
Legislative	26,648	30,500	30,048	(452)
Executive and administrative	394,444	393,500	393,168	(332)
Judicial				
Court	16,147	12,000	11,974	(26)
Public safety				
Police	637,625	664,500	664,284	(216)
Fire	443,209	407,000	406,972	(28)
Public works				
Streets and sidewalks	108,915	120,000	119,931	(69)
Culture and recreation				
Parks	6,500	5,400	5,342	(58)
Housing and development				
Better Hometown	37,800	40,000	39,965	(35)
Planning and zoning	-	-	-	-
Total Expenditures	1,671,288	1,672,900	1,671,684	(1,216)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(99,000)	(61,900)	(61,244)	656
Other Financing Sources (Uses)				
Transfers in	100,500	96,000	45,000	(51,000)
Transfers out	-	(34,100)	(33,908)	192
Total Other Financing Sources and Uses	100,500	61,900	11,092	(50,808)
Net Change in Fund Balances	1,500	-	(50,152)	(50,152)
Fund Balances, beginning of year, as restated	466,238	466,238	466,238	-
Fund Balances, end of year	$ 467,738	$ 466,238	$ 416,086	$ (50,152)

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

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, 2011, 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 type and three generic fund types for financial statement presentation purposes. Governmental 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.

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	20 - 50
Buildings	25 - 50
Land improvements	15 – 30
Machinery and Equipment	5 – 20
Vehicles	5 - 12

G. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2011 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. 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 restrictions imposed by creditors grantors, or laws or regulations of other governments.
- *Assigned* – Fund balances are reported as assigned when intended to be used by the government for specific purposes, but are neither restricted nor commited. The City has authorized the city manager or finance director to assign fund balances.
- *Unassigned* – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all 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. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order:

- *Assigned*
- *Unassigned*

Net Assets – Net assets represents the difference between assets and liabilities. Net assets invested in capital assets net of related debt, consists of capital assets net of accumulated depreciation, reduced by the outstanding balances of any 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.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

K. 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, 2011, the City had no bank balances that were 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 $21,045. 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 2011 totaled $109,399. An allowance for uncollectible fines of $60,634 was established resulting in a net receivable of $48,765 as reported on the financial statements.

The City's property tax calendar for both the 2011 real and personal property tax bills was as follows:

Levy date	November 30, 2011
Due date	January 30, 2012
Delinquent date	February 1, 2012
Lien date	Not yet determined

(The remainder of this page has been intentionally left blank).

4. CAPITAL ASSETS

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

	Beginning Balances	Additions	Deletions	Ending Balances
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 415,068	$ -	$ -	$ 415,068
Construction in Progress	274,224	293,778		568,002
Total capital assets not being depreciated	689,292	293,778		983,070
Capital assets being depreciated:				
Infrastructure	1,230,822	220,593	-	1,451,415
Buildings	2,550,141	-	-	2,550,141
Land Improvements	167,619	-	-	167,619
Machinery and equipment	537,554	-	-	537,554
Vehicles	979,021	17,157	-	996,178
Total capital assets being depreciated	5,465,157	237,750	-	5,702,907
Less accumulated depreciation:				
Infrastructure	(263,280)	(76,662)	-	(339,942)
Buildings	(290,424)	(50,934)	-	(341,358)
Land Improvements	(105,721)	(10,831)	-	(116,552)
Machinery and equipment	(376,669)	(34,443)	-	(411,112)
Vehicles	(552,212)	(87,769)	-	(639,981)
Total accumulated deprecation	(1,588,306)	(260,639)	-	(1,848,945)
Total capital assets being depreciated, net	3,876,851	(22,889)	-	3,853,962
Governmental activities capital assets, net	$ 4,566,143	$ 270,889	$ -	$ 4,837,032

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

Governmental activities:	
General government	$ 21,591
Public safety	150,416
Public works	78,716
Culture and recreation	9,916
Total	$ 260,639

(The remainder of this page has been intentionally left blank).

5. INTERFUND BALANCES AND ACTIVITY

Interfund Receivables/Payables
Balances due to/from other funds at December 31, 2011 consist of the following:

$ 23,266	Due from the SPLOST Fund for allocation of payroll expenditures.
4,792	Due from nonmajor funds to the General Fund for operating expenditures and allocation of payroll expenditures.
$ 28,058	

Transfers To/From Other Funds
Transfers to/from other funds consist of the following at December 31, 2011:

$ 45,000	Transfer from nonmajor fund to the General Fund for operating expenditures.
33,908	Transfer from General Fund to Capital Projects Fund for foregiveness of previous years project costs initially recorded as an interfund loan.
$ 78,908	

The outstanding balances between funds primarily result from the time lag between dates that (1) interfund reimbursable expenditures occur and (2) payments between funds are made. All interfund balances are expected to be repaid within one year from the date of the financial statements.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) provide unrestricted revenues collected in the General Fun to finance various programs accounted for in other funds in accordance with budgetary authorizations.

6. INTERGOVERNMENTAL RECEIVABLES

Balances due from other governments include the following:

General Fund	
Georgia Department of Revenue (LOST)	$ 57,299
Capital Projects Fund	
Georgia Department of Community Affairs	$ 70,745
SPLOST Fund	
Gilmer County government	$ 22,761

7. FUND EQUITY

Components of Fund Equity in the Governmental Funds
The General Fund reflects a portion of fund balance as nonspendable for the purpose of prepaid insurance totaling $17,148, as reflected in the current assets of the fund. The SPLOST Fund reflects fund balance in the amount of $115,679 as restricted for purposes of construction projects. The nonmajor funds reflect fund balance totaling $3,127 as restricted for legislative acts for tourism, and grantor requirements for public safety. Additionally, the remainder of the fund balance in the nonmajor funds is shown as assigned in the amount of $18,314, due to management setting aside amounts for purposes of community development and cemetery maintenance.

Fund Balance Deficit
The Capital Projects Fund had a deficit fund balance of $748 at December 31, 2011. The City expects to generate future revenues to offset this deficit. 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, 2011:

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.	$ 192,682
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.	462,294
	$ 654,976

Future minimum payments under these capital leases consisted of the following at December 31, 2011:

	Principal	Interest	Total
2012	$ 119,328	$ 25,754	$ 145,082
2013	124,321	20,761	145,082
2014	129,524	15,558	145,082
2015	134,945	10,137	145,082
2016	87,450	4,491	91,941
2017	59,408	929	60,337
	$ 654,976	$ 77,630	$ 732,606

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	$ 137,457	$ 1,580,755
Fire truck	434,123	208,017	226,106
	$ 2,152,335	$ 345,474	$ 1,806,861

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Capital leases	$ 769,099	$ -	$ 114,123	$ 654,976	$ 119,328
Compensated absences	27,169	-	12,812	14,357	-
	$ 796,268	$ -	$ 126,935	$ 669,333	$ 119,328

Compensated absences are generally liquidated in prior years in the fund in which the liabilities were incurred, largely the General Fund.

9. HOTEL/MOTEL LODGING TAX

The City has levied a 5% lodging tax. During the year ended December 31, 2011, the City collected taxes totaling $5,892. State law requires that the City expend an amount equal to 40% to promote tourism. During 2011, the City expended $4,328, or approximately 74%, 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.

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, 2011 which reflects that the required contribution current rate of 5.36% of annual covered payroll which will begin with the fiscal year starting July 1, 2011. 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 during 2011 totaled $27,362. The contribution requirements of the City are established and may be amended by the GMEBS Board of Trustees.

Plan Membership
At July 1, 2011, the most recent date of actuarial valuation, plan membership consisted of:

Disabled employees, retirees, and beneficiaries currently receiving benefits	12
Terminated employees entitled to benefits but not yet receiving benefits	14
Active plan members	21
Total participants	47

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, 2011	$27,362	100%	$ -
December 31, 2010	$39,195	100%	$ -
December 31, 2009	$39,195	100%	$ -

As of the most recent valuation date, July 1, 2011 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)
7/1/2011	$ 626,295	$ 616,652	$ (9,643)	101.56%	$ 507,498	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, 2011

The assumptions used in the July 1, 2011 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 38% of market value for 2011.
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, 2011. No provisions have been made in the financial statements for the year ended December 31, 2011 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, 2011. 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, 2011.

(The remainder of this page has been intentionally left blank).

15. PRIOR PERIOD RESTATEMENT

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, 2011:

General Fund

Fund balance, December 31, 2010, as originally reported	$ 450,112
Adjustment to reflect prepaid portion of insurance premiums	16,126
Fund balance, December 31, 2011, as restated	$ 466,238

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

Net assets, December 31, 2010, as originally reported	$ 4,600,583
Adjustment to reflect prepaid portion of insurance premiums	16,126
Net assets, December 31, 2011, as restated	$ 4,616,709

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ELLIJAY, GEORGIA
SCHEDULE OF FUNDING PROGRESS FOR THE
CITY OF ELLIJAY RETIREMENT PLAN
For the Year Ended December 31, 2011

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)
07/01/11	$ 626,295	$ 616,652	$ (9,643)	101.56%	$ 507,498	0.00%
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, 2011

	Special Revenue Funds					
	Multiple Grant Fund	Better Hometown Fund	Confiscated Assets	Cemetery Fund	Hotel/Motel Fund	Total
Assets						
Cash	$ 821	$ 7,027	$ 2,114	$ 12,999	$ 4,323	$ 27,284
Certificates of deposit	-	-	-	2,836	-	2,836
Taxes receivable	-	-	-	-	338	338
Total Assets	$ 821	$ 7,027	$ 2,114	$ 15,835	$ 4,661	$ 30,458
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	$ -	$ 1,506	$ -	$ -	$ 2,719	$ 4,225
Due to other funds	-	-	-	3,042	1,750	4,792
Total Liabilities	-	1,506	-	3,042	4,469	9,017
Fund Balances:						
Restricted	821	-	2,114	-	192	3,127
Assigned	-	5,521	-	12,793	-	18,314
Total Fund Balances	821	5,521	2,114	12,793	192	21,441
Total Liabilities and Fund Balances	$ 821	$ 7,027	$ 2,114	$ 15,835	$ 4,661	$ 30,458

CITY OF ELLIJAY, GEORGIA
COMBINING STATEMENT OF OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2011

	Special Revenue Funds					
	Multiple Grant Fund	Better Hometown Fund	Confiscated Assets	Cemetery Fund	Hotel/Motel Fund	Total
Revenues:						
Selective sales taxes	$ -	$ -	$ -	$ -	$ 5,892	$ 5,892
Fines and forfeitures	-	-	3,712	-	-	3,712
Charges for services	-	8,501	-	-	-	8,501
Investment earnings	15	19	10	109	231	384
Miscellaneous	-	-	-	600	-	600
Total Revenues	15	8,520	3,722	709	6,123	19,089
Expenditures:						
Current:						
General government	-	-	-	7,141	-	7,141
Public safety	5,190	-	4,259	-	-	9,449
Housing and development	-	9,819	-	-	11,828	21,647
Total Expenditures	5,190	9,819	4,259	7,141	11,828	38,237
Excess (Deficiency) of Revenues over Expenditures Before Other Financing Sources (Uses)	(5,175)	(1,299)	(537)	(6,432)	(5,705)	(19,148)
Other Financing Sources (Uses)						
Transfers out	-	-	-	-	(45,000)	(45,000)
Total Other Financing Sources (Uses)	-	-	-	-	(45,000)	(45,000)
Net change in fund balances	(5,175)	(1,299)	(537)	(6,432)	(50,705)	(64,148)
Fund Balances - beginning of year	5,996	6,820	2,651	19,225	50,897	85,589
Fund Balances - end of year	$ 821	$ 5,521	$ 2,114	$ 12,793	$ 192	$ 21,441

CITY OF ELLIJAY, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
For the Year Ended December 31, 2011

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	$ 277,604	$ 414,823	692,427	29%

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

INTERNAL CONTROL AND COMPLIANCE

RL Jennings & Company, PC

Accountants & Consultants

142 River Terrace
PO Box 2683
Ellijay, GA 30540
706-276-3700
Fax 706-276-3710

Member of
American Institute of
Certified Public Accountants
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 Mayor and Members
of the City Council of
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, 2011, which collectively comprise the City of Ellijay, Georgia's basic financial statements and have issued our report thereon dated June 18, 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 City of Ellijay, Georgia is responsible for establishing and maintaining effective 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.

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 and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the a deficiency described in the accompanying schedule of findings and responses to be a material weakness, and is identified as finding 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 consider a deficiency described in the accompanying schedule of findings and responses to be a significant deficiency, and is identified as finding 2009-1.

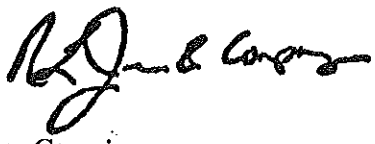
Compliance and Other Matters

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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 18, 2012

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.**