GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF NELSON, GEORGIA
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
ASSETS	
Current assets:	
Cash	$ 45,148
Certificates of deposit	53,431
Restricted cash	355,593
Restricted certificates of deposit	105,193
Accounts receivable	1,689
Taxes receivable	11,795
Fines receivable, net	803
Receivables from other governments	29,088
Prepaid items	17,801
Total current assets	620,541
Non-current assets:	
Non-depreciable capital assets	159,003
Depreciable capital assets, net	1,558,102
Total non-current assets	1,717,105
Total assets	$ 2,337,646
LIABILITIES	
Current liabilities:	
Accounts payable	$ 4,793
Accrued liabilities	6,031
Payable to other governments	76,706
Deferred revenue	851
Total current liabilities	88,381
Non-current liabilities:	
Compensated absences	1,535
Total non-current liabilities	1,535
Total liabilities	89,916
NET ASSETS	
Invested in capital assets, net of related debt	1,717,105
Restricted for capital projects	389,789
Unrestricted	140,836
Total net assets	2,247,730
Total liabilities and net assets	$ 2,337,646

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

CITY OF NELSON, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Total Governmental Activities
Governmental activities:					
General government	$ 164,496	$ -	$ -	$ -	$ (164,496)
Judicial	9,124	-	-	-	(9,124)
Public safety	185,688	7,457	-	126,665	(51,566)
Public works	178,253	39,612	-	113,662	(24,979)
Housing and development	2,636	1,126	-	-	(1,510)
Culture and recreation	8,469	-	-	-	(8,469)
Interest on long-term debt	235	-	-	-	(235)
Total governmental activities	$ 548,901	$ 48,195	$ -	$ 240,327	$ (260,379)
General Revenues:					
Property taxes levied for general purposes					129,245
Franchise taxes					33,686
Business taxes					36,316
Sales and use taxes					109,644
Unrestricted investment earnings					543
Miscellaneous					1,937
Total general revenues					311,371
Change in net assets					50,992
Net assets, beginning of year, as restated					2,196,738
Net assets, end of year					$ 2,247,730

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

FUND FINANCIAL STATEMENTS

CITY OF NELSON, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Fund	SPLOST Fund	Total Governmental Funds
ASSETS			
Cash	$ 45,148	$ -	$ 45,148
Certificates of deposit	53,431	-	53,431
Restricted cash	-	355,593	355,593
Restricted certificates of deposit	-	105,193	105,193
Taxes receivable, net	11,795	-	11,795
Fines receivable, net	803	-	803
Accounts receivable	1,689	-	1,689
Due from other governments	9,467	19,621	29,088
Due from other funds	90,618	-	90,618
Prepaid items	17,801	-	17,801
Total assets	$ 230,752	$ 480,407	$ 711,159
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ 4,793	$ -	$ 4,793
Accrued liabilities	6,882	-	6,882
Due to other governments	76,706	-	76,706
Due to other funds	-	90,618	90,618
Deferred revenue	11,273	-	11,273
Total liabilities	99,654	90,618	190,272
FUND BALANCES			
Nonspendable	17,801	-	17,801
Restricted	-	389,789	389,789
Unassigned	113,297	-	113,297
Total fund balances	131,098	389,789	520,887
Total liabilities and fund balances	$ 230,752	$ 480,407	$ 711,159

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

CITY OF NELSON, GEORGIA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Fund balances - total governmental funds			$ 520,887
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.			
	Cost of capital assets	$ 2,507,160	
	Less accumulated depreciation	(790,055)	1,717,105
Liabilities not due and payable in the current period and, therefore, are not reported in the governmental fund balance sheets but are reported on the government-wide statement of net assets.			
	Compensated absences	(1,535)	(1,535)
Other long-term assets reported are not available to pay for current period expenditures and, therefore, are deferred in the fund financial statements.			
	Property taxes		11,273
Net assets of governmental activities			$ 2,247,730

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

CITY OF NELSON, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	SPLOST Fund	Total Governmental Funds
REVENUES			
Taxes	$ 331,031	$ -	$ 331,031
Intergovernmental	-	113,120	113,120
Licenses and permits	1,126	-	1,126
Fines and forfeitures	7,457	-	7,457
Charges for services	39,612	-	39,612
Investment income	543	542	1,085
Other	1,937	-	1,937
Total revenues	381,706	113,662	495,368
EXPENDITURES			
Current:			
General government	157,894	-	157,894
Judicial	9,124	-	9,124
Public safety	79,911	-	79,911
Public works	111,879	-	111,879
Housing and development	2,636	-	2,636
Intergovernmental	76,706	-	76,706
Debt service:			
Capital lease principal payments	13,846	-	13,846
Interest on capital lease	261	-	261
Capital outlay:			
Public safety	-	1,034	1,034
Public works	-	40,541	40,541
Total expenditures	452,257	41,575	493,832
Net change in fund balances	(70,551)	72,087	1,536
FUND BALANCES, beginning of year, as restated	201,649	317,702	519,351
FUND BALANCES, end of year	$ 131,098	$ 389,789	$ 520,887

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

CITY OF NELSON, GEORGIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds:		$ 1,536
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures of the governmental fund type operating statement. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capitalized outlay in the current period.		
Capitalized outlay	$ 40,000	
Depreciation expense	(108,241)	(68,241)
Capital assets contributed by local governments, developers, and others are reported as revenue on the government-wide statement of activities but not reported in the governmental funds.		126,665
Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues at the fund financial reporting level.		
Property taxes:		
Deferred @ 6/30/2010	(33,413)	
Deferred @ 6/30/2011	(11,273)	(22,140)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the government-wide statement of activities.		13,846
Some expenses reported in the government-wide statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.		
Compensated absences:		
Liability @ 6/30/2010	(835)	
Liability @ 6/30/2011	(1,535)	(700)
Accrued interest:		
Liability @ 6/30/2010	(26)	
Liability @ 6/30/2011	-	26
Change in net assets of governmental activities		$ 50,992

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

CITY OF NELSON, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over
	Original	Final	(See Note 1K)	(Under)
Resources (inflows):				
Property taxes	$ 122,100	$ 122,100	$ 151,385	$ 29,284
Franchise taxes	34,000	34,000	33,686	(314)
Business taxes	38,000	38,000	36,316	(1,684)
Local option sales tax	100,000	100,000	109,644	9,644
Licenses and permits	6,400	6,400	1,126	(5,274)
Charges for services	45,000	45,000	39,612	(5,388)
Fines and forfeitures	40,000	40,000	7,457	(32,543)
Investment earnings	500	500	543	43
Miscellaneous	3,000	3,000	1,937	(1,062)
Total Revenues	389,000	389,000	381,706	(7,294)
Charges to appropriations (outflows):				
General government:				
Legislative/executive	56,250	56,906	57,027	121
General administration	65,400	72,850	70,734	(2,116)
Elections	3,000	3,600	3,586	(14)
General government buildings	20,000	26,900	26,547	(353)
Judicial:				
Municipal court	15,250	9,225	9,124	(101)
Public safety:				
Patrol	84,000	81,050	79,411	(1,639)
Fire	500	500	500	-
Public works:				
Highways and streets	67,000	77,900	75,195	(2,705)
Solid waste collection	46,600	51,670	50,791	(879)
Housing and development:				
Protective inspection	1,750	400	400	-
Planning and zoning	3,550	2,274	2,236	(38)
Culture and recreation:				
Museum	200	-	-	-
Parks	500	-	-	-
Intergovernmental	76,000	76,725	76,706	(19)
Total Expenditures	440,000	460,000	452,257	(7,743)
Excess (Deficiency) of Revenues Over Expenditures	(51,000)	(71,000)	(70,551)	449
Other Financing Sources (Uses):				
Proceeds from disposal of assets	1,000	1,000	-	(1,000)
Transfers in	50,000	70,000	-	(70,000)
Total Other Financing Sources and Uses	51,000	71,000	-	(71,000)
Net change in fund balance	-	-	(70,551)	(70,551)
Fund balance, beginning of year, as restated	201,649	201,649	201,649	-
Fund balance, end of year	$ 201,649	$ 201,649	$ 131,098	$ (70,551)

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

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES:

The financial statements of the City of Nelson, 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 financial statements include the City's accounts of all operations. The criteria for including organizations within the City's reporting entity, as set forth in Governmental Accounting Standards Board's Statement No. 14 (GASB 14), "The Financial Reporting Entity", is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. As of June 30, 2011, there are no component units included in the financial statements of the City.

B. BASIS OF PRESENTATION - FUND ACCOUNTING

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

The City's funds are grouped into two broad fund categories and four generic fund types for financial statement presentation purposes. Governmental funds include the general and capital projects funds.

C. BASIS OF ACCOUNTING

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements report on all non-fiduciary activities of the primary government. There are no component units to be considered at this time. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting. 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.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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 other governments or imposed by law through constitutional provisions or enabling legislation. It is the City's policy to utilize restricted resources, when available for use, before utilizing unrestricted resources.

FUND FINANCIAL STATEMENTS

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

GOVERNMENTAL FUNDS

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if 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 60 days of year-end and available to pay obligations of the current period). This includes investment earnings, income taxes withheld by employers, 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.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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.

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. Fines receivable for the fiscal year ended 2011 totaled, $5,807. An allowance for uncollectible fines was established at $5,004. The net fines receivable is $803.

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 long-term 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.
SPLOST Fund: The SPLOST Fund is used to account for the revenues and expenditures relating to the special purpose local option sales tax as approved in voter referendums that are restricted to expenditures for specified capital projects.

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 or 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

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

programs sponsored by the State of Georgia for the investment of local government funds.

F. PROPERTY TAX CALENDAR

The City is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts with in the City. The City geographically lies on the boundary lines for Pickens County, Georgia and Cherokee County, Georgia and property taxes are collected based on each county's digest. For both Pickens County and Cherokee County, the City levies property taxes as of December 1, 2010 for values that were assessed in 2010. Secured property tax payments are due on February 1, 2011; penalties and interest are applied on March 8, 2011. The City has not established a lien date for either county at June 30, 2011.

G. CAPITAL ASSETS

All assets over the capitalization threshold of $5,000 for infrastructure and $1,500 for all other types of assets 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 capital 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. 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 lives:

Asset Class	Estimated Useful Lives
Infrastructure	30 years
Buildings	50 years
Building improvements	20 years
Land improvements	10 to 15 years
Machinery and equipment	3 to 15 years
Vehicles	2 to 15 years

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2011 are recorded as prepaid items. Prepaid insurance and prepaid dues were $14,590 and $3,211, respectively, for total prepaid assets of $17,801 as of June 30, 2011.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

I. COMPENSATED ABSENCES

The liability for compensated absences in the government-wide statements consists of unpaid, accumulated vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are 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.

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 the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- *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:

- *Restricted*
- *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.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (CONCLUDED)

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, results could differ from those estimates.

L. BUDGETS AND BUDGETARY CONTROL

The Finance Committee prepares a rough draft of the annual budgets from which the Mayor and City Council prepare proposed budgets. The City advertises in the local newspaper to give notice regarding a public hearing in which local citizens may give their input relating to the proposed budgets. The City also places a copy of the proposed budget on file for public inspection prior to the actual approval. Once these steps have been completed, the City Council then formally adopts the annual balanced budgets in a legally permissible manner.

Budgets have been legally adopted for all funds. Budgets are adopted on a basis consistent with generally accepted accounting principles, and on the same basis of accounting used by each fund to which the budget applies. The legal level of control of the City's budget is at the department level. All appropriations lapse at year end.

Revenues are budgeted by source. Expenditures are budgeted by department and may not exceed appropriations at this level. Budget revisions are subject to review and approval by the City Council.

For the year ended June 30, 2011, expenditures exceeded budget in the General Fund in the following function/department as a result of unanticipated costs, and was funded by available fund balance:

General government - legislative/executive	$ 121

NOTE 2 – SUMMARY OF DEPOSIT BALANCES

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 June 30, 2011, the amount of the City's uninsured bank balances amounted to approximately $142,000, and therefore, the amount was subject to custodial credit risk on the basis that they were uncollateralized by the financial institution in which the deposit accounts were held.

NOTE 3 - INTERFUND BALANCES AND ACTIVITY

BALANCES DUE TO/FROM OTHER FUNDS

Balances due to/from other funds at June 30, 2011 consist of the following:

Due to:	Due from:	
General Fund	SPLOST Fund	$ 90,618

These balances resulted from the time lag between the dates that reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Generally, all interfund balances are expected to be repaid within one year from year-end.

NOTE 4 - DUE TO/FROM OTHER GOVERNMENTS

The following amounts are due from other governments at June 30, 2011:

General Fund:		
Georgia Department of Revenue	$	9,467
SPLOST Fund:		
Georgia Department of Revenue		19,621
Total	$	29,088

Intergovernmental payables at June 30, 2011 consist of $76,706 due to Cherokee County that represents the City's collection of fire tax on the County's behalf.

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

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balances	Additions	Disposals	Ending Balances
Governmental Activities:				
Non-depreciable capital assets:				
Land	$ 159,003	$ -	$ -	$ 159,003
Construction in progress	-	-	-	-
Total non-depreciable capital assets	159,003	-	-	159,003
Depreciable Capital Assets:				
Infrastructure	1,294,868	40,000	-	1,334,868
Buildings and improvements	454,697	-	-	454,697
Land improvements	12,862	-	-	12,862
Machinery and equipment	236,119	-	-	236,119
Vehicles	182,946	126,665	-	309,611
Total depreciable capital assets	2,181,492	166,665	-	2,348,157
Less accumulated depreciation:				
Infrastructure	(346,370)	(46,029)	-	(392,399)
Buildings and improvements	(56,821)	(9,179)	-	(66,000)
Land improvements	(4,788)	(1,146)	-	(5,934)
Machinery and equipment	(143,252)	(14,440)	-	(157,692)
Vehicles	(130,583)	(37,447)	-	(168,030)
Total accumulated depreciation	(681,814)	(108,241)	-	(790,055)
Total depreciable capital assets, net	1,499,678	58,424	-	1,558,102
Governmental activities capital assets, net	$ 1,658,681	$ 58,424	$ -	$ 1,717,105

Depreciation expense was charged to functions/programs as follows:
Governmental activities:

General government	$ 6,602
Public safety	27,337
Public works	65,833
Culture and recreation	8,469
Total	$ 108,241

NOTE 6 - RESTRICTED ASSETS / NET ASSETS

Cash of $355,593 and certificates of deposit of $105,193 totaling $460,786 in the SPLOST Fund are restricted for the purpose of constructing, maintaining and improving roads and bridges in the City, in addition to other specific projects outlined in the referendum. The source of these funds consists of proceeds from a special one percent local option sales tax levied by Cherokee County. Net assets totaling $389,789 in the government-wide financial statements are restricted by enabling legislation related to SPLOST funds.

NOTE 7 - LONG-TERM DEBT

Capital Lease
In prior periods, the City entered into a capital lease with Georgia Municipal Association for the purchase of a sanitation truck. The original loan of $84,336 was payable in quarterly installments of $4,710, including interest at 4.52%, maturing in March 2011. The loan was paid in full during the fiscal year ending June 30, 2011.

Included in capital assets is the following purchased with the capital lease:

Vehicles	$ 84,336
Less: accumulated depreciation	(72,623)
Total	$ 11,713

Changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Beginning Balances	Additions	Reductions	Ending Balances	Amounts Due in One Year
Capital Lease	$ 13,846	$ -	$ 13,846	$ -	$ -
Compensated absences	835	700	-	1,535	-
Total long-term liabilities	$ 14,681	$ 700	$ 13,846	$ 1,535	$ -

Capital leases and compensated absences are generally liquidated by the general fund.

NOTE 8 – FUND EQUITY

Fund balances are classified as follows:

- ***Nonspendable*** – The following fund balances are nonspendable because they are allocated to:

  General Fund:

  Prepaid items $ 17,801

NOTE 8 – FUND EQUITY (CONCLUDED)

- *Restricted* -

  Capital Projects Fund:
  Special Purpose Local Option Sales Tax Fund (SPLOST) – Used to account for capital projects financed with SPLOST $ 389,789

NOTE 9 – RISK MANAGEMENT

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

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.

Risk Pools

The City is a member of the Georgia Interlocal Risk Management Agency (GIRMA). Insurance coverage and deductible options for property, casualty and crime under the policy are selected by City's management based on the anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed by GIRMA, as well as following loss reduction and prevention procedures established by GIRMA. GIRMA's responsibility includes paying claims, and representing the City in defense and settlement of claims. GIRMA's basis for estimating the liabilities for unpaid claims is "IBNR" 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 June 30, 2011. No provisions have been made in the financial statements for the year ended June 30, 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 claims. The City is required to make an annual contribution to the fund in an amount that is determined on the basis of actuarial projections of losses. With payment of the City's annual contribution, the City has effectively transferred the risk and responsibility for payment of its workers' compensation claims. However, the enabling statute creating the GMAWCSIF permits the fund to levy an assessment upon its members to make up any deficiency the fund may have in surplus or reserves. No amount has been recorded in the financial statements for this contingency, as management believes the likelihood for assessment is remote.

NOTE 10 - JOINT VENTURE

The City, in conjunction with cities and counties in a fifteen (15) county area, is a member of the Northwest Regional Commission (RC). Membership in an RC is automatic for each municipality and county in the state. The official Code of Georgia Section 50-8-34 (Georgia Planning Act of 1989 and House Bill 1216) provides for the organizational structure of the RCs. Each county and municipality in the state is required by law to pay minimum annual dues to the RC. The RC Board membership includes the chief elected official of each County and the chief elected official of each municipality. The County board members and municipal board members from the same County elect one member of the Board who is a resident (but not an elected or appointed official or employee of the County or municipality) to serve as the non-public Board member from a County.

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RCs as public agencies and instrumentalities of their members. Georgia law also provides that the member government are liable for any debts or obligations of an RC beyond its resource. (OCGA 50-8-39.1). Separate financial statements may be obtained from the Northwest Georgia Regional Commission at the following address: *Northwest Georgia Regional Commission, 1 Jackson Hill Drive, Rome, Georgia 30162-1798.*

NOTE 11 – PRIOR PERIOD ADJUSTMENT

The City has determined that a restatement is required to correct an understatement of prepaid dues and an overstatement/understatements of sales tax revenue in the prior period. The impact of the restatement to fund balance is as follows:

General Fund	
Fund Balance, June 30, 2010, as previously reported	$ 208,738
Adjustment to increase prepaid dues	1,699
Adjustment to decrease revenue receivable	(8,788)
Fund Balance, June 30, 2010, as restated	$ 201,649
SPLOST Fund	
Fund Balance, June 30, 2010, as previously reported	$ 306,559
Adjustment to increase revenue receivable	11,143
Fund Balance, June 30, 2010, as restated	$ 317,702

The prior period adjustment discussed above also impacted the prior period balance of net assets of the governmental activities. The following adjustment was necessary at June 30, 2010:

Net Assets, June 30, 2010, as previously reported	$ 2,192,684
Adjustment to increase prepaid dues	1,699
Adjustment to increase revenue receivable	2,355
Net Assets, June 30, 2010, as restated	$ 2,196,738