

CITY OF CHATTAHOOCHEE HILLS, GEORGIA
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012

Prepared by:
Finance Department

INTRODUCTORY SECTION

CITY OF CHATTAHOOCHEE HILLS, GEORGIA

FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2012

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

**The Honorable Mayor and Members
of the City Council of the
City of Chattahoochee Hills, Georgia**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Chattahoochee Hills, Georgia (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 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 as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the City will continue as a going concern. As discussed in Note 2 to the financial statements, the City has suffered deficiencies in cash flows and deficits in fund balance and net assets that raise substantial doubt about its ability to continue as a going concern. The City's management has implemented plans in regards to the City's ability to continue as a going concern which are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 3 through 10 and 33 and 34, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mauldin & Jenkins, LLC

Atlanta, Georgia
November 27, 2012

CITY OF CHATTAHOOCHEE HILLS, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

As management of the City of Chattahoochee Hills, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Chattahoochee Hills for the year ended June 30, 2012.

FINANCIAL HIGHLIGHTS

- Assets of the City exceeded its liabilities by \$2,308,705 (net assets), representing a \$142,414 increase over the prior year. Of net assets, (\$768,458) is a deficit in unrestricted assets.
- As of June 30, 2012, the City's governmental funds reported combined ending fund balance deficits of (\$864,163) a decrease in this deficit of \$141,518 from the prior year. This means that liabilities exceeded assets by \$864,163 for the governmental funds and the City will periodically rely on short term financing to meet cash flow requirements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Chattahoochee Hills' basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide the reader with a broad overview of the City of Chattahoochee Hills' financial position in a manner similar to private-sector business. These statements include the Statement of Net Assets and the Statement of Activities and can be found on pages 11 and 12 of this report.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. for uncollected taxes and earned, but unused employee leave).

Both of the government-wide financial statement report functions for the City that are principally supported by taxes and intergovernmental revenues (governmental activities). The City of Chattahoochee Hills' governmental activities include general government, judicial, public safety, public works, culture and recreation, and community development. The City currently does not have any business-type activities.

The government-wide financial statements can be found on pages 11 and 12 of this report.

CITY OF CHATTAHOOCHEE HILLS, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the City can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Chattahoochee Hills maintains two major and one non-major governmental fund. The City's major governmental funds are: the General Fund and the Capital Projects Fund. The City's non-major fund is the Hotel/Motel Tax Fund.

The basic governmental fund financial statements are presented on pages 13 through 16 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The City uses an Agency Fund for the collection and remittance of cash appearance bond-related activity for municipal court. The basic fiduciary fund financial statement can be found on page 16 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 17 through 32 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The budgetary comparison schedule is intended to demonstrate the City's compliance with the legally adopted and amended budgets. Required supplementary information can be found on pages 33 and 34 of this report.

**CITY OF CHATTAHOOCHEE HILLS, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. At June 30, 2012 the City's assets exceeded liabilities by \$2,308,705. A significant portion of the City's net assets is its investment in capital assets (land, buildings, infrastructure, and equipment), less any related debt to acquire those assets. Because the City uses these capital assets to provide services to its residents, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining portion of the City's net assets represent a deficit in unrestricted net assets of (\$768,458) and is primarily attributable to operating expenditures in excess of revenues from the inception of the City through the current period.

The following table provides a summary of the City's governmental net assets for the fiscal years 2012 and 2011.

City of Chattahoochee Hills Net Assets				
June 30, 2012 and 2011				
	<u>2012</u>	<u>2011</u>	<u>Inc (Dec)</u>	<u>Percent</u>
Assets				
Current Assets	\$ 325,795	\$ 374,964	(49,169)	(13.11) %
Capital assets, net of accumulated depreciation	<u>3,255,745</u>	<u>3,255,334</u>	<u>411</u>	<u>0.01</u>
Total assets	<u>3,581,540</u>	<u>3,630,298</u>	<u>(48,758)</u>	<u>(1.34)</u>
Liabilities				
Current liabilities	1,036,241	1,248,494	(212,253)	(18.56)
Long-term liabilities	<u>236,594</u>	<u>215,513</u>	<u>21,081</u>	<u>186.89</u>
Total liabilities	1,272,835	1,464,007	(191,172)	(13.06)
Net Assets				
Invested in capital assets, net of related debt	3,077,163	3,132,962	(55,799)	(1.78)
Unrestricted	<u>(768,458)</u>	<u>(966,671)</u>	<u>198,213</u>	<u>(20.50)</u>
Total net assets	<u>\$ 2,308,705</u>	<u>\$ 2,166,291</u>	<u>142,414</u>	<u>6.57 %</u>

Changes in net assets. Governmental activities increased the City's net assets by \$142,414 and \$653,829 in fiscal years 2012 and 2011, respectively. However, it is important to note that this increase in 2011 is primarily attributable to the donation of park land by Fulton County. The following table indicates the change in net assets from the twelve months ended June 30, 2012 and 2011.

**CITY OF CHATTAHOOCHEE HILLS, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

**City of Chattahoochee Hills Changes in Net Assets
for the Year Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Revenues:				
Program Revenues:				
Charges for services	\$ 318,918	\$ 367,253	(48,335)	(13.16) %
Operating grants and contributions	101,699	78,381	23,318	29.75
Capital grants and contributions	132,080	862,662	(730,582)	(84.69)
General Revenues:				
Property taxes	1,154,717	1,422,852	(268,135)	(18.84)
Other taxes	937,412	887,427	49,985	5.63
Investment earnings	592	455	137	30.11
Total revenues	<u>2,645,418</u>	<u>3,619,030</u>	<u>(973,612)</u>	<u>(26.90)</u>
Expenses:				
General government	572,558	630,194	(57,636)	(9.15)
Judicial	99,353	113,064	(13,711)	(12.13)
Public safety	1,207,708	1,436,626	(228,918)	(15.93)
Public works	455,010	596,518	(141,508)	(23.72)
Culture and recreation	84,932	76,703	8,229	10.73
Community development	44,052	57,664	(13,612)	(23.61)
Interest expenses	<u>39,391</u>	<u>54,432</u>	<u>(15,041)</u>	<u>(27.63)</u>
Total expenses	<u>2,503,004</u>	<u>2,965,201</u>	<u>(462,197)</u>	<u>(15.59)</u>
Income (loss)	<u>142,414</u>	<u>653,829</u>	<u>(511,415)</u>	<u>(78.22) %</u>
Net assets beginning of year	<u>2,166,291</u>	<u>1,512,462</u>		
Net assets end of year	<u>\$ 2,308,705</u>	<u>\$ 2,166,291</u>		

Governmental activities increased the City's net assets by \$142,414 in fiscal year 2012. Total revenues decreased (\$973,612), or (26.9%) from the prior year. Property tax collections decreased (\$268,135) as a result of downward reassessment of property values. Capital Grants decreased (\$730,582) because the prior year included the donation of park land by Fulton County.

Expenses have decreased from prior year levels in General Government, Judicial, Public Safety, Public Works, and Community Development as management has reduced budgets and implemented better cost controls. Interest expense has decreased because of reductions in debt levels.

CITY OF CHATTAHOOCHEE HILLS, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

City of Chattahoochee Hills
Comparison of Revenues, Expenditures, and Changes in Fund Balances
for the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Revenues:				
Property taxes	\$ 1,128,645	\$ 1,440,038	\$ (311,393)	(21.60) %
Sales taxes	631,546	573,212	58,334	10.20
Hotel/Motel taxes	75,403	68,253	7,150	10.50
Franchise taxes	102,936	104,603	(1,667)	(1.60)
Business Taxes	127,527	141,359	(13,832)	(9.80)
Licenses and permits	24,579	17,711	6,868	38.80
Fines and forfeitures	228,127	293,372	(65,245)	(22.20)
Charges for services	57,729	42,835	14,894	34.80
Intergovernmental	236,156	63,313	172,843	273.00
Contributions	503	34,669	(34,166)	(98.50)
Interest earned	592	455	137	30.10
Miscellaneous	8,483	13,335	(4,852)	(36.40)
Total Revenue	<u>2,622,226</u>	<u>2,793,155</u>	<u>(170,929)</u>	<u>(6.10)</u>
Expenditures:				
General government	588,068	611,824	(23,756)	(3.90)
Judicial	98,622	113,018	(14,396)	(12.70)
Public safety	1,150,510	1,381,905	(231,395)	(16.70)
Public works	255,923	399,215	(143,292)	(35.90)
Culture and recreation	84,120	91,150	(7,030)	(7.70)
Community development	43,521	57,578	(14,057)	(24.40)
Capital outlay	278,389	113,758	164,631	144.70
Dept service	129,401	621,487	(492,086)	(79.20)
Total Expenditures	<u>2,628,554</u>	<u>3,389,935</u>	<u>(761,381)</u>	<u>(22.50)</u>
Excess (deficiency) of revenues over expenditures	<u>(6,328)</u>	<u>(596,780)</u>	<u>590,452</u>	<u>(98.90) %</u>
Other financing sources (uses):				
Proceeds from capital leases	<u>147,846</u>	<u>-</u>	<u>147,846</u>	
Net change in fund balance	141,518	(596,780)	738,298	
Beginning fund balance	<u>(1,005,681)</u>	<u>(408,901)</u>	<u>(596,780)</u>	
Ending fund balance	<u>\$ (864,163)</u>	<u>\$ (1,005,681)</u>	<u>\$ 141,518</u>	

CITY OF CHATTAHOOCHEE HILLS, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Governmental funds reported a deficit fund balances of (\$864,163) at June 30, 2012, indicating a lack of immediate funding for continuing City service requirements. With start-up costs during the four fiscal years of operations, the City's management has identified some steps to take going forward to improve its financial condition. In September 2009, the City terminated its agreement with CH2M Hill to provide operating services, opting for the traditional model of self-performing operations.

Revenues have decreased (\$170,929) or (6%) from prior year levels. Property taxes decreased (\$311,393) or (21.6%) as a result of reassessment of property values. Fines and Forfeitures decreased (\$65,245) or (22%) due to fewer police officers. Contributions decreased (\$34,166) or (98.5%) because of one time donations in 2011. Offsetting these decreases were increases in Intergovernmental Revenues of \$172,843 or 273% as a result of a state grant in lieu of property taxes.

Total expenditures have decreased (\$761,381) or (22.5%) over prior year levels. Expenditures have decreased in General Government, Judicial, Public Safety and Public Works as management has reduced budgets. Debt service expenditures have decreased (\$492,086) or (79.2%) because certain notes payable were paid off in the prior year. Capital outlay increased \$164,631 or 144% because of expenditures for Capps Ferry Bridge project and police and public works vehicles.

The City has adopted a fund balance reserve policy to retain in reserve an amount which represents no less than two months of operating and debt expenditures, approximately 16 percent of the current year's estimated operating and debt expenditures. The policy took into consideration that upon incorporation, no reserves existed and allowed for a period of three to five years to establish the required amount. Current year operations contributed \$141,518 toward this goal, however, a deficit balance of (\$864,163) still remains.

General fund. The General Fund is the primary operating fund and the largest source of day-to-day service delivery. It accounts for the City's core services such as law enforcement, fire protection, planning and development, roads, streets, and bridges, culture and recreation, municipal court; and administration. The General Fund had a deficit fund balance of (\$864,163) at June 30, 2012.

Capital projects fund. The Capital Projects Fund is used to record major capital acquisitions and construction projects. It is reported separately from the General Fund to enhance the understanding of the City's capital activities. It also helps avoid the distortions in financial resources trend information that can arise when capital and operating activities are mixed. During fiscal 2011 the City paid \$113,758 for the purchase of Hutcheson Ferry Park (103 acres), Jones Ferry Park (234 acres) and Cochran Mill Park (800 acres). The carrying amount on Fulton County's books for these properties was \$953,939. In Fiscal 2012, the City paid \$150,187 toward the completion of the Capps Ferry Bridge project and \$133,109 for purchases of three vehicles.

GENERAL FUND BUDGETARY HIGHLIGHTS

A comparison of budgeted to actual results can be found on pages 33 and 34 of the financial report. Total revenues were \$53,846 better than budgeted. Expenditures were \$74,263 less than budgeted due to better management controls.

The City employs a formal budget adjustment process as needed in order to re-align original appropriations made during the annual budget process with significant changes in revenue and/or expenditures; ensuring appropriations are in alignment with expected resources. Differences between the original budget and final, amended budget are then resolved through official City Council action.

CITY OF CHATTAHOOCHEE HILLS, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

In an effort to meet the challenges of establishing and maintaining an appropriate level of governmental services in a declining economy, two budget adjustments were approved by the City Council during fiscal year 2012. The following budget amendments were adopted during the year:

- In August 2011, the budget was amended to account for a reduction in property tax revenue when the final tax digest was received from Fulton County in July. To account for this reduction on the expenditure side, three (3) directors and the City Manager took a furlough day every pay period (10% reduction in pay), all other salaried employees took a one-half furlough day on all paid holidays, short term disability was removed as a City expense for full time employees, employee contributions for health care were increased, and other operating expenditure cuts were made to balance the budget.
- In September 2012, a final budget amendment was approved by the City Council to better reflect accurate revenue and expenditures for the fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2012, the City's investment in capital assets for its governmental activities totaled \$3,255,745. These assets primarily reflect the infrastructure assets of roads, streets, bridges, culverts, and park land.

City of Chattahoochee Hills
Capital Assets (net of depreciation)
 June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Inc (Dec)</u>	<u>Percent</u>	
Land	\$ 992,554	\$ 992,554	\$ -	-	%
Buildings and improvements	150,094	160,489	(10,395)	(6.48)	
Machinery and equipment	58,234	67,524	(9,290)	(13.76)	
Vehicles	234,480	173,839	60,641	34.88	
Infrastructure	<u>1,820,383</u>	<u>1,860,928</u>	<u>(40,545)</u>	<u>(2.18)</u>	
Total	<u>\$ 3,255,745</u>	<u>\$ 3,255,334</u>	<u>\$ 411</u>	<u>0.01</u>	<u>%</u>

Additional information on the City's capital assets can be found in note 7 on page 28 of the report. Changes in capital assets for 2012 are primarily related to depreciation of existing assets and the addition of \$283,297 in new assets.

Long-term debt

The City's long term debt consists primarily of lease obligations for vehicles and equipment. Additional information on the City's debt can be found in notes 8 and 9 beginning on page 29 of this report.

CITY OF CHATTAHOOCHEE HILLS, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following factors are expected to have a significant effect on the City's financial position or results of operations and were taken into account in developing the fiscal year 2013 budget.

- The completion of the 2010 census has resulted in negotiations with Fulton County to determine the percentage amount of Local Option Sales Tax dollars that the City will receive for the next ten (10) years based on the 2010 census results. The final rulings of these negotiations could result in a decline of revenue.
- The State of Georgia's declining economy continues to be a concern for the City, as well as potential changes in the political boundaries within Fulton County.

The City restricts the use of one-time revenues to fund recurring operating expenses. Growth in expenditures is limited based on the City Council approval of service levels, the level of effort needed to provide the service levels and the measurement of the outcomes of providing service.

REQUESTS FOR INFORMATION

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. Questions concerning any of the information provided in this report or requests for additional information should be addressed to City of Chattahoochee Hills Finance Department, 6505 Rico Road, Chattahoochee Hills, Georgia 30268. You may also visit our Website at www.chatthillsga.us.

CITY OF CHATTAHOOCHEE HILLS, GEORGIA

**STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Primary Government Governmental Activities
	<hr/>
ASSETS	
Cash and cash equivalents	\$ 87,470
Accounts receivable	17,634
Taxes receivable, net of allowance	53,236
Due from other governments	166,517
Prepays	938
Capital assets:	
Nondepreciable	992,554
Depreciable, net of accumulated depreciation	<hr/> 2,263,191
 Total assets	 <hr/> 3,581,540
LIABILITIES	
Accounts payable	144,896
Accrued liabilities	61,345
Short-term borrowings	830,000
Compensated absences due within one year	58,012
Notes payable due within one year	66,045
Notes payable due in more than one year	<hr/> 112,537
 Total liabilities	 <hr/> 1,272,835
NET ASSETS	
Invested in capital assets, net of related debt	3,077,163
Unrestricted	<hr/> (768,458)
 Total net assets	 <hr/> <hr/> \$ 2,308,705

The accompanying notes are an integral part of these financial statements.

CITY OF CHATTAHOOCHEE HILLS, GEORGIA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and
					Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 572,558	\$ 73,570	\$ 100,019	\$ -	\$ (398,969)
Judicial	99,353	-	1,680	-	(97,673)
Public safety	1,207,708	228,602	-	-	(979,106)
Public works	455,010	-	-	132,080	(322,930)
Culture and recreation	84,932	977	-	-	(83,955)
Community development	44,052	15,769	-	-	(28,283)
Interest on long-term debt	39,391	-	-	-	(39,391)
Total governmental activities	<u>2,503,004</u>	<u>318,918</u>	<u>101,699</u>	<u>132,080</u>	<u>(1,950,307)</u>
Total primary government	<u>\$ 2,503,004</u>	<u>\$ 318,918</u>	<u>\$ 101,699</u>	<u>\$ 132,080</u>	<u>(1,950,307)</u>
General revenues:					
					1,154,717
Property taxes					631,546
Sales taxes					75,403
Hotel/Motel taxes					102,936
Franchise taxes					127,527
Business taxes					592
Unrestricted investment earnings					<u>2,092,721</u>
Total general revenues					<u>142,414</u>
Change in net assets					<u>2,166,291</u>
Net assets, beginning of year					<u>\$ 2,308,705</u>
Net assets, end of year					

The accompanying notes are an integral part of these financial statements.

CITY OF CHATTAHOOCHEE HILLS, GEORGIA

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

ASSETS	General Fund	Capital Projects Fund	Nonmajor Hotel/Motel Tax Fund	Total Governmental Funds
Cash and cash equivalents	\$ 87,470	\$ -	\$ -	\$ 87,470
Accounts receivable	17,634	-	-	17,634
Taxes receivable, net of allowance	45,269	-	7,967	53,236
Intergovernmental receivable	166,517	-	-	166,517
Due from other funds	-	-	3,074	3,074
Prepays	938	-	-	938
Total assets	\$ 317,828	\$ -	\$ 11,041	\$ 328,869
LIABILITIES				
Accounts payable	\$ 133,855	\$ -	\$ 11,041	\$ 144,896
Accrued liabilities	56,821	-	-	56,821
Due to other funds	3,074	-	-	3,074
Short-term borrowings	830,000	-	-	830,000
Deferred revenue	158,241	-	-	158,241
Total liabilities	1,181,991	-	11,041	1,193,032
FUND BALANCES				
Fund balances:				
Nonspendable:				
Prepays	938	-	-	938
Unassigned	(865,101)	-	-	(865,101)
Total fund balances (deficit)	(864,163)	-	-	(864,163)
Total liabilities and fund balances	\$ 317,828	\$ -	\$ 11,041	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				3,255,745
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.				(241,118)
Some revenues are not available in the current period and, therefore, are not reported in the funds.				158,241
Net assets of governmental activities				\$ 2,308,705

The accompanying notes are an integral part of these statements.

CITY OF CHATTAHOOCHEE HILLS, GEORGIA

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Hotel/Motel Tax Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 1,128,645	\$ -	\$ -	\$ 1,128,645
Sales taxes	631,546	-	-	631,546
Hotel/Motel taxes	-	-	75,403	75,403
Franchise taxes	102,936	-	-	102,936
Business taxes	127,527	-	-	127,527
Licenses and permits	24,579	-	-	24,579
Fines and forfeitures	228,127	-	-	228,127
Charges for services	57,729	-	-	57,729
Intergovernmental	119,017	117,139	-	236,156
Contributions	503	-	-	503
Interest earned	592	-	-	592
Miscellaneous	8,483	-	-	8,483
Total revenues	<u>2,429,684</u>	<u>117,139</u>	<u>75,403</u>	<u>2,622,226</u>
Expenditures:				
Current:				
General government	509,360	78,708	-	588,068
Judicial	98,622	-	-	98,622
Public safety	1,150,510	-	-	1,150,510
Public works	255,923	-	-	255,923
Culture and recreation	30,252	-	53,868	84,120
Community development	43,521	-	-	43,521
Capital outlay	-	278,389	-	278,389
Debt service:				
Principal	91,636	-	-	91,636
Interest	37,765	-	-	37,765
Total expenditures	<u>2,217,589</u>	<u>357,097</u>	<u>53,868</u>	<u>2,628,554</u>
Excess (deficiency) of revenues over expenditures	<u>212,095</u>	<u>(239,958)</u>	<u>21,535</u>	<u>(6,328)</u>
Other financing sources (uses):				
Proceeds from capital lease	-	147,846	-	147,846
Transfers in	21,535	92,112	-	113,647
Transfers out	(92,112)	-	(21,535)	(113,647)
Total other financing sources (uses)	<u>(70,577)</u>	<u>239,958</u>	<u>(21,535)</u>	<u>147,846</u>
Net change in fund balances	<u>141,518</u>	<u>-</u>	<u>-</u>	<u>141,518</u>
Fund balances (deficit), beginning of year	<u>(1,005,681)</u>	<u>-</u>	<u>-</u>	<u>(1,005,681)</u>
Fund balances (deficit), end of year	<u>\$ (864,163)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (864,163)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CHATTAHOOCHEE HILLS, 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 JUNE 30, 2012**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 141,518
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	411
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	23,192
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount represents the net effect of these differences in the treatment of long-term debt.	(56,210)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>33,503</u>
Change in net assets - governmental activities	<u>\$ 142,414</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CHATTAHOOCHEE HILLS, GEORGIA
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2012

ASSETS	Municipal Court Fund
Cash	<u>\$ 12,869</u>
Total assets	<u><u>\$ 12,869</u></u>
LIABILITIES	
Due to others	<u>\$ 12,869</u>
Total liabilities	<u><u>\$ 12,869</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF CHATTAHOOCHEE HILLS, GEORGIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Chattahoochee Hills, Georgia (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the City has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989, for its government-wide financial statements, unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City's government-wide financial statements do not apply subsequent private-sector guidance. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City, which was incorporated in 2007, operates under a charter adopted December 1, 2007, as a municipal corporation governed by an elected mayor and a five-member council. The government provides such services as police protection, fire and rescue services, cultural and recreational activities, housing and development and public works.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. The statement of net assets includes non-current assets and non-current liabilities. In addition, the government-wide statement of activities reflects depreciation expense on the City's capital assets. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Agency funds have no measurement focus; however, they use the accrual basis of accounting to recognize assets and liabilities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, intergovernmental grants, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

In accordance with GASB Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions," the corresponding assets (receivables) in non-exchange transactions are recognized in the period in which the underlying exchange occurs, when an enforceable legal claim has arisen, when all eligibility requirements have been met, or when resources are received, depending on the revenue source.

In accordance with GASB Statement No. 34, major individual governmental funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The **general fund** 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.

The **capital projects fund** is used to account for the acquisition and construction of capital assets by the City.

Additionally, the City reports the following fund types:

The **special revenue fund** is used to account for the collection and disbursement of hotel/motel taxes levied by the City.

The **agency fund** is used to account for the collection and disbursement of monies by the City's Municipal Court on behalf of other individuals or entities.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgets

Formal budgetary accounting is employed as a management control device for the general fund, special revenue fund, and capital projects fund of the City. The governmental funds budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for the general fund and special revenue fund. Project-length budgets are adopted for the capital projects fund. During the fiscal period ended June 30, 2012, the original budget was amended through supplemental appropriations. These changes are reflected in the budgetary comparison schedules.

All unencumbered budget appropriations lapse at the end of each year.

E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City. The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements.

F. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items in both government-wide and fund financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets

Capital assets, which include buildings and improvements, machinery and equipment, and infrastructure assets, are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The City has reported all infrastructure that it currently owns and has a responsibility for maintaining. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives is not capitalized.

Capital assets of the City are depreciated using the straight line method over the following useful lives:

Buildings and improvements	20-50 years
Machinery and equipment	5-40 years
Vehicles	5-8 years
Infrastructure	10-50 years

Fully depreciated assets still in service are carried in the capital asset accounts.

I. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for non-vesting accumulated rights to receive sick pay benefits since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

J. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

In the fund financial statements, governmental fund types recognize the face amount of the long-term debt issued as other financing sources and the repayment of debt as debt service expenditures.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Equity

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

Fund Balance – Generally, fund balance represents the difference between the assets and liabilities under the current financial resources measurement focus of accounting. 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.
- **Committed** – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the adoption of a resolution. Only the City Council may modify or rescind the commitment.
- **Assigned** – Fund balances are reported as assigned when amounts are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City Manager or his or her designee 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Equity (Continued)

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:

- Committed
- Assigned
- Unassigned

The City’s policy is to obtain and then maintain a minimum General Fund balance reserve equal to 16% of operating expenditures.

Net Assets - Net assets represent the difference between assets and liabilities in reporting which utilizes the economic resources measurement focus. 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 borrowing 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 using the same definition as used for restricted fund balance as described in the section above. All other net assets are reported as unrestricted.

L. Use of Estimates

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2. GOING CONCERN

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the City as a going concern. However, the City has substantial liabilities without the necessary revenues to support these liabilities. The City also has a negative \$865,101 in unassigned General Fund fund balance and negative unrestricted net assets of \$768,458 in governmental activities. As discussed in Note 8, the City has \$830,000 in short-term debt outstanding at June 30, 2012. This debt consists of a tax anticipation note and a line of credit, both of which mature on December 31, 2012. These debts are the primary cause of the deficit equity amounts.

The City's main source of revenue is property taxes. Management anticipates using the receipts from the fiscal year 2013 property taxes to satisfy the debt service requirements of the tax anticipation note and the line of credit in December 2012. This use of fiscal year 2013 property taxes to satisfy these debt obligations has significantly reduced the amount of revenues available to fund the City's operations for the remainder of the City's fiscal year. During the year ended June 30, 2012, the City reduced annual expenditures, including the elimination of certain personnel positions and a 2.5% pay reduction for all City personnel. The effect of these reductions will continue to reduce expenditures in fiscal year 2013 as compared to the expenditures incurred in fiscal year 2012. To alleviate the City's adverse financial condition, management plans to secure a new tax anticipation note, continue to reduce expenditures, and secure a new line of credit. However, the City has not yet secured additional financing that will fund City operations through 2013.

The ability for the City to continue as a going concern is dependent, among other things, on the items noted above, as well as the realization of assets and satisfaction of liabilities in the ordinary course of business. There can be no assurance that any of these efforts will be successful. The accompanying financial statements do not include any adjustments that might result if the City is unable to continue as a going concern.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets- governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$241,118 difference are as follows:

Notes payable	\$	(178,582)
Compensated absences		(58,012)
Accrued interest		(4,524)
Net adjustment to decrease fund balance - <i>total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$	(241,118)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balances – total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$411 difference are as follows:

Capital outlay	\$	283,297
Depreciation expense		(282,886)
Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net assets - governmental activities</i>	\$	411

NOTES TO FINANCIAL STATEMENTS

NOTE 3. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Another element of the reconciliation states that “The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of the long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets.” The details of this \$56,210 difference are as follows:

Proceeds from issuance of long-term debt	\$ (147,846)
Principal retirement of long-term debt	<u>91,636</u>
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net assets - governmental activities</i>	<u><u>\$ (56,210)</u></u>

Another element of the reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in governmental funds.” The details of this \$33,503 difference are as follows:

Compensated absences	\$ 35,129
Accrued interest	<u>(1,626)</u>
Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net assets - governmental activities</i>	<u><u>\$ 33,503</u></u>

NOTE 4. LEGAL COMPLIANCE - BUDGETS

The budget is officially adopted by the governing body prior to the beginning of its fiscal year, or a resolution authorizing the continuation of necessary and essential expenditures to operate the City will be adopted. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level, within the fund.

Transfers of appropriations within a department budget or within a non-departmental expenditure category require only the approval of the Finance Director and the City Manager. Increases in appropriations in a departmental budget or in a non-departmental expenditure category, require approval of the governing body in the form of amendments to the budget resolution.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. DEPOSITS

Total deposits as of June 30, 2012 are summarized as follows:

Statement of net assets:		
Cash and cash equivalents	\$	87,470
Statement of fiduciary assets and liabilities:		
Cash - agency fund		12,869
	\$	<u>100,339</u>
Cash deposited with financial institutions	\$	100,339
	\$	<u>100,339</u>

Custodial Credit Risk – Deposits: Custodial credit 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 or 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, 2012, all of the City’s bank balances were insured and/or collateralized as defined by GASB and State Statutes.

NOTE 6. RECEIVABLES

Property taxes are levied on property values assessed as of January 1. The City contracts with Fulton County to bill and collect property taxes. The taxes were levied on October 15 based on the assessed value of property as listed on the previous January 1 and were due 60 days following the billing date each year. Property taxes are recorded as receivables and deferred revenues when levied as they are intended to fund that fiscal year. Revenues are recognized when available.

Receivables at June 30, 2012, for the City’s individual major funds and aggregate nonmajor funds, including any applicable allowances for uncollectible accounts are as follows:

	General	Nonmajor Governmental	Total
Receivables:			
Taxes	\$ 91,629	\$ 7,967	\$ 99,596
Accounts	17,634	-	17,634
Intergovernmental	<u>166,517</u>	<u>-</u>	<u>166,517</u>
Total receivables	275,780	7,967	283,747
Less allowance for uncollectible	46,360	-	46,360
Net total receivable	<u>\$ 229,420</u>	<u>\$ 7,967</u>	<u>\$ 237,387</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 7. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Nondepreciable capital assets				
Land	\$ 992,554	\$ -	\$ -	\$ 992,554
Total	<u>992,554</u>	<u>-</u>	<u>-</u>	<u>992,554</u>
Capital assets, being depreciated:				
Buildings and improvements	196,576	-	-	196,576
Machinery and equipment	104,094	5,093	-	109,187
Vehicles	332,336	128,016	-	460,352
Infrastructure	2,574,770	150,188	-	2,724,958
Total	<u>3,207,776</u>	<u>283,297</u>	<u>-</u>	<u>3,491,073</u>
Less accumulated depreciation for:				
Buildings and improvements	(36,087)	(10,395)	-	(46,482)
Machinery and equipment	(36,570)	(14,383)	-	(50,953)
Vehicles	(158,497)	(67,375)	-	(225,872)
Infrastructure	(713,842)	(190,733)	-	(904,575)
Total	<u>(944,996)</u>	<u>(282,886)</u>	<u>-</u>	<u>(1,227,882)</u>
Total capital assets being depreciated, net	<u>2,262,780</u>	<u>411</u>	<u>-</u>	<u>2,263,191</u>
Governmental activities capital assets, net	<u>\$ 3,255,334</u>	<u>\$ 411</u>	<u>\$ -</u>	<u>\$ 3,255,745</u>

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

Governmental activities:	
General government	\$ 3,337
Public safety	75,432
Public works	203,801
Culture and recreation	316
Total depreciation expense - governmental activities	<u>\$ 282,886</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 8. SHORT-TERM BORROWINGS

The City has a tax anticipation note for operating purposes of \$750,000 at a local financial institution. The borrowing, with an interest rate of 2.69%, matures on December 31, 2012. As of June 30, 2012, \$750,000 of principal was outstanding.

The City has a \$450,000 line of credit for operating purposes at a local financial institution. The borrowing, with an interest rate of 5.00%, matures on December 31, 2012. As of June 30, 2012, \$80,000 of principal was outstanding.

Total short-term borrowings interest incurred and expensed for the year ended June 30, 2012, was \$25,651.

The following is a summary of the City's short-term borrowings for the year ended June 30, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance
Tax anticipation note	\$ 500,000	\$ 750,000	\$ (500,000)	\$ 750,000
Line of credit	492,388	170,000	(582,388)	80,000
	\$ 992,388	\$ 920,000	\$ (1,082,388)	\$ 830,000

NOTE 9. LONG-TERM DEBT

Notes Payable

During the fiscal year 2009, the City entered into an agreement through a financial institution to borrow \$88,652 for the purchase of vehicles and equipment for the police and fire departments. Annual payments of \$31,877, including interest at a rate of 3.71% begin in October 2010 and will continue through October 2012. The outstanding balance at June 30, 2012 is \$30,736.

In July 2011, the City entered into an agreement through a financial institution to borrow \$147,846 for the purchase of two police vehicles and one public works vehicle. Annual payments of \$39,832, including interest at a rate of 3.06% began in July 2012 and will continue through July 2015. The outstanding balance at June 30, 2012 is \$147,846.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. LONG-TERM DEBT (CONTINUED)

The total debt service requirements to maturity for the City's outstanding notes are as follows:

Fiscal year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 66,045	\$ 5,663	\$ 71,708
2014	36,388	3,444	39,832
2015	37,501	2,331	39,832
2016	38,648	1,184	39,832
	<u>\$ 178,582</u>	<u>\$ 12,622</u>	<u>\$ 191,204</u>

Changes in Long-Term Liabilities

The following is a summary of long-term debt activity of the City for the year ended June 30, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Notes payable	\$ 122,372	\$ 147,846	\$ (91,636)	\$ 178,582	\$ 66,045
Compensated absences	93,141	84,701	(119,830)	58,012	58,012
Governmental activity					
Long-term liabilities	<u>\$ 215,513</u>	<u>\$ 232,547</u>	<u>\$ (211,466)</u>	<u>\$ 236,594</u>	<u>\$ 124,057</u>

For governmental activities, compensated absences are generally liquidated by the general fund.

NOTE 10. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2012 is as follows:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Nonmajor governmental funds	General Fund	\$ 3,074

All interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

Interfund transfers:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	\$ 21,535
Capital Projects Fund	General Fund	92,112

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) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of management and legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

NOTE 12. DEFINED CONTRIBUTION RETIREMENT PLAN

The City of Chattahoochee Hills' Profit Sharing Plan is a single employer defined contribution plan established and administered by ICMA-RC for all City employees. At June 30, 2012, there were 36 plan members. The City matches 100% for each dollar of employee contributions up to 3.75% of the employee's salary. Employees are required to contribute 3.75% of their compensation to the Plan. Employees are eligible and fully vested immediately upon entering the Plan. Plan provisions and contribution requirements are established and may be amended by the City's Council. For the fiscal year ending June 30, 2012, employer contributions to the Plan were \$46,101.

The City of Chattahoochee Hills' Internal Revenue Code Section 457 Plan (the "Plan") is a deferred compensation plan and qualifies as a defined contribution plan. The Plan is administered by ICMA-RC for all full time employees. At June 30, 2012, there were 7 plan members. Employees are not required to contribute to the Plan. Employees may contribute a portion of their gross salary up to the maximum amount allowed by the IRS. The City matches at a rate of 100% of the employee's contribution up to 3% of the employee's salary. Plan provisions and contribution requirements are established and may be amended by the City's Council. For the fiscal year ending June 30, 2012, the contributions to the Plan were \$24,629 by the employees and \$1,495 by the City.

NOTES TO FINANCIAL STATEMENTS

NOTE 13. JOINT VENTURE

Under Georgia law, the City, in conjunction with other cities around the Metropolitan Atlanta Georgia area, is a member of the Atlanta Regional Commission (ARC) and is required to pay annual dues thereto, which Fulton County has paid on behalf of the City of Chattahoochee Hills. Membership in ARC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34, which provides for the organization structure of ARC. ARC Board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of the ARC. Separate financial statements may be obtained from ARC, 40 Courtland Street NE, Atlanta, Georgia 30303.

NOTE 14. HOTEL/MOTEL LODGING TAX

The City has levied a 7% lodging tax. The Official Code of Georgia Annotated 48-13-50 requires that all lodging taxes levied of 5% or more be expended or obligated contractually for the promotion of tourism, conventions, or trade shows. During the year ended June 30, 2012, the City received \$75,403 in hotel/motel taxes. Of this amount, \$53,868, or 71.4%, was used for the promotion of tourism, conventions, or trade shows.

NOTE 15. RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for these risks of losses. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage in the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CHATTAHOOCHEE HILLS, GEORGIA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2012**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 1,466,262	\$ 1,214,742	\$ 1,128,645	\$ (86,097)
Sales taxes	584,500	606,058	631,546	25,488
Franchise taxes	109,000	102,000	102,936	936
Business taxes	140,000	126,538	127,527	989
Licenses and permits	25,000	24,000	24,579	579
Fines and forfeitures	260,000	225,000	228,127	3,127
Charges for services	50,000	50,000	57,729	7,729
Intergovernmental	35,083	19,000	119,017	100,017
Interest earned	500	500	592	92
Contributions	-	-	503	503
Miscellaneous	10,000	8,000	8,483	483
Total revenues	<u>2,680,345</u>	<u>2,375,838</u>	<u>2,429,684</u>	<u>53,846</u>
Expenditures:				
Current:				
General government:				
City council	226,940	140,000	139,005	995
General operations	361,615	374,151	370,355	3,796
Total general government	<u>588,555</u>	<u>514,151</u>	<u>509,360</u>	<u>4,791</u>
Judicial:				
Municipal court	111,989	106,100	98,622	7,478
Total municipal court	<u>111,989</u>	<u>106,100</u>	<u>98,622</u>	<u>7,478</u>
Public safety:				
Police	705,184	651,138	627,502	23,636
Fire	595,521	529,284	523,008	6,276
Total public safety	<u>1,300,705</u>	<u>1,180,422</u>	<u>1,150,510</u>	<u>29,912</u>
Public works	<u>341,302</u>	<u>281,928</u>	<u>255,923</u>	<u>26,005</u>
Culture and recreation	<u>59,574</u>	<u>43,661</u>	<u>30,252</u>	<u>13,409</u>
Community development	<u>80,628</u>	<u>45,000</u>	<u>43,521</u>	<u>1,479</u>
Debt service:				
Principal	91,636	91,636	91,636	-
Interest	26,050	42,363	37,765	4,598
Total debt service	<u>117,686</u>	<u>133,999</u>	<u>129,401</u>	<u>4,598</u>
Total expenditures	<u>2,600,439</u>	<u>2,305,261</u>	<u>2,217,589</u>	<u>74,263</u>
Excess of revenues over expenditures	<u>79,906</u>	<u>70,577</u>	<u>212,095</u>	<u>141,518</u>

Continued

CITY OF CHATTAHOOCHEE HILLS, GEORGIA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2012**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Other financing sources (uses):				
Transfers in	\$ 20,135	\$ 21,535	\$ 21,535	\$ -
Transfers out	(100,041)	(92,112)	(92,112)	-
Total other financing sources (uses)	(79,906)	(70,577)	(70,577)	-
Net change in fund balance	-	-	141,518	141,518
Fund balance, beginning of year	(1,005,681)	(1,005,681)	(1,005,681)	-
Fund balance, end of year	<u>\$ (1,005,681)</u>	<u>\$ (1,005,681)</u>	<u>\$ (864,163)</u>	<u>\$ 141,518</u>

Note: See footnotes 1 and 3 of the basic financial statements for budgetary policies.