

**City of Cumming, Georgia**

**Financial Statements**

**With Independent Auditor's Report**

**For the year ended December 31, 2012**

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**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor, Members of the  
City Council and City Administrator  
City of Cumming, Georgia

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City of Cumming, Georgia (the City) as of and for the year ended December 31, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City of Cumming, Georgia, as of December 31, 2012, and the respective changes in financial position, and, where applicable, cash flows, thereof, and the respective budgetary comparison for the General Fund for the year ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information on pages 5 through 8 and 38 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.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The schedule of projects funded with special purpose 1% local option sales tax is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of projects funded with special purpose 1% local option sales tax is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated March 19, 2013, 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 the 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 conjunction with this report in considering the results of our audit.

Cumming, Georgia  
March 19, 2013

*LeRoy, Cole + Stephens, LLC*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Cumming's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2012.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$213,432,056. Of this amount \$30,789,036 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$12,545,666.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$16,286,509, an increase of \$2,956,813 in comparison with the prior year.
- At the end of the current fiscal year, the City's unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) and its unassigned fund balance for the general fund was \$5,348,520, or approximately 59% of total general fund expenditures.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 11-12) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

#### Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities that explain whether the City is in a better or worse position as a whole as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. The measurement of increases and decreases in a City's net position –the difference between assets and liabilities- over time are one indicator of the City's overall financial position. An increase in Net Position indicates an improvement in the City's financial condition, whereas a decrease in Net Position may indicate deterioration in financial condition.

In the Statement of Net Position and the Statement of Activities, we divide the City into two types of activities:

- Governmental activities – Most of the City's basic services are reported here, including police, fire, street, planning and parks departments as well as general administration, the fairgrounds and the Playhouse Theater. Most of these activities are funded by franchise, licensing, and permit fees, program fees, and sales tax as well as fees for services.
- Business type activities – The City charges a fee to customers to cover the cost of certain services it provides. The City's water and sewer system is reported here.

The government-wide financial statements include not on the City of Cumming, Georgia itself (known as the primary government), but also a legally separate Downtown Development Authority for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

#### Reporting the City's Most Significant Funds

The fund financial statements begin on page 14 and provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law. However, the City Council may also establish other funds to help it control and manage money for particular purposes, or to show that it is meeting its responsibilities in how a particular type of resource is handled. The City's two kinds of funds are:

- Governmental Funds – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- Proprietary Funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for this fund.

## THE CITY AS A WHOLE

The City's combined net position increased during 2012 by \$12,545,666, of which \$218,920 was an increase in governmental activities and \$12,326,746 was an increase in business-type activities.

**Table 1**  
**Net Position**  
**December 31, 2012**

	<u>Governmental activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Current and Other Assets	\$ 13,926,046	\$ 16,975,395	\$ 24,922,440	\$ 38,609,608	\$ 38,848,486	\$ 55,585,003
Capital Assets	<u>74,177,301</u>	<u>71,898,632</u>	<u>92,785,814</u>	<u>91,704,140</u>	<u>166,963,115</u>	<u>163,602,772</u>
Total Assets	<u>\$ 88,103,347</u>	<u>\$ 88,874,027</u>	<u>\$ 117,708,254</u>	<u>\$ 130,313,748</u>	<u>\$ 205,811,601</u>	<u>\$ 219,187,775</u>
Current Liabilities	\$ 596,350	\$ 688,886	\$ 796,333	\$ 473,417	\$ 1,392,683	\$ 1,162,303
Non Current Liabilities	<u>1,770,749</u>	<u>2,229,973</u>	<u>1,761,779</u>	<u>2,363,443</u>	<u>3,532,528</u>	<u>4,593,416</u>
Total Liabilities	<u>2,367,099</u>	<u>2,918,859</u>	<u>2,558,112</u>	<u>2,836,860</u>	<u>4,925,211</u>	<u>5,755,719</u>
Net Position:						
Invested in Capital Assets	74,177,301	71,898,632	92,785,814	91,704,140	166,963,115	163,602,772
Restricted	5,431,260	6,712,874	9,074,791	12,327,374	14,506,051	19,040,248
Unrestricted	<u>6,127,687</u>	<u>7,343,662</u>	<u>13,289,537</u>	<u>23,445,374</u>	<u>19,417,224</u>	<u>30,789,036</u>
Total Net Position	<u>\$ 85,736,248</u>	<u>\$ 85,955,168</u>	<u>\$ 115,150,142</u>	<u>\$ 127,476,888</u>	<u>\$ 200,886,390</u>	<u>\$ 213,432,056</u>

**Table 2**  
**Changes in Net Position**  
**December 31, 2012**

	<u>Governmental activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 3,894,522	\$ 4,596,624	\$ 14,553,425	\$ 14,265,696	\$ 18,447,947	\$ 18,862,320
Operating Grants & Contributions		6,000				6,000
Capital Grants & Contributions	2,954,418	1,401,956	679,748	12,425,998	3,634,166	13,827,954
General Revenues:						
Sales Taxes	4,381,910	4,635,839			4,381,910	4,635,839
Franchise Taxes	941,370	1,002,218			941,370	1,002,218
Insurance Premium Taxes	254,690	270,523			254,690	270,523
Alcoholic Beverage Taxes	679,374	630,139			679,374	630,139
Hotel/Motel Taxes	27,819	29,710			27,819	29,710
Unrestricted Investment Earnings	12,202	2	34,244	26,753	46,446	26,755
Restricted Investment Earnings			191,394	179,996	191,394	179,996
Grants & Contributions not restricted to Programs	5,150	805			5,150	805
<b>Total Revenues</b>	<u>\$ 13,151,455</u>	<u>\$ 12,573,816</u>	<u>\$ 15,458,811</u>	<u>\$ 26,898,443</u>	<u>\$ 28,610,266</u>	<u>\$ 39,472,259</u>
<b>Program Expenses</b>						
General Government	\$ 2,876,847	\$ 1,243,008	\$	\$	\$ 2,876,847	\$ 1,243,008
Public Safety	1,811,729	1,885,572			1,811,729	1,885,572
Streets	3,101,933	3,093,349			3,101,933	3,093,349
Sanitation	347,735	339,636			347,735	339,636
Planning & Zoning	433,474	444,229			433,474	444,229
Culture & Recreation	3,010,418	5,349,102			3,010,418	5,349,102
Water & Sewer			17,183,521	14,571,697	17,183,521	14,571,697
<b>Total Expenses</b>	<u>11,582,136</u>	<u>12,354,896</u>	<u>17,183,521</u>	<u>14,571,697</u>	<u>28,765,657</u>	<u>26,926,593</u>
<b>Increases in Net Position</b>	<u>\$ 1,569,319</u>	<u>\$ 218,920</u>	<u>\$ (1,724,710)</u>	<u>\$ 12,326,746</u>	<u>\$ (155,391)</u>	<u>\$ 12,545,666</u>

Total government wide revenue for 2012 was \$39,472,259 with \$18,862,320 in charges for services, \$13,834,759 in grants and contributions, \$6,568,429 in taxes, and \$206,751 in investment earnings. Of this amount, \$12,573,816 was in governmental activities and \$26,898,443 in business-type activities.

The City's expenses for 2012 government wide were 26,926,593 with \$12,354,896 of the total included in governmental activities and \$14,571,697 for business type activities.

### Governmental Activities

The City's 2012 governmental activities revenues decreased by \$577,639. This amount is comprised of decreases in Capital Grants and Contributions and increases in charges for services and sales taxes.

The cost of all governmental activities this year was \$12,354,896. Of this amount, \$4,596,624 was paid by program fees from those who directly benefited from the programs. The remainder was financed by other sources of revenue such as beverage and sales taxes as well as other general revenues. Table 3 presents the total cost of each of the City's largest programs as well as each program's net cost (total cost less revenues generated by the activities.) The net cost reflects the amount that was financed by general revenues other than program fees.

**Table 3**  
**Governmental Activities**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
General Government	\$ 2,876,847	\$ 1,243,008	\$ 1,442,115	\$ (296,915)
Public Safety	1,811,729	1,885,572	1,498,616	1,623,138
Streets	3,101,933	3,093,349	1,404,227	3,023,438
Sanitation	347,735	339,636	(66,532)	(91,709)
Planning & Zoning	433,474	444,229	(58,961)	(27,249)
Culture and Recreation	<u>3,010,418</u>	<u>5,349,102</u>	<u>513,731</u>	<u>2,119,613</u>
Totals	<u>\$ 11,582,136</u>	<u>\$ 12,354,896</u>	<u>\$ 4,733,196</u>	<u>\$ 6,350,316</u>

### Business-type Activities

Revenues of the City's business-type activities (see Table 2) increased by \$11,439,632, and expenses decreased by \$2,611,824. Revenues increased primarily due to an increase in capital grants and contributions. Expenses decreased primarily due to the absence of the land donation to North Georgia College that took place in 2011.

### THE CITY'S FUNDS

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 of the City's funds can be divided into three categories: governmental funds, proprietary 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 spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government'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 government's near-term financing decision. 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 maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital projects fund, both of which are considered major funds. Data from the third fund is presented in a separate column labeled non-major fund.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14 - 17 of this report.

**Proprietary funds.** The City maintains one proprietary fund – an enterprise fund that is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer authority.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The water and sewer enterprise fund is considered a major fund since it is the only proprietary fund maintained by the City.

The basic proprietary fund financial statements can be found on pages 18 - 20 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 can be found on pages 21 – 36 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 38 of this report.

In addition, the City has included certain other supplementary information that is not required supplementary information. The City has included a schedule that shows the capital projects funded by the 1% Special Purpose Local Option Sales Tax. The schedule can be found on page 40 of this report.

### **General Fund Budgetary Highlights**

During 2012, there was a \$402,700 increase in the total of expenditures and transfers between the original and final amended budget. Of this increase, \$346,700 was offset by an increase in sales taxes. The remaining \$56,000 increase reflects increases in revenues such as fees for services and other revenues such as admissions for a net total increase of 4% of the total budget.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2012, the City had \$163,602,772 invested in a broad range of capital assets, including buildings, plants, park facilities, streets and water and sewer lines. This represents a net decrease of \$3,360,343. This decrease reflects the depreciation of existing assets and a year with few additions of new assets.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The 2013 budget reflects anticipated general fund revenues of \$11,166,900 and is balanced including a contingency reserve of \$1,200,000. This represents an increase of 1% over the final budget for 2012. This reflects an expected increase in revenues from sales taxes and an increase in fees for services expected to be generated from growing use of the Cumming Aquatic Center. The water and sewer fund budget reflects anticipated revenues of \$12,509,000. This budgeted amount represents a decrease of 4% compared to 2012. This decrease is due to an expected decrease in water usage.

Construction is ongoing on various capital projects for the Water and Sewer system.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Cumming's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or for additional financial information should be addressed to the City Clerk, 100 Main Street, Cumming, Georgia 30040.



## **BASIC FINANCIAL STATEMENTS**

## **Government-wide Financial Statements**

**CITY OF CUMMING, GEORGIA**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2012**

	Primary Government			Component
	Governmental	Business-type		
	Activities	Activities	Total	Unit
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 4,966,054	\$ 23,976,556	\$ 28,942,610	\$ 173,211
Receivables, net	183,386	2,012,516	2,195,902	-
Intergovernmental receivable	464,011	-	464,011	-
Note receivable	-	-	-	405,000
Internal balances	324,519	(324,519)	-	-
Advances to component unit	4,055,000	-	4,055,000	-
Inventory	-	203,957	203,957	-
Prepaid expenses	19,408	19,524	38,932	-
Receivables-non-current	-	-	-	3,476,250
Restricted assets	6,963,017	12,721,574	19,684,591	-
Capital assets, not being depreciated	10,624,301	12,141,964	22,766,265	-
Capital assets, net of accumulated depreciation	61,274,331	79,562,176	140,836,507	-
Total Assets	<u>\$ 88,874,027</u>	<u>\$ 130,313,748</u>	<u>\$ 219,187,775</u>	<u>\$ 4,054,461</u>
<b><u>LIABILITIES</u></b>				
Accounts payable	\$ 260,789	\$ 426,699	\$ 687,488	\$ -
Accrued liabilities	44,161	41,168	85,329	-
Deferred revenue	130,645	-	130,645	-
Liabilities payable from restricted assets	253,291	5,550	258,841	-
Noncurrent liabilities:				
Due within one year	8,000	30,000	38,000	-
Due in more than one year	2,221,973	2,333,443	4,555,416	4,055,000
Total Liabilities	<u>2,918,859</u>	<u>2,836,860</u>	<u>5,755,719</u>	<u>4,055,000</u>
<b><u>NET POSITION</u></b>				
Invested in capital assets	71,898,632	91,704,140	163,602,772	-
Restricted for capital projects	6,709,726	12,327,374	19,037,100	-
Restricted for promotion of tourism	3,148	-	3,148	-
Unrestricted	7,343,662	23,445,374	30,789,036	(539)
Total Net Position	<u>\$ 85,955,168</u>	<u>\$ 127,476,888</u>	<u>\$ 213,432,056</u>	<u>\$ (539)</u>

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

**CITY OF CUMMING, GEORGIA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

Functions/Programs	Net (Expenses) Revenue and Changes in Net Assets						Component Unit	
	Program Revenues			Primary Government				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities		Total
Governmental activities:								
General government	\$ 1,243,008	\$ 207,878	\$ -	\$ 1,332,045	\$ 296,915	\$ -	\$ 296,915	\$
Public safety	1,885,572	262,434	-	-	(1,623,138)	-	(1,623,138)	
Streets	3,093,349	-	-	69,911	(3,023,438)	-	(3,023,438)	
Sanitation	339,636	431,345	-	-	91,709	-	91,709	
Planning and zoning	444,229	471,478	-	-	27,249	-	27,249	
Culture and recreation	5,349,102	3,223,489	6,000	-	(2,119,613)	-	(2,119,613)	
Total governmental activities	12,354,896	4,596,624	6,000	1,401,956	(6,350,316)	-	(6,350,316)	
Business-type activities:								
Water and sewer	14,571,697	14,265,696	-	12,425,998	-	12,119,997	12,119,997	
Total business-type activities	14,571,697	14,265,696	-	12,425,998	-	12,119,997	12,119,997	
Total City of Cumming	\$ 26,926,593	\$ 18,862,320	\$ 6,000	\$ 13,827,954	(6,350,316)	12,119,997	5,769,681	
Component unit								
Downtown Development Authority	\$ 539	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	(539)
Total component unit	\$ 539	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	(539)
General revenues:								
Sales taxes					4,635,839	-	4,635,839	
Franchise taxes					1,002,218	-	1,002,218	
Insurance premium taxes					270,523	-	270,523	
Hotel/Motel taxes					29,710	-	29,710	
Beverage taxes					630,139	-	630,139	
Grants and contributions not restricted to programs					805	-	805	
Unrestricted investment earnings					2	26,753	26,755	
Restricted investment earnings					-	179,996	179,996	
Total general revenues					6,569,236	206,749	6,775,985	
Change in net position					218,920	12,326,746	12,545,666	(539)
Net position-beginning					85,736,248	115,150,142	200,886,390	-
Net position-ending					\$ 85,955,168	\$ 127,476,888	\$ 213,432,056	(539)

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

## **Fund Financial Statements**

**CITY OF CUMMING, GEORGIA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2012**

	General	Major	Capital Projects	Nonmajor	Total
	Fund	SPLOST	Fund	Hotel/Motel Tax	Governmental
	Fund	Fund	Fund	Fund	Funds
<b><u>ASSETS</u></b>					
Cash and cash equivalents	\$ 4,757,593	\$ -	\$ 208,461	\$ -	\$ 4,966,054
Receivables, net					
Taxes receivable	-	-	-	1,974	1,974
Franchise fees	62,482	-	-	-	62,482
Beverage taxes	58,006	-	-	-	58,006
3% Beverage tax	6,851	-	-	-	6,851
Accounts receivable	5,019	-	-	-	5,019
Garbage collection charges	49,054	-	-	-	49,054
Intergovernmental receivable	464,011	-	-	-	464,011
Interfund receivables	356,879	-	2,610	3,149	362,638
Advances to component unit	4,055,000	-	-	-	4,055,000
Prepaid expenses	19,408	-	-	-	19,408
Restricted assets:					
Cash and cash equivalents	-	6,721,941	-	-	6,721,941
Receivables	-	241,076	-	-	241,076
Total Assets	<u>\$ 9,834,303</u>	<u>\$ 6,963,017</u>	<u>\$ 211,071</u>	<u>\$ 5,123</u>	<u>\$ 17,013,514</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>					
Accounts payable	\$ 233,420	\$ -	\$ 25,394	\$ 1,975	\$ 260,789
Accrued liabilities	44,161	-	-	-	44,161
Interfund payable	3,149	-	34,970	-	38,119
Deferred revenue	130,645	-	-	-	130,645
Liabilities payable from restricted assets	-	253,291	-	-	253,291
Total Liabilities	<u>411,375</u>	<u>253,291</u>	<u>60,364</u>	<u>1,975</u>	<u>727,005</u>
Fund balances:					
Nonspendable for long-term advances	4,055,000	-	-	-	4,055,000
Nonspendable for prepaid items	19,408	-	-	-	19,408
Restricted for capital projects	-	6,709,726	-	-	6,709,726
Restricted for promotion of tourism	-	-	-	3,148	3,148
Assigned to construction of capital assets	-	-	150,707	-	150,707
Unassigned	5,348,520	-	-	-	5,348,520
Total Fund Balances	<u>9,422,928</u>	<u>6,709,726</u>	<u>150,707</u>	<u>3,148</u>	<u>16,286,509</u>
Total Liabilities and Fund Balances	<u>\$ 9,834,303</u>	<u>\$ 6,963,017</u>	<u>\$ 211,071</u>	<u>\$ 5,123</u>	

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

71,898,632

Long-term liabilities, are not due and payable in the current period, therefore, are not reported in the funds.

OPEB Liability (2,083,458)

Compensated absences (146,515) (2,229,973)

Net position of governmental activities \$ 85,955,168

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

**CITY OF CUMMING, GEORGIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Major			Nonmajor	Total
	General	SPLOST	Capital Projects	Hotel/Motel Tax	Governmental
	Fund	Fund	Fund	Fund	Funds
<b>REVENUES</b>					
Taxes	\$ 6,538,720	\$ -	\$ -	\$ 29,710	\$ 6,568,430
Licenses and permits	591,143	-	-	-	591,143
Intergovernmental	69,911	1,325,514	-	-	1,395,425
Charges for services	3,781,214	-	-	-	3,781,214
Fines and forfeitures	224,266	-	-	-	224,266
Investment earnings	2	6,531	-	-	6,533
Contributions and donations	6,805	-	-	-	6,805
Total Revenues	<u>11,212,061</u>	<u>1,332,045</u>	<u>-</u>	<u>29,710</u>	<u>12,573,816</u>
<b>EXPENDITURES</b>					
Current:					
General government	1,010,678	-	-	-	1,010,678
Public Safety	1,794,389	-	-	-	1,794,389
Streets	1,036,295	-	-	-	1,036,295
Planning and zoning	400,465	-	-	-	400,465
Sanitation	339,636	-	-	-	339,636
Culture and recreation	4,500,213	-	-	29,710	4,529,923
Capital Outlay:					
General government	-	-	240,168	-	240,168
Streets	-	50,431	215,018	-	265,449
Total Expenditures	<u>9,081,676</u>	<u>50,431</u>	<u>455,186</u>	<u>29,710</u>	<u>9,617,003</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,130,385</u>	<u>1,281,614</u>	<u>(455,186)</u>	<u>-</u>	<u>2,956,813</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Change in fund balance	2,130,385	1,281,614	(455,186)	-	2,956,813
Fund balances - beginning	7,292,543	5,428,112	605,893	3,148	13,329,696
Fund balances - ending	<u>\$ 9,422,928</u>	<u>\$ 6,709,726</u>	<u>\$ 150,707</u>	<u>\$ 3,148</u>	<u>\$ 16,286,509</u>

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

**CITY OF CUMMING, GEORGIA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO**  
**THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balances - total governmental funds	\$ 2,956,813
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The change in net position reported for governmental activities in the statement of activities is different because:

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 the governmental funds.

Net change in OPEB liability	(467,569)	
Net change in long-term compensated absences	8,345	(459,224)

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 net capital outlays (\$797,046) exceeded depreciation (\$3,075,715) in the current period.

(2,278,669)

Change in net position of governmental activities	\$ 218,920
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The accompanying notes are an integral part of these financial statements.



**CITY OF CUMMING, GEORGIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Variance with	
	Original	Final	Actual Amounts	Budget
<b>REVENUES</b>				
Taxes	\$ 5,960,000	\$ 6,335,500	\$ 6,538,720	\$ (203,220)
Licenses and permits	575,000	612,000	591,143	20,857
Intergovernmental	-	70,000	69,911	89
Charges for services	3,740,100	3,788,100	3,781,214	6,886
Fines and forfeitures	350,000	230,000	224,266	5,734
Investment earnings	2,000	2,500	2	2,498
Contributions and donations	15,000	6,700	6,805	(105)
Total Revenues	10,642,100	11,044,800	11,212,061	(167,261)
<b>EXPENDITURES</b>				
Current:				
General government	855,050	1,355,050	1,010,678	344,372
Public Safety	1,708,600	2,008,600	1,794,389	214,211
Streets	1,464,550	1,583,750	1,036,295	547,455
Planning and zoning	392,650	492,650	400,465	92,185
Sanitation	339,200	390,000	339,636	50,364
Culture and recreation	4,113,750	5,214,750	4,500,213	714,537
Total Expenditures	8,873,800	11,044,800	9,081,676	1,963,124
Excess (deficiency) of revenues over (under) expenditures	1,768,300	-	2,130,385	(2,130,385)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(1,768,300)	-	-	-
Total other financing sources and uses	(1,768,300)	-	-	-
Change in fund balance	-	-	2,130,385	2,130,385
Fund balances - beginning	7,292,543	7,292,543	7,292,543	-
Fund balances - ending	\$ 7,292,543	\$ 7,292,543	\$ 9,422,928	\$ (2,130,385)

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

**CITY OF CUMMING, GEORGIA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2012**

	<u>Water and Sewer Fund</u>
<b>ASSETS</b>	
Current Assets:	
Cash on hand and in banks	\$ 23,976,556
Accounts receivable, net	2,012,516
Inventory	203,957
Prepaid expenses	19,524
Restricted cash	<u>394,200</u>
Total Current Assets	<u>26,606,753</u>
Noncurrent Assets:	
Restricted cash, cash equivalents and investments	<u>12,327,374</u>
Total Restricted Assets	<u>12,327,374</u>
Capital Assets:	
Capital assets, not being depreciated	12,141,964
Capital assets, being depreciated	<u>142,285,820</u>
	154,427,784
Accumulated depreciation	<u>(62,723,644)</u>
Net Capital Assets	<u>91,704,140</u>
Total Noncurrent Assets	<u>104,031,514</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 130,638,267</u></u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	\$ 426,699
Accrued liabilities	71,168
Due to other funds	324,519
Liabilities payable from restricted assets	<u>5,550</u>
Total Current Liabilities	<u>827,936</u>
Noncurrent Liabilities:	
Accrued employee benefits	59,135
Accrued OPEB Obligation	1,885,658
Customer's deposits	<u>388,650</u>
Total Noncurrent Liabilities	<u>2,333,443</u>
Total Liabilities	<u>3,161,379</u>
<b>NET POSITION</b>	
Invested in capital assets	91,704,140
Restricted for capital projects	12,327,374
Unrestricted	<u>23,445,374</u>
Total Net Position	<u><u>\$ 127,476,888</u></u>

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

**CITY OF CUMMING, GEORGIA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Water and Sewer Fund
<b>Operating Revenues:</b>	
Charges for services	\$ 14,265,696
Total Operating Revenues	<u>14,265,696</u>
<b>Operating Expenses:</b>	
Personal services	4,013,677
Purchased and contracted services	1,612,289
Supplies	2,745,155
Depreciation	<u>6,200,576</u>
Total Operating Expenses	<u>14,571,697</u>
Loss from operations	<u>(306,001)</u>
<b>Nonoperating Revenues/(Expenses):</b>	
Interest income	<u>206,749</u>
Total Nonoperating Revenues/(Expenses)	<u>206,749</u>
Loss before contributions	(99,252)
<b>Capital contributions - tap fees and other</b>	<u>12,425,998</u>
Change in net position	12,326,746
Total net position - beginning	<u>115,150,142</u>
Total net position - ending	<u>\$ 127,476,888</u>

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

**CITY OF CUMMING, GEORGIA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND TYPES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Water and Sewer Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 13,687,265
Payments to suppliers	(4,710,959)
Payments to employees	(3,572,619)
Net cash provided by operating activities	<u>5,403,687</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Advances from other funds	<u>213,385</u>
Net cash provided by noncapital financing activities	<u>213,385</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(5,118,902)
Proceeds from tap fees and sewer capacity reservations	<u>12,425,998</u>
Net cash used by capital and related financing activities	<u>7,307,096</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest	<u>206,749</u>
Net cash provided by investing activities	<u>206,749</u>
 <b>Net increase in cash and cash equivalents</b>	 13,130,917
Cash and cash equivalents at beginning of year	<u>23,567,213</u>
Cash and cash equivalents at end of year	<u><u>\$ 36,698,130</u></u>
 Cash and cash equivalents at end of year	 \$ 27,180,626
Investments	<u>9,517,504</u>
Cash, cash equivalents and investments at end of year	<u><u>\$ 36,698,130</u></u>
 <b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating Loss	\$ (306,001)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	6,200,576
Change in assets and liabilities:	
(Increase) decrease in accounts receivable (net)	(744,606)
(Increase) decrease in inventory	(6,048)
(Increase) decrease in prepaid expenses	(18,982)
Increase (decrease) in accounts payable	(40,049)
Increase (decrease) in accrued liabilities	(282,867)
Increase (decrease) in customer deposits	166,175
Increase (decrease) in accrued employee benefits	435,489
Net cash provided by operating activities	<u><u>\$ 5,403,687</u></u>

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

**CITY OF CUMMING, GEORGIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

The accounting methods and procedures adopted by the City of Cumming, Georgia, conform to generally accepted accounting principles as applied to governmental entities. The following notes to the financial statements are an integral part of the City's financial statements.

**I. Summary of significant accounting policies**

**A. Reporting entity**

The City of Cumming, Georgia is a municipal corporation incorporated in 1910 under provisions of the laws of Georgia. The city is governed by an elected mayor and five-member council and provides the following services in addition to general administrative responsibilities: public safety inclusive of police and fire protection, water and sewer, streets and sanitation, cultural and recreational activities, public improvements and planning and zoning.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. Certain of the significant changes in the Statement include the following:

- For the first time the financial statements include:
  - A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations. A comparative analysis of financial information is presented in the MD&A.
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

In conformity with generally accepted accounting principles, as set forth in Statement of Governmental Accounting Standards No. 14 "The Financial Reporting Entity", the accompanying financial statements present the government and its component units, entities for the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government also may be financial accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board. Imposition of will relates to the ability of the primary government to significantly influence the activities of the organization

At December 31, 2012 the City of Cumming, Georgia had no relationships with legally separate organizations that are required to be included in the reporting entity for financial statement purposes except as discussed in the following paragraph.

The Downtown Development Authority (a legally separate organization) established by OCGA 36-42-4 is a component unit of the City of Cumming, Georgia that requires discreet presentation. The City appoints all seven members of the board. Financial information of the Development Authority can be obtained from the City Clerk. The Development Authority operates on a calendar year. Separate financial statements for the Development Authority are not prepared.

**CITY OF CUMMING, GEORGIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for the primary government is financially accountable. The City's net position is reported in three parts - invested in capital assets, restricted and unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants 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.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise 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 proprietary fund financial statements. 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 government 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, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The general fund is the government'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 SPLOST capital projects fund is used to account for financial resources segregated for the acquisition or construction of major capital facilities funded with Special Purpose Local Option Sales Tax.

The capital projects fund is used to account for financial resources segregated for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

**CITY OF CUMMING, GEORGIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

The government reports the following major proprietary fund:

The water and sewer fund accounts for the activities of the sewage treatment plant, sewage pumping stations and collection systems, the water treatment plant and water distribution system.

The government has no other major funds.

Additionally, the government reports the following fund types:

The Hotel/Motel Tax special revenue fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. 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 government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various function concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When fund balance resources are available for a specific purpose in more than one classification, it is the City's policy to use the most restrictive funds first in the following order: restricted, committed, assigned and unassigned as they are needed.

**D. Assets, liabilities, and net assets or equity**

**1. Cash and investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City is authorized to invest idle cash from operating accounts for the purpose of increasing income through investment activities. State statutes authorize the City to invest in obligations of states, the United States government, obligations fully insured or guaranteed by the United States government or its agency, obligations of any corporation of the United States government, prime bankers' acceptances, the local government investment pool established by Code Section 36-83-8, repurchase agreements, and obligations of other political subdivisions of the Georgia.

**CITY OF CUMMING, GEORGIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

Cash and investments are separately held and reflected in their respective funds. Investments in certificates of deposit with an original maturity of one year or less are stated at amortized cost all others are stated at fair value based on quoted market prices. Investments in the State Treasurer's investment pool are stated at fair value which equals the value of the pool shares. The City has not elected to report realized gains and losses. Participation in the State Treasurer's investment pool is voluntary and no income from investments associated with one fund is assigned to another fund. The State Treasurer's investment pool is managed by the State Treasurer and represents the combined state general fund and local government investment pool.

The State Depository Board exercises oversight responsibility over Georgia Fund 1. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. The State Depository Board reviews the investment policy and management fee structure. Georgia Fund 1 is not registered with the Securities and Exchange Commission (SEC) as an investment company, but does operate in a manner consistent with the SEC's rule 2a-7 of the investment Company Act of 1940. The pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal. Net asset value is calculated weekly to ensure stability. The pool is rated AAAM by Standard & Poor's. In order to provide its shareholders with a safe and liquid investment pool, the State Treasurer invests pool assets in U.S. Treasury Obligations, securities issued or guaranteed as to principal and interest by the U.S. Government or any of its agencies or instrumentalities, bankers acceptances and repurchase agreements contracted with highly rated counterparties. The City uses the weighted average maturity (WAM) method to report interest rate risk. As of December 31, 2012 the funds' WAM is 40 days.

**2. Receivables and payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the Noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of an allowance for uncollectibles. The trade accounts receivable allowance is calculated based on historical results see footnote IV B for further information..

**3. Inventories and prepaid items**

All inventories are valued at cost, which approximates market, using the average cost method. Inventories in the Enterprise Fund consist of expendable supplies held for consumption and items needed for repairs or improvements to the utility system. The cost is recorded as an asset at the time individual inventory items are purchased. Governmental funds did not maintain inventories at December 31, 2012.

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

**4. Restricted assets**

Certain resources accumulated in the capital projects fund and the water and sewer enterprise funds are restricted for construction of capital assets. The government-wide statement of net position reports \$19,684,591 of restricted net assets, of which \$6,963,017 is restricted by enabling legislation.



**CITY OF CUMMING, GEORGIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**5. Capital assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$50,000 for infrastructure and \$10,000 for equipment and vehicles (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

In the case of the initial capitalization of general infrastructure assets (i.e. those reported by governmental activities), the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending. As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the City values these capital assets at the estimated fair value of the item at the date of its donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the City during the year was \$0.

Property, plant and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Public domain infrastructure	10 - 50
Buildings	10 - 40
Sewer treatment plant and improvements	20 - 30
Water system plant and improvements	15 - 30
Water distribution system	20 - 30
Autos and trucks	3 - 7
Machinery and equipment	3 - 10

**6. Compensated absences**

It is the government's policy to permit employees to accumulate earned but unused paid time off. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. For all governmental activities compensated activities are generally liquidated by the general fund.

**7. Long-term obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

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**8. Fund equity**

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are reported only in the general fund.

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service or other purposes).

**9. Comparative data/reclassifications**

Comparative total data for the prior year has not been presented. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**10. Management 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures/expenses during the period. Actual results could differ from those estimates.

**II. Reconciliation of government-wide 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, including compensated absences are not due and payable in the current period, therefore, are not reported in the funds. The City excluded accrued compensated absences in the amount of \$146,515 and OPEB liabilities in the amount of \$2,083,458 from the fund financial statements because they are not due and payable in the current period. The City also excluded \$71,898,632 of capital assets from the fund statements. See footnote IV C for additional information regarding the components of the capital assets included in the government-wide statement of net assets.

**CITY OF CUMMING, GEORGIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**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 changes in fund balances - total governmental funds and changes 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 (\$2,278,669) difference are as follows:

Capital outlay	\$ 797,046
Depreciation expense	<u>(3,075,715)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	\$ <u>(2,278,669)</u>

Another element of that 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 (\$459,224) difference are as follows:

Net change in OPEB liability	\$ (467,569)
Compensated absences	<u>8,345</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	\$ <u>(459,224)</u>

**III. Stewardship, compliance and accountability**

**A. Budgetary information**

An operating budget is legally adopted each fiscal year for the general, capital projects and special revenue funds. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

Generally, on or before the third Tuesday in August of each year, all departments of the government submit requests for appropriations to the government's administrator so that a budget may be prepared. Before the third Tuesday in October, the proposed budget is presented to the government's council for review. The council holds public hearings and a final budget is adopted no later than December 31.

The appropriated budget is prepared by fund, function and department. The government's department heads may make transfers of appropriation within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) is the department level. The City made certain supplemental appropriations during the year based on revenues received in excess of budgeted amounts. The general fund amended budget amounts are reflected in a separate column on the statement of revenues, expenditures and changes in fund balances-budget and actual.

Encumbrances are defined as commitments related to unperformed contracts for goods or services. The City does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

**CITY OF CUMMING, GEORGIA**  
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**B. Excess of expenditures over appropriations**

For the year ended December 31, 2012, expenditures did not exceed appropriations in any department (legal level of budgetary control).

**C. Deficit fund equity**

No funds reflected deficit fund equity at December 31, 2012.

**IV. Detailed notes on all funds**

**A. Cash and investments**

At December 31, 2012, the carrying amount of the City's cash deposits was \$38,868,621 and the bank balance was \$39,009,111.

The City's investments consist of certificates of deposit and deposits in the State Treasurer's investment pool (included above). The City elects to exclude investments with maturity of one year or less from the date of purchase from fair value reporting. These investments are stated at amortized cost. Investments in the State Treasurer's investment pool are stated at fair value. Fair value equals the value of the pool shares.

At December 31, 2012, the City's investments in certificates of deposit (stated at fair value) not included above was \$9,517,504 and their WAM is 327 days and the City's deposits in the State Treasurer's investment pool totaled \$3,205,119. Total deposits and investments as of December 31, 2012, are summarized as follows:

Carrying amount of deposits	\$ 35,663,502
Carrying amount of local government investment pool	3,205,119
Total shown above	38,868,621
Carrying amount of investments in certificates of deposit	9,517,504
Total deposits and investments	<u>\$ 48,386,125</u>
Cash on hand and in banks-total city	\$ 28,942,610
Restricted cash-SPLOST fund	6,721,941
Restricted cash and investments-enterprise fund	12,721,574
Total shown on financial statements	<u>\$ 48,386,125</u>

Credit Risk

The City does not have a formal policy that would limit its credit risk beyond the limits imposed by state law. See footnote 1.D for information on authorized investments and the local government investment pool's credit rating.

Custodial Risk-Deposits and Investments

Custodial risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Georgia law governs collateral requirements for public deposits and requires depository institutions to maintain collateral equal to 110% of the City's deposits. The City does not have a deposit policy for custodial risk that would extend the requirements beyond state law. The City's cash, cash equivalents and investments are typically either covered by federal depository insurance, collateralized with securities held by the City's agent in the City's name or held by state treasurer's collateral pool which provides for additional assessments in the event that the pools collateral is insufficient to cover losses and therefore is similar to depository insurance. At December 31, 2012, all deposits and investments of the City were adequately insured or collateralized.

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**B. Receivables**

Receivables as of year end for the government's individual major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

<u>Receivables</u>	<u>General Fund</u>	<u>SPLOST Fund</u>	<u>Enterprise Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Taxes	\$ 127,339	\$ 241,076	\$	\$ 1,974	\$ 370,389
Accounts	58,988		2,138,516		2,197,504
Gross total receivables	186,327	241,076	2,138,516	1,974	2,567,893
Less: allowance for uncollectibles	(4,915)		(126,000)		(130,915)
Net total receivables	\$ 181,412	\$ 241,076	\$ 2,012,516	\$ 1,974	\$ 2,436,978

All of the receivables are expected to be collected within one year.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Due from other Governments at December 31, 2012, consists of sales taxes due from the State of Georgia Department of Revenue.

**C. Capital assets**

Capital asset activity for the year ended December 31, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 10,470,265	\$ 154,036	\$ -	\$ 10,624,301
Construction in progress	190,014		190,014	-
Total capital assets, not being depreciated	10,660,279	154,036	190,014	10,624,301
Capital assets, being depreciated:				
Buildings	32,358,551	86,132	-	32,444,683
Improvements other than buildings	6,342,554	289,782	-	6,632,336
Equipment	2,870,339	191,661	20,380	3,041,620
Infrastructure	56,683,495	265,449	-	56,948,944
Total capital assets, being depreciated	98,254,939	833,024	20,380	99,067,583
Less accumulated depreciation for:				
Buildings	3,580,900	793,769	-	4,374,669
Improvements other than buildings	2,039,006	165,562	-	2,204,568
Equipment	2,537,535	111,060	20,380	2,628,215
Infrastructure	26,580,476	2,005,324	-	28,585,800
Total accumulated depreciation	34,737,917	3,075,715	20,380	37,793,252
Total capital assets, being depreciated, net	63,517,022	(2,242,691)	-	61,274,331
Governmental activities capital assets, net	\$ 74,177,301	\$ (2,088,655)	\$ 190,014	\$ 71,898,632

**CITY OF CUMMING, GEORGIA**  
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	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 6,403,466	\$ 3,765,673	\$ -	\$ 10,169,139
Construction in progress	869,318	1,342,407	238,900	1,972,825
Total capital assets, not being depreciated	<u>7,272,784</u>	<u>5,108,080</u>	<u>238,900</u>	<u>12,141,964</u>
Capital assets, being depreciated:				
Buildings	4,630,976	-	-	4,630,976
Water distribution system general	38,283,573	168,938	-	38,452,511
Water system plant	44,187,286	62,515	-	44,249,801
Wastewater treatment plant	53,179,147	-	-	53,179,147
Autos and trucks	778,139	18,269	-	796,408
Machinery and equipment	976,973	-	-	976,973
Total capital assets, being depreciated	<u>142,036,094</u>	<u>249,722</u>	<u>-</u>	<u>142,285,816</u>
Less accumulated depreciation for:				
Buildings	1,143,463	115,774		1,259,237
Water distribution system general	20,944,392	1,507,985		22,452,377
Water system plant	15,683,608	2,005,632		17,689,240
Wastewater treatment plant	17,067,994	2,513,555		19,581,549
Autos and trucks	667,415	11,176		678,591
Machinery and equipment	1,016,192	46,454		1,062,646
Total accumulated depreciation	<u>56,523,064</u>	<u>6,200,576</u>	<u>-</u>	<u>62,723,640</u>
Total capital assets, being depreciated, net	<u>85,513,030</u>	<u>(5,950,854)</u>	<u>-</u>	<u>79,562,176</u>
Business-type activities capital assets, net	<u>\$ 92,785,814</u>	<u>\$ (842,774)</u>	<u>\$ 238,900</u>	<u>\$ 91,704,140</u>

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

**Governmental activities:**

General government	\$ 180,245
Public safety	69,700
Highway and streets, including depreciation of general infrastructure assets	2,038,678
Planning and zoning	13,893
Culture and recreation	<u>773,199</u>
Total depreciation expense - governmental activities	<u>\$ 3,075,715</u>

**Business-type activities:**

Water and sewer	\$ 6,200,576
Total depreciation expense - business-type activities	<u>\$ 6,200,576</u>

**Construction commitments**

The government has construction commitments outstanding as of December 31, 2012 for several projects in progress at year-end. The remaining amount due under the contracts as of December 31, 2012 was \$246,784.

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**D. Interfund receivables, payables and transfers**

The composition of interfund balances which relate primarily to expense reimbursements and other transfers as of December 31, 2012, is as follows:

Due to/from and advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Capital projects fund	\$ 34,970
General fund	Water and sewer fund	321,909
Hotel/motel tax fund	General fund	3,149
Capital projects fund	Water and sewer fund	2,610

\* Balance not expected to be paid within one year

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations. During 2012, there were no transfers between funds.

**E. Long-term liabilities**

There is no outstanding long-term debt at December 31, 2012.

Changes in Long-term liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
OPEB obligation	\$ 1,615,889	\$ 467,569	\$ -	\$ 2,083,458	\$ -
Compensated absences	154,860		8,345	146,515	8,000
Governmental activity long-term liabilities	<u>\$ 1,770,749</u>	<u>\$ 467,569</u>	<u>\$ 8,345</u>	<u>\$ 2,229,973</u>	<u>\$ 8,000</u>
Business-type activities:					
Customer deposits	\$ 222,475	\$ 166,175	\$ -	\$ 388,650	\$ -
OPEB obligation	1,448,703	436,955		1,885,658	
Compensated absences	90,601		1,466	89,135	30,000
Business-type activity long-term liabilities	<u>\$ 1,761,779</u>	<u>\$ 603,130</u>	<u>\$ 1,466</u>	<u>\$ 2,363,443</u>	<u>\$ 30,000</u>

**CITY OF CUMMING, GEORGIA**  
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**V. Other information**

**A. Risk management**

The government is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omission; and natural disasters for which the government carries commercial insurance.

No significant reductions in insurance coverage occurred in 2012. The City did not settle any claims during the last three years that exceeded insurance coverage and had a material effect on the financial statements.

Pursuant to Title 34, Chapter 9, Article 5 of the Official Code of Georgia Annotated, the City is a member of the Georgia Municipal Association Workers' Compensation Self Insurance Fund. The liability of the fund to the employees of any employer (City of Cumming) is specifically limited to such obligations as are imposed by applicable state laws against the employer for workers' compensation and/or employer's liability. The City is obligated to pay all contributions and assessments as prescribed by the fund.

The Fund is to defend, in the name of and on behalf of the members, any suits or other proceeding which may at any time be instituted against them on account of injuries or death within the preview of the Workers' Compensation Law of Georgia, or on the basis of employee's liability, including suits or other proceedings alleging such injuries and demanding compensation therefore, although such suits, other proceedings, allegations or demands be wholly groundless, false or fraudulent. The Fund is to pay all costs taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

**B. Contingent liabilities**

The City is a defendant in several lawsuits in the ordinary course of business. The City's legal counsel believes that any potential loss is undeterminable at this point. The City intends to vigorously contest each lawsuit.

**C. Joint Venture**

The City, in conjunction with cities and counties in the immediately surrounding area are members of the Georgia Mountain Regional Commission. Membership in a commission is automatic for each municipality and county in the state. The official Code of Georgia provides for the organizational structure. Members are required by law to pay certain minimum dues to the commission. GMRC assesses membership dues at a rate per capita based on the last official U.S. Census of Population or official estimate by the Georgia Office of Planning and Budget, whichever is current and certified by Georgia Department of Community of Affairs. The City's portion of 2012 dues was timely paid and was less than \$1,000. The commission board membership includes the chief elected official of each county and municipality. The County and Municipal board members from the same county elect one member of the board who is a resident (but not an elected or appointed official or employee of the County or Municipality) to serve as the nonpublic board member from a County.

The Georgia Planning Act of 1989 (OCGA 50-8-34) defines RDC's as "public agencies and instrumentality's" of their members Georgia laws also provide that the member governments are liable for any debts or obligations of a commission beyond its resources. (OCGA 50-8-39.1) Georgia Mountain Regional Development Commission financial statements are available upon request by writing to P.O. Box 1720 Gainesville, Georgia 30503.

**D. Related organization**

Pursuant to OCGA 8-3-50, the City's officials are responsible for appointing the members of the board of the Cumming Housing Authority, but the City's accountability for the housing authority does not extend beyond making the appointments. During 2012, the City did not provide any funding for the Cumming housing authority.



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**E. Employee retirement systems and pension plans**

The City Council approved the adoption of a retirement plan effective January 1, 1987. The City contributes to the Georgia Municipal Association (GMA) Employee Benefit System (The Plan), an agent multiple employer defined benefit pension plan which is a public employee retirement system that acts as a common investment and administrative agent for Cities in the state of Georgia. The authority to establish and amend the benefit provisions rests with the City. Contributions made by the City are commingled with contributions made by other members of the GMEBS Retirement Fund for investment purposes. The City does not own any securities on its own. Investment income from the securities is allocated on a prorata basis. The GMEBS issues a publicly available financial report that includes the financial statements and required supplementary information for GMEBS-Retirement Trust Fund. That report may be obtained by writing to Georgia Municipal Association, 201 Pryor Street, SW, Atlanta, Georgia 30303.

All full-time City employees are eligible to participate in the plan after one year of service. City employees may retire at age 55 under the early retirement provision if they have completed ten years of service. Normal retirement is at age 65. Benefits are payable for life in an amount equal to 1.50 percent of annual salary up to the dynamic breakpoint (DBP) plus 2.00 percent of annual salary over the DBP multiplied by total years of service. The DBP is subject to annual change. Benefits are based on the final average salary which is computed using the highest five consecutive years of the last ten years. The plan also provides death and disability benefits. These benefit provisions and all other requirements are established by the GMA Benefit System and the adoption agreement executed by the City.

The City adopted GASB Statement No. 27 during 1997, and in accordance with the provisions of that Statement the City determined that at transition there was no material pension liability (asset) that required recording in the financial statements.

The Plan financial statements are prepared on the cash basis of accounting, modified to include contributions receivable, unrealized gains or losses on marketable securities owned by the Plan, and increments in the cash value of death benefits.

Investments in securities are valued using an actuarial method that smooths the effects of short-term volatility in the market value of assets as discussed below. Guaranteed Investment Contracts are reported at cost plus accrued interest credits to the valuation date.

The Plan assets do not include any loans, notes, bonds or other instruments or securities of the City or related parties.

City employees are not required to contribute to the Plan. The funding policy for the plan is to contribute an amount each year equal to the actuarial determined recommended contribution. The recommended contribution meets the guidelines for calculating an annual required contribution set forth in Paragraphs 9-10 of GASB Statement No. 27. These contributions are determined under the projected unit credit actuarial cost method and an asset valuation method for developing the actuarial value of assets that smooths the effects of short-term volatility in the market value of assets. The asset valuation method rolls forward prior year's actuarial value with contributions, disbursements, and expected return on investments, plus 10% of investment gains (losses) during the 10 prior years. The period, and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years from 1987 and current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods as a level dollar amount. These amortization periods, if applicable, are closed for this plan year.

For 2012, the City's annual pension cost of \$519,534 was equal to the recommended and actual contribution. The recommended contribution was determined as part of the July 1, 2012, actuarial valuation using the method discussed above. The actuarial assumptions included an 7.75% investment rate of return, projected salary increases of 3.5% plus age and service based merit increases, post retirement benefit increases of 3.0% per year and an inflation rate of 3.5%. The actual contributions to the Plan for 2012 were 10.93 percent of covered payroll. The contribution requirements of plan members and the City are established and may be amended by the GMEBS Board of Trustees. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations, if applicable. The required schedule of funding progress immediately following the notes the the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. At December 31, 2012, there were 21 pensioners, 31 inactive participants with vested rights and 129 active participants (104 fully vested and 25 not vested).

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*Funded Status and Funding Progress.* As of July 1, 2012, the most recent actuarial valuation date, the plan was 89.78% funded. The actuarial accrued liability for benefits was \$11,877,760, and the actuarial value of assets was \$10,664,154, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,213,606. The covered payroll (annual payroll of active employees covered by the plan) was \$4,671,219, and the ratio of the UAAL to the covered payroll was 25.98 percent.

Three-Year Trend Information for The Plan

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/12	\$ 519,534	100%	\$ 0
12/31/11	532,126	100	0
12/31/10	607,111	100	0

**F. Other postemployment benefits**

*Plan Description.* The City provides a single employer other postemployment benefits (OPEB) (strictly limited to health insurance) plan to all eligible employees through the Georgia Municipal Association (GMA) healthcare conversion plan. The plan does not issue a stand-alone financial report and it is not included in the report of another entity. The authority to establish and amend the benefit provisions of the OPEB plan rests with the City. Any employee meeting the plans requirements will receive healthcare benefits for the employee's lifetime or as long as the Georgia Municipal Association Retirement Plan is in existence, whichever is less. The extent of the City's contribution to premium payments for eligible employees varies based on the requirements and options of the plan. The plan is financed on a pay-as-you-go basis. The plans eligibility requirements are: 1) age 55 or older; 2) fully vested in the Georgia Municipal Association Retirement Plan; 3) ten (10) years or more of consecutive service with the City of Cumming; 4) five (5) years or more of consecutive participation by the employee in the City's health insurance plan at the time of retirement. If employee elects benefit option 2, employee's spouse must have participated in the City's health insurance plan for at least five (5) consecutive years; and 5) employee's retirement decision must be officially approved by the Mayor and Council. Any employee whose employment is terminated for any reason other than approved retirement is not eligible. There are three benefit options available based on age at retirement. Option 1 - the eligible employee retires after reaching age 55, but before age 62. The City will pay 100% of the retiree's healthcare insurance cost through the GMA conversion plan until the retiree is medicare eligible. The retiree is responsible for 100% of the cost for any spouse or dependent coverage under this option. Option 2 - the eligible employee retires after reaching age 62, but before becoming medicare eligible. The City will pay 100% of the retiree's healthcare insurance cost through the GMA conversion plan until the retiree is medicare eligible. Additionally, the City will pay 50% of the healthcare cost for the retiree's spouse (if the spouse is a "qualified spouse" as defined by the plan) until the spouse is medicare eligible or 5 years, whichever occurs first. The retiree is responsible for the remaining 50% of spousal coverage and 100% of any other dependent coverage. Option 3 - the eligible employee retires after becoming medicare eligible or previously retired under option 1 or 2 and becomes medicare eligible. The City will pay 100% of the cost of the retiree's Medicare Supplement Policy for the retiree's lifetime. The retiree is responsible for 100% of the cost of any spouse coverage available under the Medicare Supplement Policy offered through the GMA. Membership in the plan as of the latest actuarial valuation date included 6 current retirees, beneficiaries and dependents and 134 current active participants for a total of 140.

*Funding Policy.* The contribution requirements are established and may be amended by the City. The required contribution was determined by an actuarial valuation. For the year ended December 31, 2012, the City contributed \$61,492 to the plan in the form of insurance premiums paid on behalf of existing retirees.

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*Annual OPEB Cost and Net OPEB Obligation.* The City had an actuarial valuation performed for the plan as of July 1, 2010 to determine the funded status of the plan as of that date as well as the employer's annual required contribution (ARC) for the period according to the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City's annual OPEB cost (income) of \$966,016 is equal to the ARC for the corresponding period, as the transition liability was set at zero as of December 31, 2007. The following table shows the component's of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution	\$ 1,019,254
Interest on net OPEB obligation	86,144
Adjustment to annual required contribution	<u>(139,382)</u>
Annual OPEB cost (income)	966,016
Contributions made	<u>(61,492)</u>
Increase in net OPEB obligation	904,524
Net OPEB obligation-beginning of year	<u>3,064,592</u>
Net OPEB obligation-end of year	<u>\$ 3,969,116</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 is as follows:

<u>Ended</u>	<u>Cost</u>	<u>Cost Contributed</u>	<u>Obligation</u>
12/31/12	\$ 966,016	6%	\$ 3,969,116
12/31/11	988,623	8%	3,064,592
12/31/10	988,623	7%	2,153,609

*Funded Status and Funding Progress.* As of July 1, 2010, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$7,034,653, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,034,653. The covered payroll (annual payroll of active employees covered by the plan) was \$4,634,562, and the ratio of the UAAL to the covered payroll was 152 percent.

Actuarial valuation of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as the actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are assigned to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**CITY OF CUMMING, GEORGIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

In the July 1, 2010, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9.5% initially, reduced by decrements to an ultimate rate of 5% over 9 years. Both rates included a 3.5% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2012, was 20.5 years.

**G. Hotel/motel lodging tax**

During the year ended December 31, 2012, the City levied a 5% lodging tax. The Official Code of Georgia Annotated (OCGA) 48-13-51(a)(3) requires that all lodging taxes levied in excess of 3% be expended or obligated contractually for the promotion of tourism, conventions or trade shows. The City's hotel/motel tax receipts for the year ended December 31, 2012 was \$29,710. Of that amount 100% or \$29,710 was spent during 2012 in compliance with OCGA 48-13-51(a)(3).

**H. Discreetly presented component unit**

As discussed in Note I. A. the Downtown Development Authority is a component unit if the City requiring discreet presentation. The Downtown Development Authority contains is comprised of one fund (the General Fund) and is presented as a separate column in both the Statement of Net Position and the Statement of Activities. Significant disclosures related the the Downtown Development Authority follow.

Receivables consists of amounts due (\$3,881,250 at December 31, 2012) under a line of credit agreement dated November 28, 2011 in the amount of \$4,050,000 with Pilgrim Mill Center, LLC. The line of credit proceeds were to partially fund the construction of a facility for post-secondary educational purposes on the campus of North Georgia College & State University in Forsyth County. The line of credit agreement calls for payment to begin on the first day of the first month following the issuance of a Certificate of Occupancy for the facility constructed. Payments shall consist of 60 equal consecutive monthly payments of \$33,750 followed by 20 quarterly payments of \$101,250. The line of credit is secured by a Guaranty and Letter of Credit provided by The North Georgia College and State University Foundation, Inc. Approximately \$3,476,250 of the balance is not expected to be repaid within one year.

Long-term liabilities consists of amounts due to the City of Cumming General Fund. The General Fund advanced \$4,050,000 to the Downtown Development Authority for the purpose of loaning the funds to Pilgrim Mill Center LLC (see above). The General fund will be repaid periodically as the Development Authority receives payments pursuant to its line of credit agreement with Pilgrim Mill Center LLC.

## **Required Supplementary Information**

**CITY OF CUMMING, GEORGIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2012**

**Schedule of Funding Progress for the City of Cumming Retirement Plan**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
7/1/12	\$ 10,664,154	\$ 11,877,760	\$ 1,213,606	89.8%	\$ 4,671,219	26.0%
7/1/11	9,751,038	11,108,725	1,357,687	87.8	4,505,000	30.1
7/1/10	8,785,514	10,547,477	1,761,963	83.3	4,555,526	38.7

**Schedule of Funding Progress for the City of Cumming OPEB Plan**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
7/1/10	\$ 0	\$ 7,034,653	\$ 7,034,653	0%	\$ 4,634,562	151.8%
3/1/08	0	4,674,654	4,674,654	0	5,328,393	87.7

## **Supplementary Information**

**CITY OF CUMMING, GEORGIA**  
**SCHEDULE OF PROJECTS CONSTRUCTED WITH**  
**SPECIAL 1% SALES AND USE TAX**  
**DECEMBER 31, 2012**

PROJECT NAME	Original Estimated Cost	Current Estimated Cost	Prior Years Cost	Current Years Cost	Total Cost
<u>SPLOST # 5</u>					
Street improvements	\$ 12,600,000	\$ 20,900,000	\$ 20,212,503	\$ 50,431	\$ 20,262,934
Historical preservation	2,300,000	2,300,000	2,560,777	-	2,560,777
Aquatic facility	6,000,000	6,000,000	6,000,000	-	6,000,000
Greenspace restoration	<u>3,100,000</u>	<u>3,100,000</u>	<u>1,452,690</u>	<u>-</u>	<u>1,452,690</u>
TOTALS FOR SPLOST # 5	<u>\$ 24,000,000</u>	<u>\$ 32,300,000</u>	<u>\$ 30,225,970</u>	<u>\$ 50,431</u>	<u>\$ 30,276,401</u>
<u>SPLOST # 6</u>					
Downtown parking deck	<u>\$ 11,797,500</u>	<u>\$ 11,797,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTALS FOR SPLOST # 6	<u>\$ 11,797,500</u>	<u>\$ 11,797,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



**LE ROY, COLE & STEPHENS, LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

101 SAMARITAN DRIVE  
CUMMING, GEORGIA 30040

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

Honorable Mayor, Members of the  
City Council and City Administrator  
City of Cumming, Georgia

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of City of Cumming, Georgia as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Cumming, Georgia's basic financial statements and have issued our report thereon dated March 19, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Cumming, Georgia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Cumming, Georgia's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Cumming, Georgia's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*LeRoy, Cole & Stephens, LLC*

Cumming, Georgia  
March 19, 2013

**LE ROY, COLE & STEPHENS, LLC**

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**INDEPENDENT ACCOUNTANT'S REPORT**

Honorable Mayor, Member of the  
City Council and City Administrator  
City of Cumming, Georgia

We have examined management's assertion included in the accompanying State of Georgia Grant Certification Form about the City of Cumming, Georgia's compliance during the fiscal year ended December 31, 2012 with the requirement to use grant proceeds solely for the purpose or purposes for which the grant was made for of the following grant award: Local Assistance Grant #06-C-L-052.

Management is responsible for the City of Cumming, Georgia's compliance with this requirement. Our responsibility is to express an opinion on management's assertion about the City of Cumming, Georgia's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City of Cumming, Georgia's compliance with this requirement and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City of Cumming, Georgia's compliance with the specified requirement.

In our opinion, management's assertion that the City of Cumming, Georgia complied with the aforementioned requirement for the fiscal year ended December 31, 2012 is fairly stated, in all material respects.

This report is intended solely for the information and use of the Georgia Department of Audits and Accounts and the State grantor agency identified on the Grant Certification Form and is not intended to be and should not be used by anyone other than the specified parties.

*LeRoy, Cole & Stephens, LLC*

Cumming, Georgia  
March 19, 2013

**State of Georgia Grant Certification Form**  
**Local Government Recipient (with no subrecipient)**

LINE

A	Local Government .....	City of Cumming
B	State Awarding Agency .....	Georgia Department of Community Affairs
C	Grant Identification Number .....	06-C-L-052
D	Grant Title .....	To the City of Cumming to construct a bulkhead at Mary Alice Park
E	Grant Award Date .....	05/08/06
F	Grant Amount .....	\$500,000.00

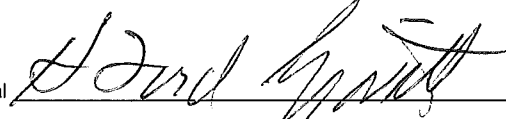
COLUMN 1 Current Year Activity		COLUMN 2 Cumulative Grant Activity
For the Year Ended:		Through the Year Ended:
G		
		12/31/2012
		12/31/2012
H	Balance - Prior Year (Cash or Accrued or Deferred Revenue)	\$13,182.00
I	Grant Receipts or Revenue Recognized	\$0.00
J	Grant Disbursements or Expenditures EXCLUDING AUDIT FEES	\$0.00
K	Disbursements or Expenditures for Audit Fees	\$0.00
L	Balance - Current Year (Cash or Accrued or Deferred Revenue) [Line H (col 1 only) + Line I - Line J - Line K]	\$13,182.00

**EDIT CHECKS IF FORM COMPLETED ON EXCEL SPREADSHEET:**

Column 1, Line L equals Column 2, Line L.	Line A Is Completed.
Grant Receipts/Revenue Does Not Exceed Grant Award.	Line B Is Completed.
Date Is Provided in Line G, Column 1.	Line C Is Completed.
Date Is Provided in Line G, Column 2.	Line D Is Completed.
Year End Dates On Line G Agree.	Line E Is Completed.
Column 1, Line L Foots Correctly.	Line F Is Completed.
Column 2, Line L Foots Correctly.	
Audit Fee is Within Legal Limit (\$250).	

**Certification of Local Government Officials**

I have reviewed the information presented above and certify that it is accurate and correct. I further certify that the proceeds of the grant award identified above were used solely for the express purpose or purposes for which the grant was made.

Signature of Chief Elected Official  Date 3-19-13

Signature of Chief Financial Officer  Date 3-19-13