

CITY OF HIAWASSEE, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
WITH AUDITOR'S OPINION
JANUARY 19, 2012

**CITY OF HIAWASSEE, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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ED K. BURTON, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor Barbara Mathis and Members of the City Council
City of Hiawassee, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Hiawassee, Georgia, as of and for the fiscal year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Hiawassee, Georgia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the remaining fund information of the City of Hiawassee, Georgia, as of June 30, 2011, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2012, on our consideration of the City of Hiawassee, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 35 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hiawassee, Georgia's financial statements as a whole. The accompanying schedule of expenditures of federal awards on page 38 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ed K. Burton, LLC

Toccoa, Georgia
January 19, 2012

MANAGEMENT'S DISCUSSION & ANALYSIS

**CITY OF HIAWASSEE, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Our discussion and analysis of City of Hiawassee, Georgia's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011.

USING THE JUNE 30, 2011 AUDIT

The audit of City of Hiawassee, Georgia, for the fiscal year ended June 30, 2011 consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 7 and 8) provide information about the activities of the City as a whole. The fund financial statements begin on page 9. These statements provide a more detailed view of the governmental activities of the City and explain how these services were financed in the short term as well as what remains for future spending.

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and Statement of Activities include all the City's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All the fiscal year revenues and expenses are taken into account regardless of when cash is received or paid.

REPORTING THE CITY'S FUNDS

The fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by State law or by bond covenants. The City establishes and maintains many other funds to help control and manage money for particular purposes, or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

THE CITY AS A WHOLE

Condensed Statement of Net Assets

Table 1 below presents the City's condensed Statement of Net Assets as of June 30, 2011 as it compares to the previous fiscal year.

Table 1: Condensed Statement of Net Assets

	Governmental Activities <u>June 30, 2010</u>	Governmental Activities <u>June 30, 2011</u>	Business-Type Activities <u>June 30, 2010</u>	Business-Type Activities <u>June 30, 2011</u>
<u>Assets:</u>				
Current and other assets	\$ 970,264	\$ 863,153	\$ 2,521,834	\$ 2,572,357
Capital assets	<u>609,807</u>	<u>578,267</u>	<u>11,081,456</u>	<u>11,584,917</u>
Total Assets	<u>\$1,580,071</u>	<u>\$1,441,420</u>	<u>\$13,603,290</u>	<u>\$14,157,274</u>
<u>Liabilities:</u>				
Other liabilities	\$ 317,319	\$ 252,993	\$ 1,047,489	\$ 1,079,971
Long-term liabilities	<u>14,770</u>	<u>15,363</u>	<u>4,181,523</u>	<u>4,494,867</u>
Total Liabilities	<u>\$ 332,089</u>	<u>\$ 268,356</u>	<u>\$ 5,229,013</u>	<u>\$ 5,574,838</u>
<u>Net Assets:</u>				
Invested in capital assets, Net of related debt	\$ 325,892	\$ 335,997	\$ 6,035,131	\$ 6,217,068
Restricted	---	---	532,817	520,293
Unrestricted	<u>922,090</u>	<u>837,067</u>	<u>1,806,329</u>	<u>1,845,075</u>
Total Net Assets	<u>\$1,247,982</u>	<u>\$1,173,064</u>	<u>\$ 8,374,277</u>	<u>\$ 8,582,436</u>
Total Liabilities and Net Assets	<u>\$1,580,071</u>	<u>\$1,441,420</u>	<u>\$13,603,290</u>	<u>\$14,157,274</u>

The City uses its capital assets to provide services to the citizens and businesses in the City, consequently, these net assets are not available for future spending.

Restricted net assets are resources that are restricted in their use. The majority of restricted assets represent funds to repay debt.

Condensed Statement of Activities

Table 2 below presents the City's condensed Statement of Activities for the fiscal year ended June 30, 2011 compared to the previous fiscal year.

Table 2: Condensed Statement of Activities

	<i>Governmental Activities <u>June 30, 2010</u></i>	<i>Governmental Activities <u>June 30, 2011</u></i>	<i>Business-Type Activities <u>June 30, 2010</u></i>	<i>Business-Type Activities <u>June 30, 2011</u></i>
Revenues:				
Program Revenues:				
Charges for services	\$ 133,754	\$ 95,829	\$ 2,049,775	\$ 2,208,779
Operating grants & contributions	-	-	12,557	-
Capital grants & contributions	-	-	348,154	486,665
General Revenues:				
Property taxes	214,310	188,011	-	-
Other taxes	389,798	371,645	-	-
Other revenues	21,454	16,556	5,646	8,233
Total Revenues	\$ 759,316	\$ 672,041	\$ 2,416,132	\$ 2,703,677
Expenses:				
General Government	\$ 405,258	\$ 391,784	\$ -	\$ -
Judicial	12,175	12,150	-	-
Public Safety	344,075	343,025	-	-
Water and Sewerage	-	-	2,064,116	2,495,518
Total Expenses	\$ 761,508	\$ 746,959	\$ 2,064,116	\$ 2,495,518
Increase (Decrease) in Net Assets	\$ (2,192)	\$ (74,918)	\$ 352,016	\$ 208,159
Beginning Net Assets	1,250,174	1,247,982	8,022,261	8,374,277
Ending Net Assets	\$ 1,247,982	\$ 1,173,064	\$ 8,374,277	\$ 8,582,436

During the fiscal year ended June 30, 2011 the net assets of City of Hiawasse, Georgia's governmental activities decreased \$74,918 and the business-type activities increased \$208,159. Revenues decreased 11.49% over the previous fiscal year and expenditures decreased 1.91% in the governmental activities. Revenues increased 11.90% and expenses increased 20.90% over the previous fiscal year in the business-type activities.

Approximately 27.98% of the City's governmental activity revenue came from property taxes, 55.30% came from other taxes and revenues, and the balance of 16.72% came from charges for services, grants, and other sources. Approximately 81.70% of the City's business-type activity revenue came from charges for services and the remaining 18.30% came from other sources.

The City's governmental activity expenses cover a wide range of services with 45.92% allotted to public safety, 52.45% to general government services, and the remaining 1.63% to judicial. The City's business-type activity expenses are all related to water and sewerage.

THE CITY'S FUNDS

The governmental fund statements provide information on inflows, outflows, and ending fund balance resources available for spending. This information is useful in determining the City's financing requirements. The nonspendable, restricted and unassigned fund balances serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of June 30, 2011, the City's governmental funds reported a combined ending fund balance of \$571,684, of which \$25,134 is nonspendable, \$445,873 is restricted for specific purposes and the remaining amount of \$100,676 is reserved for specific purposes.

The General Fund – the operating fund of the City – had a net decrease in fund balance of \$24,591 during the current year. The decrease in fund balance is due to excess of expenditures over revenues.

The proprietary fund statements provide information on inflows, outflows, and ending net assets. This information is useful in evaluating the City's enterprise funds. The City reports two enterprise funds, the Water and Sewerage Fund and the Water Treatment Plant Fund. These funds operate mainly from charges for services provided, such as water fees.

As of June 30, 2011, the City's proprietary funds reported combined ending net assets of \$8,582,436 of which \$6,217,067 is invested in capital assets, net of related debt, \$520,293 is restricted for debt service, and \$1,845,076 is unrestricted.

The proprietary funds had a net increase in unrestricted net assets of \$26,746, which is due in part to capital grants and contributions.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget was revised once during the year. Following is a recap of the final budget and actual revenues and expenditures for the 2011 year.

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Taxes & Assessments	\$ 523,950	\$ 515,150	\$ 530,588	\$ 15,438
Licenses & Permits	31,000	30,500	35,085	4,585
Fines & Forfeitures	80,000	47,000	54,050	7,050
Charges for Services	6,000	6,644	6,694	50
Investment Earnings	5,000	3,500	7,862	4,362
Contributions from Private Sources			8,694	8,694
Expenditures:				
General Government	\$ 1,040,350	\$ 1,000,144	\$ 325,966	\$ 674,178
Public Safety	392,100	389,150	329,448	59,702
Judicial	13,500	13,500	12,150	1,350

There were differences between the final budgetary amounts and the actual figures due to the reclassification of capital assets purchased during the year by the municipality.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

At June 30, 2011, City of Hiawassee, Georgia reported \$578,267 in capital assets for governmental activities and \$11,584,917 in capital assets for business-type activities. Refer to Note 6 to the financial statements for additional information on capital assets.

At June 30, 2011, governmental activities reported \$15,363 long-term debt compared to \$14,770 at June 30, 2010 and business-type activities long-term debt of \$4,494,867 and \$4,181,523 at June 30, 2011 and June 30, 2010, respectively in business-type activities. Refer to Note 10 in the financial statements for additional information on long-term liabilities.

ECONOMIC FACTORS AND NEXT YEAR BUDGET AND RATES

The City expects revenues to be down due to a decrease in water usage and a loss in customer base. Due to the current economic conditions throughout the state, the City anticipates decreasing revenue for the current budget year. The City has increased rates and decreased their budget expenditures in accordance with their expectations for the coming year.

CONCLUSION

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's financial condition and to show the City's accountability for the money it receives. If you have questions concerning this report or need additional financial information, please contact City of Hiawassee, Georgia City Council at 229 Chatuge Way, Hiawassee, Georgia 30546.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
CURRENT ASSETS:			
Cash and Cash Equivalents	\$ 289,059.58	\$ 1,362,338.82	\$ 1,651,398.40
Restricted Cash	-	164,907.24	164,907.24
Investments	440,044.98	131,323.67	571,368.65
Investments - Restricted	-	104,698.82	104,698.82
Taxes Receivables (Net)	41,696.83	-	41,696.83
Accounts Receivable (Net)	35,609.37	265,395.22	301,004.59
Intergovernmental Receivables	31,607.55	8,805.64	40,413.19
Inventory	-	46,376.35	46,376.35
Prepaid Expenses	25,134.17	24,755.46	49,889.63
TOTAL CURRENT ASSETS	\$ 863,152.48	\$ 2,108,601.22	\$ 2,971,753.70
NONCURRENT ASSETS:			
Restricted Intergovernmental Receivables	\$ -	\$ 304,650.00	\$ 304,650.00
Capital Assets:			
Land, Non-Depreciable Improvements, and			
Construction in Progress	\$ -	\$ 1,248,933.64	\$ 1,248,933.64
Other Capital Assets, Net of Depreciation	578,267.27	10,335,982.86	10,914,250.13
Total Capital Assets	\$ 578,267.27	\$ 11,584,916.50	\$ 12,163,183.77
Closing Costs and Other Intangibles, Net	\$ -	\$ 159,106.50	\$ 159,106.50
TOTAL NONCURRENT ASSETS	\$ 578,267.27	\$ 12,048,673.00	\$ 12,626,940.27
TOTAL ASSETS	\$ 1,441,419.75	\$ 14,157,274.22	\$ 15,598,693.97
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	\$ 10,504.43	\$ 99,142.25	\$ 109,646.68
Accrued Interest	-	29,346.19	29,346.19
Accrued Expenses	218.52	4,128.22	4,346.74
Notes Payable	242,270.01	688,306.97	930,576.98
Current Portion of Long-term Debt	-	141,237.57	141,237.57
Liabilities Payable from Restricted Assets:			
Bonds Payable	-	63,847.26	63,847.26
Customer Deposits	-	53,962.81	53,962.81
TOTAL CURRENT LIABILITIES	\$ 252,992.96	\$ 1,079,971.27	\$ 1,332,964.23
LONG-TERM LIABILITIES:			
Compensated Absences	\$ 15,362.92	\$ 20,409.49	\$ 35,772.41
Due in More Than One Year	-	4,474,457.18	4,474,457.18
TOTAL LONG-TERM LIABILITIES	\$ 15,362.92	\$ 4,494,866.67	\$ 4,510,229.59
TOTAL LIABILITIES	\$ 268,355.88	\$ 5,574,837.94	\$ 5,843,193.82
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	\$ 335,997.26	\$ 6,217,067.52	\$ 6,553,064.78
Restricted for Debt Service	-	520,293.25	520,293.25
Unrestricted	837,066.61	1,845,075.51	2,682,142.12
TOTAL NET ASSETS	\$ 1,173,063.87	\$ 8,582,436.28	\$ 9,755,500.15
TOTAL LIABILITIES AND NET ASSETS	\$ 1,441,419.75	\$ 14,157,274.22	\$ 15,598,693.97

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 391,784.54	\$ 41,779.00	\$ -	\$ -	\$ (350,005.54)	\$ -	\$ (350,005.54)
Public Safety	343,024.87	54,050.02	-	-	(288,974.85)	-	(288,974.85)
Judicial	12,150.00	-	-	-	(12,150.00)	-	(12,150.00)
Total Governmental Activities	\$ 746,959.41	\$ 95,829.02	\$ -	\$ -	\$ (651,130.39)	\$ -	\$ (651,130.39)
Business-Type Activities:							
Water and Sewerage	\$ 2,495,518.33	\$ 2,208,778.82	\$ -	\$ 486,665.12	\$ -	\$ 199,925.61	\$ 199,925.61
Total Business-Type Activities	\$ 2,495,518.33	\$ 2,208,778.82	\$ -	\$ 486,665.12	\$ -	\$ 199,925.61	\$ 199,925.61
Total Primary Government	\$ 3,242,477.74	\$ 2,304,607.84	\$ -	\$ 486,665.12	\$ (651,130.39)	\$ 199,925.61	\$ (451,204.78)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purpose					\$ 188,011.22	\$ -	\$ 188,011.22
Franchise Taxes					20,258.11	-	20,258.11
Local Option Sales & Use Tax & Hotel/Motel Tax					201,325.92	-	201,325.92
Business Taxes					62,917.09	-	62,917.09
Other Taxes					87,143.88	-	87,143.88
Contributions from Private Sources					8,693.90	-	8,693.90
Unrestricted Investment Earnings					7,862.26	7,433.57	15,295.83
Gain (Loss) on Sale/Abandonment of Assets					-	800.00	800.00
Total General Revenues					\$ 576,212.38	\$ 8,233.57	\$ 584,445.95
Change in Net Assets					\$ (74,918.01)	\$ 208,159.18	\$ 133,241.17
Net Assets, Beginning					1,247,981.88	8,374,277.10	9,622,258.98
Net Assets, Ending					\$ 1,173,063.87	\$ 8,582,436.28	\$ 9,755,500.15

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**CITY OF HIAWASSEE, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	GENERAL FUND	NONMAJOR FUND HOTEL/MOTEL FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS:			
Cash and Cash Equivalents	\$ 289,059.58	\$ -	\$ 289,059.58
Investments	440,044.98	-	440,044.98
Taxes Receivable	41,696.83	-	41,696.83
Intergovernmental Receivable	31,607.55	-	31,607.55
Other Receivables	35,609.37	-	35,609.37
Prepaid Expenses	<u>25,134.17</u>	<u>-</u>	<u>25,134.17</u>
		-	
TOTAL ASSETS	<u>\$ 863,152.48</u>	<u>\$ -</u>	<u>\$ 863,152.48</u>
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	\$ 10,504.43	\$ -	\$ 10,504.43
Deferred Revenue	38,475.89	-	38,475.89
Accrued Expenses	218.52	-	218.52
Notes Payable	<u>242,270.01</u>	<u>-</u>	<u>242,270.01</u>
		-	
TOTAL LIABILITIES	<u>\$ 291,468.85</u>	<u>\$ -</u>	<u>\$ 291,468.85</u>
FUND BALANCES:			
Nonspendable:			
Prepaid Expenses	\$ 25,134.17	-	25,134.17
Restricted for:			
Shop with a Cop	4,480.36	-	4,480.36
Drug Seizures	1,348.00	-	1,348.00
Collateral	440,044.98	-	440,044.98
Unassigned	<u>100,676.12</u>	<u>-</u>	<u>100,676.12</u>
		-	
TOTAL FUND BALANCES	<u>\$ 571,683.63</u>	<u>\$ -</u>	<u>\$ 571,683.63</u>
		-	
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 863,152.48</u>	<u>\$ -</u>	<u>\$ 863,152.48</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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

TOTAL GOVERNMENTAL FUND BALANCES **\$ 571,683.63**

*Amounts Reported for Governmental Activities in The Statement of Activities
Are Different Because:*

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds:

Cost	\$ 788,362.69	
Less Accumulated Depreciation	<u>(210,095.42)</u>	578,267.27

Certain other long-term assets (such as deferred taxes) are not
available to pay current period expenditures and therefore are
not reported in the fund financial statement, but are reported
in the governmental activities of the Statement of Net Assets. 38,475.89

Liabilities not due and payable in the current period and therefore
are not reported in the governmental fund balance sheet but
are reported in the government-wide Statement of Net Assets.

Compensated Absences	<u>(15,362.92)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 1,173,063.87**

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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

	GENERAL FUND	NONMAJOR FUND HOTEL/MOTEL FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES:			
Taxes and Assessments	\$ 530,588.38	\$ 47,262.52	\$ 577,850.90
Licenses and Permits	35,085.00	-	35,085.00
Fines and Forfeitures	54,050.02	-	54,050.02
Charges for Services	6,694.00	-	6,694.00
Investment Earnings	7,862.26	-	7,862.26
Contributions from Private Sources	8,693.90	-	8,693.90
	<u>642,973.56</u>	<u>47,262.52</u>	<u>690,236.08</u>
TOTAL REVENUES	\$ 642,973.56	\$ 47,262.52	\$ 690,236.08
EXPENDITURES:			
Current:			
General Government	\$ 325,965.70	\$ 47,262.52	\$ 373,228.22
Public Safety	327,698.44	-	327,698.44
Judicial	12,150.00	-	12,150.00
	<u>665,814.14</u>	<u>47,262.52</u>	<u>713,076.66</u>
Capital Outlay	1,750.00	-	1,750.00
	<u>667,564.14</u>	<u>47,262.52</u>	<u>714,826.66</u>
TOTAL EXPENDITURES	\$ 667,564.14	\$ 47,262.52	\$ 714,826.66
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ (24,590.58)	\$ -	\$ (24,590.58)
NET CHANGES IN FUND BALANCES	\$ (24,590.58)	\$ -	\$ (24,590.58)
FUND BALANCES:			
Beginning of Year	596,274.21	-	596,274.21
End of Year	<u>\$ 571,683.63</u>	<u>\$ -</u>	<u>\$ 571,683.63</u>

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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

NET CHANGES IN FUND BALANCES-TOTAL GOVERNMENTAL FUNDS **\$ (24,590.58)**

*Amounts Reported for Governmental Activities in the Statement of Activities
Are Different Because:*

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 as
depreciation expense. This is the amount by which capital outlay
exceeded depreciation expense in the current period.

Capital Outlay	\$ 1,750.00	
Depreciation Expense	<u>(32,885.22)</u>	(31,135.22)

Governmental funds do not present abandonment losses for assets that
have already been recorded as expenditures when reported as capital
outlays. In contrast, such immaterial losses are reported in the Statement
of Activities as an offset to general government expenses. (404.13)

Governmental funds do not present revenues (such as deferred taxes)
that are not available to pay current obligations. In contrast, such
revenues are reported in the Statement of Activities when earned. (18,194.68)

Some expenses reported in the Statement of Activities do not require
the use of current financial resources and these are not reported as
expenditures in governmental funds:

Accrued Compensated Absences		<u>(593.40)</u>
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TOTAL CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$ <u>(74,918.01)</u>
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THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

CITY OF HIAWASSEE, GEORGIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

	ENTERPRISE FUNDS		
	WATER AND SEWERAGE FUND	WATER TREATMENT PLANT FUND	TOTAL
ASSETS:			
CURRENT ASSETS:			
Cash and Cash Equivalents	\$ 925,810.11	\$ 436,528.71	\$ 1,362,338.82
Restricted Cash	164,907.24	-	164,907.24
Investments	131,323.67	-	131,323.67
Investments - Restricted	104,698.82	-	104,698.82
Accounts Receivable (Net)	237,336.22	28,059.00	265,395.22
Internal Balances	(36,761.00)	36,761.00	-
Intergovernmental Receivables	8,805.64	-	8,805.64
Inventories	46,376.35	-	46,376.35
Prepaid Expenses	18,547.16	6,208.30	24,755.46
TOTAL CURRENT ASSETS	\$ 1,601,044.21	\$ 507,557.01	\$ 2,108,601.22
NONCURRENT ASSETS:			
Restricted Intergovernmental Receivables	\$ 304,650.00	\$ -	\$ 304,650.00
Capital Assets:			
Land, Improvements, and Construction in Progress	1,248,933.64	-	1,248,933.64
Depreciable Capital Assets, Net	10,126,370.83	209,612.03	10,335,982.86
Engineering Planning Fees, Net	121,781.10	-	121,781.10
Closing Costs, Net	37,325.40	-	37,325.40
TOTAL NONCURRENT ASSETS	\$ 11,839,060.97	\$ 209,612.03	\$ 12,048,673.00
TOTAL ASSETS	\$ 13,440,105.18	\$ 717,169.04	\$ 14,157,274.22
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	\$ 80,045.03	\$ 19,097.22	\$ 99,142.25
Accrued Interest	29,346.19	-	29,346.19
Accrued Expenses	4,128.22	-	4,128.22
Notes Payable	688,306.97	-	688,306.97
Current Portion of Long Term Debt	141,237.57	-	141,237.57
Liabilities Payable from Restricted Assets:			
Customer Deposits	53,962.81	-	53,962.81
Revenue Bonds Payable	63,847.26	-	63,847.26
TOTAL CURRENT LIABILITIES	\$ 1,060,874.05	\$ 19,097.22	\$ 1,079,971.27
LONG-TERM LIABILITIES:			
Revenue Bonds Payable	\$ 2,409,601.80	\$ -	\$ 2,409,601.80
Notes Payable	2,064,855.38	-	2,064,855.38
Compensated Absences	11,160.48	9,249.01	20,409.49
TOTAL LONG-TERM LIABILITIES	\$ 4,485,617.66	\$ 9,249.01	\$ 4,494,866.67
TOTAL LIABILITIES	\$ 5,546,491.71	\$ 28,346.23	\$ 5,574,837.94
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	\$ 6,007,455.49	\$ 209,612.03	\$ 6,217,067.52
Restricted for Debt Service	520,293.25	-	520,293.25
Unrestricted	1,365,864.73	479,210.78	1,845,075.51
TOTAL NET ASSETS	\$ 7,893,613.47	\$ 688,822.81	\$ 8,582,436.28
TOTAL LIABILITIES AND NET ASSETS	\$ 13,440,105.18	\$ 717,169.04	\$ 14,157,274.22

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

CITY OF HIAWASSEE, GEORGIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	ENTERPRISE FUNDS		
	WATER AND SEWERAGE FUND	WATER TREATMENT PLANT FUND	TOTAL
OPERATING REVENUES:			
Water Fees	\$ 858,527.51	\$ 315,606.90	\$ 1,174,134.41
Sewer Fees	647,646.79	-	647,646.79
Program Fees	67,750.00	-	67,750.00
Other Income	662.62	-	662.62
Interfund Water Sales	-	316,251.00	316,251.00
TOTAL OPERATING REVENUES	\$ 1,574,586.92	\$ 631,857.90	\$ 2,206,444.82
OPERATING EXPENSES:			
Personnel Services	\$ 515,605.63	\$ 211,036.76	\$ 726,642.39
Supplies and Other Expenses	341,969.12	72,364.95	414,334.07
Utilities	142,509.10	96,924.22	239,433.32
Interfund Water Purchased	316,251.00	-	316,251.00
Repairs and Maintenance	145,336.07	21,030.23	166,366.30
Depreciation and Amortization	408,750.41	19,433.96	428,184.37
TOTAL OPERATING EXPENSES	\$ 1,870,421.33	\$ 420,790.12	\$ 2,291,211.45
OPERATING INCOME (LOSS)	\$ (295,834.41)	\$ 211,067.78	\$ (84,766.63)
NON-OPERATING REVENUES (EXPENSES):			
Interest Income	\$ 6,845.63	\$ 587.94	\$ 7,433.57
Grants - Other	364,283.07	-	364,283.07
Gain (Loss) on Sale/Abandonment of Capital Assets	-	800.00	800.00
Other Income	-	2,334.00	2,334.00
Interest Expense	(204,306.88)	-	(204,306.88)
TOTAL NON-OPERATING REVENUES (EXPENSES)	\$ 166,821.82	\$ 3,721.94	\$ 170,543.76
INCOME (LOSS) BEFORE CONTRIBUTIONS	\$ (129,012.59)	\$ 214,789.72	\$ 85,777.13
Capital Contributions	122,382.05	-	122,382.05
CHANGE IN NET ASSETS	\$ (6,630.54)	\$ 214,789.72	\$ 208,159.18
NET ASSETS:			
Beginning Balance	7,900,244.01	474,033.09	8,374,277.10
Ending Balance	\$ 7,893,613.47	\$ 688,822.81	\$ 8,582,436.28

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**CITY OF HIAWASSEE, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	ENTERPRISE FUNDS		
	WATER AND SEWERAGE FUND	WATER TREATMENT PLANT FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 1,575,230.26	\$ 306,946.90	\$ 1,882,177.16
Cash Received from Interfund Services Provided	-	316,251.00	316,251.00
Cash Payments for Personnel Services	(517,357.30)	(213,204.01)	(730,561.31)
Cash Payments for Interfund Services Provided	(316,251.00)	-	(316,251.00)
Cash Payments for Goods and Services	(507,075.69)	(182,619.59)	(689,695.28)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 234,546.27	\$ 227,374.30	\$ 461,920.57
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from Short-term Debt	\$ 517,201.89	\$ -	\$ 517,201.89
Capital Contribution	122,382.05	-	122,382.05
Grants Received	364,283.07	-	364,283.07
Interest Paid	(205,850.71)	-	(205,850.71)
Principal Paid	(195,678.60)	-	(195,678.60)
Proceeds from Sale of Capital Assets and Insurance Refunds	-	3,134.00	3,134.00
Payments for Capital Acquisitions	(1,093,897.49)	(63,579.66)	(1,157,477.15)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (491,559.79)	\$ (60,445.66)	\$ (552,005.45)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment Earnings	\$ 6,845.63	\$ 587.94	\$ 7,433.57
Purchase of Certificates of Deposits	(4,172.11)	-	(4,172.11)
Redemption of Certificates of Deposits	20,942.95	-	20,942.95
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 23,616.47	\$ 587.94	\$ 24,204.41
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (233,397.05)	\$ 167,516.58	\$ (65,880.47)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,324,114.40	269,012.13	1,593,126.53
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,090,717.35	\$ 436,528.71	\$ 1,527,246.06
RECONCILIATION OF TOTAL CASH:			
Restricted	\$ 164,907.24	\$ -	\$ 164,907.24
Unrestricted	925,810.11	436,528.71	1,362,338.82
	<u>\$ 1,090,717.35</u>	<u>\$ 436,528.71</u>	<u>\$ 1,527,246.06</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating Income (Loss)	\$ (295,834.41)	\$ 211,067.78	\$ (84,766.63)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities:			
Depreciation and Amortization	408,750.41	19,433.96	428,184.37
(Increase) Decrease in Accounts Receivable	(304.04)	(8,660.00)	(8,964.04)
(Increase) Decrease in Inventory	(1,633.39)	-	(1,633.39)
(Increase) Decrease in Prepaid Expenses	(1,219.97)	(1,537.26)	(2,757.23)
Reclass of Engineering Fees (Note 17)	106,011.81	-	106,011.81
Increase (Decrease) in Accounts Payable	18,917.53	9,237.07	28,154.60
Increase (Decrease) in Customer Deposits	1,610.00	-	1,610.00
Increase (Decrease) in Compensated Absences	1,476.40	(0.03)	1,476.37
Increase (Decrease) in Accrued Expenses	(3,228.07)	(2,167.22)	(5,395.29)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 234,546.27	\$ 227,374.30	\$ 461,920.57

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

NOTES TO FINANCIAL STATEMENTS

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Hiawassee, Georgia conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. The Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The more significant accounting policies established in GAAP and used by the City are described below.

A. THE REPORTING ENTITY

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

B. BASIS OF PRESENTATION – FUND ACCOUNTING

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

The City's funds are grouped into two broad fund categories and three generic fund types for financial statement presentation purposes. Governmental funds include the general and special revenue funds. Proprietary funds include enterprise funds.

C. BASIS OF ACCOUNTING

GOVERNMENT – WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the City, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfers between governmental and business-type activities on the government-wide statement of activities are reported below general revenues as the last item before the change in net assets. Transfers between funds reported in the governmental activities column are eliminated. Transfers between funds reported in the business-type activities column are eliminated.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for capital improvements result from both the capital projects and enterprise funds and the restrictions on their net asset use.

FUND FINANCIAL STATEMENTS

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

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENTAL FUNDS

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Fund Balance

In accordance with Government Accounting Standards Board 54, fund equity at the governmental fund financial reporting level is classified as “fund balance” whereas fund equity for all other reporting is classified as “net assets.” In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- Nonspendable – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.
- Restricted – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- Committed – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the adoption of a resolution. The City Council also may modify or rescind the commitment.
- Assigned – Fund balances are reported as assigned when amounts are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed.
- Unassigned – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Flow Assumptions

When both restricted and unrestricted amounts of fund balances are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within sixty days of year-end and available to pay obligations of the current period). This includes investment earnings, property taxes, income taxes withheld by employers, estate taxes, fines and forfeitures and state levied locally shared taxes (including motor vehicle fees). Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditures Recognition

On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

PROPRIETARY FUNDS

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at each year-end.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating 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 City's enterprise funds are charges for water and sewer usage. Operating expenses for the enterprise funds include all costs to operate the water and sewer system and to deliver water and sewer service to customers. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The City reports the following major governmental fund:

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

The City reports the following major enterprise funds:

Water and Sewerage Fund: This fund accounts for the development, operation and maintenance of the utility system that provides water and sewerage service.

Water Treatment Plant Fund: This fund accounts for the operation of the utility system that provides water to the City and other governmental entities.

Additionally the City reports the following fund types:

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the proceeds of specific revenues sources (other than special assessments, expendable trusts, or major capital projects) that are restricted for specified purposes. The only Special Revenue Fund the City has is the Hotel/Motel Fund.

D. ENCUMBRANCES

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

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. CASH, CASH EQUIVALENTS AND INVESTMENTS

For purposes of the Statement of Cash Flows, the City of Hiawassee, Georgia considers all highly liquid investments, (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Cash includes amounts in demand deposits. Statues authorize the City to invest in U.S. Government obligations, U.S. Government agency obligations, State of Georgia obligations, obligations of other counties, municipal corporations and political subdivisions of the State of Georgia which are rated AA or better by Moody's Investors Services, Inc., negotiable certificates of deposit issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association, repurchase agreements when collateralized by U.S. Government or agency obligations, and pooled investment programs sponsored by the State of Georgia for the investment of local government funds.

The City has no investments except for Certificate of Deposits at June 30, 2011. These Certificates of Deposits are carried at fair value, which is the same as cost.

F. INVENTORIES

Inventories consist of supplies and are stated at cost. Inventories are accounted for on the first-in, first-out (FIFO) method of accounting for inventory. The City uses the consumption method of accounting for inventories under which materials and supplies are recorded as inventory when purchased and are recorded as an expense when used.

G. PREPAIDS

Expenditures for insurance and similar services that will benefit periods beyond June 30, 2011 are recorded as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the period in which the items are consumed. At the fund reporting level, an equal amount of fund balance is reserved as this amount is not available for general appropriation.

H. CAPITAL ASSETS

All assets over the capitalization threshold of \$1,000 with a useful life extending beyond one year are capitalized and depreciated over time using the straight-line method. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are at their estimated fair value at the date of donation. General infrastructure assets consist of the road network assets that were acquired or that received substantial improvements after July 1, 2003. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30-50
Buildings	50
Building Improvements	15-40
Vehicles	5-6
Office Furniture & Equipment	5-20

I. INTEREST CAPITALIZATION

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds are used to finance the construction of assets.

J. COMPENSATED ABSENCES

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

K. LONG-TERM DEBT

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of these funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year. Bonds and capital leases are recognized as a liability in the governmental fund financial statements when due.

L. CONTRIBUTIONS OF CAPITAL

Contributed Capital is recorded in the proprietary fund when capital grants or contributions are received from developers, customers or other funds.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. ESTIMATES

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

N. DEFERRED DEBT EXPENSE AND BOND DISCOUNT

Bond issuance costs, bond discounts and the difference between the reacquisition price and the net carrying value of proprietary refunded debt are capitalized and amortized over the terms of the respective bonds using a method which approximates the effective interest method.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The application statutes of the State of Georgia require the City to operate under an annual balanced budget adopted by resolution. A budget is defined as being balanced when the sum of estimated net revenues and appropriated fund balance is equal to appropriations. Because the City adopts each of its operating budgets at the function level, the applicable statutes require that total expenditures not exceed the total amount of appropriations at the function level. Unspent appropriations lapse at year-end.

Annual budgets are adopted for all governmental funds and proprietary funds. The budget is adopted on a basis consistent with generally accepted accounting principles, and on the same basis of accounting used by each fund to which the budget applies. An operating budget is adopted for the Proprietary Water Fund for administrative control purposes.

The legal level of control (the level at which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the department level within each individual fund. Any change in total to a fund or departmental appropriation within a fund requires approval of the Mayor and City Council.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

3. DEPOSITS

The City's cash and investment deposits were limited to demand and money market accounts, and time deposits at local banks. The City's deposits shall be secured by Federal Depositary Insurance Corporation (FDIC) coverage and/or bank pledges. State statutes required banks holding public funds to secure these funds by FDIC insurance, securities pledged at par value, and surety bonds at face value in combined aggregate totaling not less than 110 percent of the public funds held.

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits may not be recovered. As of June 30, 2011 all the City's deposits were covered either by FDIC coverage or collateralized by the financial institution or a combination of the two. At year end, the bank balance of the City's demand and time deposits was \$2,527,529 and the carrying amount was \$2,492,373. No formal investment policy has been adopted as of June 30, 2011.

4. PROPERTY TAXES AND OTHER RECEIVABLES

The City of Hiawassee property tax calendar is as follows:

Levy date	October 19, 2010
Due date	January 10, 2011
Delinquent date	January 12, 2011
Lien date	None

The total levy for the 2011 tax digest was \$211,658.

Accounts receivable in the Water and Sewerage Fund and fines receivable in the General Fund are stated at gross amounts receivable less an allowance for estimated uncollectible accounts. The allowance is computed as a percentage of the revenue at year end based primarily on the age of the indebtedness. The balance in the allowance for uncollectible accounts for water and sewer receivables at June 30, 2011 is \$5,729 and for fines receivable is \$2,735.

5. INTERGOVERNMENTAL RECEIVABLE

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

General Fund

Unrestricted:

Georgia Department of Revenue	\$ 30,362
Towns County	<u>1,245</u>
	<u>\$ 31,607</u>

Enterprise Funds

Restricted:

Towns County Water Authority	<u>\$304,650</u>
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Unrestricted:

Towns County Water Authority	<u>\$ 8,806</u>
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CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

6. CAPITAL ASSETS

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Infrastructure in progress	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	\$ -	\$ -	\$ -	\$ -
Capital assets being depreciated:				
Improvements	\$ 1,892	\$ -	\$ -	\$ 1,892
Equipment and furniture	44,396	1,750	4,850	41,296
Infrastructure	227,209	-	-	227,209
Buildings	387,240	-	-	387,240
Vehicles	130,726	-	-	130,726
Total capital assets being depreciated	\$ 791,463	\$ 1,750	\$ 4,850	\$ 788,363
Accumulated depreciation:				
Improvements	\$ 591	\$ 95	\$ -	\$ 686
Equipment and furniture	26,576	4,925	4,446	27,055
Infrastructure	39,025	7,426	-	46,451
Buildings	26,461	7,745	-	34,206
Vehicles	89,004	12,694	-	101,698
Total accumulated depreciation	\$ 181,657	\$ 32,885	\$ 4,446	\$ 210,096
Total capital assets being depreciated, net	\$ 609,806	\$ (31,135)	\$ 404	\$ 578,267
	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 53,015	\$ -	\$ -	\$ 53,015
Construction in progress	505,340	1,025,890	335,311	1,195,919
Total capital assets not being depreciated	\$ 558,355	\$ 1,025,890	\$ 335,311	\$ 1,248,934
Capital assets being depreciated:				
Equipment, vehicles and furniture	\$ 1,582,167	\$ 100,861	\$ 5,500	\$ 1,677,528
Infrastructure	10,453,526	127,508	-	10,581,034
Buildings	2,859,304	10,737	-	2,870,041
Total capital assets being depreciated	\$ 14,894,997	\$ 239,106	\$ 5,500	\$ 15,128,603
Accumulated depreciation:				
Equipment, vehicles and furniture	\$ 434,635	\$ 110,397	\$ 5,500	\$ 539,532
Infrastructure	2,820,435	242,751	-	3,063,186
Buildings	1,116,826	73,076	-	1,189,902
Total accumulated depreciation	\$ 4,371,896	\$ 426,224	\$ 5,500	\$ 4,792,620
Total capital assets being depreciated, net	\$ 10,523,101	\$ (187,118)	\$ -	\$ 10,335,983
Business-type activities, capital assets, net	\$ 11,081,456	\$ 838,772	\$ 335,311	\$ 11,584,917

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

CAPITAL ASSETS (Continued)

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

Governmental Activities:	
General Government	\$17,559
Public Safety	<u>15,326</u>
	<u>\$32,885</u>

7. INTERGOVERNMENTAL CONTRACTS

The City of Hiawassee and the Towns County Water Authority have entered into a contract whereby the Authority has a reserved capacity of 45% in the Hiawassee surface water treatment plant. The contract will expire on May 31, 2016. The City has ownership of the plant assets and is responsible for payment of the 1989 Water and Sewerage Revenue Bonds. The cost of operating the water treatment and distribution system to the County has been determined by financial analysis to be \$1.50 per thousand gallons of water. Beginning June 1, 2011, the Authority has paid \$1.50 per thousand gallons of water up to 45% of plant capacity plus a 20% surcharge on amounts in excess of the reserve.

It is critical to the finances of both parties to maintain an equitable wholesale contract. On a regular basis, the City and the Authority should review the wholesale cost of water to ensure that the \$1.50 is meeting the cost of producing and delivering water to the Authority.

8. RESTRICTED ASSETS

Water System Fund

Certain assets of the Water System have been restricted for debt service and customers' deposits of the water system.

	<u>Cash</u>	Certificates of <u>Deposit</u>	<u>Receivables</u>
Debt Service	\$ 110,944	\$104,699	\$304,650
Customer Deposits	<u>53,963</u>	<u>-</u>	<u>-</u>
	<u>\$164,907</u>	<u>\$104,699</u>	<u>\$304,650</u>

1999 Water Revenue Bonds - Assets totaling \$100,210 in 2011 are restricted for the purpose of paying interest and principal on the series 1999 Water Revenue Bonds. The City deposited monthly increments to cover the principal and interest into the sinking fund. The required reserve was maintained at June 30, 2011.

1989 Water Revenue Bonds - Assets totaling \$78,271 in 2011 are restricted for the purpose of paying interest and principal on the series 1989 Water Revenue Bonds. The City deposited monthly increments to cover the principal and interest into the sinking fund. The debt service reserve along with the interest earned on these accounts cannot be withdrawn until a reserve of \$60,000 is maintained. The required reserve was maintained at June 30, 2011.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

RESTRICTED ASSETS (Continued)

1984 Water Revenue Bonds - Assets totaling \$37,162 at June 30, 2011 are restricted for the purpose of paying interest and principal on the series 1984 Water Revenue Bonds. The City deposited monthly increments to cover principal and interest into the sinking fund. The debt service reserve along with the interest earned on these accounts cannot be withdrawn until a reserve of \$25,000 is maintained. At June 30, 2011 the required reserve was maintained.

The receivable in restricted funds from Towns County Water Authority of \$304,650 is a receivable for 45% of the 1989 water revenue bonds.

9. SHORT-TERM DEBT

Governmental Activities:

At June 30, 2011, the City has a temporary loan, in the amount of \$242,270, which is used to finance the acquisition of a commercial building for City Hall. The note was renewed on December 31, 2010 at \$263,523 with an interest rate of 1.91%. Interest paid during fiscal year ended June 30, 2011 was \$5,514.

Business-Type Activities:

At June 30, 2011, the City has one temporary loan. Per the note agreement, the City can draw up to \$690,000. This loan is a tax anticipation note used to finance the water plant expansion project until grant monies are received. A balance of \$688,307 is owed on this note with interest due at 5% per annum.

Changes in short-term debt are as follows:

	<u>Balance</u> <u>06/30/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/11</u>
<u>Governmental Activities</u>				
Note payable	<u>\$ 283,915</u>	<u>\$ 352</u>	<u>\$ 41,997</u>	<u>\$ 242,270</u>
<u>Business-type Activities</u>				
Note payable	<u>\$ 688,057</u>	<u>\$ 250</u>	<u>\$ -</u>	<u>\$ 688,307</u>

10. LONG-TERM OBLIGATIONS

Notes Payable

Georgia Environmental Facilities Agency (GEFA) advanced money to the City for the purpose of construction of water system improvements with interest accruing at an annual rate of 3% until the loan is fully disbursed; thereafter, principal and interest will be payable in 236 consecutive monthly installments; secured by the pledging of revenue-raising power. This loan was finalized as of August 1, 2008. The balance on this long-term debt at June 30, 2011 was \$1,183,553.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

LONG-TERM OBLIGATIONS (Continued)

GEFA has also advanced money to the City for two other projects. One is for sewer rehabilitation and upgrades. The principal balance on this outstanding loan is \$143,226 at June 30, 2011. The other project is to finance force main upgrades. The balance on this loan is \$373,726 at June 30, 2011. These loans will be termed out at the end of the project. The balances are shown as long-term obligations at June 30, 2011.

The City also has a loan with Siemens Public Inc. The money was borrowed during fiscal year 2007 in the amount of \$874,623. This loan was for the acquisition of water meters, and is payable in monthly installments of \$8,978 with interest at 4.295%. The balance on this long-term debt at June 30, 2011 was \$505,588.

Debt service requirements to maturity, including principal and interest for notes payable (excluding the unamortized GEFA loan) are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 141,238	\$ 54,814	\$ 196,052
2013	146,819	49,233	196,052
2014	152,456	43,596	196,052
2015	158,373	37,679	196,052
2016	164,481	31,571	196,052
2017-2021	357,342	111,156	468,498
2022-2026	383,980	57,583	441,563
2027-2029	<u>184,453</u>	<u>6,235</u>	<u>190,688</u>
	<u>\$ 1,689,142</u>	<u>\$ 391,867</u>	<u>\$2,081,009</u>

Revenue Bonds

Bonds payable at June 30, 2011 are comprised of the following:

Series 1999 A & B Water Revenues Bonds, dated November 19, 1999, due in monthly installments of \$7,826 from December, 1999 through December, 2039. Interest is payable monthly at the rate of 3.25-4.375% per annum beginning November 1, 2000. The purpose was to construct, expand, and repair the water and sewer system.

Series 1989 A & B Water Revenues Bonds, dated September 6, 1989, due in annual installments of \$9,000 to \$57,000 plus interest from December, 1990 through December, 2028. Interest is payable annually at the rate of 5% per annum beginning December 1, 1990. The purpose was to construct, expand, and repair the water and sewer system.

Series 1984 Water Revenues Bonds, dated March 6, 1984, due in annual installments of \$1,000 to \$20,000 plus interest from January, 1987 through January, 2024. Interest is payable annually at the rate of 8.375% per annum beginning January 1, 1985. The purpose was to construct and expand the water and sewer system.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

LONG-TERM OBLIGATIONS (Continued)

Revenue bonds payable balances outstanding at June 30, 2011 consist of the following:

<u>Revenue Bond Series</u>	<u>Original Amount</u>	<u>Balance June 30, 2010</u>	<u>Principal Reductions</u>	<u>Balance June 30, 2011</u>	<u>Amounts Due Within One Year</u>
Series 1999 A & B	\$1,878,300	\$1,637,097	\$30,648	\$1,606,449	\$31,847
Series 1989 A & B	974,000	699,000	22,000	677,000	24,000
Series 1984	274,000	197,000	7,000	190,000	8,000
	<u>\$3,126,300</u>	<u>\$2,533,097</u>	<u>\$59,648</u>	<u>\$2,473,449</u>	<u>\$63,847</u>

Debt service requirements to maturity, including principal and interest for the bonds are as follows:

Principal Payments

<u>Year Ending June 30,</u>	<u>Proprietary Fund Revenue Bonds</u>			
	<u>Series 1999</u>	<u>Series 1989</u>	<u>Series 1984</u>	<u>Total</u>
2012	\$ 31,847	\$ 24,000	\$ 8,000	\$ 63,847
2013	33,095	25,000	9,000	67,095
2014	34,392	26,000	9,000	69,392
2015	35,741	28,000	11,000	74,741
2016	37,144	29,000	12,000	78,144
2017-2021	208,820	168,000	82,000	458,820
2022-2026	253,399	217,000	59,000	529,399
2027-2031	307,732	160,000		467,732
2032-2036	374,002			374,002
2037-2040	290,278			290,278
	<u>\$1,606,450</u>	<u>\$ 677,000</u>	<u>\$ 190,000</u>	<u>\$2,473,450</u>

Interest Payments

<u>Year Ending June 30,</u>	<u>Proprietary Fund Revenue Bonds</u>			
	<u>Series 1999</u>	<u>Series 1989</u>	<u>Series 1984</u>	<u>Total</u>
2012	\$ 62,065	\$ 33,850	\$ 15,912	\$ 111,827
2013	60,817	32,650	15,243	108,711
2014	59,520	31,400	14,489	105,409
2015	58,171	30,100	13,735	102,006
2016	56,768	28,700	12,814	98,282
2017-2021	260,740	120,300	46,733	427,773
2022-2026	216,161	73,700	9,966	299,827
2027-2031	161,828	16,350		178,178
2032-2036	95,558			95,558
2037-2040	19,802			19,802
	<u>\$1,051,431</u>	<u>\$ 367,050</u>	<u>\$ 128,892</u>	<u>\$ 1,547,373</u>

This debt constitutes a lien on the revenues of the water and sewer system and is reported in that fund.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

LONG-TERM OBLIGATIONS (Continued)

Changes in Long-Term Obligations:

	<u>Balance</u> <u>6/30/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/11</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Compensated Absences	\$ 14,770	\$ 593	\$ _____	\$ 15,363	\$ _____
Business-Type Activities:					
Notes Payable	\$ 1,825,172	\$ 516,952	\$ 136,031	\$ 2,206,093	\$141,238
Bonds Payable	2,533,097		59,648	2,473,449	63,847
Compensated Absences	<u>18,933</u>	<u>1,476</u>	<u>_____</u>	<u>20,409</u>	<u>_____</u>
Total Business-Type Activities	<u>\$ 4,377,202</u>	<u>\$ 518,428</u>	<u>\$ 195,679</u>	<u>\$ 4,699,951</u>	<u>\$205,085</u>

All long-term obligations of the City's water and sewer fund and water treatment plant fund will be financed through future expendable available financial sources as they become due. The compensated absences liability will be paid from the fund from which the employees' salaries are paid. In prior years long-term liabilities, such as compensated absences, of the governmental activities were liquidated in the General Fund. Interest paid on long-term debt during fiscal year ended June 30, 2011 was \$204,307.

11. RESERVED FUND EQUITIES

Restricted Net Assets/Reserved Retained Earnings:

In the proprietary fund statements, \$215,643 has been reserved for the purpose of debt service. Retained earnings have been restricted in the government-wide statements in the same amount.

Nonspendable Fund Balance: In the general fund, \$12,384 of fund balance for prepaid insurance and \$12,750 for a deposit on a building purchase has been shown as nonspendable fund balances.

Restricted Fund Balance: In the general fund, \$445,873 is restricted for various purposes. See detail on page 9 of the financials.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

12. RETIREMENT PLANS

Pension Plan

Plan Description - The City's defined benefit pension plan, City of Hiawassee Retirement Plan (CHRP), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CHRP is affiliated with the Georgia Municipal Employee Benefit System (GMEBS), an agent multiple employer pension plan administered by the Georgia Municipal Association. The GMEBS assigns the authority to establish and amend the benefit provisions of the plans that participate in GMEBS to the respected employer entities, for the CHRP, the authority rests with the City of Hiawassee, Georgia. The Georgia Municipal Association issued a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained by writing to the Georgia Municipal Association or by calling (404) 688-0472.

Funding Policy - The City is required to contribute at an actuarially determined rate; the current rate is 11.77% of annual covered payroll. Employees become eligible after the first full year of employment and become vested in the plan after ten years of service. Only the City of Hiawassee, Georgia, the employer, makes contributions to the plan. City contributions for, and interest forfeited by employees who leave employment before ten years of service, are used to reduce the City's current period contribution requirement. The contribution requirements of plan members and the City are established and may be amended by the GMEBS Board of Trustees.

Annual Pension Cost - Based on results of the January 1, 2011 actuarial valuation, the City's annual pension cost of \$80,996 for GMEBS was equal to the City's required contribution. Current year total payroll was \$852,920. Covered current payroll was \$676,333. The City's actual contribution for the year ended June 30, 2011 was \$79,038. The required contribution was determined as part of the January 1, 2011 actuarial valuation using the projected unit credit cost method. The actuarial value of the assets was \$464,996 and the actuarial accrued liability was \$773,483. The unfunded actuarial liability was \$308,487 and the funded ratio was 60.12%. The ratio of the unfunded actuarial liability to annual covered payroll is 45.61%. The significant actuarial assumption used to compute the actuarial accrued liability and the annual recommended contribution of the Plan meet the actuarial standards of Practice No.4, Measuring Pension Obligations, establishing generally accepted actuarial principles and practices. The actuarial assumptions included (a) 7.75% investment rate of return, and (b) projected salary increases for inflation of 3.5% plus age and service based merit increases. The actuarial value of CHRP assets was determined using a smoothing technique which gradually incorporates investment performance that exceeds or falls short of the expected return of 7.75%. The period, and related investment performance that the initial unfounded actuarial accrued liability over 30 years from 1993 and current changes in the unfounded actuarial accrued liability over 15 years or actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods as a level dollar amount. The amortization periods, if applicable, are closed for this plan year.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

RETIREMENT PLANS (Continued)

Immediately following the notes is a schedule of funding progress to present 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. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations, if applicable.

Trend Information for CHRP (Dollar amounts in thousands)			
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06-30-11	\$ 80,996	100%	-0-
06-30-10	\$ 76,733	100%	-0-
06-30-09	\$ 79,807	100%	-0-

*Based on the results of the January 1, 2011 actuarial valuation.

13. JOINT VENTURE

The City of Hiawassee, Georgia, in conjunction with cities and counties in the thirteen county area are members of the Georgia Mountain Regional Development Center (RDC). Membership in a regional development center (RDC) is automatic for each municipality and county in the state. The official Code of Georgia Section 50-8-34 (Georgia Planning Act of 1989) provides for the organizational structure of the RDCs. Each county and municipality in the state is required by law to pay minimum annual dues to the RDC. The City paid no annual dues to the RDC for the year ended June 30, 2011 because currently all dues are paid on the City's behalf by Towns County. An RDC Board membership includes the chief elected official of each county and the chief elected official of each municipality. The county board members and municipal board members from the same county elect one member of the Board who is a resident (but not an elected or appointed official or employee of the County or municipality) to serve as the non-public Board member from the county. The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RDCs 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 an RDC beyond its resources. (O.C.G.A. 50-8-39.1). Complete financial statements of the Georgia Mountain Regional Development Center can be obtained directly from their office at:

Georgia Mountain Regional Development Center
Post Office Box 1720
Gainesville, Georgia 30503

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

14. RISK MANAGEMENT

The City of Hiawassee, Georgia is exposed to various risks of loss related to torts; theft of, damage to, destruction of assets; errors and omissions; and workers' compensation for which the City carries the following insurance coverage. There are no significant reductions of insurance coverage compared to the prior year. Settled claims have not exceeded the commercial excess coverage any of the past three fiscal years.

Risk Pools

The City has insurance coverage with the Georgia Municipal Association. Insurance coverage and deductible options for property, casualty and crime under the policy are selected by City's management based on anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed by the Association, as well as following loss reduction and prevention procedures established by the Association. The Association's responsibility includes paying claims, and representing the City in defense and settlement of claims. The Association's basis for estimating the liabilities for unpaid claims is established by an actuary. The City has not compiled a record of the claims paid up to the applicable deductible for the prior year or the current fiscal year. The City is unaware of any claims for which the City is liable (up to the applicable deductible) which were outstanding and unpaid at June 30, 2011. No provisions have been made in the financial statements for the year ended June 30, 2011 for any estimate of potential unpaid claims.

The City has elected to be a member of the Georgia Municipal Association Workers' Compensation Self-Insurance Fund (GMAWCSIF), a risk management agency created under Georgia law. As a participant in the GMAWCSIF, the City has no legal obligation to pay its own workers' compensation claims. The City is required to make an annual contribution to the fund in an amount that is determined on the basis of actuarial projections of losses. With payment of the City's annual contribution, the City has effectively transferred the risk and responsibility for payment of its workers' compensation claims. However, the enabling statute creating GMAWCSIF permits the fund to levy an assessment upon its members to make up any deficiency the fund may have in surplus or reserves. No amount has been recorded in the general purpose financial statements for this contingency, as management believes the likelihood for assessment is remote.

Self Insurance

The City pays unemployment claims to the State Department of Labor on a reimbursement basis. Liabilities for such claims are immaterial and are therefore not accrued.

15. HOTEL/MOTEL TAX

The City of Hiawassee, Georgia has levied a 5% lodging tax. The City has complied with the provisions of OCGA 48-13-51 of the State of Georgia. All of the proceeds received from the Hotel/Motel tax are collected by Towns County and then distributed to the City of Hiawassee. The City then pays a collection fee of one-percent (1%) to the Tax Commission and all remaining collections are paid to the Towns County Tourism Board to promote tourism in the City of Hiawassee, Georgia.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

HOTEL/MOTEL TAX (Continued)

	Tourism <u>Board</u>
Revenues Collected for the City	\$47,263
Disbursed as of June 30, 2011	<u>(47,263)</u>
Balance as of June 30, 2011	<u>\$ -0-</u>

16. COMMITMENTS AND CONTINGENCIES

The City has entered into various agreements and contracts in the normal course of business. Such agreements do not give rise to assets or liabilities considered to be material at June 30, 2011.

17. RECLASSIFICATION

Engineering fees that had been classified as construction in progress for the last two years for an expansion project that has been put on hold were reclassified. During the current year, \$106,012 was reclassified as professional fees, comprising of a write down of \$88,615 and amortization of \$17,397. The balance of \$121,781 is shown as Engineering Planning Fees, a noncurrent asset on the Statement of Net Assets for the Water and Sewerage Fund. These fees are to be amortized as professional fees over the next seven years since they still have value to the City of Hiawassee for ongoing projects.

18. SUBSEQUENT EVENTS

Subsequent events were evaluated through January 17, 2012, which is the date that the financials were available to be issued. The City does not believe that there are any subsequent events that need to be disclosed in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HIAWASSEE, GEORGIA
BUDGET COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes & Assessments	\$ 523,950.00	\$ 515,150.00	\$ 530,588.38	\$ 15,438.38
Licenses & Permits	31,000.00	30,500.00	35,085.00	4,585.00
Fines & Forfeitures	80,000.00	47,000.00	54,050.02	7,050.02
Charges for Services	6,000.00	6,644.00	6,694.00	50.00
Investment Earnings	5,000.00	3,500.00	7,862.26	4,362.26
Contributions from Private Sources	-	-	8,693.90	8,693.90
TOTAL REVENUES	\$ 645,950.00	\$ 602,794.00	\$ 642,973.56	\$ 40,179.56
EXPENDITURES:				
Current Operating:				
General Government	\$ 1,040,350.00	\$ 1,000,144.00	\$ 325,965.70	\$ 674,178.30
Public Safety	392,100.00	389,150.00	329,448.44	59,701.56
Judicial	13,500.00	13,500.00	12,150.00	1,350.00
TOTAL EXPENDITURES	\$ 1,445,950.00	\$ 1,402,794.00	\$ 667,564.14	\$ 735,229.86
EXCESS OF EXPENDITURES OVER REVENUES	\$ (800,000.00)	\$ (800,000.00)	\$ (24,590.58)	\$ 775,409.42
OTHER FINANCING SOURCES (USES):				
Prior Year Reserves Utilized	\$ 800,000.00	\$ 800,000.00	\$ -	\$ 800,000.00
TOTAL OTHER FINANCING SOURCES (USES)	\$ 800,000.00	\$ 800,000.00	\$ -	\$ 800,000.00
NET CHANGE IN FUND BALANCE	\$ -	\$ -	\$ (24,590.58)	\$ (24,590.58)
FUND BALANCES:				
Beginning of Year	-	-	596,274.21	596,274.21
End of Year	\$ -	\$ -	\$ 571,683.63	\$ 571,683.63

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**CITY OF HIAWASSEE, GEORGIA
SCHEDULE OF FUNDING PROGRESS FOR
CITY OF HIAWASSEE RETIREMENT PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Analysis of Funding Progress

	Actuarial	Actuarial		Unfunded		Percentage of
	Value of	<i>Accrued</i>	Funded	ALL	Covered	Covered
Actuarial	Assets	Liability(ALL)	Ratio	(UAAL)	Payroll	Payroll
Valuation		Entry Age				
<u>Date</u>	<u>(A)</u>	<u>(B)</u>	<u>(NB)</u>	<u>(B-A)</u>	<u>(C)</u>	<u>(B-A)/C</u>
05/01/2009	\$274,855	\$ 669,146	41.1%	\$ 394,291	\$ 657,105	60.0%
05/01/2010	\$382,124	\$ 697,582	54.8%	\$ 315,458	\$ 657,105	48.0%
05/01/2011	\$464,996	\$ 773,483	60.1%	\$ 308,487	\$ 676,333	45.6%

Effect of plan changes on the actuarial accrued liability:

The effect on the actuarial accrued liability of any current-year changes in actuarial assumptions or benefit provisions will be provided upon request. The actuarial assumptions are the same as those used in the preceding valuation.

Effect of plan changes on recommended contributions:

The effect on the recommended contributions of any current-year changes in actuarial assumptions, benefit provisions or actuarial funding method will be provided upon request. The actuarial assumptions and cost methods are the same as those used to determine the contribution requirement for the preceding year.

CITY OF HIAWASSEE, GEORGIA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011

1. Budgets and Budgetary Accounting

The City of Hiawassee prepares a budget for all City Funds. The budget shows a comparison of current year revenues and expenditures with the proposed revenues and expenditures of the upcoming year.

The City sets the date of submission of the proposed budget to the governing body. On that date a copy of the proposed budget is placed for public inspection during regular business hours. Also, at this time, a notice is published in the local newspaper stating the time and place of a public hearing on the proposed budget.

The budget hearing precedes the formal adoption of the budget by at least one week. The budget is then formally adopted at a public meeting.

Any amendments to the budget are approved by the City Council and adopted by appropriations ordinance. The Mayor recommends changes within the department level; however, changes for each department must be approved by the City Council.

The budget for the General Fund is prepared on the modified accrual basis of accounting, and the budget for the Water and Sewer Fund is prepared on the accrual basis of accounting.

Expenditures may not legally exceed budgeted appropriations at the departmental level in the General Fund.

COMPLIANCE AND SINGLE AUDIT SECTION

CITY OF HIAWASSEE, GEORGIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass-Through Number	Federal Expenditures
U.S. Environmental Protection Agency:			
Pass Through Programs from:			
Georgia Environmental Facilities Authority			
Clean Water State Revolving Fund - ARRA Funded	66.458	CWSRE09-008	\$ 265,607.97
Georgia Environmental Facilities Authority			
Hiawassee Sewer Improvement Project	66.458	2009L21WQ	373,725.97
U.S. Department of Agriculture			
Pass Through Programs - USDA Forest Service			
Recovery Act - Jackrabbit Recreation Area - Waterlines	N/A	AG-4419-C-10-0060	107,518.70
Appalachian Regional Commission			
Pass Through Programs - Tennessee Valley Authority			
Hiawassee Sewer Improvement Project	23.002	00072639	<u>266,278.19</u>
Total Federal Expenditures			<u><u>\$ 1,013,130.83</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE

CITY OF HIAWASSEE, GEORGIA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION AND ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

In instances where the grant agreement requires the City to match grant awards with City funds, such matching funds are excluded in the accompanying Schedule of Expenditures of Federal Awards.



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**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**

The Honorable Mayor Barbara Mathis and Members of the City Council
City of Hiawassee, Georgia

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Hiawassee, Georgia, as of and for the year ended June 30, 2011, which collectively comprise the City of Hiawassee, Georgia's basic financial statements and have issued our report thereon dated January 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed below, we identified certain deficiencies (2007-1 and 2002-1) in internal control over financial reporting that we consider to be significant deficiencies. 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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Hiawassee, Georgia's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Hiawassee, Georgia's financial statements that is more than inconsequential will not be prevented or detected by the City of Hiawassee, Georgia's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

2007-1 Repeat from prior year:

Criteria: Annual financial statements are required to be prepared in accordance with generally accepted accounting principles (GAAP).

Condition: Several adjustments to the financial statements were required at year-end to state the financial position of the governmental activities, the business-type activities, and each major fund of the City of Hiawassee, Georgia in a fair manner. This includes accrual entries and certain issues regarding capital assets, such as recording capital outlay correctly, correctly capitalizing costs related to capital projects, recording revenues and expenditures for hotel/motel taxes, adjusting grant receivables, and classifying revenues and expenditures/expenses correctly.

Effect: This could result in internal and interim financial statements being misstated and unfairly presenting the City's financial position. This may cause management decisions to be misguided due to the incorrect presentation.

Cause: The transactions described above were not currently recorded correctly and timely.

Recommendation: We recommend that the necessary adjustments should be made timely as the events occur and that the appropriate schedules or information be maintained throughout the year to making these adjustments. Also, the financial statements and supporting information should be reviewed routinely during the year to ensure pertinent items are included.

Response: Management agrees with this finding and plans to make the proper adjustments in a timely manner in the future.

2002-1 Repeat from prior year:

Criteria: Key employee duties should be separated to reduce the chance of having unauthorized transactions occur.

Condition: There is a lack of segregation of duties related to the handling of cash and bookkeeping function. One person should not be responsible for entering all transactions into the system as well as handling all cash receipts and disbursements. These should be performed by different employees to properly segregate related duties.

Effect: The risk of misappropriation is greatly increased when these duties are not separated among employees. This could include unauthorized purchases, fraudulent recording of cash receipts or payments, etc. In addition, there is a chance of having a fictitious or unauthorized employee included in the payroll system and disbursements.

Cause: The City has only one city clerk on a full-time basis and one water clerk, which are not the required personnel for proper segregation.

Recommendation: In situations where it is not feasible for the City to hire additional employees in order to segregate duties, we recommend that the Mayor and Council take an active role in overseeing the operations of the City.

Response: Hiring additional employees is not practical; therefore, the Mayor and Council agree to actively participate in the daily operations of the City.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hiawassee, Georgia's financial statements are free of material misstatement, we performed tests of its compliance certain provisions of laws, regulations, contracts, and grant agreements, noncompliance which could have a direct and material effect on the determination of financial statement amounts. However, 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 instance of noncompliance or other matters that required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of Hiawassee, Georgia in a separate letter dated January 19, 2012.

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

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ed K. Burton, LLC

Toccoa, Georgia
January 19, 2012



ED K. BURTON, LLC

CERTIFIED PUBLIC ACCOUNTANTS

Ed K. Burton, CPA

Alan M. Burton, CPA

T. Scott Slaton, CPA

Members American Institute of CPA's and Georgia Society of CPA's

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor Barbara Mathis and Members of the City Council
City of Hiawassee, Georgia

Compliance

We have audited City of Hiawassee, Georgia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Hiawassee, Georgia's major federal programs for the fiscal year ended June 30, 2011. City of Hiawassee, Georgia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Hiawassee, Georgia's management. Our responsibility is to express an opinion on City of Hiawassee, Georgia's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Hiawassee, Georgia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Hiawassee, Georgia's compliance with those requirements.

In our opinion, the City of Hiawassee, Georgia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the fiscal year ended June 30, 2011.

Internal Control over Compliance

Management of City of Hiawassee, Georgia, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Hiawassee, Georgia's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Hiawassee, Georgia's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ed K. Burton, LLC

Toccoa, Georgia
January 19, 2012

CITY OF HIAWASSEE, GEORGIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION 1 – SUMMARY OF AUDITOR'S RESULTS

Federal Awards

Type of auditor's report issued on compliance for major programs: Unqualified

Internal control over major programs:

- No material weaknesses identified
- No significant deficiencies identified

There are no audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, Section 510(a).

Identification of major programs:

- CFDA # 66.458 - U.S. Environmental Protection Agency / Georgia Environmental Facilities Authority/Clean Water State Revolving Fund – ARRA

Dollar threshold used to distinguish between type A and type B programs - \$300,000

Auditee does not qualify as a low-risk auditee.

SECTION 2 – FEDERAL AWARDS FINDINGS

None reported