Historical Report of Fund Balance and Significant Changes in Debt and Capital Assets

For Fiscal Years Ending December 31, 2004 through 2012

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Fund Balance

Fundamental Information

In order to understand the following discussion of fund balance, it is necessary for the reader to familiarize himself or herself with the fundamental principles that define and regulate the amount disclosed as fund balance. Fund balance is the amount presented on fund financial statements as the difference in assets and liabilities. In this regard, fund balance is akin to equity or net worth, but this similarity is subject to one immense difference. The disparity lies in the basis of accounting and measurement focus. The Governmental Accounting Standards Board (GASB) requires fund balance to be prepared and presented under the modified accrual basis of accounting and under the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become available and measurable. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term liabilities, which is recognized when due. Also, only assets and liabilities which represent financial resources and claims against financial resources expected to be available for use or payable in the current accounting period or shortly after are reportable in the fund financial statements. The result of the measurement focus and basis of accounting is a statement consisting of only current assets and liabilities which will usually be liquidated in no more than sixty days or one year at a maximum.

Because of the limitations under the current financial resources measurement focus, the fund financial statements are not representative of the economic substance of the reporting entity. Highly material balance sheet items such as long term notes receivable/payable, capital assets, pension obligations, etc. are excluded from presentation; therefore, fund financial statements understate assets and liabilities by literally millions of dollars. Because of the current financial resources focus, items such as proceeds from capital leases, sales of assets, and proceeds from long term debt unduly affect fund balance. These items cause fund balance to be artificially inflated because fund balance does not recognize the associated liability or asset relinquishment due to its long term nature. This causes proceeds from debt, capital leases, and the sale of assets to appear as income. Conversely, paying off debt, payments on capital leases, and purchasing fixed assets appear as expenditures. Only statements prepared using the full accrual method of accounting (Statement of Net Position and Statement of Activities) provide a complete and accurate depiction of the county's economic substance.

Changes in Fund Balance: Fiscal Years 2002-2012

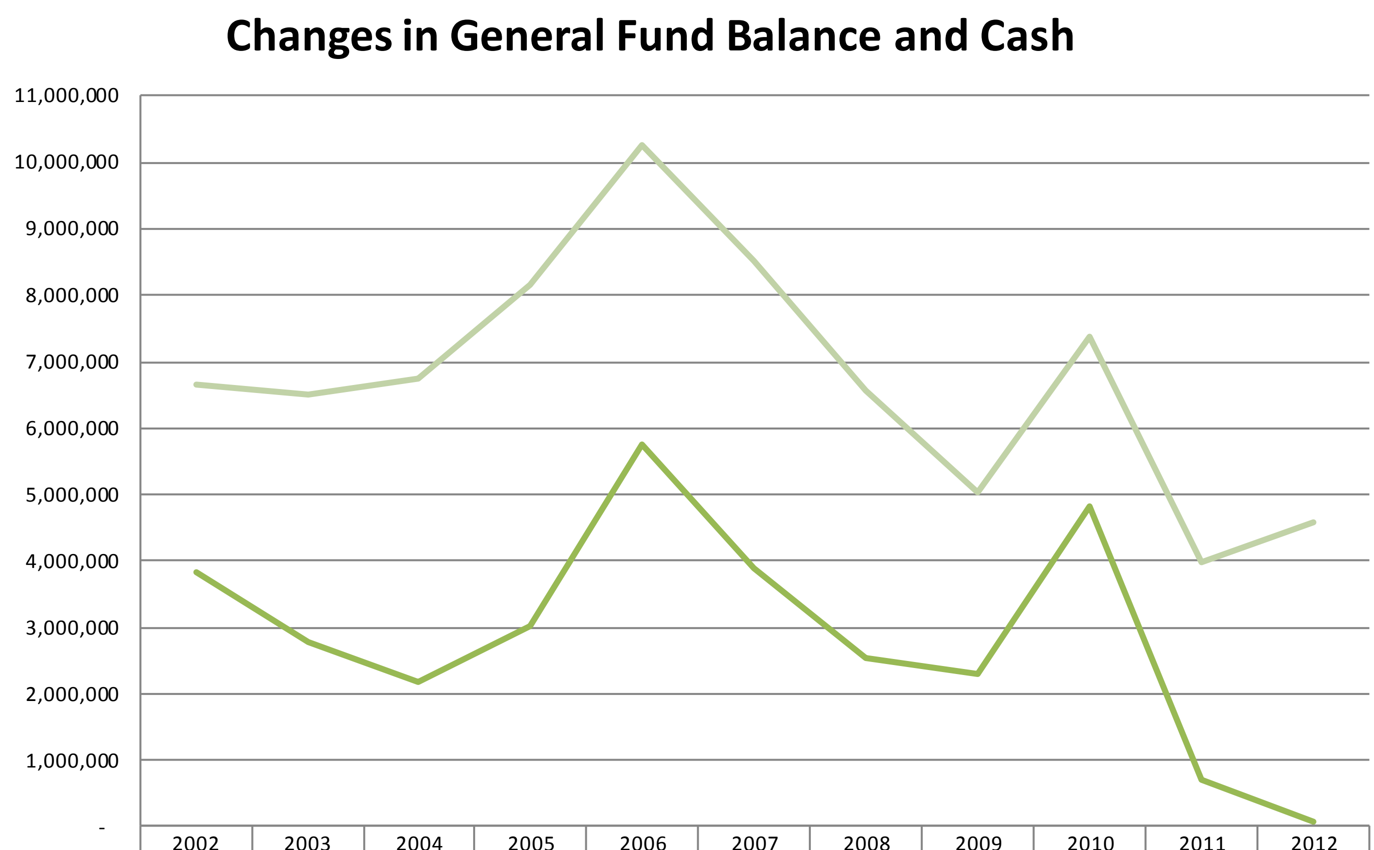
As shown in *Figure 1* on the next page, fund balance decreased by $2,072,318 from the end of FY 2002 to FY 2012. Peaking in FY 2006 at $10,263,536; it arrived at its minimum of $3,975,318 in FY 2011. By the end of FY 2012, fund balance rose to $4,585,346. The total loss in fund balance from FY 2006 to FY 2012 was $5,678,190.

Cash began in FY 2002 at $3,833,047, peaked at $5,767,917 in FY 2006; and ended at $72,083 in FY 2012. The discrepancy between cash and fund balance is described on the following page.

Many items are included in the calculation of fund balance. The difference of revenues and expenditures and transfers to and from other departments and funds are common factors which affect fund balance in a direct way.

An extremely important point to note is that fund balance is not synonymous with cash balance. In fact, the balance of cash is merely one of a plethora of factors which ultimately compose fund balance. Examples of the other components include receivables, inventories, prepaid items, advances to other funds, payables, accrued expenses, deferred revenue, and amounts due to and from other funds. Even in FY 2010 when fund balance and cash balance were closest, only about 65.4% of fund balance was attributable to cash.

Figure 1



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Fund Balance	6,657,664	6,508,718	6,756,402	8,149,290	10,263,536	8,506,124	6,579,457	5,031,864	7,387,999	3,975,318	4,585,346
Cash Balance	3,833,047	2,762,328	2,178,888	3,009,894	5,767,917	3,884,175	2,549,079	2,298,923	4,830,689	699,240	72,083

The graph above illustrates the portion of fund balance attributable to cash on hand for each of the years presented. Additionally, it exhibits the high degree of correlation between fund balance and cash. For the first time since FY 2004, fund balance and cash moved in opposite directions in FY 2012. The primary cause of the divergence is that non cash current assets like taxes receivable and amounts due from other funds grew as cash was depleted. The growth of non cash current assets also outpaced the growth of current liabilities, which means that overall a larger portion of cash flows were deferred to the next year. The combined effect of these factors forced cash on hand to fall in spite of an overall increase in fund balance.

The following is a detailed account of the change in fund balance for each year beginning with FY 2002 and ending with FY 2012. Fund balance equaled $5,806,266 on December 31, 2001.

Change in Fund Balance – FY 2002

The total change in fund balance from January 1, 2002 to December 31, 2002 was **$851,398**.

Surplus (Deficit) of Revenues over Expenditures		877,364
Operating Transfers Out		
Grant Fund	(109,789)	
E-911	(223,371)	
Airport	(58,354)	
Water	(386,534)	
Health Department	(77,578)	
Industrial Development Authority	(8,335)	(863,961)
Proceeds from Capital Leases		829,775
Sale of Assets		8,220
Change in Fund Balance		851,398

Change in Fund Balance – FY 2003

The total change in fund balance from January 1, 2003 to December 31, 2003 was **($148,946)**.

Surplus (Deficit) of Revenues over Expenditures		1,049,280
Operating Transfers Out		
Grant Fund	(153,707)	
Multiple Grant	(30,000)	
SPLOST	(1,074)	
E-911	(473,740)	
Airport	(83,638)	
Water	(568,831)	(1,310,990)
Sale of Assets		8,185
Other Restatements		104,579
Change in Fund Balance		(148,946)

The amount classified as "Other Restatements" is a reallocation of fund balance between separate funds caused by a reclassification in the DCA Uniform Chart of Accounts. The net financial position of the county did not change as a result of the reclassification.

Change in Fund Balance – FY 2004

The total change in fund balance from January 1, 2004 to December 31, 2004 was **$247,684**.

Surplus (Deficit) of Revenues over Expenditures		(1,504,387)
Operating Transfers from Other Funds		5,778
Operating Transfers Out		
Multiple Grant	(359,269)	
E-911	(35,161)	
Airport	(77,375)	(471,805)
Proceeds from Capital Leases		2,038,642
Sale of Assets		420,550
Contribution from Private Sources		3,398
Prior Period Adjustments		(244,492)
Change in Fund Balance		247,684

The prior period adjustment corrected an overstatement of the Local Option Sales Tax revenue in FY 2003.

Change in Fund Balance – FY 2005

The total change in fund balance from January 1, 2005 to December 31, 2005 was **$1,392,888**.

Surplus (Deficit) of Revenues over Expenditures		2,046,609
Operating Transfers from Other Funds		28,631
Operating Transfers Out		
Airport	(158,818)	
Water	(366,670)	(525,488)
Sale of Assets		46,622
Contribution from Private Sources		100
Prior Period Adjustments		(203,586)
Change in Fund Balance		1,392,888

The prior period adjustment reflected the combined effect of an understatement of net pension obligation and a reclassification of fund balances.

Change in Fund Balance – FY 2006

The total change in fund balance from January 1, 2006 to December 31, 2006 was **$2,114,246**.

Surplus (Deficit) of Revenues over Expenditures		(1,974,294)
Operating Transfers from Other Funds		11,695
Operating Transfers Out		
Multiple Grant	(21,699)	
E-911	(197,402)	
Airport	(567)	(219,668)
Issuance of Notes Payable		3,200,000
Sale of Assets		1,244,513
Prior Period Adjustments		(148,000)
Change in Fund Balance		2,114,246

The prior period adjustment reversed the effect of recognizing a prepaid expense rather than appropriately expensing the charges in the prior year.

Change in Fund Balance – FY 2007

The total change in fund balance from January 1, 2007 to December 31, 2007 was **($1,757,412)**.

Surplus (Deficit) of Revenues over Expenditures		(1,415,037)
Operating Transfers from Other Funds		1,500
Operating Transfers Out		
Multiple Grant	(27,625)	
E-911	(473,228)	
Airport	(1,145,008)	
CASA	(12,500)	(1,658,361)
Issuance of Notes Payable		804,383
Sale of Assets		510,103
Change in Fund Balance		(1,757,412)

Change in Fund Balance – FY 2008

The total change in fund balance from January 1, 2008 to December 31, 2008 was **($1,926,667)**.

Surplus (Deficit) of Revenues over Expenditures		(1,298,849)
Operating Transfers from Other Funds		2,000
Operating Transfers Out		
Multiple Grant	(47,081)	
E-911	(410,542)	
Airport	(224,119)	
CASA	(12,500)	(694,242)
Proceeds from Capital Leases		222,524
Sale of Assets		169,593
Prior Period Adjustments		(327,693)
Change in Fund Balance		(1,926,667)

The prior period adjustment properly reported the deferred revenue for ambulance related receivables which were not available to repay current cost.

Change in Fund Balance – FY 2009

The total change in fund balance from January 1, 2009 to December 31, 2009 was **($1,547,593)**.

Surplus (Deficit) of Revenues over Expenditures		(1,633,687)
Operating Transfers from Other Funds		184,052
Operating Transfers Out		
Multiple Grant	(57,735)	
E-911	(447,124)	
CASA	(10,000)	
Mental Health Court	(3,000)	(517,859)
Proceeds from Capital Leases		400,000
Sale of Assets		19,901
Change in Fund Balance		(1,547,593)

Change in Fund Balance – FY 2010
The total change in fund balance from January 1, 2010 to December 31, 2010 was **$2,356,135**.

Surplus (Deficit) of Revenues over Expenditures		(1,385,507)
Operating Transfers from Other Funds		593,832
Operating Transfers Out		
Multiple Grant	(39,449)	
E-911	(419,166)	
CASA	(10,000)	(468,615)
Issuance of Notes Payable		3,495,000
Sale of Assets		121,425
Change in Fund Balance		2,356,135

Change in Fund Balance – FY 2011
The total change in fund balance from January 1, 2011 to December 31, 2011 was **($3,412,681)**.

Surplus (Deficit) of Revenues over Expenditures		(3,220,969)
Operating Transfers from Other Funds		7,224
Operating Transfers Out		
Multiple Grant	(42,851)	
E-911	(456,921)	
Airport	(279,164)	
CASA	(10,000)	(788,936)
Proceeds from Capital Leases		500,000
Sale of Assets		90,000
Change in Fund Balance		(3,412,681)

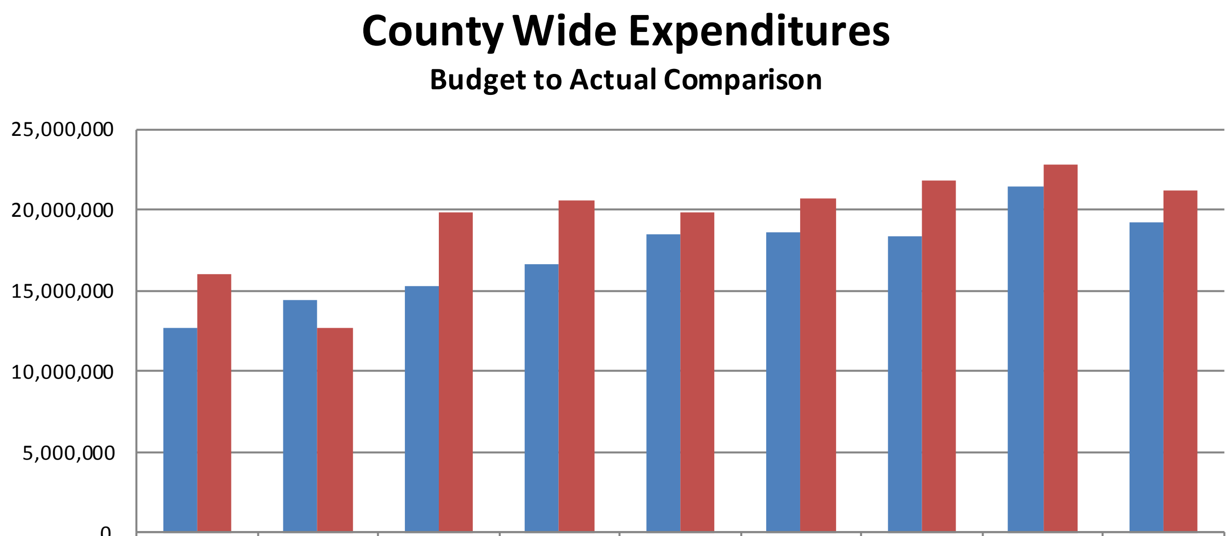
Change in Fund Balance – FY 2012
The total change in fund balance from January 1, 2012 to December 31, 2012 was **$610,028**.

Surplus (Deficit) of Revenues over Expenditures		(576,379)
Operating Transfers from Other Funds		1,256,177
Operating Transfers Out		
Multiple Grant	(55,097)	
CASA	(10,000)	
Mental Health Court	(9,073)	(74,170)
Proceeds from Capital Leases		-
Sale of Assets		4,400
Change in Fund Balance		610,028

Budgetary Information

The primary reason for the dramatic changes in fund balance that have been seen over the years is failure by departments to operate within budgetary guidelines. As depicted in *Figure 2*, FY 2005 is the only year from FY 2004 through FY 2012 in which actual expenditures were less than the overall budget. From FY 2006 through FY 2012 actual expenditures exceeded budgeted amounts on average by $2,706,271 per year. The lowest overage in that time range was FY 2008 with a total excess of $1,470,904, and the largest overage occurred in FY 2006 with expenditures exceeding the budget by $4,609,402. The budgets of Pickens County have been trending upward since FY 2004. Budgets increased by a total of $8,682,214 (approximately 68%) from $12,737,768 in FY 2004 to $21,419,982 in FY 2011. Total budgeted expenditures totaled $19,311,478 in FY 2012.

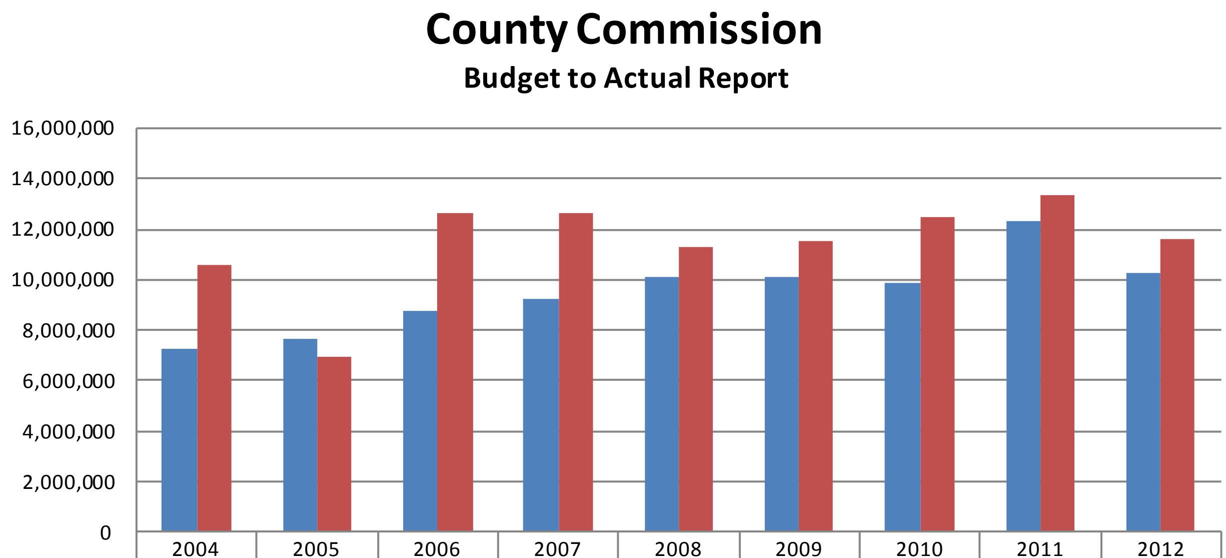
Figure 2



	2004	2005	2006	2007	2008	2009	2010	2011	2012
Budget	12,737,768	14,423,348	15,275,014	16,619,778	18,458,201	18,686,066	18,448,294	21,419,982	19,311,478
Actual	16,030,138	12,693,616	19,884,416	20,640,659	19,929,105	20,798,124	21,847,078	22,805,230	21,258,095

The graphs on the following page show budget to actual expenditure comparisons for each elected official and the Public Defender who is not elected but appointed.

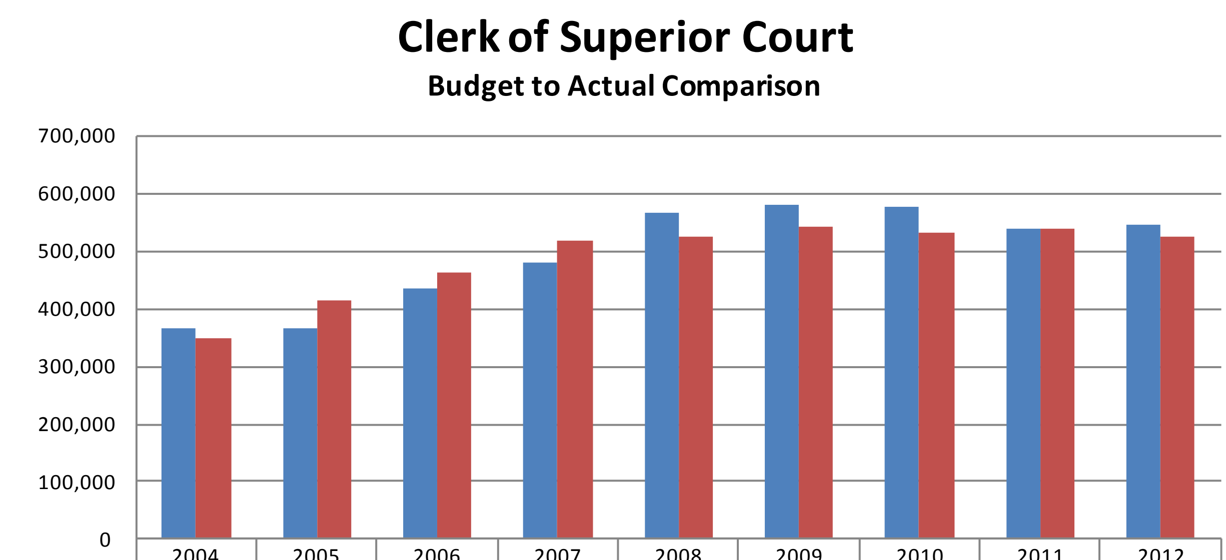
Figure 3



	2004	2005	2006	2007	2008	2009	2010	2011	2012
Budget	7,300,928	7,675,226	8,731,311	9,241,793	10,091,135	10,143,484	9,850,829	12,355,542	10,237,075
Actual	10,593,790	6,958,472	12,616,027	12,621,778	11,324,130	11,570,089	12,521,463	13,343,710	11,638,267

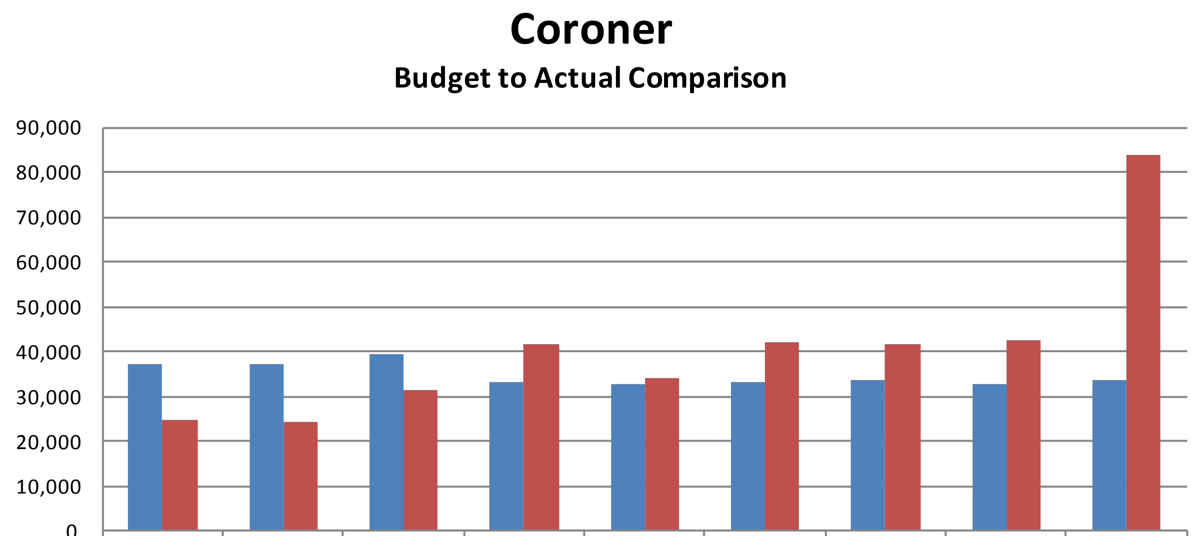
The County Commission oversees all budgets which are not under the administration of other elected officials. This includes but is not limited to the Road Department, Solid Waste, the Fire Department and Emergency Medical Services (EMS).

Figure 4



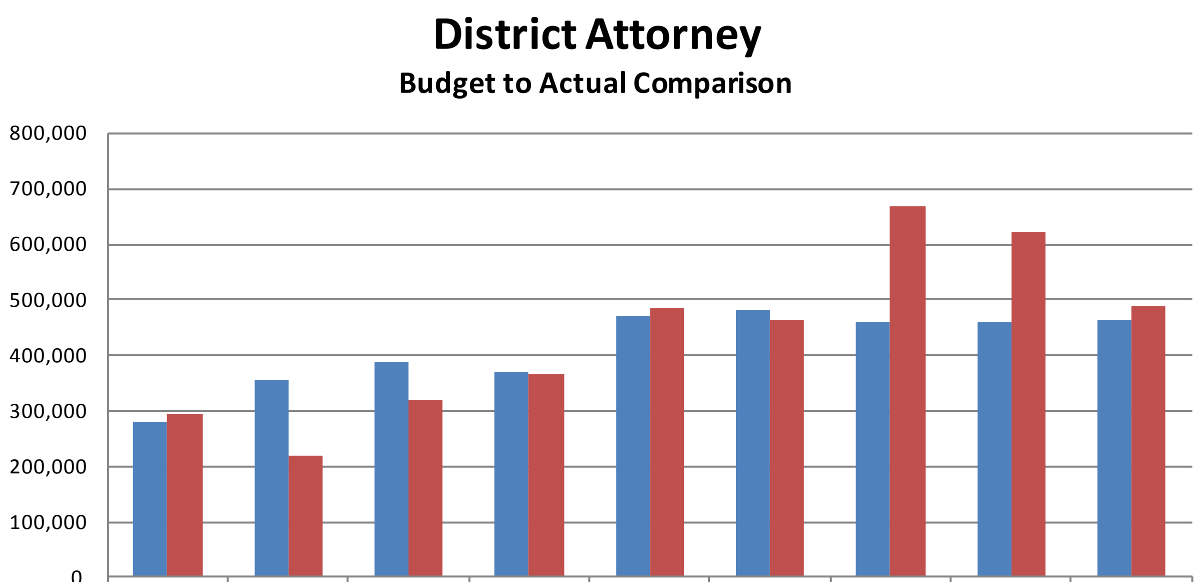
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Budget	367,379	367,178	436,330	480,609	567,297	579,981	577,833	540,398	545,802
Actual	348,882	414,610	464,637	516,879	526,683	543,613	532,257	539,065	525,210

Figure 5



	2004	2005	2006	2007	2008	2009	2010	2011	2012
Budget	37,200	37,210	39,360	33,260	32,890	33,461	33,611	32,940	33,599
Actual	24,867	24,188	31,517	41,646	33,996	42,217	41,531	42,821	84,172

Figure 6

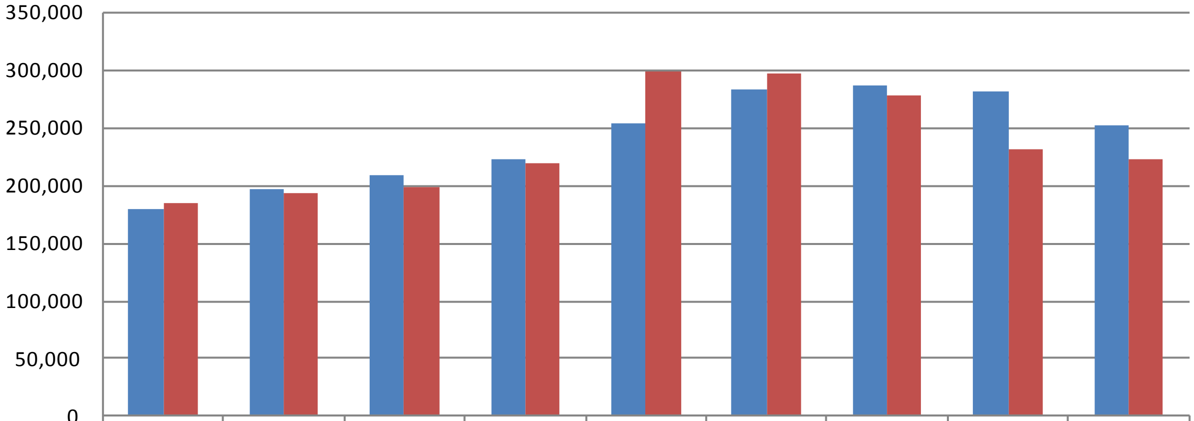


	2004	2005	2006	2007	2008	2009	2010	2011	2012
Budget	278,660	356,964	387,291	371,452	471,993	483,167	460,045	460,045	464,645
Actual	295,165	219,264	320,179	366,682	485,792	464,528	669,956	622,973	488,737

Figure 7

Chief Magistrate Court Judge

Budget to Actual Comparison

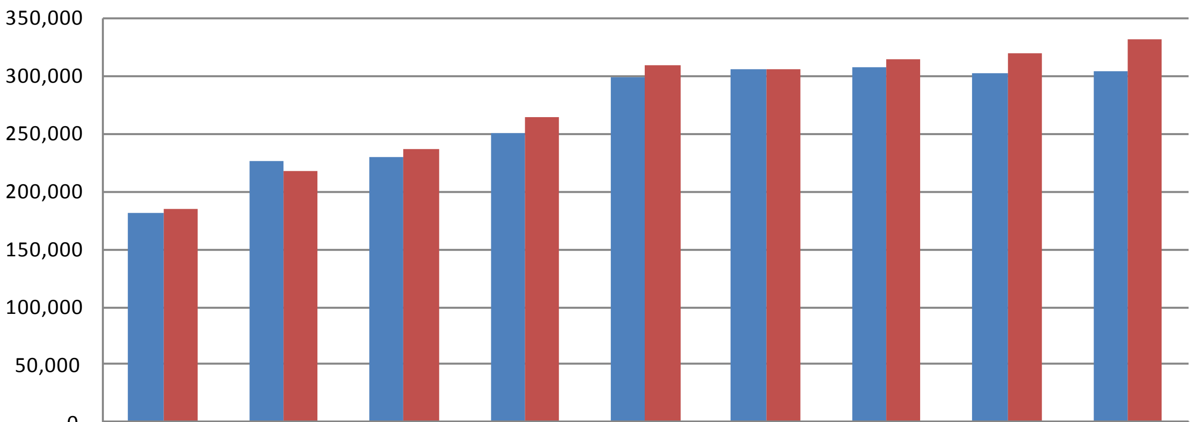


	2004	2005	2006	2007	2008	2009	2010	2011	2012
Budget	179,132	196,089	208,269	222,427	254,225	283,994	286,852	281,115	251,485
Actual	185,464	192,758	198,411	220,252	299,131	296,782	277,526	231,747	222,142

Figure 8

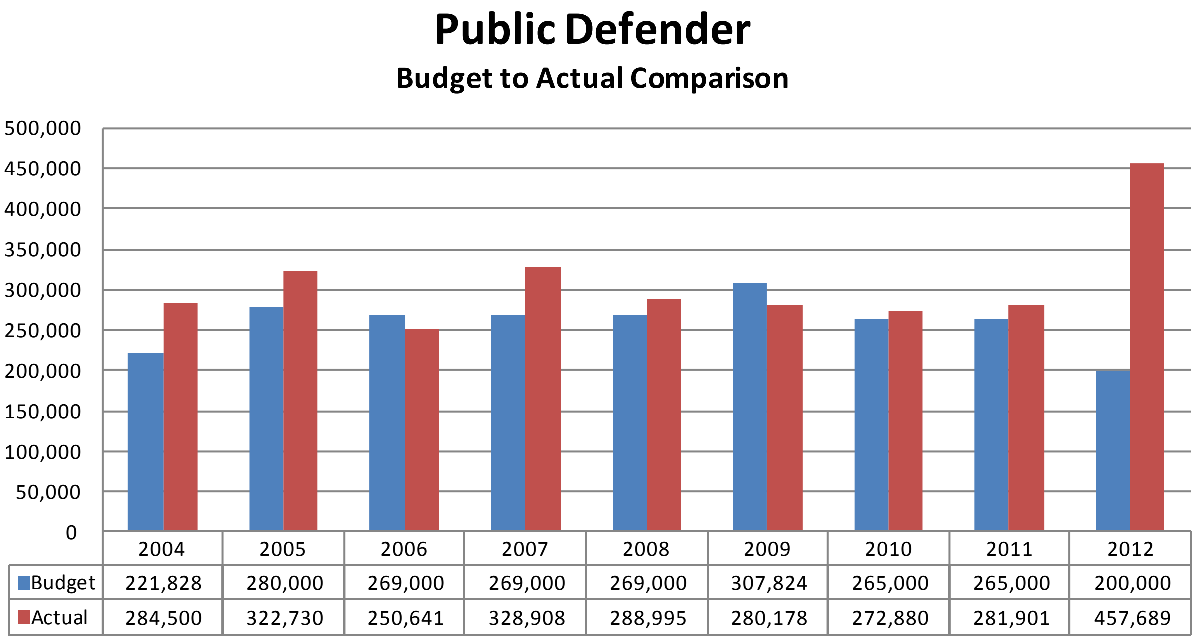
Probate Court Judge

Budget to Actual Comparison



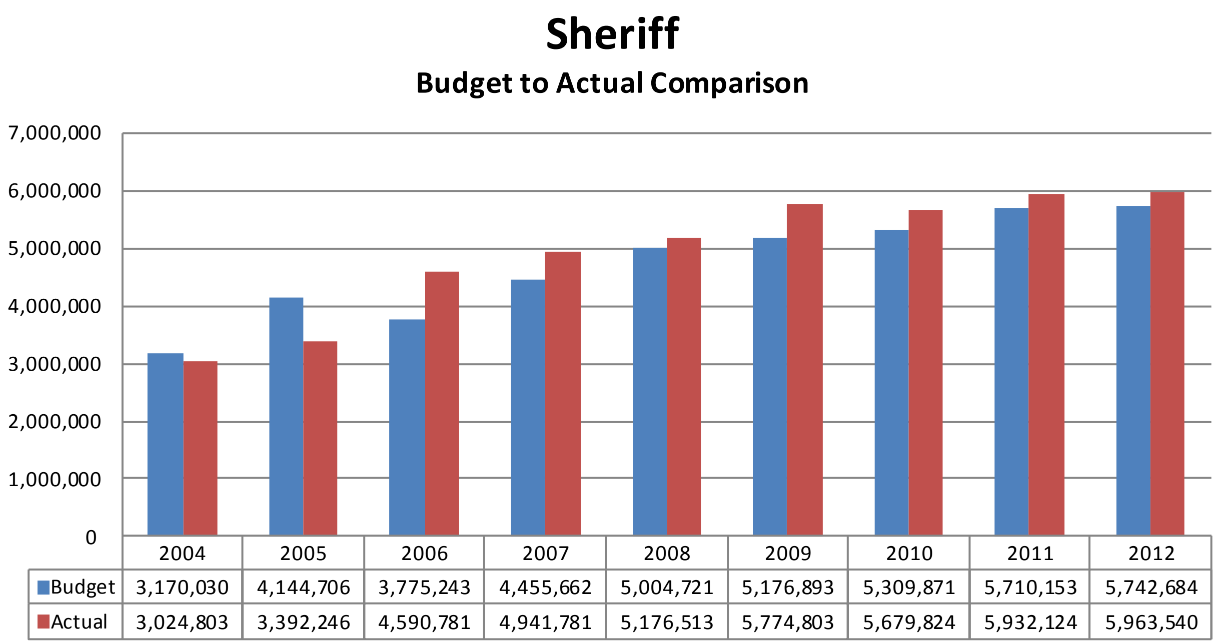
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Budget	181,410	226,497	229,096	251,102	299,803	306,746	307,340	302,000	305,020
Actual	185,464	217,754	237,019	264,571	309,390	306,563	314,898	320,148	331,209

Figure 9



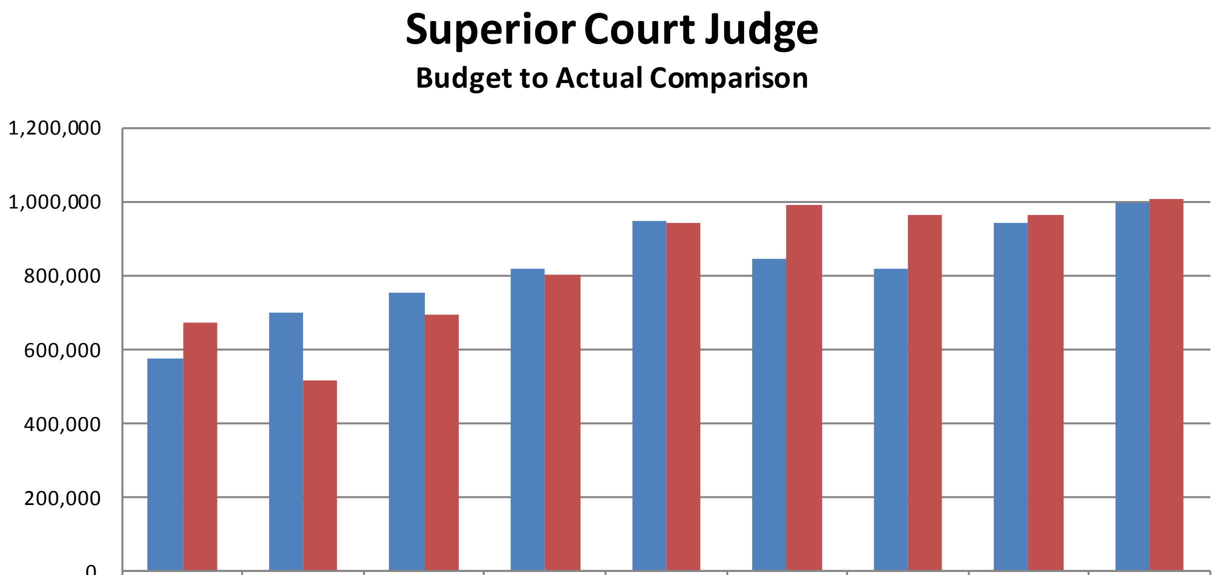
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Budget	221,828	280,000	269,000	269,000	269,000	307,824	265,000	265,000	200,000
Actual	284,500	322,730	250,641	328,908	288,995	280,178	272,880	281,901	457,689

Figure 10



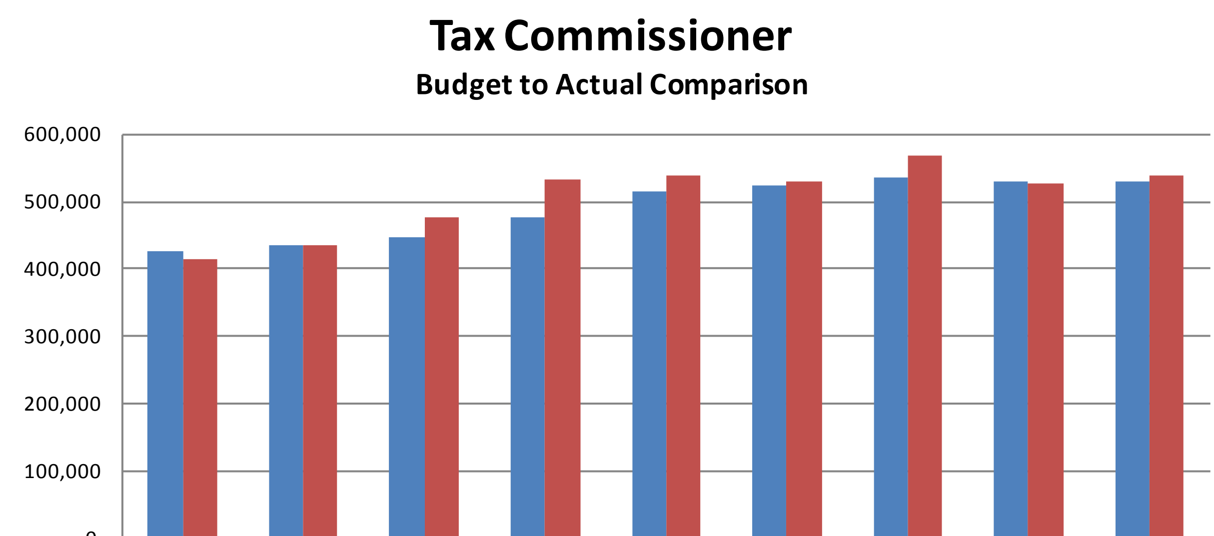
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Budget	3,170,030	4,144,706	3,775,243	4,455,662	5,004,721	5,176,893	5,309,871	5,710,153	5,742,684
Actual	3,024,803	3,392,246	4,590,781	4,941,781	5,176,513	5,774,803	5,679,824	5,932,124	5,963,540

Figure 11



	2004	2005	2006	2007	2008	2009	2010	2011	2012
Budget	574,846	702,935	752,406	818,003	950,341	847,385	820,412	943,521	1,000,322
Actual	672,899	515,656	697,332	805,232	946,125	990,047	966,872	962,610	1,008,807

Figure 12



	2004	2005	2006	2007	2008	2009	2010	2011	2012
Budget	426,355	436,543	446,709	476,470	516,796	523,131	536,501	529,268	530,845
Actual	414,304	435,938	477,872	532,930	538,350	529,304	569,871	528,131	538,322

Fortunately, county wide revenue has shown growth over the years as well. Total revenue was $14,525,751 in FY 2004. From there, revenue trended upward until it reached $20,681,716 in FY 2012.

Use of Fund Balance vs. Millage Rate Dependency

In years where expenditures exceed budgeted revenue, a county has only two options to compensate for the excess. The first option is to deplete fund balance. Using fund balance to cover excesses prevents increases in millage rates, but doing so can put extreme strain on a county's overall financial condition. Fund balance provides a "safety net" for unexpected expenses and emergency situations; therefore, protecting fund balance is always an attractive decision. Fund balance depletion can occur by using cash reserves or taking on additional debt used to fund expenditures unrelated to asset acquisition.

Alternatively, excess expenditures may be offset with no negative financial consequences to fund balance by simply increasing the millage rate. In spite of the benefits to fund balance, this option is often regarded as a last resort due to the negative political impact of increasing taxes. The table on the following page provides a summary of the needed millage rate increases had the Commissioner decided to preserve fund balance by imposing higher taxes.

Table 1

1	2	3	4	5	6	7
Year	Change in Ending Fund Balance	Net M & O Digest	Add'l Revenue per Mil [**3**/1000]	Actual Millage Rate	Necessary Millage Increase to Avert Loss of Fund Balance (Non Cumulative) [**2**/**4**]	Adjusted Millage Rate [**5**+**6**]
2004	247,684	996,070,294	996,070	5.910	0.000	5.910
2005	1,392,888	1,126,876,314	1,126,876	6.160	0.000	6.160
2006	2,114,246	1,222,999,756	1,223,000	6.260	0.000	6.260
2007	(1,757,412)	1,343,987,686	1,343,988	6.133	1.308	7.441
2008	(1,926,667)	1,476,549,137	1,476,549	5.895	1.305	7.200
2009	(1,547,593)	1,484,889,068	1,484,889	6.260	1.042	7.302
2010	2,356,135	1,459,026,930	1,459,027	6.260	0.000	6.260
2011	(3,412,681)	1,446,629,187	1,446,629	6.260	2.359	8.619
2012	610,028	1,407,930,086	1,407,930	6.650	0.000	6.650

Because of the financial hardship caused by economic recession in the deficit years, the Commissioner elected to use fund balance rather than increase taxes.

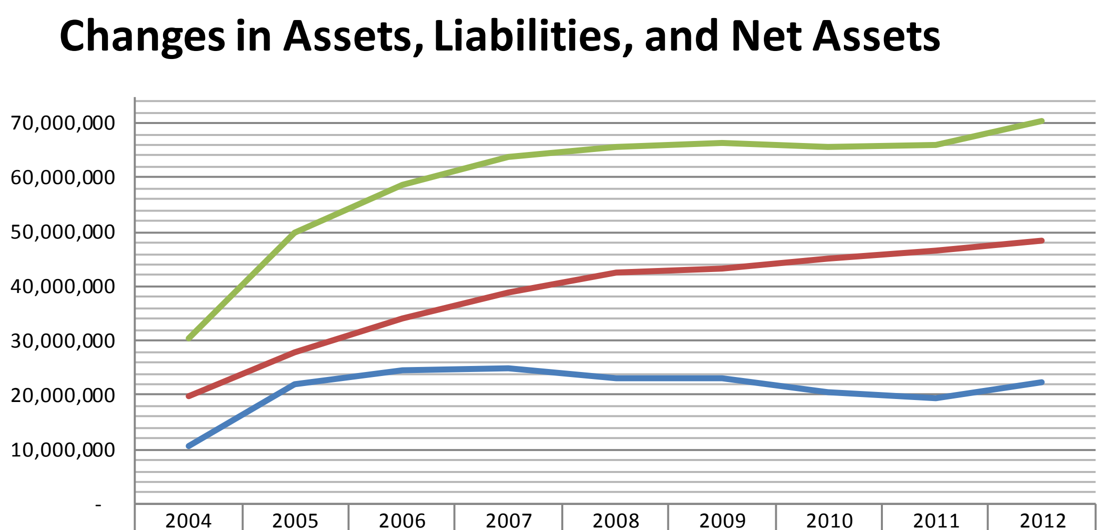
Debt History

It is expedient to note that the amounts and representations related to debt are presented under the full accrual method as required by GASB 34, which was implemented in Pickens County during FY 2004. The change in accounting basis and measurement focus is required because these amounts are not solely payable in the short term as those reported in fund level financial statements. Before GASB 34 implementation, no requirements existed for full accrual based financial statements; therefore, no full accrual financial statements are available prior to FY 2004. Discussion on debt or any other areas in which accrual accounting is required will begin in FY 2004.

In financial accounting, the term "liability" refers to a claim against current or future economic resources. This broad term encompasses items as simple as trade accounts payable and as complex as commercial paper. Fortunately for the users of local government financial statements, Georgia law simplifies the liabilities of local governments somewhat by requiring that counties be free of all debts except bonded debt and current payables at calendar year end. Accordingly, the primary components of Pickens County's debt structure are capital leases, revenue bonds, and notes payable held by the propriety funds. Other more volatile items such as accounts payable, unearned income, accrued compensated absences, net pension obligation, and other accrued expenses are also included in the chart below. For purposes of this discussion, assets, liabilities, and equities associated with component units are ignored.

As seen in *Figure 13*, Pickens County's total liabilities in FY 2012 have declined a total of $2,754,245 since FY 2007 while total assets have reached maximum levels. This means that Pickens County has become more focused on equity financing which reduces overall risk independent of other factors.

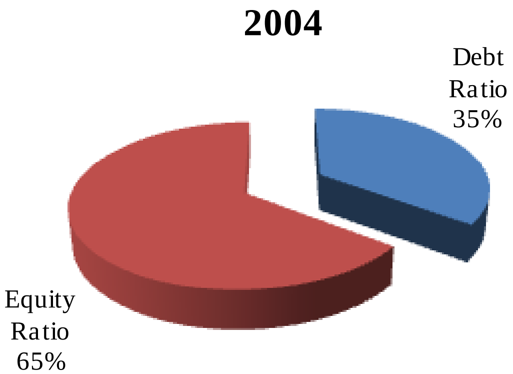
Figure 13

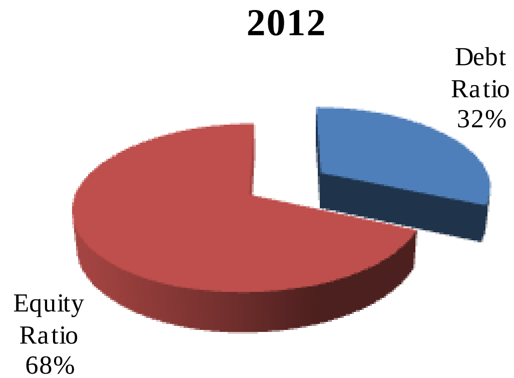


	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Assets	30,479,357	49,872,840	58,619,425	63,960,056	65,525,626	66,532,769	65,611,419	65,986,009	70,504,924
Total Liabilities	10,707,577	21,894,610	24,499,333	25,023,761	22,924,322	23,116,111	20,509,602	19,291,968	22,269,516
Total Net Assets	19,771,780	27,978,230	34,120,092	38,936,295	42,601,304	43,416,658	45,101,817	46,694,041	48,235,408

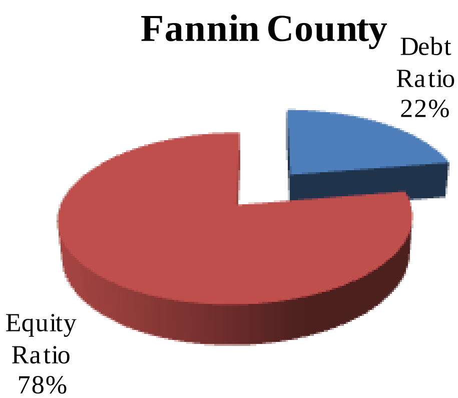
Basic accounting theory dictates that there are only two methods available to acquire assets: the use of equity (or net position) and debt. In other words, every asset on an entity's books is supported by some combination of debt and/or net assets. An increase in debt necessarily reduces net assets given a constant amount of total assets and vice versa. Important measures of an entity's overall stability, referred to as the debt ratio and the equity ratio, are supported by this relationship. The two pie charts on the next page depict the debt ratios and equity ratios for FY 2004 and FY 2012. Lower debt ratios and higher equity ratios indicate an entity's use of equity financing rather than taking on new debt. On the next page are pie graphs comparing the debt ratios and equity ratios of Pickens County, Gilmer County, Fannin County, and Dawson County for the year ended December 31, 2011. At the time of this writing, Gilmer County had not yet received their FY 2012 audit, so current year comparisons are not obtainable.

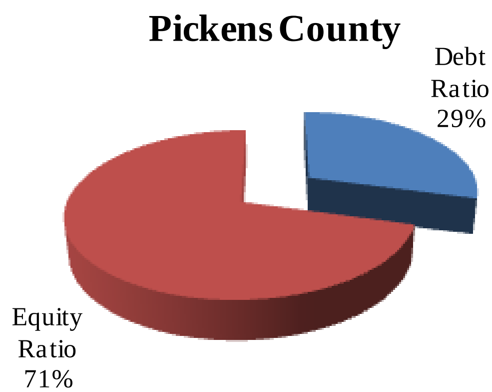
Financing Composition of Pickens County

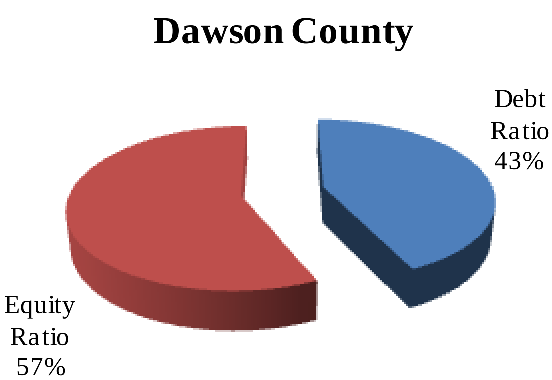


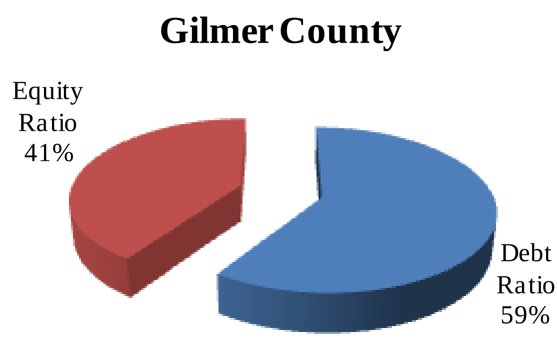


Financing Composition of Pickens County vs. Surrounding Counties









Dynamics of Debt

The majority of Pickens County's liabilities exist in the form of capital leases, revenue bonds, and long term notes payable held by the proprietary funds. In fact, assets in these categories have composed on average 81.8% of all debt from FY 2004 to FY 2012. Below is a year by year account of all new debt extensions. Reductions in debt are the result of payments.

2004-2005

The County secured a line of credit for $2,708,630 from Jasper Banking Company to insure funding for the extension of water lines to rural communities. This loan was temporary and would be replaced when the project was complete with a loan from the United States Department of Agriculture. $292,767 was advanced on a related loan from Georgia Environmental Facilities Agency (GEFA).

Another loan was issued for the expansion and remodeling of the Adult Detention Center. This loan was originally extended with an amount of $8,200,000.

2005-2006

The line of credit received in 2005 matured and was replaced with another line of credit in the amount of $4,338,682.

The County acquired an additional $3,200,000 note payable for the purchase and remodeling of the Pickens County Administrative Building and E-911 Center.

2006-2007

A draw of $170,252 was made on the line of credit from Jasper Banking Company before it was repaid and replaced with funds from the Water System Revenue Bond Series 2007 for the acquisition and construction of water line infrastructure.

The County also entered into capital lease agreements in the amount of $804,383 for the acquisition of equipment to be used by the Road Department.

2007-2008

The County leased $222,524 of new equipment.

2008-2009

The county entered into additional lease obligations in the amount of $400,000, and also entered into a loan agreement with the Development Authority for the construction of an airport taxiway. The loan was still in the draw down phase as of December 31, 2009 and had a balance of $956,947 at that time.

2009-2010

The County entered into an agreement with GEFA to finance the construction of a new water tank. The loan was still in the draw down phase at December 31, 2010, and had a balance of $485,483. Advances associated with this loan totaled $731,483, but $246,000 was forgiven as part of the American Recovery and Reinvestment Act.

Advances on the loan with the Development Authority equaled $2,273,374 over the course of FY 2010, and it continued to exist in the draw down phase at year end.

The county entered into a note payable equal to $3,495,000 for the construction of the recreation facility at Roper Park.

The County also issued 2010 General Obligation Sales Tax bonds to secure financing for the renovation, repair, remodeling, modification, construction, and equipping of the courthouse and parking facility. As of yearend, only $90,000 had been drawn on the $6,500,000 bond.

2010-2011

The county entered into a lease agreement for equipment in the amount of $500,000.

An additional $26,719 draw was added to the note for the construction of an airport taxiway. This note was still in the draw down phase at December 31, 2011.

2011-2012

The county drew $500,000 on the 2010 General Obligation Sales Tax bonds as a precautionary measure. The bonds were serviced by Jasper Banking Company which was seized by the FDIC during the year. In effort to avoid the FDIC from tampering or cancelling the bonds, $500,000 was drawn to ensure an active status.

$750,000 was drawn on the loan with the Development Authority, and the loan continued in the drawn down state at December 31, 2012.

An additional $385,880 was advanced on the GEFA note for the construction of water lines.

The county entered into capital lease agreements for equipment in the amount of $458,730.

Tax Anticipation Notes (TANs)

Due to budget overages and capital asset investments the County's cash balances have been on a steady decline since FY 2006 and FY 2010 when loan proceeds caused cash to be temporarily inflated. See *Figure 1* on page 4 for a visual representation of the decline. Because a significant percentage of the County's revenue is collected at the end of the year in the form of property taxes, operating cash can run short throughout the year unless sufficient cash reserves are available from prior years. To mitigate an otherwise critical problem, the County has used tax anticipation notes (TANs) as a source of operating funds until tax revenues are received. TANs are short-term borrowings that are used to supplement operating cash flow over the course of the fiscal year until revenue is collected. Historically TANs are originated on January 1st or shortly after and are repaid no later than close of business on December 31st.

The use of a TAN is most simply described as a payday loan. If for some reason, a household does not have sufficient cash at the beginning of the month to cover the month's expenses, then a loan may be obtained which bears a maturity date that is on or shortly after payday. The loan proceeds can be used throughout the month, and when payday comes the loan is paid off.

Because a TAN exists within the bounds of the fiscal year, it has no effect on the year-to-year net position of the County other than the interest expense incurred. The table below shows the County's use of TANs and the associated interest rates beginning with FY 2002.

Table 2

Year	Original Note Amount	Principal	Interest Rate	Interest Expense
2002	N/A	N/A	N/A	N/A
2003	N/A	N/A	N/A	N/A
2004	$1,000,000	$1,000,000	2.95%	Not Noted*
2005	$1,750,000	$1,000,000	3.84%	Not Noted*
2006	N/A	N/A	N/A	N/A
2007	N/A	N/A	N/A	N/A
2008	$1,500,000	$1,500,000	3.66%	$12,453
2009	$3,500,500	$3,500,500	3.60%	$56,886
2010	$4,500,000	$4,500,000	1.16%	$44,225
2011	$5,000,000	$5,000,000	1.24%	$55,456
2012	$6,000,000	$6,000,000	1.40%	$79,567

*The auditor did not include the amount of interest paid in the Notes to the Financial Statements.

Capital Assets

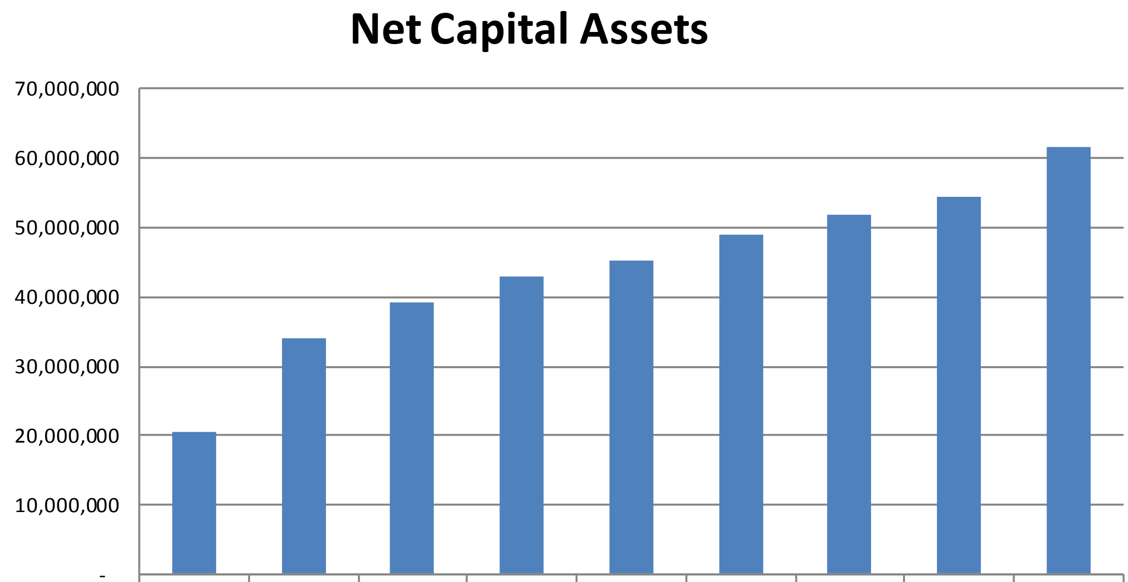
Since FY 2004, Pickens County has made numerous investments in capital assets. As seen in *Figure 14*, net capital assets have increased every year. Net capital assets is the term used to refer to the remaining portion of an asset's historical cost which has not yet been depreciated. Pickens County uses the straight-line method to depreciate all capital assets. Under this method, the historical cost of the capital asset is divided by the asset's estimated useful life to arrive at the depreciable amount per year. Historical cost is the term used to refer to the original cost of an asset combined with any costs which are normal and necessary to place the asset in service. A summary of the useful lives employed by Pickens County to compute depreciation expense is shown in *Table 3*.

Table 3

Category	Useful Life (Years)	Capitalization Threshold
Land	N/A	$ 1
Land Improvements	12-15	$ 5,000
Buildings	25-50	$ 5,000
Machinery and Equipment	3-15	$ 5,000
Furniture and Fixtures	5-20	$ 5,000
Vehicles	2-15	$ 5,000
Infrastructure	10-30	$ 5,000

The selection of an appropriate useful life is a decision made by management. No useful life is given for land because accounting principles generally accepted in the United States of America dictate that land should never be depreciated. Construction in Progress is also without a useful life due to the fact that capital assets are not depreciated until placed in service.

Figure 14



	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Capital Assets	20,429,763	34,173,212	39,139,606	42,998,512	45,359,720	49,137,133	51,852,140	54,545,812	61,575,341

Dependency on Audited Financial Statements

In an attempt to deliver the most impartial and accurate information available, this report was prepared based on the annual financial audits of Pickens County, Georgia from FY 2004 through FY 2012 with the only exception being the section regarding millage rate changes.

Copies of the financial audits used are available at http://pickenscountyga.gov/audited-financial-statements/ or by contacting the Finance Department of the Pickens County Board of Commissioners:

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