

FINANCIAL POLICIES AND STRATEGIES

The City of Atlanta is a municipal corporation governed by the Mayor and the City Council. The accounting principles of the City of Atlanta, Georgia (the "City"), conform to generally accepted accounting principles ("GAAP") applicable to governmental entities. The Government Accounting Standards Board ("GASB") is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The significant financial policies of the City are described below.

Operating Budget Policies

Annual budgets are adopted for the General, Special Revenue, and Debt Service Funds with the level of legal budgetary control established at the department level by City Council. The City is required to adopt a balanced budget each year and maintain budgetary controls to ensure compliance with legal provisions of the annual appropriated budget approved by the Mayor and City Council. The amounts of anticipated revenues and appropriated expenditures for the annual budget are controlled by the City Charter and various ordinances adopted by the City Council. Appropriations for capital projects are adopted by the City Council principally on an individual basis, when the project is initially approved.

Since the legally adopted budget is on a cash basis, which differs significantly from GAAP, a reconciliation from the cash basis to GAAP basis is presented annually in the City's Comprehensive Annual Financial Report.

The responsibility for revenue anticipations and specified appropriations is fixed by law with the Budget Commission, which is composed of the Mayor, the Chief Financial Officer, the Chair of the City Council Finance Committee and two other members of City Council. The Budget Commission may not anticipate in any year an amount in excess of 99% of the normal revenues of the City actually collected during the previous year (unless tax rates or fees are increased) plus any accumulated cash surplus carried forward from the previous year. Amounts sufficient to provide for debt service, including sinking fund requirements, are appropriated by the Budget Commission. The amount remaining from such anticipations, after providing for the above required appropriations, may be appropriated by the Mayor and City Council for any department or purpose authorized by law not later than the second regular meeting of City Council in the second month of the fiscal year.

After the initial annual budget is adopted, it may be amended for interdepartmental transfers of appropriations with the approval of City Council. Intradepartmental transfers of appropriation among individual budgetary accounts may be initiated by a department head with the approval of the Chief Operating Officer, the Chair of the City Council Finance Committee, and Chief Financial Officer. Total appropriations for any fund may be increased if, during the year, sources of revenue become available to the City in excess of original anticipations, and these amounts are anticipated by the Budget Commission and subsequently appropriated by City Council.

Encumbrance accounting, under which purchase orders and contracts are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of the formal budgetary process. All appropriations, except for the General Fund's reserved fund balance, lapse at the end of the year, but are considered during the following year's budgeting process. Contractually encumbered appropriations and certain unencumbered appropriations in the General Fund do not lapse, but are carried forward to the ensuing budget year.

Accounting, Auditing and Financial Reporting Policies

The City will produce Annual Financial Reports in accordance with Generally Accepted Accounting Principles (GAAP) as outlined by the Governmental Accounting Standards Board. An independent audit is performed annually. In addition, the City continues to maintain a strong internal audit capability.

The accounting and financial reporting treatment applied to a fund is determined by its measurements focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus (also known as the spending measurement focus). With this measurement focus, general only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The modified accrual basis of accounting is used by all governmental fund types, expendable trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues as available if they are collected within 45 days after year-end. All revenues are considered susceptible to accrual except revenues from licenses and permits, fines, forfeitures and penalties because they are generally not measurable until received in cash.

The City also reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential accrued basis revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, such as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (a) principal and interest on general long-term debt, which is recognized when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year, and (b) accumulated unpaid vacation pay, compensatory pay, accrued workers' compensation, and arbitrage rebate which are recognized in the governmental funds only to the extent they will be paid from available expendable financial resources. Those liabilities that are not to be paid from current resources are recorded in the General Long-Term Obligations Account Group.

The City adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," in 1994 and elected to follow GASB standards.

Debt Administration Policy

The City's fiscal policy for incurred indebtedness depends upon the type of debt issued. Debt associated with Proprietary (Enterprise) Funds is handled differently from General Obligation debt. Enterprise Funds have their own revenue sources (user fees) and are subject to different bond covenants that are General Obligation issues. For enterprise debt, a reserve must be set aside within six months of the issuance of debt that will cover the payments for the year in which the highest principal and interest are due. Revenues minus operating expenses (net operating revenues) must exceed principal and interest payments by 20%. If not, the user fees must be increased to provide extra revenues and cover this margin.

The Georgia Constitutional limit on general obligation bonds is 8% of the assessed property value for general government purposes and 4% for school purposes.

Financial Management Policies

Ordinance Adopted February, 1987

WHEREAS, the City of Atlanta financial standing and reputation has been and continues to be excellent; and

WHEREAS, this successful financial management excellence has been achieved despite the absence of formal, adopted City financial management policies; and

WHEREAS, as the City continues to face even more complex financial conditions, it becomes more appropriate for formal, City policies governing financial management to be adopted:

THEREFORE, BE AND IT IS HEREBY ORDAINED BY THE COUNCIL OF THE CITY OF ATLANTA, GEORGIA, as follows:

SECTION 1: That the following Financial Management Policies be and are hereby adopted to guide certain aspects of the financial management of the City of Atlanta:

1. The operating budget shall be developed with a sharp focus on long-term solvency. Long-term financial commitments to continuing outlays shall be avoided unless sustained revenue growth is assured (or) official actions taken to increase existing revenues or authorize new ones sufficient to maintain the commitment.
2. Current expenditures shall in all cases be supported by current revenues, and debt shall not be used for current expenses.
3. Non-recurring revenue and resources shall not be used to finance continuing operations.
4. Each enterprise operation of the City shall maintain revenues which support the full (direct and indirect) cost of the individual operation.
5. Operating fund balance shall be maintained at levels sufficient to absorb unpredictable revenue shortfalls and to ensure desired cash flow levels. If fund balances are truly "surplus", they should be committed first to capital needs. With regard to the General Fund, cash balances available at year-end shall, in combination with new revenues, be sufficient to preclude any requirement for short-term debt to sustain City operations.

Financial Management Policies (Continued)

6. The City shall establish and maintain a high level of accounting practice. Accounting systems and standards shall conform to General Accepted Accounting Principles (GAAP) for governments as promulgated by the Governmental Accounting Standards Board (GASB).
7. An annual audit shall be performed by an independent public accounting firm with the subsequent issue of a Comprehensive Annual Financial Report (CAFR) that includes audited general purpose financial statements and audited individual fund statements with both introductory and statistical sections, by the end of the sixth month after the close of the fiscal year. The Report shall be prepared in conformity with Generally Accepted Accounting Principles (GAAP) for governments.
8. Full disclosure shall be provided in the Comprehensive Annual Financial Report and bond representations.
9. Financial systems shall be maintained to monitor expenditures, revenues, and performance of all municipal programs on an ongoing basis.
10. The City shall develop capital budgets and capital programs that facilitate advance planning for capital purposes. All capital expenditure commitments shall be made with the full knowledge of current and future operating requirements necessary to accompany the capital expenditure. Official commitment to fund necessary operating requirements must precede the commitment of capital funding.
11. Capital plans shall include replacement schedules that anticipate the inevitable aging and obsolescence of facilities and equipment. These depreciable assets should be financed through internal funds whenever feasible.
12. Any capital project financed through the issuance of bonds shall be financed for a period not to exceed the expected useful life of the project.
13. Competitive sales should be used to market debt whenever feasible. In negotiated underwritings, procedures should be implemented to ensure that underwriter profits are reasonable and that costs to the public are minimized.
14. All funds not immediately required for expenditure shall be invested by the Commissioner of Finance prudently in those securities authorized by State statutes and the City Code. The security of public deposits and investments shall be assumed through such measures as proper collateralization, credit analysis, and professional evaluation of the risk-return relationship.
15. Revenues and expenditures shall be projected annually for at least three years beyond the current fiscal year.
16. The City's overall revenue structure shall be reviewed periodically to determine its stability, equity, efficiency, and capacity to finance future operations. Where possible under Federal and State statutes, the City of Atlanta shall strive to diversify its sources of revenue so as not to be solely dependent on any one revenue source.
17. User charges shall be utilized whenever practical, especially if a particular service can be directly identified as benefiting one individual or entity.

Financial Management Policies (Continued)

18. All retirement systems will be financed in a manner to systematically fund liabilities. The City shall assure that sufficient funds are provided to pay current service plus interest on unfunded liabilities plus amortization of the unfunded liabilities over a programmed period.

SECTION 2: That these Financial Management Policies shall become effective upon adoption by the Council and approval by the Mayor or through action of law, and shall remain in effect until amended or specifically repealed.

SECTION 3: That all ordinances and parts of ordinances in conflict herewith be and are hereby repealed.

DESCRIPTION OF FUNDS

Introduction

The City uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. The fund types established by the City (primary government) are described below and throughout this document.

This section contains the 2005 budgets and prior two years' data for each fund and fund group. It includes fund groups and fund descriptions, narrative descriptions of the 2005 fund budgets, and discussions of past year's activities and current trends.

The Fund Budgets Section shows 2003 and 2004 actual expenditures and 2005 budgets at a summary level and 2003 and 2004 receipts and 2005 anticipations at detail levels. Receipts and anticipations are shown at the account level of detail in most funds with accounts further broken down to show receipts from specific sponsors (grantors) in several funds where grant receipts are significant.

The fund structure of the City is organized to conform with the GAAFR (Government, Accounting, Auditing and Financial Reporting) standards. It consists of three groups of funds:

1. GOVERNMENTAL FUND TYPES

General Fund - The General Fund is the principal operating fund of the City and is used to account for all activities of the City not otherwise accounted for by a specified fund.

Special Revenue Funds - These funds account for activities carried out by the City under the terms of certain intergovernmental grants.

Debt Service Fund - This fund is used to account for the accumulation of resources and the subsequent disbursement of such resources to pay principal and interest on long-term debt of the City (other than certificates of participation and the debt of the Enterprise Funds). Bond ordinances require the City to account for debt service transactions in separate funds, restrict the flow of cash between such funds, and comply with various other covenants.

Capital Projects Funds - These funds account for the accumulation of resources and the subsequent disbursement of such resources to acquire or renovate major fixed assets.

2. PROPRIETARY FUND TYPES

Enterprise Funds - Operations of Enterprise Funds are designed to be self-supporting. The Department of Aviation, Water and Sewerage System, Parks and Recreational Facilities (Cyclorama), Underground Atlanta, Solid Waste Services and Civic Center are accounted for as enterprise funds. Separate fund accounts within each of the enterprise funds are required to be maintained in accordance with various bond ordinances and have been combined for financial reporting purposes.

Internal Service Fund - The activities of the Bureaus of Management Information Systems and Motor Transport Services are accounted for in the Internal Service Fund. This fund is self supporting.

3. FIDUCIARY FUND TYPES

Trust and Agency Funds - These funds account for activities in which the City acts as agent or trustee for an individual or organization. Additionally, these funds account for receipt and disbursements of certain intergovernmental grants and contributions from certain private individuals. The Expendable Trust Funds are reported in the same manner as Governmental Fund types. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

2005 BUDGET SUMMARY

BY FUND GROUPS

The City's budget consists of three major fund groups, which are; Governmental, Proprietary and Fiduciary. Each fund group is comprised of related funds which are accounted for by Governmental Accounting Standards. The revenues and expenditures or sources and uses of the various funds are reported in this document.

The 2005 Adopted Budget for all funds total \$6,884,268,660 which is a 35.88% increase over the 2004 total of \$5,066,364,348 as depicted below:

FUND GROUP	2004 BUDGET	2005 BUDGET	TOTAL INCREASE - (DECREASE)	% INCREASE (DECREASE)
Governmental	849,735,507	946,986,220	97,250,713	11.44
Proprietary	4,151,490,110	5,861,276,218	1,709,786,108	41.18
Fiduciary	65,141,731	76,006,222	10,864,491	16.68
TOTAL	5,066,367,348	6,884,268,660	1,817,901,312	35.88

The Governmental Funds budget reflects a 11.44% net increase from the 2004 Budget which can be attributed primarily to the following factors: An increase in the appropriation allocation for the General Fund due to the increase in personnel expenses for the City's contribution to the employees' pension fund and the appropriations of bond proceeds from the 2004 Quality Life Bond Fund. Please see comparative analysis on pages 2-10 to 2-11.

The Proprietary Funds budget increased 41.18% from last year due to the additional appropriations from bond proceeds for Airport expansion and the infrastructure requirements for Water and Wasterwater system.

The Fiduciary Funds budget has increased 16.68% from last year due to additional appropriations in the Trust and Agency Fund.

CITY OF ATLANTA 2005 BUDGET

\$6,884,268,660

**GOVERNMENTAL
FUNDS**

\$946,986,220

**PROPRIETARY
FUNDS**

\$5,861,276,218

**FIDUCIARY
FUNDS**

\$76,006,222

GENERAL FUND

\$530,333,026

AVIATION FUNDS

\$3,646,322,817

AGENCY FUND

\$14,204,989

**SPECIAL REVENUE
FUNDS**

\$176,218,994

**WATER & SEWERAGE
FUNDS**

\$2,108,191,517

TRUST FUND

\$47,253,956

**CAPITAL PROJECT
FUNDS**

\$172,285,550

PARKS FACILITIES FUNDS

\$1,354,488

**RENTAL REHABILITATION
TRUST FUND**

\$226,840

**DEBT SERVICE
FUND**

\$64,739,752

**SANITARY OPERATIONS
FUNDS**

\$3,097,142

**HOME INVESTMENT
TRUST FUND**

\$8,775,532

**SPECIAL ASSESSMENT
FUND**

\$3,408,898

INTERNAL SERVICE FUND

\$46,591,993

**MUNICIPAL MARKET
LOAN TRUST FUND**

\$5,544,905

**UNDERGROUND ATLANTA
FACILITIES REVENUE FUND**

\$9,076,105

**SOLID WASTE SERVICES
REVENUE FUND**

\$44,991,143

**CIVIC CENTER
FUNDS**

\$1,651,014

2005 BUDGET SUMMARY

ALL FUNDS

MAJOR ACCOUNT GROUP:	GOVERNMENTAL FUNDS	PROPRIETARY FUNDS	FIDUCIARY FUNDS	TOTAL
SUMMARY OF 2005 ANTICIPATIONS				
Taxes	365,527,938	130,609,081	-	496,137,019
Licenses and Permits	53,504,714	-	-	53,504,714
Intergovernmental Revenue	124,520,084	181,638,751	12,278,452	318,437,287
Charges for Services	13,852,824	347,981,721	2,932,589	364,767,134
Fines and Penalties	19,418,344	15,000	69	19,433,413
Miscellaneous Revenues	18,685,883	235,107,412	4,689,694	258,482,989
Sales, Recoveries and Other Financing Sources	43,728,268	400,174,262	238,792	444,141,322
Total Anticipated Receipts	639,238,056	1,295,526,226	20,139,595	1,954,903,878
Cash and Securities Available January 1, 2005	307,748,164	4,565,749,991	55,866,627	4,929,364,782
GRAND TOTAL - ALL FUNDS	946,986,220	5,861,276,218	76,006,222	6,884,268,660

SUMMARY OF 2005 APPROPRIATIONS

Personnel Expenses	359,218,537	225,969,814	3,424,201	588,612,552
Other Operating Expenses	134,609,129	763,792,683	34,241,101	932,642,913
Loans/Adv/Invest/Losses	-	691,710	10,289	702,000
Internal Service Expenses	28,723,064	37,375,016	155,168	66,253,249
Intergovt'/Interfund Expenses	47,575,608	36,055,448	14,369,244	98,000,299
Capital Expenses	117,327,583	2,745,162,691	16,569,127	2,879,059,401
Debt Service Expenses	57,829,398	719,457,471	427,597	777,714,466
Reserve for Appropriation	201,702,902	1,332,771,385	6,809,495	1,541,283,781
GRAND TOTAL - ALL FUNDS	946,986,220	5,861,276,218	76,006,222	6,884,268,660

