CITY OF ACRCADE, GEORGIA

ANNUAL FINANCIAL REPORT
(WITH INDEPENDENT AUDITORS' REPORT)

Year Ended
December 31, 2016

CITY OF ARCADE, GEORIGA

TABLE OF CONTENTS
FOR THE YEAR ENDED
December 31, 2016

INDEPENDENT AUDITORS' REPORT	i-iii
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statement of Net Position	1
Statement of Activities	2
FUND FINANCIAL STATEMENTS	
Balance Sheet - Governmental Funds	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	4
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Statement of Cash Flows - Proprietary Fund	
NOTES TO FINANCIAL STATEMENTS	7 - 21
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	22
SUPPLEMENTAL INFORMATION	
Budgetary Comparison Schedule - Drug Fund	23
Schedule of Projects Constructed with Special Purpose Local Option Sales Taxes	24 - 26
OTHER REPORTS	
Independent Auditors' Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	27 - 29

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INDEPENDENT AUDITORS' REPORT

August 3, 2017

To the Mayor and City Council
CITY OF ARCADE, GEORIGA
Jefferson, GA

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the CITY OF ARCADE, GEORIGA as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the CITY OF ARCADE, GEORIGA, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedule-General Fund listed in the table of contents 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.

Management has omitted the Management's Discussion and Analysis that the accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 operations, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CITY OF ARCADE, GEORIGA's basic financial statements. The accompanying Schedule of Projects Constructed with Special Sales Tax Proceeds is presented for

purposes of additional analysis as and is not a required part of the basic financial statements.

The Schedule of Projects Constructed with Special Sales Tax Proceeds is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Projects Constructed with Special Sales Tax Proceeds is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2017 on our consideration of the CITY OF ARCADE, GEORIGA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CITY OF ARCADE, GEORIGA's internal control over financial reporting and compliance.

Bates, Carter & Co., LLP

CITY OF ARCADE, GEORIGA
STATEMENT OF NET POSITION
December 31, 2016

	PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES
ASSETS	
Cash	$ 546,333
Investments	745,796
Receivables	134,830
Prepaid items	2,820
Capital assets:	
Capital assets not being depreciated	54,497
Capital assets being depreciated	2,520,581
Less: accumulated depreciation	(879,492)
Capital assets, net of depreciation	1,695,586
TOTAL ASSETS	3,125,365
LIABILITIES	
Accounts payable	21,318
Other accrued items	9,088
Noncurrent liabilities:	
Due within one year	
Compensated absences payable	9,724
Capital leases payable	37,036
Due in more than one year	
Compensated absences payable	14,586
Capital leases payable	45,706
TOTAL LIABILITIES	137,458
NET POSITION	
Net investment in capital assets	1,612,844
Restricted for:	
Capital outlay projects	498,236
Public safety programs	11,636
Unrestricted	865,191
TOTAL NET POSITION	$ 2,987,907

The accompanying notes are an integral part of this statement.

CITY OF ARCADE, GEORIGA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) AND CHANGES IN NET POSITION PRIMARY GOVERNMENT: GOVERNMENTAL ACTIVITIES
PRIMARY GOVERNMENT					
GOVERNMENTAL ACTIVITIES					
General government	$ 364,751	$ 27,610	$ 295,938	$ -	$ (41,203)
Judicial	59,613	-	-	-	(59,613)
Public safety	364,563	259,157	-	-	(105,406)
Public works	162,508	-	-	286,786	124,278
Recreation and culture	850	-	-	-	(850)
Interest	2,389	-	-	-	(2,389)
Total Governmental Activities	954,674	286,767	295,938	286,786	(85,183)
TOTAL PRIMARY GOVERNMENT	$ 954,674	$ 286,767	$ 295,938	$ 286,786	(85,183)
GENERAL REVENUES					
Motor vehicle taxes					29,088
Insurance premium taxes					111,472
Franchise taxes					62,254
Alcohol beverage taxes					26,457
Total taxes					229,271
Unrestricted investment earnings					2,890
TOTAL GENERAL REVENUES AND TRANSFERS					232,161
CHANGES IN NET POSITION					146,978
NET POSITION, Beginning					3,167,979
PRIOR PERIOD ADJUSTMENT					(327,050)
NET POSITION, Beginning as restated					2,840,929
NET POSITION, Ending					$ 2,987,907

The accompanying notes are an integral part of this statement.

CITY OF ARCADE, GEORIGA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016

ASSETS	GENERAL	SPLOST	DRUG FUND - NONMAJOR GOVERNMENTAL FUND	TOTAL GOVERNMENTAL FUNDS
Cash	$ 85,509	$ 449,188	$ 11,636	$ 546,333
Investments	745,796	-	-	745,796
Due from other governments	30,578	49,048	-	79,626
Receivables	55,203	-	-	55,203
Prepaid items	2,820	-	-	2,820
TOTAL ASSETS	919,906	498,236	11,636	1,429,778
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 919,906	$ 498,236	$ 11,636	$ 1,429,778
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 21,317	$ -	$ -	$ 21,317
Other accrued items	9,088	-	-	9,088
TOTAL LIABILITIES	30,405	-	-	30,405
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	30,405	-	-	30,405
FUND BALANCES				
Nonspendable:				
Prepaid expenditure	2,820	-	-	2,820
Restricted:				
Capital outlay projects	-	498,236	-	498,236
Public safety projects	-	-	11,636	11,636
Unassigned:	886,681	-	-	886,681
TOTAL FUND BALANCES	889,501	498,236	11,636	1,399,373
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 919,906	$ 498,236	$ 11,636	$ 1,429,778

The accompanying notes are an integral part of this statement.

CITY OF ARCADE, GEORIGA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
For the Year Ended December 31, 2016

Total Fund Balances for Governmental Funds (page 3)		$	1,399,373
Total net position reported for governmental activities in the statement of net position is different because:			
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds.			1,695,586
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences	(24,310)		
Capital leases	(82,742)		
			(107,052)
Total net position of governmental activities (page 1)		$	2,987,907

The accompanying notes are an integral part of this statement.

CITY OF ARCADE, GEORIGA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

REVENUES	GENERAL	SPLOST	DRUG FUND - NONMAJOR GOVERNMENTAL FUND	TOTAL GOVERNMENTAL FUNDS
Property tax	$ 29,088	$ -	$ -	$ 29,088
Insurance premium tax	111,472	-	-	111,472
Franchise taxes	62,254	-	-	62,254
Alcohol beverage taxes	26,457	-	-	26,457
Licenses and permits	7,660	-	-	7,660
Intergovernmental	295,938	285,566	-	581,504
Charges for services	19,950	-	-	19,950
Fines and forfeitures	251,945	-	-	251,945
Interest income	2,885	1,219	6	4,110
Miscellaneous	7,211	-	-	7,211
TOTAL REVENUES	814,860	286,785	6	1,101,651
EXPENDITURES				
Current Expenditures				
General government	287,932	19,129	-	307,061
Judicial	59,613	-	-	59,613
Public safety	327,786	-	4,774	332,560
Public works	74,482	86,437	-	160,919
Capital outlay	86,581	12,397	-	98,978
Debt service				
Principal	26,407	-	-	26,407
Interest	2,388	-	-	2,388
TOTAL EXPENDITURES	865,189	117,963	4,774	987,926
EXCESS (DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(50,329)	168,822	(4,768)	113,725
OTHER FINANCING SOURCES (USES)				
Capital lease proceeds	77,781	-	-	77,781
TOTAL OTHER FINANCING SOURCES (USES)	77,781	-	-	77,781
NET CHANGE IN FUND BALANCES	27,452	168,822	(4,768)	191,506
FUND BALANCES, Beginning of year	804,849	306,667	16,404	1,127,920
PRIOR PERIOD ADJUSTMENT	57,200	22,747	-	79,947
FUND BALANCES, Beginning, as restated	862,049	329,414	16,404	1,207,867
FUND BALANCES, End of year	$ 889,501	$ 498,236	$ 11,636	$ 1,399,373

The accompanying notes are an integral part of this statement.

CITY OF ARCADE, GEORIGA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

Net change in fund balances (page 5)		$ 191,506
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 and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlay	98,978	
Depreciation expense	(88,316)	
		10,662
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, where as these amounts are deferred and amortized in the statement of activities. This adjustment combines the net change of two balances.		
Issuance of debt	(77,781)	
Principal payments on long-term debt	26,407	
		(51,374)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences, current year	(24,310)	
Compensated absences, prior year	20,494	
		(3,816)
Changes in net position of governmental activities (page 2)		$ 146,978

The accompanying notes are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the CITY OF ARCADE, GEORIGA have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

(A) REPORTING ENTITY

The reporting entity consists of the following:

- The primary government;
- Organizations for which the primary government is financially accountable;
- Other organizations that, because of the nature and significance of their relationship with the primary government, may not be excluded from the financial reporting entity;

For financial reporting purposes, management has considered all potential component units. The decision whether to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. There are no component units.

(B) GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. There are no business type activities.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City has no enterprise funds to report.

(C) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, sales tax, franchise taxes, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources, except those accounted for in another fund.

The *SPLOST Capital Projects Fund* accounts for funds received from a local 1% sales tax reserved for construction of various capital projects.

Additionally, the City reports the following fund type:

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally or donor restricted to expenditures for specified purposes.

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

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

(D) ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS, AND NET POSITION OR FUND BALANCE

Deposits and Investments

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

State statutes authorize the City to invest in obligations of the U.S. Treasury and its agencies and instrumentalities; bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; and certificates of deposits of banks insured by FDIC.

Investments are recorded at fair value based on quoted market prices as of the balance sheet date. Increases or decreases in fair value during the year are recognized as part of interest income.

Receivables and Payables

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

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

Inventories and Prepaid Items

Inventories, consisting of expendable supplies, not held for resale are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, culverts, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of $5,000 and an estimated useful life in excess of two years.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Streets, bridges and culverts acquired prior to January 1, 1983 are not been reported.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the assets constructed. No interest was capitalized during 2016.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

Asset	Years
Buildings	20-50
Machinery and equipment	5-7
Vehicles	3-5
Infrastructure	50

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. In accordance with the provisions of Statement of Governmental Accounting Standards No. 16, "Accounting for Compensated Absences," no liability is reported for unpaid accumulated sick leave because the benefits are paid only upon illness of an employee, and the amount of such payments cannot be reasonably estimated. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

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

Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

Fund balance - Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- *Nonspendable* - Fund balances are reported as nonspendable when the 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 like inventories and prepaid items) 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 prior to the end of the fiscal year. In order to modify or rescind the commitment, the City Council must adopt another resolution.
- *Assigned* - Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City's finance director to assign fund balances.
- *Unassigned* - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all other governmental funds.

Net Position - Net position represent the difference between assets, liabilities and deferred outflows/inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt used for the acquisition, construction, or improvement of those assets. In determining the outstanding balance of any borrowing, proceeds of that debt which has not been spent is deducted. Accounts payable for costs related to acquisition, construction, or improvement of those capital assets is considered debt for this calculation. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then committed, assigned, and unassigned (or unrestricted) resources as they are needed.

Management 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(A) BUDGETARY INFORMATION

Prior to January 1, the department heads submit to the City Council a proposed operating budget for each department for the fiscal year commencing January 1. The operating budget includes proposed expenditures and the means of financing them. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Council holds a public hearing on the budget.

2. The budget is then revised and adopted or amended by the City Council at a public meeting.

3. The budget may be amended during the year only by formal action of the City Council at a regular meeting.

The budget is adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund. Budget amounts are as originally adopted, or as amended by the Council. Project length budgets are adopted for the capital projects funds. Annual operating budgets are prepared for each enterprise fund for planning, control and evaluation purposes. Budgetary amounts are not formally integrated into proprietary fund general ledgers.

The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the department level.

NOTE 3 - DEPOSITS AND INVESTMENTS

Custodial credit risk - deposits. In case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. The City's policy permits the City to exceed the FDIC insured limit in making deposits in commercial banks and savings and loans institutions if the funds are otherwise adequately secured. As of December 31, 2016, all deposits of the City were adequately insured or collateralized. At year end, the City's carrying amount of deposits was $546,333 and the bank balance was $563,640.

INVESTMENTS: At December 31, 2016, the City had the following investments:

		Investment Maturities (in Years)				
Investment Type	Fair Value	FMV Level 1/ Less Than 1	1-5	6-10	More Than 10	Rating (1)
GA Fund 1	$ 745,796	$ 745,796	$ -	$ -	$ -	AAAm
Maximum Investment		100%				

(1) Standards & Poors

The Local Government Investment Pool, "Georgia Fund 1", created by OCGA 36-83-8, is a stable net asset value investment pool which follows Standard and Poor's criteria for AAAm rated money market funds. However, Georgia Fund 1 operates in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940 and is considered to be a 2a-7 like pool. The pool is managed by the Office of the State Treasurer. The pool is not registered with the SEC as an investment company. The pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal ($1.00 per share value). Net asset value is calculated weekly to ensure stability. The pool distributes earnings (net of management fees) on a monthly basis and determines participant's shares sold and redeemed based on $1.00 per share. The City has no investment policy that would further limit its investment choices. Investments are carried at fair value. Unrealized gain is recognized as income.

Interest rate risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State statutes authorize the City to invest in obligations of the U.S. Treasury and of its agencies and instrumentalities; bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; certificates of deposits of banks insured by FDIC. State law

allows investments in bonds, debentures, notes or other evidences of indebtedness of any solvent corporation subject to certain conditions. The City has no investment policy that would further limit its investment choices. At December 31, 2016, the ratings of its investments are shown above.

Concentration of credit risk. The City places no limit on the amount it may invest in any one issuer.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

NOTE 4 - RECEIVABLES

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

	General Fund	SPLOST
Receivables:		
Other	55,203	-
Intergovernmental	30,578	49,048
Total Gross Receivables	85,781	49,048
Less: Allowance for Uncollectibles	-	-
Total Net Receivables	$ 85,781	$ 49,048

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Retirements	Adjustments and Transfers	Ending Balance
Governmental Activities:					
Non-Depreciable Assets:					
Land and improvements	$ 42,100	$ -	$ -	$ -	$ 42,100
Construction in progress	-	12,397	-	-	12,397
Total non-depreciable capital assets	42,100	12,397	-	-	54,497
Depreciable Assets:					
Buildings and improvements	2,141,286	-	(2,774)	-	2,138,512
Machinery and equipment	378,195	8,800	(166,483)	-	220,512
Vehicles	254,934	77,781	(171,158)	-	161,557
Infrastructure	403,291	-	(403,291)	-	-
Total depreciable capital assets	3,177,706	86,581	(743,706)	-	2,520,581
Less Accumulated Depreciation for:					
Buildings and improvements	577,408	53,463	(652)	-	630,219
Machinery and equipment	306,065	20,569	(153,029)	-	173,605
Vehicles	232,542	14,284	(171,158)	-	75,668
Infrastructure	63,732	-	(63,732)	-	-
Total accumulated depreciation	1,179,747	88,316	(388,571)	-	879,492
Total depreciable capital assets, net	1,997,959	(1,735)	(355,135)	-	1,641,089
Governmental activities capital assets, net	$ 2,040,059	$ 10,662	$ (355,135)	$ -	$ 1,695,586

Additions to governmental activities capital assets for the year ending December 31, 2016, consist of the following:

Capital Outlay	$ 98,978
Total	$ 98,978
Non-depreciable capital assets additions	$ 12,397
Depreciable capital assets additions	86,581
Total	$ 98,978

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

Governmental Activities:	
General Government	$ 56,464
Public Safety	30,122
Public Works	880
Recreation and Culture	850
Total depreciation expense-governmental activities	$ 88,316

The City has authorized construction projects. The remaining costs are split between the portion of the contracts that have been entered into for which the work had not been done prior to December 31, 2016, and the remainder of the authorized project expenditure for which contracts have not been entered into as of year end. The source of financing for the remaining project cost is noted below:

Project	Project Authorization	Expended to Date	Contracts in Progress	Authorized Not Obligated	Funding Source
Park Improvements	$ 70,000	$ 7,397	-	$ 62,603	SPLOST
Woodland Hills/Woodland Dr.	240,000	5,000	-	235,000	SPLOST
Total Governmental Activities:	$ 310,000	$ 12,397	$ -	$ 297,603	

NOTE 6 - LONG-TERM DEBT

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due After One Year
Governmental Activities:						
Capital leases	$ 31,368	$ 77,781	$ (26,406)	$ 82,743	$ 37,036	$ 45,706
Compensated absences	20,494	12,014	(8,198)	24,310	9,724	14,586
Governmental activities long-term liabilities	$ 51,862	$ 89,795	$ (34,604)	$ 107,053	$ 46,760	$ 60,292

CAPITAL LEASES

The City leases certain equipment under a non-cancelable capital lease. Ownership of the related assets will be transferred to the City at the end of the lease terms. The asset acquired through the capital lease are as follows:

	Governmental Activities
Vehicles	$ 111,857
Less accumulated depreciation	(17,821)
	$ 94,036

Minimum future lease obligations for these leases, as of December 31, 2016, are as follows:

Year ending December 31,	Principal	Interest	Total
2017	$ 37,036	$ 2,264	$ 39,300
2018	35,333	975	36,308
2019	10,374	132	10,506
Total	$ 82,743	$ 3,371	$ 86,114

NOTE 7 - CONTINGENT LIABILITIES / RISK MANAGEMENT

The City receives grants from various granting agencies, which are subject to audit and adjustment by these agencies. The City is not aware of any adjustments or expenditures, which may be disallowed and restitution, if any, is not determinable at this time.

Pursuant to Title 34, Chapter 9, Article 5 of the Official Code of Georgia Annotated, the City became a member of the Georgia Municipal Association Workers' Compensation Self Insurance Fund. As part of this risk pool, the City is obligated to pay all contributions and assessments; to cooperate with the pool's agents and attorneys; to follow loss reduction procedures established by the fund, and to report as promptly as possible, in accordance with any coverage descriptions issued, all incidents that could require the fund to pay any type loss. The City is also to allow all the pool's agents and attorneys to represent the City in investigations settlement discussions and all level of litigation arising out of any claim made against the City.

The fund is to defend and protect the members of the funds against liability or loss as prescribed in the member government contract and in accordance with the workers' compensation law of

Georgia. The fund is to pay all cost taxed against the members in any legal proceedings defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

The City is a member of the Georgia Interlocal Risk Management Agency which allows the City to share liability, crime, motor vehicle and property damage risks. Chapter 85, Title 36, of the Official Code of Georgia Annotated authorizes Georgia municipalities to form interlocal risk management agencies. The Georgia Interlocal Risk Management Agency (GIRMA) is a municipal interlocal risk management agency to function as an unincorporated nonprofit instrumentality of its member municipalities - GIRMA establishes and administers one or more group self insurance funds and a risk management service to prevent or lessen the incidence and severity of causality and property losses occurring in the operation of municipal government. GIRMA is to defend and protect in accordance with the member government contract and related coverage descriptions and any member of GIRMA against liability or loss.

As part of this risk pool, the City is obligated to pay all contributions and assessments; to cooperate with the pool's agents and attorneys; to follow loss reduction procedures established by the fund, and to report as promptly as possible, in accordance with any coverage descriptions issued, all incidents that could require the fund to pay any type loss. The City is also to allow all the pool's agents and attorneys to represent the City in investigations settlement discussions and all level of litigation arising out of any claim made against the City. The City must participate at all times in at least one fund which is established by GIRMA.

The City retains the first $1,000 of each risk of loss in the form of a deductible. The City files all claims with GIRMA. GIRMA bills the City for any risk of loss up to the $1,000 deductible. The basis for estimating the liabilities for unpaid claim is "IBNR" established by an actuary.

During the year ended December 31, 2016, the City did not incur claims. The City has not compiled a record of the claims paid up to the $1,000 deductible for the prior years. The City is not aware of any claims which the City is liable for (up to the $1,000) which were outstanding and unpaid at December 31, 2016. No provisions have been made in the financial statements for the year ended December 31, 2016, for any estimate of potential unpaid claims.

The City is exposed to various risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

City management feels the above coverage is adequate. There has not been any significant reduction in coverage from the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 8- DEFINED CONTRIBUTION PENSION PLAN

The City established a SIMPLE IRA plan for employees. The plan is a defined contribution plan established under section 408(p) of the Internal Revenue Code. This plan was established by the authority of the City Council and may be amended by action of the City Council. City employees make voluntary contributions and the City matches up to 3% of the employee's salary. Auto Owners Insurance Company serves as custodian of the SIMPLE IRA and contributions can not exceed $12,000 for each participant for any calendar year. The City's contribution for 2016 was $6,382 and employee contributions were $27,198.

NOTE 9 - NORTHEAST GEORGIA REGIONAL COMMISSION

Under Georgia law, the City in conjunction with other cities and counties in the area are members of the Northeast Georgia Regional Commission (NEGRC) and is required to pay annual dues there to. During the year ended December 31, 2016, the City paid no dues. Membership in the NEGRC is required by the official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the NEGRC in Georgia. The NEGRC Board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of an NEGRC. Separate financial statements may be obtained from:

Northeast Georgia Regional Commission
305 Research Dr.
Athens, Georgia 30503-1720

NOTE 15 - PRIOR PERIOD ADJUSTMENTS

As of January 1, 2016, this City restated its financial statements for the fiscal year ended December 31, 2015. The restatement resulted in a net increase to General Fund fund balance in the amount of $57,200, a net increase to SPLOST Fund fund balance in the amount of $22,747, and a net decrease to net position in Governmental Activities in the amount of $327,050. The restatement was a result of the follow:

General Fund		
Restate franchise tax receivable	$	57,200
Net increase in General Fund balance		57,200
SPLOST Fund		
Restate Special Purpose Local Option Sales Tax receivable		22,747
Net increase in SPLOST Fund balance		22,747
Governmental Activities		
Include Compensated Absences Liability		(20,494)
Include Capital Lease Payable		(31,368)
Remove assets no longer owned by the City		(6,683)
Remove cost associated with road improvements that does not meet capitalization threshold		(339,560)
Remove assets less than $5,000 threshold requirement		(8,892)
Net decrease in net position	$	(327,050)

CITY OF ARCADE, GEORIGA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2016
(Required Supplementary Information)

	BUDGET AMOUNTS ORIGINAL	FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
FUND BALANCE, Beginning of year	$ 862,049	$ 862,049	$ 862,049	$ -
RESOURCES (INFLOWS)				
Property tax	42,000	42,000	29,088	(12,912)
Insurance premium taxes	97,000	97,000	111,472	14,472
Franchise taxes	63,000	63,000	62,254	(746)
Alcohol beverage taxes	26,000	26,000	26,457	457
Licenses and permits	5,600	5,600	7,660	2,060
Intergovernmental	283,500	283,500	295,938	12,438
Charges for services	5,500	5,500	19,950	14,450
Fines and forfeitures	182,000	252,000	251,945	(55)
Interest income	1,500	1,500	2,885	1,385
Miscellaneous	3,000	3,000	7,211	4,211
Capital lease proceeds	-	36,000	77,781	41,781
Total Resources (Inflows)	709,100	815,100	892,641	77,541
AMOUNTS AVAILABLE FOR APPROPRIATION	1,571,149	1,677,149	1,754,690	77,541
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Current Expenditures				
General Government				
Administration	293,261	288,431	287,932	499
Total General Government	293,261	288,431	287,932	499
Judicial				
Municipal court	45,750	59,750	59,613	137
Total Judicial	45,750	59,750	59,613	137
Public Safety				
Police	320,320	434,820	434,362	458
Total Public Safety	320,320	434,820	434,362	458
Public Works				
Highways and streets	9,000	10,300	10,033	267
Maintenance and shop	64,370	73,870	73,249	621
Total Public Works	73,370	84,170	83,282	888
TOTAL CHARGES TO APPROPRIATIONS	732,701	867,171	865,189	1,982
CHANGE IN FUND BALANCE	(23,601)	(52,071)	27,452	79,523
FUND BALANCE, End of year	$ 838,448	$ 809,978	$ 889,501	$ 79,523

NOTES TO THE BUDGETARY COMPARISON SCHEDULE

1. The budgetary basis of accounting used in this schedule is the same as GAAP.

CITY OF ARCADE, GEORIGA
BUDGETARY COMPARISON SCHEDULE
DRUG FUND - NONMAJOR GOVERNMENTAL FUND
For the Year Ended December 31, 2016
SUPPLEMENTAL INFORMATION

	BUDGET AMOUNTS ORIGINAL	FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
FUND BALANCE, Beginning of year	$ 16,404	$ 16,404	$ 16,404	$ -
RESOURCES (INFLOWS)				
Interest income	-	-	6	6
Miscellaneous	-	5,000	-	(5,000)
Total Resources (Inflows)	-	5,000	6	(4,994)
AMOUNTS AVAILABLE FOR APPROPRIATION	16,404	21,404	16,410	(4,994)
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Current Expenditures				
Public Safety				
Police	-	5,000	4,774	226
Total Public Safety	-	5,000	4,774	226
TOTAL CHARGES TO APPROPRIATIONS	-	5,000	4,774	226
CHANGE IN FUND BALANCE	-	-	(4,768)	(4,768)
FUND BALANCE, End of year	$ 16,404	$ 16,404	$ 11,636	$ (4,768)

NOTES TO THE BUDGETARY COMPARISON SCHEDULE
1. The budgetary basis of accounting used in this schedule is the same as GAAP.

CITY OF ARCADE, GEORIGA
SUPPLEMENTARY INFORMATION
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAXES
For the Year Ended December 31, 2016

PROJECT	ORIGINAL ESTIMATED COSTS	CURRENT ESTIMATED COSTS	EXPENDITURES PRIOR YEARS	EXPENDITURES CURRENT YEAR
Jackson County, Georgia SPLOST #4 - Commenced July 1, 2005				
Public Safety Facilities	$ 413,937	$ 413,937	$ 393,013	$ -
Administrative Facilities	1,034,842	1,034,842	1,015,713	19,129
Roads, Streets, and Bridges	143,286	143,286	132,285	4,000
Totals	$ 1,592,065	$ 1,592,065	$ 1,541,011	$ 23,129

CITY OF ARCADE, GEORIGA
SUPPLEMENTARY INFORMATION
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAXES
For the Year Ended December 31, 2016

PROJECT	ORIGINAL ESTIMATED COSTS	CURRENT ESTIMATED COSTS	EXPENDITURES PRIOR YEARS	EXPENDITURES CURRENT YEAR
Jackson County, Georgia SPLOST #5 - Commenced July 1, 2011				
Public Safety Complex	$ 875,410	$ 875,410	$ 801,623	$ -
Parks and Recreation	125,081	125,081	-	7,397
Roads, Streets, and Bridges	250,162	250,162	-	87,437
Totals	$ 1,250,653	$ 1,250,653	$ 801,623	$ 94,834

CITY OF ARCADE, GEORIGA
Reconciliation of Expenditures for SPLOST
For the Year Ended December 31, 2016

Statement of Revenues, Expenditures and Changes in Fund Balance (page 5)		
	Expenditures	$ 117,963
Subtotal		$ 117,963
Expenditures reported on SPLOST schedule below		**$ 117,963**
Schedule of Projects Constructed With Special Purpose Local Option Sales Tax (pages 22-23)		
	SPLOST #4	$ 23,129
	SPLOST #5	94,834
Total		**$ 117,963**

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INDEPENDENT AUDITORS' 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*

August 3, 2017

To the Mayor and City Council
CITY OF ARCADE, GEORIGA
JEFFERSON, GA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the CITY OF ARCADE, GEORIGA, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the CITY OF ARCADE, GEORIGA's basic financial statements and have issued our report thereon dated August 3, 2017.

Internal Control Over Financial Reporting

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

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

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

2016-01

Statement of Condition:

The bank reconciliation are currently being reconciled by the City Administrator with no review process.

Criteria:

To ensure proper controls over cash, no one individual should be able to receive funds, maintain the related accounting records, and maintain custody of the cash.

Effect of Condition:

The lack of segregation of duties creates opportunities for undetected errors and fraud.

Cause of Condition:

Limited staff.

Recommendation:

We recommend that each bank account be reconciled by the City Administrator and reviewed by a City Council member, such as the Audit/Finance Committee Chair, on a monthly basis.

Response:

Now that the City has hired an administrative assistant, a review process of bank reconcilations will be implemented immediately.

2016-02

Statement of Condition:

A lack of segregation of duties exists. All duties related to the financial management of the City are assigned to a single employee, the City Administrator.

Criteria:

To ensure proper controls the functions of custody, authorization, and record keeping should be segregated as much as possible.

Effect of Condition:

The lack of segregation of duties creates opportunities for undetected errors and fraud.

Cause of Condition:

Limited staff.

Recommendation:
We recommend the City establish compensating internal control policies in order to mitigate the risk of misappropriation of assets due to the lack of segregation of duties. For example, the Finance Committee of the City Council could provide more specific oversight related to general ledger transactions, bank reconciliations, and other areas related to financial management.

Response:
Now that the City has hired administrative assistant, a review process of bank reconcilations will be implemented immediately.

Compliance and Other Matters

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

The CITY OF ARCADE, GEORIGA's responses to the findings identified in our audit are described above. The CITY OF ARCADE, GEORIGA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Bates Carter & Co, LLP