# CITY OF DEMOREST

# DEMOREST, GEORGIA

# ANNUAL FINANCIAL REPORT

# FOR THE YEAR ENDED
# DECEMBER 31, 2016

CITY OF DEMOREST, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2016

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# INDEPENDENT AUDITOR'S REPORT

# DUNCAN & KITCHENS, LLC

*Certified Public Accountants*

327-D MONROE STREET
CLARKESVILLE, GA 30523
(706) 754-5814
FAX (706) 754-9069

Joseph Duncan, CPA, ATA, ATP
Joe Kitchens, CPA

Members of
American Institute and
Georgia Society of
Certified Public Accountants


## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Council
City of Demorest, Georgia

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City of Demorest, GA as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Demorest, GA's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City of Demorest, GA, 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 required supplementary information on pages 36-40 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 chosen to omit Management's Discussion and Analysis that 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 operational, economic, or historical context. Our opinion on the basic 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 Demorest, GA's basic financial statements. The combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of Special Purpose Local Option Sales Tax Proceeds (as required by the Official Code of Georgia Annotated 48-8-21) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining statements and schedule of expenditures of Special Purpose Local Option Sales Tax Proceeds are the responsibility of management and were derived from and relate 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 combining statements and the schedule of expenditures of Special Purpose Local Option Sales Tax Proceeds are 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 June 30, 2017, on our consideration of the City of Demorest, GA'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 Demorest, GA's internal control over financial reporting and compliance.

Duncan & Kitchens, LLC
Certified Public Accountants
Clarkesville, Georgia
June 30, 2017

BASIC FINANCIAL STATEMENTS

**CITY OF DEMOREST, GEORGIA**
**STATEMENT OF NET POSITION**
**DECEMBER 31, 2016**

**EXHIBIT 1**

| | Primary Government | | | Component Units |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | |
| **ASSETS** | | | | |
| Current Assets | | | | |
| Cash | $ 34,064 | $ 347,511 | $ 381,575 | $ 4,057 |
| Restricted Cash | 258,668 | 777,948 | 1,036,616 | - |
| Taxes Receivable | 85,838 | - | 85,838 | - |
| Intergovernmental Receivable | 33,550 | - | 33,550 | - |
| Accounts Receivable | 86,993 | 427,597 | 514,590 | - |
| Prepaid Expenses | - | 36,221 | 36,221 | - |
| Total Current Assets | 499,113 | 1,589,277 | 2,088,390 | 4,057 |
| Noncurrent Assets | | | | |
| Capital Assets | | | | |
| Non-Depreciable | 29,048 | 288,756 | 317,804 | 10,000 |
| Depreciable Assets, Net | 1,551,860 | 27,723,401 | 29,275,261 | 170,457 |
| Total Noncurrent Assets | 1,580,908 | 28,012,157 | 29,593,065 | 180,457 |
| TOTAL ASSETS | 2,080,021 | 29,601,434 | 31,681,455 | 184,514 |
| Deferred Outflow of Resources | 68,684 | 93,660 | 162,344 | - |
| TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES | $ 2,148,705 | $ 29,695,094 | $ 31,843,799 | $ 184,514 |
| **LIABILITIES** | | | | |
| Current Liabilities | | | | |
| Accounts Payable | $ 143,350 | $ 185,592 | $ 328,942 | $ - |
| Accrued Payroll | 13,990 | 16,420 | 30,410 | - |
| Payroll Taxes Withheld | 5,902 | 5,400 | 11,302 | - |
| Accrued Interest | - | 24,380 | 24,380 | - |
| Current Portion of Notes Payable | 44,257 | 245,551 | 289,808 | 12,412 |
| Current Portion of Bonds Payable | - | 241,938 | 241,938 | - |
| Compensated Absences | 22,445 | 86,939 | 109,384 | - |
| Total Current Liabilities | 229,944 | 806,220 | 1,036,164 | 12,412 |
| Noncurrent Liabilities | | | | |
| Water Deposits | - | 317,819 | 317,819 | - |
| Long-Term Notes Payable | 141,743 | 3,962,735 | 4,104,478 | 21,592 |
| Bonds Payable | - | 7,126,224 | 7,126,224 | - |
| Net Pension Obligation | 247,910 | 338,060 | 585,970 | - |
| Total Noncurrent Liabilities | 389,653 | 11,744,838 | 12,134,491 | 21,592 |
| TOTAL LIABILITIES | 619,597 | 12,551,058 | 13,170,655 | 34,004 |
| Deferred Inflow of Resources | 2,010 | 2,742 | 4,752 | - |
| TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES | $ 621,607 | $ 12,553,800 | $ 13,175,407 | $ 34,004 |
| **NET POSITION** | | | | |
| Net Investment in Capital Assets | $ 1,394,908 | $ 16,435,709 | $ 17,830,617 | $ 146,453 |
| Restricted for: | | | | |
| Capital Projects | 372,218 | - | 372,218 | - |
| Debt Service | - | 777,948 | 777,948 | - |
| Unrestricted Assets | (240,028) | (72,363) | (312,391) | 4,057 |
| TOTAL NET POSITION | $ 1,527,098 | $ 17,141,294 | $ 18,668,392 | $ 150,510 |

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

CITY OF DEMOREST, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

EXHIBIT 2

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue |
|---|---|---|---|---|---|
| **Primary Government** | | | | | |
| Governmental Activities | | | | | |
| General Government | $ 403,390 | $ 5,900 | $ - | $ 187,169 | $ (210,321) |
| Police | 751,586 | 176,852 | - | 40,299 | (534,435) |
| Fire | 341,046 | 24,727 | - | 83,000 | (233,319) |
| Streets & Sanitation | 230,019 | 94,219 | - | - | (135,800) |
| Interest on long-term debt | 2,219 | - | - | - | (2,219) |
| Total Governmental Activities | 1,728,260 | 301,698 | - | 310,468 | (1,116,094) |
| Business-type Activities | | | | | |
| Water and Sewer Fund | 4,380,381 | 4,476,948 | - | 1,000 | 97,567 |
| Total Business-type Activities | 4,380,381 | 4,476,948 | - | 1,000 | 97,567 |
| Total Primary Government | 6,108,641 | 4,778,646 | - | 311,468 | (1,018,527) |
| **Component Units** | | | | | |
| Downtown Development Authority | 14,581 | 19,459 | - | 4,300 | 9,178 |
| Government Finance Authority | 3,507 | - | - | - | (3,507) |
| Total Componet Units | 18,088 | 19,459 | - | 4,300 | 5,671 |

| | Primary Government: Governmental Activities | Primary Government: Business-Type Activities | Primary Government: Total | Component Units |
|---|---|---|---|---|
| **Change in Net Position** | | | | |
| Net (expense) revenue | $ (1,116,094) | $ 97,567 | $ (1,018,527) | $ 5,671 |
| General Revenues: | | | | |
| Taxes: | | | | |
| Property | 256,544 | - | 256,544 | - |
| Intangible and Transfer | 3,651 | - | 3,651 | - |
| Franchise | 86,012 | - | 86,012 | - |
| Beer and Wine | 17,245 | - | 17,245 | - |
| Insurance Premium | 113,781 | - | 113,781 | - |
| Business Taxes | 19,083 | - | 19,083 | - |
| Rent | 4,000 | - | 4,000 | - |
| Unrestricted Investment Earnings | 646 | 2,604 | 3,250 | - |
| Miscellaneous | 47,604 | - | 47,604 | - |
| Transfers | 960,615 | (960,615) | - | - |
| Total General Revenues and Transfers | 1,509,181 | (958,011) | 551,170 | - |
| Change in net position | 393,087 | (860,444) | (467,357) | 5,671 |
| **Net Position - Beginning of Year** | 1,134,011 | 18,001,738 | 19,135,749 | 144,839 |
| **Net Position - End of Year** | $ 1,527,098 | $ 17,141,294 | $ 18,668,392 | $ 150,510 |

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

CITY OF DEMOERST, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

EXHIBIT 3

| | GENERAL FUND | SPLOST VI CAPITAL PROJECTS | TOTAL GOVERNMENTA FUNDS |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | $ 34,064 | 258,668 | $ 292,732 |
| Receivables | | | |
| Taxes | 85,838 | - | 85,838 |
| Intergovernmental | - | 33,550 | 33,550 |
| Accounts | 86,993 | - | 86,993 |
| TOTAL ASSETS | $ 206,895 | $ 292,218 | $ 499,113 |
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES** | | | |
| Accounts Payable | $ 143,350 | - | $ 143,350 |
| Accrued Payroll | 13,990 | - | 13,990 |
| Payroll Taxes Withheld and Accrued | 5,902 | - | 5,902 |
| TOTAL LIABILITIES | 163,242 | - | 163,242 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Unavailable revenue -property taxes | 17,195 | - | 17,195 |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | 180,437 | - | 180,437 |
| **FUND BALANCE** | | | |
| Restricted for: | | | |
| Capital Outlay Projects | 80,000 | 292,218 | 372,218 |
| Unassigned | (53,542) | - | (53,542) |
| TOTAL FUND BALANCE | 26,458 | 292,218 | 318,676 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE | $ 206,895 | $ 292,218 | $ 499,113 |

| | |
|---|---|
| Total fund balance - total governmental funds | $ 318,676 |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds | 1,580,908 |
| Long-term assets (receivables) are not available to pay current period expenditures and, therefore, are deferred in the funds | |
| Property Taxes | 17,195 |
| Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds | (22,445) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds. | (186,000) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet but are reported in the government-wide Statement of Net Position | |
| Net Pension Liability | (247,910) |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the fund financial statements, but are reported in the government-wide Statement of Net Position | |
| Deferred Outflows - Pensions | 68,684 |
| Deferred Inflows - Pensions | (2,010) |
| Net Position of Governmental Activities (Exhibit "1") | $ 1,527,098 |

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

CITY OF DEMOREST, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

EXHIBIT 4

| | GENERAL FUND | SPLOST V CAPITAL PROJECTS | SPLOST VI CAPITAL PROJECTS | TOTAL GOVERNMENTAL FUNDS |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Taxes | | | | |
| Property | $ 266,132 | $ - | $ - | $ 266,132 |
| Intangible and Transfer | 3,651 | - | - | 3,651 |
| Franchise | 86,012 | - | - | 86,012 |
| Beer and Wine | 17,245 | - | - | 17,245 |
| Insurance Premium | 113,781 | - | - | 113,781 |
| Business Taxes | 19,083 | - | - | 19,083 |
| License and Permits | 5,900 | - | - | 5,900 |
| Charges for Services | 118,946 | - | - | 118,946 |
| Intergovernmental | - | - | 187,169 | 187,169 |
| Fines and Forfeitures | 80,052 | - | - | 80,052 |
| GCIC | 96,800 | - | - | 96,800 |
| Rents | 4,000 | - | - | 4,000 |
| Miscellaneous | 47,604 | - | - | 47,604 |
| Interest Income | - | 7 | 639 | 646 |
| Grants | 123,299 | - | - | 123,299 |
| TOTAL REVENUE | 982,505 | 7 | 187,808 | 1,170,320 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| General Government | 420,860 | - | - | 420,860 |
| Police Department | 845,890 | 4,343 | 35,277 | 885,510 |
| Fire Department | 404,994 | - | - | 404,994 |
| Streets and Sanitation | 380,530 | - | - | 380,530 |
| Debt Service | | | | |
| Principal Retirement | 48,779 | - | - | 48,779 |
| Interest and Fiscal Charges | 2,787 | - | - | 2,787 |
| TOTAL EXPENDITURES | 2,103,840 | 4,343 | 35,277 | 2,143,460 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | (1,121,335) | (4,336) | 152,531 | (973,140) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Proceeds from Debt | 137,000 | | | 137,000 |
| Interfund Transfers | 960,615 | - | - | 960,615 |
| **TOTAL OTHER FINANCING SOURCES (USES)** | 1,097,615 | - | - | 1,097,615 |
| **EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES (USES) OVER (UNDER) EXPENDITURES** | (23,720) | (4,336) | 152,531 | 124,475 |
| **FUND BALANCE - BEGINNING OF YEAR** | 50,178 | 4,336 | 139,687 | 194,201 |
| **FUND BALANCE - END OF YEAR** | $ 26,458 | $ - | $ 292,218 | $ 318,676 |

| | |
|---|---|
| Adjustments to the Statement of Activities | |
| Net Change in Fund Balance | $ 124,475 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which Capital Outlays (533,795) exceeded Depreciation (132,503) | 401,292 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (9,588) |
| The proceeds of debt issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which debt proceeds ($137,000) exceed repayments of ($15,119). | (121,881) |
| In the Statement of Activities, operating expenses are measured by the amounts incurred during the year. However, compensated absences are included in the governmental funds only to the extent that they require the expenditure of current financial resources | 882 |
| Some expenses reported in the Government-Wide Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds: | |
| Pension Expense | (2,093) |
| Change in net position of governmental activities (Exhibit 2 ) | $ 393,087 |

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

**CITY OF DEMOREST, GEORGIA**
**STATEMENT OF NET POSITION**
**PROPRIETARY FUNDS**
**DECEMBER 31, 2016**

**EXHIBIT 5**

| | BUSINESS TYPE ACTIVITIES |
|---|---|
| | WATER AND SEWER ENTERPRISE FUND |
| **ASSETS** | |
| Current Assets: | |
| Cash | $ 347,511 |
| Restricted Cash | 777,948 |
| Accounts Receivable | 427,597 |
| Prepaid Expenses | 36,221 |
| Total Current Assets | 1,589,277 |
| Non-current Assets: | |
| Capital Assets | |
| Assets Not Being Depreciated | 288,756 |
| Depreciable Assets, Net | 27,723,401 |
| Total Noncurrent Assets | 28,012,157 |
| TOTAL ASSETS | 29,601,434 |
| Deferred Outflow of Resources | 93,660 |
| TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES | $ 29,695,094 |
| **LIABILITIES** | |
| Current Liabilities | |
| Accounts Payable | $ 185,592 |
| Accrued Payroll | 16,420 |
| Payroll Taxes Withheld and Accrued | 5,400 |
| Accrued Interest | 24,380 |
| Current Portion of Notes Payable | 245,551 |
| Current Portion of Bonds Payable | 241,938 |
| Compensated Absences | 86,939 |
| Total Current Liabilities | 806,220 |
| Non-current Liabilities | |
| Water Deposits | 317,819 |
| Long-term Notes Payable | 3,962,735 |
| Bonds Payable | 7,126,224 |
| Net Pension Obligation | 338,060 |
| Total Non-current Liabilities | 11,744,838 |
| TOTAL LIABILITIES | 12,551,058 |
| Deferred Inflow of Resources | 2,742 |
| TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES | 12,553,800 |
| **NET POSITION** | |
| Net Investment in Capital Assets | 16,435,709 |
| Restricted | |
| Debt Service | 777,948 |
| Unrestricted | (72,363) |
| TOTAL NET POSITION | $ 17,141,294 |

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

CITY OF DEMOREST, GEORGIA
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

EXHIBIT 6

| | WATER AND SEWER ENTERPRISE FUND |
|---|---|
| **OPERATING REVENUES** | |
| Water Sales | $ 3,766,932 |
| Sewer Fees | 526,049 |
| Water and Sewer Taps | 99,000 |
| Rent | 13,395 |
| Miscellaneous Receipts | 71,572 |
| TOTAL OPERATING REVENUES | 4,476,948 |
| **OPERATING EXPENSES** | |
| Wages and benefits | 902,349 |
| Insurance | 170,529 |
| Sewer operations | 3,184 |
| Professional services | 71,298 |
| Amortization | 1,194 |
| Depreciation | 854,716 |
| Utilities | 160,596 |
| Water purchases | 1,119,099 |
| Purification and system maintenance | 15,758 |
| Equipment rental and maintenance | 238,827 |
| Office expenses | 73,542 |
| Bond Issuance Costs | 326,939 |
| Other expenses | 117,360 |
| TOTAL OPERATING EXPENSES | 4,055,391 |
| **OPERATING INCOME** | 421,557 |
| **NON-OPERATING REVENUES (EXPENSES)** | |
| Capital Grants | 1,000 |
| Interest Income | 2,604 |
| Interest Expense | (324,990) |
| TOTAL NON-OPERATING INCOME (EXPENSES) | (321,386) |
| **NET INCOME BEFORE TRANSFERS** | 100,171 |
| **TRANSFERS** | |
| Tansfers In (Out) | (960,615) |
| **CHANGE IN NET POSITION** | (860,444) |
| **TOTAL NET POSITION - BEGINNING OF YEAR** | 18,001,738 |
| **TOTAL NET POSITION - END OF YEAR** | $ 17,141,294 |

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

CITY OF DEMOREST, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

EXHIBIT 7

| | WATER AND SEWER ENTERPRISE FUND |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Receipts from Customers | $ 4,413,664 |
| Payments to Suppliers | (2,255,942) |
| Payments to Employees | (884,932) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 1,272,790 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| Transfer(To) From other funds | (960,615) |
| NET CASH USED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES | (960,615) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| Capital Grants | 1,000 |
| Proceeds from Notes Payable | 7,513,043 |
| Principal Paid on Notes | (7,489,891) |
| Interest Paid | (324,990) |
| Acquisition Of Capital Assets | (36,449) |
| NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES | (337,287) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest Earned | 2,604 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 2,604 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | (22,508) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 1,147,967 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | $ 1,125,459 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities | |
| Operating Income (Loss) | $ 421,557 |
| Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By Operating Activities | |
| Depreciation | 854,716 |
| Amortization | 1,194 |
| (Increase) Decrease in Accounts Receivable | (109,341) |
| (Increase) Decrease in Prepaid Expenses | (16,233) |
| (Increase) Decrease in Deferred Outflows | (48,312) |
| Increase (Decrease) in Customer Deposits | 46,057 |
| Increase (Decrease) in Compensated Absences | 16,875 |
| Increase (Decrease) in Accrued Interest | (6,286) |
| Increase (Decrease) in Accounts Payable | 63,709 |
| Increase (Decrease) in Accrued Payroll | (5,407) |
| Increase (Decrease) in Payroll Liabilities | 3,092 |
| Increase (Decrease) in Net Pension Liability | 59,273 |
| Increase (Decrease) in Deferred Inflows | (8,104) |
| TOTAL ADJUSTMENTS | 851,233 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ 1,272,790 |

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Narrative Profile

The City of Demorest covers an area of 2.3 square miles. The City was incorporated under the laws of the state of Georgia in 1891 and operates under an elected mayor and four council members. The City provides services to its residents, approximately 1,088, in many areas including police, fire, water, sewer and garbage.

The financial statements of the City have been prepared in conformity with the accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for the City's accounting and financial reporting policies. The more significant of the City's accounting policies are described below.

### A. Financial Reporting Entity

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

The City's component units are presented either as "blended" or "discretely presented". If blended, it is reported as if it were a fund of the City throughout the year. It is included at both the government-wide and fund financial reporting levels.

Discretely presented component units are reported only at the government-wide financial reporting level. The component unit columns included on the government-wide financial statements identifies the financial data of the City's discretely presented component units. They are reported separately to emphasize that they are legally separate from the City.

A brief description of the discretely presented component unit follows:

Demorest Governmental Finance Corporation - The Demorest Governmental Finance Corporation was organized as a non-profit corporation to acquire properties and lease them to the City under terms of an operating lease. This was done to obtain additional financing for capital projects. The Mayor and Council serve as the Board of Directors.

Downtown Development Authority - The Downtown Development Authority was organized to acquire and improve properties for use in the downtown district. The City appoints Authority members.

Separately issued financial statements have not been prepared for the Downtown Development Authority or The Demorest Governmental Finance Corporation.

NOTE 1 – (Continued)

**B. Basis of Presentation**

The City's basic financial statements consist of government-wide statements, including a statement of net position, a statement of activities and fund financial statements, which provide a more detailed level of financial information.

***Government-wide 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 non-fiduciary activities of the primary government and its component units. The primary government and the discretely presented component units are presented separately with the financial statements with the focus on the primary government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Individual funds are not displayed. The statements distinguish between governmental activities, generally supported by taxes, intergovernmental revenues, and other non-exchange transactions and business-type activities, which are generally financed in whole or in part by fees charged to external parties.

The statement of net position presents the financial position of the governmental and business type activities of the City and it's discretely presented component units at year end.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities, for identifiable activity of the business-type activities of the City and for each major component unit. Direct expenses are those that are clearly identifiable with a specific function or segment. The City does not allocate indirect expenses to functions in the statement of activities.

***Fund Financial Statements*** – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Fund financial statements are provided for governmental and proprietary funds.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. 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. These revenues are subject to externally imposed restrictions to these program uses.

For identifying to which function program revenue pertains, the determining factor for *charges for services* is which function *generates* the revenue. For *grants and contributions*, the determining factor is to which functions the revenues are *restricted*.

NOTE 1 – (Continued)

Taxes and other revenue sources not properly included with the program revenues are reported as general revenues of the City. The comparison between direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenues of the Major individual governmental and enterprise funds are reported in separate columns with composite columns for Nonmajor funds.

***Fund Accounting*** – The City uses funds to maintain its financial records during the year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The City uses two categories of funds: governmental and proprietary.

***Governmental Funds***: - Governmental Funds are those through which most of the governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balance of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between governmental fund assets and liabilities as fund balance. The following are the City's major governmental funds:

*The General Fund* - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, local taxes, licenses, permits, charges for services, state and federal distributions, grants, protective services, and other intergovernmental revenues.

*The SPLOST Fund* - The Special Purpose Local Option Sales Tax capital projects fund is used to account for sales tax revenue and expenditures, assets, liabilities and equity pertaining to the SPLOST V and SPLOST VI programs.

***Proprietary Funds:***–Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows.

*The Water and Sewer Fund* - This fund accounts for operations that are financed in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

## C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

***Government-wide Financial Statements*** - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included in the statement of net position. The statement of activities reports revenues and expenses.

***Fund Financial Statements*** – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared.

NOTE 1 – (Continued)

Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

Like the government-wide statements, all proprietary funds types are accounted for on a flow of economic resources measurement focus on both financial reporting levels. All assets and liabilities associated with the operation of these funds are included on the statements of net position. The statements of changes in fund net position present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

At the fund reporting level, governmental funds use the modified accrual basis of accounting and the fiduciary funds use the accrual basis of accounting. Proprietary funds use the accrual basis of accounting at both reporting levels. Differences in the accrual method and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

***Revenues- Exchange Transactions*** – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the calendar year which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current calendar year. For the City, the phrase "available for exchange transactions" means expected to be received within 60 days of year end.

***Revenues – Non-exchange Transactions*** – Non-exchange transactions, in which the City receives value without directly giving equal value in return, includes sales tax, property taxes, grants and donations. On an accrual basis, revenue from sales tax is recognized in the period in which the taxable sale takes place. Revenue from property taxes is recognized in the calendar year for which the taxes are levied. Revenue from grants and donations is recognized in the calendar year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specific the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions also must be available (i.e., collected before December 31 for property taxes and within 60 days for other non-exchange transactions) before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: property taxes, sales tax, special assessments and federal and state grants.

NOTE 1 – (Continued)

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

**D. Assets, Liabilities and Equity**

***1 Cash and Investments***

Cash and cash equivalents include amounts in demand and time deposits as well as short-term investments with a maturity date within three months of the date acquired by the City. Cash and cash equivalents are reported on the balance sheets, statements of net position and in cash flow statements.

State statutes authorize the City to invest in the following types of obligations:

- Obligations of the State of Georgia or of any other states
- Obligations of the United States Government
- Obligations fully insured or guaranteed by the United States Government or Government Agency
- Obligations of any corporation of the United States Government
- Prime Bankers acceptances
- The State of Georgia local government investment pool (i.e., Georgia Fund 1)
- Obligations of the other political subdivisions of the State of Georgia

***2 Receivables***

Levied property taxes are recorded as receivables and recognized as revenue in the year they become due. The levy is made on assessed valuations as of January 1, and the taxes are due on December 20 of each year. The tax bills are mailed at least 60 days prior to the due date. The billings are considered past due 60 days after the tax billings date or December 20, whichever is later, at which time the applicable property is subject to lien, and penalties are assessed.

All trade and property tax receivables are shown net of an allowance for uncollectibles, where applicable.

***3 Interfund Balances***

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

***4 Inventories***

The cost of supplies is recorded as expenditure at the time the individual items are purchased. The amount of inventory on hand is insignificant and therefore not recorded.

NOTE 1 – (Continued)

### 5 *Prepaid Items*

Payments made to vendors for services that will benefit periods beyond December 31, 2016, are recorded as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expenditures/expenses in the year in which services are consumed. At the fund reporting level, an equal amount of fund balance is reserved as this amount is not available for general appropriation.

### 6 *Capital Assets*

Capital outlays are recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent that the City's capitalization threshold is met. Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, culverts, and similar items acquired subsequent to July 1, 2003) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. General infrastructure assets acquired prior to July 1, 2003 are not reported in the basic financial statements. The City capitalizes asset purchases valued at $5,000 or more. Depreciation is recorded on general capital assets on a government-wide basis. Capital outlays of the Proprietary Fund are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the government-wide basis. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

### 7 *Compensated Absences*

It is the City's policy to permit employees to accumulate earned but unused vacation. Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and fund liability of the government fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as long term liabilities.

### 8 *Accrued Liabilities and Long-term Obligations*

The City reports long-term debt of governmental activities at face value in the Government-wide Statement of Net Position. Long-term debt is not reported for governmental activities in the fund financial statements. Long-term debt and other obligations financed by the proprietary fund are reported as liabilities in both the Government-wide and fund financial statements.

NOTE 1 – (Continued)

9 ***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 the 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 Flow Assumptions*** – In order to report net position as a restricted-net position and an unrestricted-net position in the government-wide and proprietary fund financial statements, the City has established a flow assumption policy. It is the City's policy to use restricted – net position first before using unrestricted-net position.

***Fund Balance Flow Assumptions*** - It is the City's policy to consider restricted fund balance to have been used before any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, it is the City's policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

***Net Position*** – The net position represents the difference between assets and liabilities. The net position component "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

NOTE 1 – (Continued)

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 assets are reported as unrestricted.

**10** ***Operating Revenue and Expenses***

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**11** ***Interfund Activity***

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/ expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

**12** ***Estimates***

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain 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 expenditures/expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**13** ***Deferred Outflows/Inflows of Resources***

The City implemented GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB No. 65, *Items Previously Reported as Assets and Liabilities* in fiscal year 2013. This implementation resulted primarily in changes to terminology and the elimination of reporting unamortized debt issuance costs (i.e., unamortized loan origination fees) as a deferred charge.

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 future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditures) until then. The City has no items that qualify for reporting in this category.

NOTE 1 – (Continued)

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 the acquisition of net position that applies to future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and these amounts are deferred and will be recognized as an inflow of resources in the period in which the amounts become available.

## NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### *Budgetary Information*

The City clerk prepares a draft of the annual budget from which the City Council prepare a proposed budget. The City then advertises in a local newspaper giving notice regarding a public hearing in which local citizens may give their input regarding the proposed budget. The City also places a copy of the proposed budget on file for public inspection prior to actual approval. Once all of the steps have been taken, the City Council then formally adopt the annual, balanced budget. The legal level of control of the budget is at the department level. All appropriations lapse at year end. During the current fiscal year, there were no amendments made to the original budget.

The City Council annually adopts budgets for the General Fund of the Primary Government. All appropriations are legally controlled at the departmental level for the General Fund. The budgets are integrated into the accounting system, and the budgetary, as presented in financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditures are recorded to reserve that portion of the applicable appropriation - is not utilized by the City of Demorest.

During the fiscal year ended December 31, 2016, the City incurred expenditures in the following General Fund departments that were materially in excess of the amounts appropriated.

| Department | Budget | Actual | Variance |
|---|---|---|---|
| Police | 726,500 | 845,890 | (119,390) |

## NOTE 3 – DEPOSIT AND INVESTMENT RISK

### *Custodial Risk – Deposits*

Custodial risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned. The City has no formal policy, but follows the State of Georgia requirement that all deposits be federally insured or fully collateralized.

NOTE 3 – (Continued)

***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 of Georgia law limits investments to include certificates of deposit, repurchase agreements, direct and agency obligations of the United States, obligations of any corporation of the United States government, obligations of the State of Georgia or other states, obligations of other political subdivisions of the State of Georgia, and pooled investment programs of the State of Georgia. The City has no investment policy that would further limit its investment choices.

***Concentration of Credit Risk***

The City has no formal policy on the amount the City may invest in any one issuer.

***Foreign Currency Risk***

The City has no investments denominated in a foreign currency.

## NOTE 4– DEPOSITS

At December 31, 2016 the carrying amount of the City's deposits was $1,422,248 and the bank balance was $ 1,425,494. All bank balances of deposits as of December 31, 2016 are entirely insured or collateralized with securities held by the City's agent in the City's name.

## NOTE 5 – RESTRICTED ASSETS

Primary Government

The City's restricted assets in the Governmental Activities on December 31, 2016 consisted of the following:

| | Cash | Receivables |
|---|---|---|
| General Fund | | |
| Capital Projects | $ - | $ 80,000 |
| SPLOST VI | | |
| Capital Projects | 258,668 | 33,550 |
| | $ 258,668 | $ 113,550 |

NOTE 5 – (Continued)

The City's restricted cash in the Proprietary Funds on December 31, 2016 consisted of the following:

| | Cash |
|---|---|
| Water and Sewer Fund | |
| Debt Service | $ 777,948 |
| | $ 777,948 |

**NOTE 6 - RECEIVABLES**

Receivables at December 31, 2016 consisted of the following:

| | |
|---|---|
| Major Funds | |
| General Fund | |
| Taxes | $ 85,838 |
| Service Fees | 86,993 |
| Enterprise Funds | |
| Water and Sewer | 427,597 |
| Total Primary Government | $ 600,428 |

Property taxes are recognized as revenue when they are billed because the City adopted on January 1, 2000, GASB Statement No. 34, Basic Financial Statements. An allowance for uncollectable accounts is recorded for any balances over two years past due.

**NOTE 7 – INTERGOVERNMENTAL RECEIVABLE**

| | |
|---|---|
| Major Funds | |
| SPLOST | |
| Intergovernmental | $ 33,550 |
| Total Primary Government | $ 33,550 |

## NOTE 8 – INTERFUND TRANSFERS

| | Major Funds | | | |
|---|---|---|---|---|
| | General | Splost | Proprietary | Combined |
| ***Transfer Out To:*** | | | | |
| **Major Funds** | | | | |
| General | $ - | $ | $ (960,615) | $ (960,615) |
| Proprietary Fund | | | | - |
| Splost | | | | - |
| ***Transfer In From:*** | | | | |
| **Major Funds** | | | | |
| General | | | - | - |
| Proprietary Fund | 960,615 | | | 960,615 |
| Splost | | | | - |
| Downtown Development Authority | | | | - |
| Total | $ 960,615 | $ - | $ (960,615) | $ - |

## NOTE 9 - CHANGES IN FIXED ASSETS

**Governmental Activities** – Activity for the fiscal year ended December 31, 2016 was as follows:

| | Balance 12/31/2015 | Increase | Decrease | Balance 12/31/2016 |
|---|---|---|---|---|
| **Primary Government:** | | | | |
| **Capital Assets not being Depreciated** | | | | |
| Land | $ 15,548 | $ - | $ - | $ 15,548 |
| Construction in Progress | 13,500 | - | - | 13,500 |
| Total Nondepreciable Assets | 29,048 | - | - | 29,048 |
| **Depreciable assets** | | | | |
| Software | - | 30,742 | - | 30,742 |
| Buildings | 355,774 | - | - | 355,774 |
| Highways and Streets | 794,620 | 201,300 | - | 995,920 |
| Fixtures and Equipment | 932,413 | 301,753 | (177,941) | 1,056,225 |
| Total Depreciable Assets | 2,082,807 | 533,795 | (177,941) | 2,438,661 |
| **Less: Accumulated Depreciation** | | | | |
| Software | - | 5,124 | - | 5,124 |
| Buildings | 120,016 | 7,696 | - | 127,712 |
| Highways and Streets | 36,931 | 19,838 | - | 56,769 |
| Fixtures and Equipment | 775,292 | 99,845 | (177,941) | 697,196 |
| Total Accumulated Depreciation | 932,239 | 132,503 | (177,941) | 886,801 |
| Total Depreciable Assets, Net | 1,150,568 | 401,292 | - | 1,551,860 |
| Governmental Activities capital assets, net | $ 1,179,616 | $ 401,292 | $ - | $ 1,580,908 |

NOTE 9 – (Continued)

Depreciation was charged to governmental functions as follows:

| | | |
|---|---|---|
| General Government | $ | 8,831 |
| Public Safety | | 46,307 |
| Public Works | | 27,525 |
| Highways and Streets | | 49,840 |
| | $ | 132,503 |

**Business-type Activities** – Activity for the fiscal year ended December 31, 2016 was as follows:

| | Balance 12/31/2015 | Increase | Decrease | Balance 12/31/2016 |
|---|---|---|---|---|
| **Business-type Activities** | | | | |
| **Capital Assets not being Depreciated** | | | | |
| Land | $ 288,756 | $ - | $ - | $ 288,756 |
| | 288,756 | - | - | 288,756 |
| **Depreciable assets** | | | | |
| Software | - | 36,449 | - | 36,449 |
| Buildings | 285,620 | - | - | 285,620 |
| Infrastructure | 35,857,109 | - | - | 35,857,109 |
| Fixtures and Equipment | 677,595 | - | (2,047) | 675,548 |
| Total Depreciable Assets | 36,820,324 | 36,449 | (2,047) | 36,854,726 |
| **Less: Accumulated Depreciation** | | | | |
| Software | - | 6,075 | - | 6,075 |
| Buildings | 40,439 | 7,428 | - | 47,867 |
| Infrastructure | 7,642,174 | 813,659 | - | 8,455,833 |
| Fixtures and Equipment | 596,043 | 27,554 | (2,047) | 621,550 |
| Total Accumulated Depreciation | 8,278,656 | 854,716 | (2,047) | 9,131,325 |
| Total Depreciable Assets, Net | 28,541,668 | (818,267) | - | 27,723,401 |
| Business-type Activities capital assets, net | $ 28,830,424 | $ (818,267) | $ - | $ 28,012,157 |

NOTE 9 – (Continued)

**Discretely Presented Component Units:**

**Demorest Government Finance Corporation** – Activity for the fiscal year ended December 31, 2016 was as follows:

| *Discretely Presented Component Units* | Balance 12/31/2015 | Increase | Decrease | Balance 12/31/2016 |
|---|---|---|---|---|
| **Governmental Finance Unit** | | | | |
| **Capital Assets not being Depreciated** | | | | |
| Land | $ 10,000 | $ - | $ - | $ 10,000 |
| **Depreciable assets** | | | | |
| Buildings | 140,276 | - | - | 140,276 |
| Fixtures and Equipment | 70,823 | - | - | 70,823 |
| Total Depreciatble Assets | 211,099 | - | - | 211,099 |
| **Less: Accumulated** | | | | |
| Buildings | 77,154 | 3,507 | - | 80,661 |
| Fixtures and Equipment | 70,823 | - | - | 70,823 |
| Total Accumulated Depreciation | 147,977 | 3,507 | - | 151,484 |
| Total Depreciable Assets, Net | 63,122 | (3,507) | - | 59,615 |
| Total capital assets, net | $ 73,122 | $ (3,507) | $ - | $ 69,615 |

**Demorest Downtown Development Authority** – Activity for the fiscal year ended December 31, 2016 was as follows:

| *Discretely Presented Component Units* | Balance 12/31/2015 | Increase | Decrease | Balance 12/31/2016 |
|---|---|---|---|---|
| **Downtown Development Authority** | | | | |
| **Depreciable assets** | | | | |
| Buildings | $ 178,364 | $ - | $ - | $ 178,364 |
| Total Depreciatble Assets | 178,364 | - | - | 178,364 |
| **Less: Accumulated** | | | | |
| Buildings | 63,063 | 4,459 | - | 67,522 |
| Total Accumulated Depreciation | 63,063 | 4,459 | - | 67,522 |
| Total Depreciable Assets, Net | $ 115,301 | $ (4,459) | $ - | $ 110,842 |

In the governmental and business-type activities, the following estimated useful lives are used to compute depreciation using the straight-line method:

| | | |
|---|---|---|
| Office Equipment | 7 | Years |
| Buildings and Additions | 30-40 | Years |
| Machinery and Equipment | 4-10 | Years |
| Water and Sewer System | 25-50 | Years |
| Water and Sewer Plant and Equipment | 25-50 | Years |
| Highways and Streets | 40 | Years |
| Infrastruture | 20-60 | Years |

NOTE 9 – (Continued)

***Net investment in Capital Assets***

| | Governmental Activities | Enterprise Fund | Component Units |
|---|---|---|---|
| Invested in Capital Assets, net of related debt: | $ | $ | $ |
| Cost of Capital Assets | 2,467,709 | 37,143,482 | 399,463 |
| Accumulated Depreciation | (886,801) | (9,131,325) | (219,006) |
| Book Value | 1,580,908 | 28,012,157 | 180,457 |
| Capital Related Debt | (186,000) | (11,576,447) | (34,004) |
| Total | $ 1,394,908 | $ 16,435,710 | $ 146,453 |

NOTE 10 - LONG-TERM DEBT

CHANGES IN LONG-TERM LIABILITIES – PRIMARY GOVERNMENT

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

| | Balance 12/31/2015 | Additions | Deductions | Balance 12/31/2016 | Due Within One Year |
|---|---|---|---|---|---|
| Governmental activities | | | | | |
| Compensated Absences | $ 23,327 | $ - | $ 882 | $ 22,445 | $ - |
| Notes Payable | 64,119 | 137,000 | 15,119 | 186,000 | 44,257 |
| Net Pension Liability | 204,443 | 43,467 | - | 247,910 | - |
| Total Governmental activities | $ 291,889 | $ 180,467 | $ 16,001 | $ 456,355 | $ 44,257 |
| Business-type activities | | | | | |
| Compensated Absences | $ 70,064 | $ 16,875 | $ - | $ 86,939 | $ - |
| Notes payable | 4,448,303 | - | 240,017 | 4,208,286 | 245,551 |
| Bonds payable | 7,104,993 | 7,115,000 | 7,239,993 | 6,980,000 | 225,000 |
| Unamortized Bond Premium | - | 398,043 | 9,881 | 388,162 | 16,938 |
| Net Pension Liability | 278,787 | 59,273 | - | 338,060 | - |
| Total business-type activities | $ 11,902,147 | $ 7,589,191 | $ 7,489,891 | $ 12,001,447 | $ 487,489 |

CHANGES IN LONG-TERM LIABILITIES – COMPONENT UNITS

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

| | Balance 12/31/2015 | Additions | Deductions | Balance 12/31/2016 | Due Within One Year |
|---|---|---|---|---|---|
| **Component Unit** | | | | | |
| Downtown Development Authority | | | | | |
| Notes Payable | $ 46,063 | $ - | $ 12,059 | $ 34,004 | $ 12,412 |
| Total Downtown Devlopment Authority Component Unit | $ 46,063 | $ - | $ 12,059 | $ 34,004 | $ 12,412 |

NOTE 10 – (Continued)

SUMMARY OF PRINCIPAL AND INTEREST REQUIREMENTS – PRIMARY GOVERNMENT

2016 Series

In 2016, the City issued 2016 Series Revenue Bonds in the amount of $7,115,000 bonds bearing a variable interest rate from 1.85% to 4.00% per annum. The proceeds from the bonds were used for the purpose of a current refunding of the aggregate remaining $7,095,690 in debt from the outstanding Series 1993, 1996A, 1996B, and 2014 bonds. The refunding transaction resulted in an aggregate debt service savings of $1,056,287 and an economic loss (net present value of the aggregate debt service savings) of $129,678. The economic loss was the result of the new debt issuance having a shorter maturity than the debt which was refunded.

The balance of the new debt is payable in forty-eight biannual payments with first payment due on May 1, 2016. The debt service requirements to maturity are as follows:
NOTE 10 – (Continued)

| Year Ending | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 225,000 | $ 220,456 | $ 445,456 |
| 2018 | 230,000 | 215,956 | 445,956 |
| 2019 | 235,000 | 211,356 | 446,356 |
| 2020 | 240,000 | 206,656 | 446,656 |
| 2021 | 245,000 | 201,856 | 446,856 |
| 2022-2026 | 1,280,000 | 936,006 | 2,216,006 |
| 2027-2031 | 1,480,000 | 743,940 | 2,223,940 |
| 2032-2036 | 1,790,000 | 424,140 | 2,214,140 |
| 2037-2039 | 1,255,000 | 82,390 | 1,337,390 |
| Totals | $ 6,980,000 | $ 3,242,756 | $ 10,222,756 |

Interest rate for the debt will be 2.00% for years 2016-2022, 1.85% for years 2023-2024, 2.10% for years 2025-2026, 4.00% for years 2027-2036, and 3.25% for years 2037-2039.

Bond Payable Sinking Fund and Debt Reserve Requirements

As part of the issuance of the 2016 series bonds, the city is required to maintain a debt reserve fund and a sinking for the payment of the principal and interest on the bonds. The debt reserve requirement for the bonds is an amount equal to the least of (i) 10% of the original principal amount of the 2016 series bonds, (ii) the maximum annual debt service on the Series 2016 Bonds payable in any Sinking Fund Year, or (iii) 125% of average annual debt service on the Series 2016 Bonds payable in any Sinking Fund Year. In lieu of setting aside funds to meet the debt reserve requirements, the city has obtained a surety bond in order to meet the requirements of the debt reserve account.

In addition to the Bond Reserve Requirements, the City is also required to maintain a renewal and extension account. Funds shall be deposited into this account until it reaches a balance of $200,000.

NOTE 10 – (Continued)

The sinking fund agreement for the 2016 bonds requires monthly payments of $38,147.63 to be made to a sinking fund account beginning April 2016 for the purpose of making principal and interest payment on the bonds.

The 2010 GEFA loan of $200,000 for the acquisition of booster pumps and upgrades to water tanks requires monies to be set aside into a debt service reserve account. The reserve is to serve as security of all loans made be funds held or administered by the Georgia Environmental Finance Authority, equally and ratably. The debt service reserve requirement to secure the loans shall be an amount equal to the lesser of $171,000 or the aggregate outstanding principal and accrued interest of all GEFA loans at the end of the fiscal year of the borrower.

Note Payable

The Water and Sewer Fund borrowed from Georgia Environmental Facilities Authority for construction of a water tank, water lines, and refurbishing of a water tank. The note payable is in the amount of $1,472,720. The note is due in monthly installments of $8,167.67, including interest at 3 percent per annum, beginning June 1, 2009. The debt service requirements to maturity are as follows:

| Year Ending | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 68,503 | $ 29,509 | $ 98,012 |
| 2018 | 70,580 | 27,432 | 98,012 |
| 2019 | 72,727 | 25,285 | 98,012 |
| 2021 | 74,930 | 23,082 | 98,012 |
| 2021 | 77,223 | 20,789 | 98,012 |
| 2022-2026 | 422,777 | 67,283 | 490,060 |
| 2027-2029 | 228,402 | 8,671 | 237,073 |
| Total | $ 1,015,142 | $ 202,051 | $ 1,217,193 |

Note Payable

The Water and Sewer Fund borrowed from Georgia Environmental Facilities Authority for construction of a sewer belt press. The note payable is in the amount of $153,000. The note is due in monthly installments of $1,477.38, including interest at 3 percent per annum, beginning March 1, 2012. The debt service requirements to maturity are as follows:

| Year Ending | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 15,396 | $ 2,332 | $ 17,728 |
| 2018 | 15,865 | 1,864 | 17,729 |
| 2019 | 16,347 | 1,381 | 17,728 |
| 2020 | 16,845 | 884 | 17,729 |
| 2021 | 17,357 | 372 | 17,729 |
| 2022 | 2,944 | 11 | 2,955 |
| Total | $ 84,754 | $ 6,844 | $ 91,598 |

NOTE 10 – (Continued)

Note Payable

The Water and Sewer Fund borrowed from Georgia Environmental Facilities Authority for emergency water system improvements. The note payable is in the amount of $200,000. The note is due in monthly installments of $1,840, including interest at 2 percent per annum, beginning November 1, 2012. The debt service requirements to maturity are as follows:

| Year Ending | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 19,802 | $ 2,281 | $ 22,083 |
| 2018 | 20,201 | 1,882 | 22,083 |
| 2019 | 20,609 | 1,474 | 22,083 |
| 2020 | 21,025 | 1,058 | 22,083 |
| 2021 | 21,449 | 634 | 22,083 |
| 2022 | 20,042 | 201 | 20,243 |
| Total | $ 123,128 | $ 7,530 | $ 130,658 |

Note Payable

The Water and Sewer Fund borrowed from Georgia Environmental Facilities Authority for improvements and expansion of waterlines. The note payable is in the amount of $426,012. The note is due in monthly installments of $2,539, including interest at 3.81 percent per annum, beginning January 1, 2013. The debt service requirements to maturity are as follows:

| Year Ending | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 16,870 | $ 13,598 | $ 30,468 |
| 2018 | 17,525 | 12,944 | 30,469 |
| 2019 | 18,204 | 12,265 | 30,469 |
| 2020 | 18,910 | 11,559 | 30,469 |
| 2021 | 19,643 | 10,826 | 30,469 |
| 2022-2026 | 110,249 | 42,097 | 152,346 |
| 2027-2031 | 133,345 | 19,001 | 152,346 |
| 2032 | 29,851 | 620 | 30,471 |
| Total | $ 364,597 | $ 122,910 | $ 487,507 |

Note Payable

The Water and Sewer Fund borrowed from Georgia Environmental Facilities Authority for water system improvements and meter replacements which are in progress at December 31, 2014. The loan balance was $2,771,350.64 as of December 31, 2014. The project was still in construction phase as of December 31, 2014. The note is due in monthly installments of $13,897.09, including interest at 1.163 percent per annum, beginning March 1, 2015. The debt service requirements to maturity are as follows:

NOTE 10 – (Continued)

| Year Ending | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 124,979 | $ 41,786 | $ 166,765 |
| 2018 | 127,032 | 39,733 | 166,765 |
| 2019 | 129,118 | 37,647 | 166,765 |
| 2020 | 131,238 | 35,527 | 166,765 |
| 2021 | 133,393 | 33,372 | 166,765 |
| 2022-2026 | 700,555 | 133,270 | 833,825 |
| 2026-2031 | 759,999 | 73,826 | 833,825 |
| 2032- | 514,351 | 13,738 | 528,089 |
| Total | $ 2,620,665 | $ 408,899 | $ 3,029,564 |

Note Payable

The General Fund borrowed from United Community Bank for the purchase of a fire truck. The note payable is in the amount of $106,000. The note is due in quarterly installments of $4,335, including interest at 3.75 percent per annum, beginning January 16, 2013. The debt service requirements to maturity are as follows:

| Year Ending | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 15,722 | $ 1,616 | $ 17,338 |
| 2018 | 16,322 | 1,016 | 17,338 |
| 2019 | 16,956 | 276 | 17,232 |
| Total | $ 49,000 | $ 2,908 | $ 51,908 |

The General Fund borrowed from South State Bank for the purchase five Dodge Charger Police vehicles.. The note payable is in the amount of $137,000. The note is due in quarterly installments of $2,912, including interest at 2.75 percent per annum, beginning January 1, 2017. The debt service requirements to maturity are as follows:

| Year Ending | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 28,535 | $ 6,213 | $ 34,748 |
| 2018 | 32,335 | 2,613 | 34,948 |
| 2019 | 33,248 | 1,699 | 34,947 |
| 2020 | 34,185 | 763 | 34,948 |
| 2021 | 8,697 | 40 | 8,737 |
| Total | $ 137,000 | $ 11,328 | $ 148,328 |

SUMMARY OF PRINCIPAL AND INTEREST REQUIREMENTS – DISCRETELY PRESENTED COMPONENT UNITS

Note Payable

The Downtown Development Authority of Demorest financed improvements to downtown buildings through South State Bank. The note payable is in the amount of $50,000. The note is due in 48 monthly installments of $1,107, including interest at 3 percent per annum, beginning October 2, 2015. The Old Demorest City Hall currently occupied by Sweetbreads Restaurant is pledged as collateral on the note. The debt service requirements to maturity are as follows:

NOTE 10 – (Continued)

| Year Ending | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 12,412 | $ 893 | $ 13,305 |
| 2018 | 12,781 | 511 | 13,292 |
| 2019 | 8,811 | 125 | 8,936 |
| Total | $ 34,004 | $ 1,529 | $ 35,533 |

NOTE 11 –FUND BALANCE

Additional details related to fund balances at the governmental fund level are presented below:

Restricted:

**General Fund**
*Capital Outlay Projects* – Funds received from grants or loans are restricted for the purpose of the construction or acquisition of capital projects. The amount of net position restricted for capital projects at year-end was $80,000.

**SPLOST VI Capital Projects Fund**
*Capital Outlay Projects* – For funds received from Habersham County from the imposition of the Special Purpose Local Option Sales Tax (SPLOST) restricted by the voter approved referendum. The amount fund balance restricted for capital projects at year-end was $292,218.

**Water and Sewer Enterprise Fund**
*Debt Service* – Funds restricted for the purpose of the repayment of debt in accordance with the bond and or loan sinking fund requirements. The amount of net position restricted for debt service at year-end was $777,948.

NOTE 12 - EMPLOYEE RETIREMENT PLAN

PLAN DESCRIPTION

The City, by ordinance, on December 1, 2005 established a retirement plan for its employees to be funded through the Georgia Municipal Employees Benefit System (GMEBS), an agent, multiple-employer type defined benefit pension plan. The Georgia Municipal Employees Benefit System issues a stand-alone financial report that included a schedule of member net assets, listing the net assets held by the City of Demorest. That report may be obtained by writing to the Georgia Municipal Association, 201 Pryor Street, SW, Atlanta, Georgia 30303. The City is required to contribute at an actuarially determined rate. The actuarial valuation date was July 1, 2016.

Employees are not required to contribute to the plan. The contribution requirement of the City is established and may be amended by the Board of Trustees of the Georgia Municipal Employees Benefit System.

The City's plan, City of Demorest Retirement Plan, provides retirement and death and disability benefits for all employees effective from the date of hire.

Vested employees who have reached the age of 65 and have completed five years of credited service are eligible to receive a monthly benefit, payable for life. The benefit is equal to 15% of the employees' average salary multiplied by the years of credited service. The plan also provides benefits in the event of death or

NOTE 12 – (Continued)

disability. These benefits provisions were established by an adoption agreement executed by the City Council.

Vested employees who have reached age 55 with at least ten years of credited service are eligible to receive an early retirement benefit, payable monthly for life, reduced on an actuarial equivalent basis. Death benefits and optional forms of retirement income on an actuarial equivalent basis are also available.

Current Membership is as follows:

| | |
|---|---|
| Number of retired participants and beneficiaries | 5 |
| Number of vested former participants | 2 |
| Number of active employees | 26 |
| Total number of participants | 33 |

**Funding Policy**

City employees are not required to contribute to the Plan. The Board of Trustees of GMEBS has adopted a recommended actuarial funding policy for the plan which meets state requirements. The Town is required to contribute at an actuarially determined rate; the current rate is 7.61% of annual covered payroll. The prior year contribution rate was 6.96%. The new rate is an increase of 0.65% of pay. The contribution requirements of plan members and the City are established and may be amended by the Georgia Municipal Employee Benefit System Board of Trustees.

**Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions**
As of December 31, 2016, the City reported a net pension liability of $585,970. The net pension liability was measured on March 31, 2016, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2016. For the fiscal year ended December 31, 2016, the City recognized a pension expense in the amount of $73,223.

At December 31, 2016, the City reported deferred outflows and deferred inflows of resources related to the plan from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 64,098 | $ - |
| Changes in assumptions | | (4,752) |
| Net difference between projected and actual earnings on pension plan investments | 46,090 | |
| Town contributions subsequent to the measurement date | 52,156 | |
| Total | $ 162,344 | $ (4,752) |

The $52,156 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction in net position liability in the fiscal year ending December 31, 2016. Other amounts reported as deferred outflows of resources will be recognized in pension expense as follows:

NOTE 12 – (Continued)

| Year Ending December 31 | |
|---|---|
| 2017 | $ 19,750 |
| 2018 | 19,750 |
| 2019 | 19,750 |
| 2020 | 23,064 |
| 2021 | 9,056 |
| 2021 and Thereafter | 14,066 |
| | $ 105,436 |

**Actuarial Assumptions**
The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions as applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 3.25% per year |
| Cost of Living Adjustment | 0.00% per year |
| Investment Return: | 7.75% per year |
| Future Salary Increases: | 3.25% per year with an age based scale as follows: |

| Years of Service | Annual Rate (%) |
|---|---|
| 0-1 | 8.75 |
| 2 | 5.75 |
| 3 | 5.50 |
| 4 | 5.25 |
| 5 | 5.00 |
| 6 | 4.75 |
| 7 | 4.50 |
| 8 | 4.25 |
| 9 | 4.00 |
| 10 or more | 3.75 |

Healthy mortality rates were based on the RP-2000 Combined Healthy Mortality Table with sex-distinct rates, set forward two years for males and one year for females. Disabled rates were based on the RP-2000 Disabled Retiree Mortality Table with sex-distinct rates.

The mortality assumptions used in the July 1, 2016 actuarial report were based on a four-year review of mortality experience for the period January 1, 2010 to June 30, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined

NOTE 12 – (Continued)

to produce the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding expected inflation. The difference between the resulting rate and the rate on the ongoing basis is a margin for adverse deviation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of March 31, 2016 are summarized in the table below:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Domestic Equity | 45% | 6.75% |
| International Equity | 20% | 7.45% |
| Real Estate | 10% | 4.55% |
| Global Fixed Income | 5% | 3.30% |
| Domestic Fixed Income | 20% | 1.75% |
| Cash | 0% | |
| Total | 100% | |

**Discount Rate:**
The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions from employer will be made at the contractually required rates, actuarially determined. Based on the those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the net pension liability.

NOTE 12 – (Continued)

**Changes in Net Pension Liability:**

| | Total Pension Liability (TPL) (a) | Fiduciary Net Position (FNP) (b) | Net Pension Liability (a)-(b) |
|---|---|---|---|
| Balances at March 31, 2015 | $ 1,420,932 | $ 937,702 | $ 483,230 |
| Changes for the year: | | | |
| Service Cost | 28,231 | - | 28,231 |
| Interest | 107,878 | - | 107,878 |
| Difference between actual and expected experience | 40,081 | - | 40,081 |
| Employer contributions | - | 73,223 | (73,223) |
| Employee contributions | - | - | - |
| Net investment income | - | 3,112 | (3,112) |
| Benefit payments | (57,903) | (57,903) | - |
| Administrative expense | - | (2,885) | 2,885 |
| Other | - | - | - |
| Net Changes | 118,287 | 15,547 | 102,740 |
| Balances at March 31, 2016 | $ 1,539,219 | $ 953,249 | $ 585,970 |

**Sensitivity of the Net Pension Asset/Liability to Changes in the Discount Rate.**
The discount rate used to measure the total net pension liability was 7.75%. The following presents what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

| | Discount Rate | Net Pension Liability (Asset) |
|---|---|---|
| 1% decrease | 6.75% | 801,739 |
| Current discount rate | 7.75% | 585,970 |
| 1% increase | 8.75% | 406,490 |

**Plan Fiduciary Net Position:**
Detailed information about the Plan's fiduciary net position is available in a separately issued Georgia Municipal Employee Benefit System financial report.

**Other Plans:**
In addition to the plan above, various City employees are covered under the Peace Officers' Annuity and Benefit Fund of Georgia. Further information regarding this plan can be obtained from the plan's annual report.

NOTE 13 – CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts collected, may constitute a liability of the applicable funds. The amount, if any which may be disallowed by the grantor cannot be determined at this time although the government expects such amount, if any, to be immaterial.

The City is a defendant in various lawsuits. The financial statements do not include accrual of provisions for loss contingencies that may result from these proceedings. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's counsel that an adverse resolution on all of these matters would not have a material effect on the financial condition of the government.

NOTE 14– ECONOMIC DEPENDENCY/MAJOR CUSTOMERS

The City's Enterprise Fund for Water and Sewer Services has only one major supplier of water.

NOTE 15- RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to , and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has insurance coverage with the Georgia Municipal Association. Insurance coverage and deductible options for property, casualty and crime under the policy are selected by City's management based on anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed by the Association, as well as following loss reduction and prevention procedures established by the Association. The Association's responsibility includes paying claims, and representing the City in defense and settlement of claims. The Association's basis for estimating the liabilities for unpaid claims is established by the actuary. The City has not compiled a record of the claims paid up to the applicable deductible for the prior year or the current fiscal year. The City is unaware of any claims for which the City is liable (up to the applicable deductible) which were outstanding and unpaid at December 31, 2016. No provisions have been made in the financial statements for the year ended December 31, 2016 for any estimate of unpaid claims.

The city has elected to be a member of the Georgia Municipal Association of Worker's Compensation Self-Insurance Fund (GMAWCSIF), a risk management agency created under Georgia Law. As a participant in the GMAWCSIF, the City has no legal obligation to pay its own workers' compensation claims. The City is required to make an annual contribution to the fund in an amount that is determined on the basis of actuarial projections of losses. With payment of the City's annual contribution, the City has effectively transferred the risk and responsibility for payment of its workers' compensation claims.

However, the enabling statute creating GMAWCSIF permits the fund to levy an assessment upon its
NOTE 12 – (Continued)

members to make up any deficiency the fund may have in surplus or reserves. No amount has been recorded in the general purpose financial statements for this contingency, as management believes the likelihood for assessment is remote.

NOTE 16– GEORGIA MOUNTAIN REGIONAL COMMISSION

The City of Demorest, in conjunction with cities and counties in the Northeast Georgia area, is a member of the Georgia Mountains Commission. Membership in a Regional Commission is automatic for each municipality and county in the state. The official Code of Georgia Section 50-8-34 (Georgia Planning Act

NOTE 16 – (Continued)

of 1989) provides for the organizational structure of the Commissions. Each county and municipality in the state is required by law to pay minimum annual dues to the Commission During its year ended December 31, 2015, the City paid $2,226 in such dues. The Commission Board membership includes the chief elected official of each county and the chief elected official of each municipality. The County Board members and municipal Board members from the same county elect one member of the Board who is a resident (but not an elected or appointed official or employee of the county or municipality) to serve as the non-public Board member from a County. Separate financial statements can be obtained from:

Georgia Mountains Regional Commission
P.O. Box 1720
Gainesville, Georgia 30503

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines Commissions as "public agencies and instrumentalities of their members". Georgia laws also provide that the member governments are liable for any debts or obligations of a Commission beyond its resources. (O.C.G.A. 50-8-39.1)

REQUIRED SUPPLEMENTARY INFORMATION
(unaudited)

In accordance with the Governmental Accounting Standards Board Statement No. 34,
The following information is a required part of the financial statements.

Schedule 1

**CITY OF DEMOREST, GEORGIA**
**BUDGETARY COMPARISON SCHEDULE**
**GENERAL FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2016**

| | ORIGINAL BUDGET | BUDGET AS AMENDED | ACTUAL | VARIANCE FROM AMENDED |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Taxes | | | | |
| Property | $ 236,000 | $ 275,000 | $ 266,132 | $ (8,868) |
| Intangible and Transfer | 3,400 | 3,400 | 3,651 | 251 |
| Franchise | 100,000 | 100,000 | 86,012 | (13,988) |
| Beer and Wine | 21,000 | 21,000 | 17,245 | (3,755) |
| Insurance Premium | 100,000 | 113,750 | 113,781 | 31 |
| Business Taxes | 15,000 | 19,000 | 19,083 | 83 |
| License and Permits | 10,000 | 10,000 | 5,900 | (4,100) |
| Charges for Services | 25,000 | 25,000 | 118,946 | 93,946 |
| Fines and Forfeitures | 60,000 | 80,000 | 80,052 | 52 |
| GCIC | 123,000 | 123,000 | 96,800 | (26,200) |
| Rent | 4,800 | 4,800 | 4,000 | (800) |
| Miscellaneous | 15,000 | 47,650 | 47,604 | (46) |
| Grants | 22,000 | 124,000 | 123,299 | (701) |
| TOTAL REVENUE | 735,200 | 946,600 | 982,505 | 35,905 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| General Government | 406,893 | 430,350 | 420,860 | 9,490 |
| Police Department | 642,822 | 726,500 | 845,890 | (119,390) |
| Fire Department | 336,094 | 414,250 | 404,994 | 9,256 |
| Streets and Sanitation | 208,000 | 380,600 | 380,530 | 70 |
| Debt Service | | | | |
| Principal Retirement | - | 48,848 | 48,779 | 69 |
| Interest and Fiscal Charges | - | 2,759 | 2,787 | (28) |
| TOTAL EXPENDITURES | 1,593,809 | 2,003,307 | 2,103,840 | (100,533) |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | (858,609) | (1,056,707) | (1,121,335) | (64,628) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Proceeds from Debt | - | - | 137,000 | 137,000 |
| Interfund Transfers | 858,609 | 1,056,707 | 960,615 | (96,092) |
| **TOTAL OTHER FINANCING SOURCES (USES)** | 858,609 | 1,056,707 | 1,097,615 | 40,908 |
| **EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES (USES) OVER (UNDER) EXPENDITURES** | - | - | (23,720) | (23,720) |
| **FUND BALANCE - BEGINNING OF YEAR** | | | 50,178 | |
| **FUND BALANCE - END OF YEAR** | | | $ 26,458 | |

**CITY OF DEMOREST**
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS**
**LAST TEN FISCAL YEARS**
**DECEMBER 31, 2016**
**(Unaudited)**

| | 2016 | 2015 |
|---|---|---|
| Service Cost | $ 28,231 | $ 26,584 |
| Interest on Total Pension Liability | 107,878 | 98,940 |
| Difference between expected and actual experience | 40,081 | 38,700 |
| Change of assumptions | - | (6,334) |
| Changes of benefit terms | - | - |
| Benefits Payments, including refunds of employee contributions | (57,903) | (27,202) |
| Net Change in total pension liability | 118,287 | 130,688 |
| Total Pension Liability as of the beginning of year | 1,420,932 | 1,290,244 |
| Total Pension Liability as of March 31, 2016 (1) | $ 1,539,219 | $ 1,420,932 |
| | | |
| Employer Contributions | $ 73,223 | $ 81,008 |
| Employee Contributions | - | - |
| Net Investment Income | 3,112 | 80,983 |
| Benefit Payments | (57,903) | (27,202) |
| Administrative Expense | (2,885) | (2,616) |
| Other | - | - |
| Net change in fiduciary net position | 15,547 | 132,173 |
| Fiduciary Net Position as of beginning of year | 937,702 | 805,529 |
| Fiduciary Net Position as of End of Year (2) | $ 953,249 | $ 937,702 |
| | | |
| Net pension liability as of end of year (1)-(2) | $ 585,970 | $ 483,230 |
| | | |
| Fiduciary Net Position as a % of Total Pension Liability (4)/(2) | 61.93% | 65.99% |
| | | |
| Covered-employee payroll | $ 1,029,526 | $ 982,610 |
| Net pension liability as a % of covered-employee payroll | 56.92% | 49.18% |

* *This schedule will present 10 years of information once it is accumulated.*

Schedule 3

**CITY OF DEMOREST**
**SCHEDULE OF CONTRIBUTIONS**
**LAST TEN FISCAL YEARS**
**DECEMBER 31, 2015**
**(Unaudited)**

| | FISCAL YEAR END 2016 | FISCAL YEAR END 2015 |
|---|---|---|
| Actuarially determined contribution | -* | 74,451 |
| Contributions in relation to the actuarially determined contribution | -* | 74,451 |
| Contribution deficiency (excess) | - | - |
| Covered-employee payroll | -* | 982,610 |
| Contributions as a percentage of covered-employee payroll | -* | 7.58% |

** 2016 information will be determined after fiscal year end and will be included in the 2017 valuation report.*

# CITY OF DEMOREST, GEORGIA
# NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
# YEAR ENDED DECEMBER 31, 2016

## BUDGETARY ACCOUNTING AND CONTROL

The City Commission annually adopts budgets for the General Fund of the Primary Government. All appropriations are legally controlled at the departmental level for the General Fund. There were no budget amendments made during the year. The budgets are integrated into the accounting system, and the budget, as presented in financial statements for all funds with annual budgets; compare the expenditures with actual budgets.

All budgets are presented on the modified accrual basis of accounting. Accordingly, the Budgetary Comparison Schedule for the General Fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the end of each fiscal year.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders, contracts and other commitments for the expenditures are recorded to reserve that portion of the applicable appropriation-, is not utilized by the City of Demorest.

## PENSIONS

1. Valuation Date

The actuarially determined contribution rate was determined as of July 1, 2016, with an interest adjustment to the fiscal year. Contributions in relation to this actuarially determined contribution rate will be reported for the fiscal year ending December 31, 2017.

2. Methods and Assumptions Used to Determine Contribution Rates:

- Actuarial cost method = Projected unit credit
- Amortization method = Closed level dollar for remaining unfunded liability
- Remaining amortization period = Remaining amortization period varies for the bases, with a net effective amortization period of 22 years
- Asset valuation method = Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at end of year. The actuarial value is adjusted, if necessary, to be within 20% of market value.
- Net investment rate of return = 7.75%
- Projected salary increases = 3.25% plus service based merit increases
- Cost of living adjustments = 0.00%
- Retirement age for inactive vested participants = 65
- Mortality = Healthy mortality rates were based on the RP-2000 Combined Healthy Mortality Table with sex-distinct rates, set forward two years for males and one year for females. Disabled mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with sex-distinct rates.

3. Changes in Benefits

Effective January 1, 2015, the Plan was amended to provide for immediate participation for employees. This change has no impact on service credited under the Plan and has no impact on benefits.

4. Changes of Assumptions

Amounts reported for the fiscal year ending in 2015 and later reflect the following assumption changes based on the results of an actuarial experience study covering the period of January 1, 2010 to June 30, 2014:

- The mortality table for disabled participants was changed to remove the two-year set-forward for males and the one-year set-forward for females.
- The turnover rates were updated to introduce select rates for service less than five years and to reduce the ultimate rate by 15% and to assume no turnover on and after age 55. The select period rates were further constrained to not be less than the ultimate rates.
- The retirement rates where normal retirement is only available on or after age 65 were changed from the prior assumption of 100% at age 65 to the new assumption of 60% at ages 65 to 69 and 100% at age 70. Where normal retirement is available prior to age 65, the rates were changed from the prior assumption of 100% at earliest unreduced age, but not below age 60, to the new assumption of 10% at ages 55 to 59, 20% at age 60, 25% at age 61, 35% at age 62, 40% at age 63, 45% at age 64, 50% at ages 65 to 69, and 100% at age 70.
- The inflation adjustment assumption was decreased from 3.50% to 3.25%.
- The salary increase assumption was changed from select period rates during the first five years of service, followed by age-related rates to an assumption based on new service- related rates. Under the prior assumption, the salary increases range from 4.00% to 11.00% and included an inflation assumption of 3.50%. Under the new assumption, the salary increases range from 3.75% to 8.00% and include an inflation assumption of 3.25%.

# OTHER SUPPLEMENTARY INFORMATION

Schedule 5

CITY OF DEMOREST
COMBINING STATEMENT OF NET POSITION
COMPONENT UNITS
DECEMBER 31, 2016

| | DOWNTOWN DEVELOPMENT AUTHORITY | GOVERNMENT FINANCE AUTHORITY | TOTAL |
|---|---|---|---|
| **ASSETS** | | | |
| Current Assets | $ | $ | $ |
| Cash | 4,057 | - | 4,057 |
| Total Current Assets | 4,057 | - | 4,057 |
| Noncurrent Assets | | | |
| Land | - | 10,000 | 10,000 |
| Capital Assets Net of Accumulated Depreciation | 110,842 | 59,615 | 170,457 |
| Total Noncurrent Assets | 110,842 | 69,615 | 180,457 |
| TOTAL ASSETS | $ 114,899 | $ 69,615 | $ 184,514 |
| **LIABILITIES** | | | |
| Current Liabilities | | | |
| Current Portion of Long-Term Debt | $ 12,412 | $ - | $ 12,412 |
| Total Current Liabilities | 12,412 | - | 12,412 |
| Noncurrent Liabilities | | | |
| Long-Term Obligations, net of current portion | 21,592 | - | 21,592 |
| Total Noncurrent Liabilties | 21,592 | - | 21,592 |
| TOTAL LIABILTIES | 34,004 | - | 34,004 |
| **NET POSITION** | | | |
| Net Investment in Capital Assets | 76,838 | 69,615 | 146,453 |
| Unrestricted | 4,057 | - | 4,057 |
| TOTAL NET POSITION | $ 80,895 | $ 69,615 | $ 150,510 |

Schedule 6

CITY OF DEMOREST
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2016

| | DOWNTOWN DEVELOPMENT AUTHORITY | GOVERNMENT FINANCE AUTHORITY | TOTAL |
|---|---|---|---|
| **EXPENSES** | | | |
| General Government | $ 8,889 | $ - | $ 8,889 |
| Depreciation | 4,459 | 3,507 | 7,966 |
| Interest | 1,233 | - | 1,233 |
| Total Expenses | 14,581 | 3,507 | 18,088 |
| **PROGRAM REVENUES** | | | |
| Rent | 19,459 | - | 19,459 |
| Intergovernmental | 4,300 | - | 4,300 |
| Total Program Revenues | 23,759 | - | 23,759 |
| **CHANGE IN NET POSITION** | 9,178 | (3,507) | 5,671 |
| **NET POSITION - BEGINNING OF YEAR** | 71,717 | 73,122 | 144,839 |
| **NET POSITION - END OF YEAR** | $ 80,895 | $ 69,615 | $ 150,510 |

CITY OF DEMOREST, GEORGIA SCHEDULE 7
SUPPLEMENTARY INFORMATION
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
FOR THE YEAR ENDED DECEMBER 31, 2016

| | Original Estimated Costs | Expenditures | | |
|---|---|---|---|---|
| | | Prior Years | Current Year | Total |
| **Habersham County, Georgia SPLOST V** | | | | |
| Water | $ 251,939 | $ 256,263 | $ - | $ 256,263 |
| Sewer | 1,096,000 | 59,078 | - | 59,078 |
| Public Safety | 99,000 | 183,797 | 4,343 | 188,140 |
| Roads and Bridges | 99,000 | 588,661 | - | 588,661 |
| | $ 1,545,939 | $ 1,087,799 | $ 4,343 | $ 1,092,142 |

| | Original Estimated Costs | Expenditures | | |
|---|---|---|---|---|
| | | Prior Years | Current Year | Total |
| **Habersham County, Georgia SPLOST VI** | | | | |
| Water and Sewer | $ 831,853 | $ - | $ - | $ - |
| Public Safety | 140,000 | - | 35,277 | 35,277 |
| Roads, Streets, and Bridges | 285,000 | - | - | - |
| | $ 1,256,853 | $ - | $ 35,277 | $ 35,277 |

COMPLIANCE SECTION

**DUNCAN & KITCHENS, LLC**
*Certified Public Accountants*
**327-D MONROE STREET**
**CLARKESVILLE, GA 30523**
**(706) 754-5814**
**FAX (706) 754-9069**

Joseph Duncan, CPA, ATA, ATP
Joe Kitchens, CPA

Members of
American Institute and
Georgia Society of
Certified Public Accountants

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

Honorable Mayor and
Members of the City Council
City of Demorest, Georgia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City of Demorest, Georgia, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Demorest, Georgia's basic financial statements and have issued our report thereon dated June 30, 2017.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses. Comment 13-16

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Demorest, Georgia'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as comments 16-1 to 16-3.

We noted certain matters that we have reported to management of the City of Demorest, Georgia in a separate letter dated June 30, 2017.

**City of Demorest, Georgia's Response to Findings**

City of Demorest, Georgia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Demorest, Georgia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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.

Duncan & Kitchens, LLC
Certified Public Accountants
Clarkesville, Georgia
June 30, 2017

## 1. FINANCIAL STATEMENT FINDINGS

### *A. Current Year Audit Findings*

**Comment 16-1**

*Condition:* O.C.G.A. 36-37-6 requires that any real and personal property with a value of greater than $500.00 shall make all such sales to the highest responsible bidder, either by sealed bids or by auction after due notice has been given. Any such municipal corporation shall have the right to reject any and all bids or to cancel any proposed sale. The governing authority of the municipal corporation shall cause notice to be published once in the official legal organ of the county in which the municipality is located or in a newspaper of general circulation in the community, not less than 15 days nor more than 60 days preceding the day of the auction or, if the sale is by sealed bids, preceding the last day for the receipt of proposals.

*Criteria:* The City is required to advertise sales of real or personal property in the local newspaper and to sale the property to the highest bidder either by auction or sealed bid.

*Cause:* The City disposed of property during the year without advertising the sale in the local newspaper.

*Effect:* The City violated state law in regards to the sale of property.

*Recommendation:* The City should only dispose of real or personal property in accordance with the provisions of O.C.G.A 36-37-6.

*Management Response:* Management concurs with this finding. City Council voted unanimously in an open city meeting to surplus an emergency portable sewer pump/lift station. Unknown to the Mayor and Council, surplus advertising procedure in the local paper was not followed by the former city manager. The portable sewer pump is a highly specific piece of equipment and was marketed by appropriate means to sewer providers across the southeastern United Sates. The city only received one bid in a period of two months and accepted this bid.

**Comment 16-2**

*Condition:* Article 9, Section 5, Paragraph 1 of the Georgia Constitution states that debt incurred by any county, municipality, or other political subdivision of this state, including debt incurred on behalf of any special district, shall never exceed 10 percent of the assessed value of all taxable property within such county, municipality, or political subdivision; and no such

***Current Year Audit Findings – (continued)***

county, municipality, or other political subdivision shall incur any new debt without the assent of a majority of the qualified voters of such county, municipality, or political subdivision voting in an election held for that purpose as provided by law.

*Criteria:* The City is required to obtain the consent of the majority of qualified voters before acquiring new general obligation debt.

*Cause:* The City incurred general obligation debt during the year for the purchase of vehicles without the consent of the majority of qualified voters.

*Effect:* The City is in violation of the laws of the Constitution of the State of Georgia with regards to the acquisition of debt.

*Recommendation:* The City should either seek the consent of the majority of voters before incurring general obligation debt or it should seek to finance the purchase of vehicles through means that are in accordance with the Constitution of the State of Georgia.

*Management Response:* Management Response: Management concurs with this finding. The City is aware of purchasing requirements required by Georgia law. The Council voted unanimously in an open meeting to finance the purchase of a new police vehicle fleet by means of a lease-purchase. This process is in accordance with the laws of the Constitution of the State of Georgia. The former city manager erroneously executed and signed a loan agreement rather than a lease-purchase agreement for the purchase of the police fleet. The loan, and debt incurred by the loan, has been appropriately cancelled and converted to a lease-purchase agreement as originally intended and approved by City Council.

**Comment 16-3**

*Condition:* The County experienced a material excess of expenditures over appropriations in the General Fund.

*Criteria:* State law requires that the budget at the legal level of control not be over-expended.

*Effect:* Failure to maintain expenditures within the balanced budget for these funds will place the County in violation of state law.

*Recommendation:* The budgets should be reviewed regularly for compliance. This will assist management with budgetary decisions throughout the fiscal year.

***Prior Year Audit Findings – (continued)***

*Management Response:* Management Response: Management concurs with this finding. From an accounting perspective, the city capitalized the police fleet immediately instead of including it in the expense of the police department budget for the year. Each department now has a capital outlay line item in the chart of accounts to prevent this from occurring in the future. At no time did the city operate outside of a balanced budget.

***B. Prior Year Audit Findings***

**Comment 13-16**

*Condition*: City personnel may require additional training in the application of generally accepted accounting principles and the preparation of financial statements. Currently, the City relies on the external auditors for technical assistance in applying generally accepted accounting principles and the preparation of the financial statements. This is common in governments of similar size and structure of the City. This does not indicate that the Finance Director is not trained to perform the daily accounting functions, but that the City has elected as a cost benefit to outsource this expertise to their auditors. As required, we have indicated this as a significant deficiency in our on Internal Control and Compliance.

*Criteria:* The City should possess the ability to prepare its own financial statements or have access to someone with adequate technical training and education to review the financial statements prepared by others.

*Cause:* The City staff does not have the accounting skill necessary to prepare financial statements in accordance with accounting principles generally accepted in the United States.

*Effect:* The City does not possess adequate capabilities to prepare financial statements in accordance with accounting principles generally accepted in the United States.

*Recommendation:* The City should continue to receive training in identification and application of generally accepted accounting principles and the preparation of the City's financial statements.

*Management Response:* Management Response: Management does not concur with this finding. The City has the personnel with proper knowledge and capabilities to prepare the audited financial statements. The City does not use audited financial statements to run day-to-day operations. Converting our annual budget and day-to-day operations to an audited format is not economically feasible and is considered to be an unfunded mandate from the Government Accounting Office.