CITY OF DEMOREST

DEMOREST, GEORGIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2017

INDEPENDENT AUDITOR'S REPORT

CITY OF DEMOREST, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2017

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Joseph Duncan, CPA
Joe Kitchens, CPA



DUNCAN & KITCHENS, LLC
Certified Public Accountants

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, 2017, 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, 2017, 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 40-44 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 May 18, 2018, 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
May 18, 2018

BASIC FINANCIAL STATEMENTS

CITY OF DEMOREST, GEORGIA
STATEMENT OF NET POSITION
DECEMBER 31, 2017

EXHIBIT 1

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Current Assets				
Cash	$ 69,667	$ 724,542	$ 794,209	$ 1,656
Restricted Cash	335,445	407,881	743,326	-
Taxes Receivable	137,986	-	137,986	-
Intergovernmental Receivable	33,906	-	33,906	-
Accounts Receivable	20,575	577,929	598,504	-
Prepaid Expenses	-	37,415	37,415	-
Total Current Assets	597,579	1,747,767	2,345,346	1,656
Noncurrent Assets				
Capital Assets				
Non-Depreciable	29,048	288,756	317,804	10,000
Depreciable Assets, Net	1,438,060	27,007,273	28,445,333	175,582
Total Noncurrent Assets	1,467,108	27,296,029	28,763,137	185,582
TOTAL ASSETS	2,064,687	29,043,796	31,108,483	187,238
Deferred Outflow of Resources	69,916	45,445	115,361	-
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 2,134,603	$ 29,089,241	$ 31,223,844	$ 187,238
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 57,096	$ 236,164	$ 293,260	$ -
Accrued Payroll	16,913	17,399	34,312	-
Payroll Taxes Withheld	6,399	5,360	11,759	-
Accrued Interest	-	25,584	25,584	-
Short Term Notes				7,191
Current Portion of Notes Payable	49,289	251,202	300,491	12,781
Current Portion of Bonds Payable	-	230,000	230,000	-
Compensated Absences	48,562	74,144	122,706	-
Total Current Liabilities	178,259	839,853	1,018,112	19,972
Noncurrent Liabilities				
Water Deposits	-	317,174	317,174	-
Long-Term Notes Payable	92,452	3,711,532	3,803,984	16,015
Bonds Payable	-	6,880,084	6,880,084	-
Net Pension Obligation	316,372	205,641	522,013	-
Total Noncurrent Liabilities	408,824	11,114,431	11,523,255	16,015
TOTAL LIABILITIES	587,083	11,954,284	12,541,367	35,987
Deferred Inflow of Resources	16,605	10,793	27,398	-
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	$ 603,688	$ 11,965,077	$ 12,568,765	$ 35,987
NET POSITION				
Net Investment in Capital Assets	$ 1,325,367	$ 16,223,211	$ 17,548,578	$ 156,786
Restricted for:				
Capital Projects	369,351	-	369,351	-
Debt Service	-	407,881	407,881	-
Unrestricted Assets	(163,803)	493,072	329,269	1,656
TOTAL NET POSITION	$ 1,530,915	$ 17,124,164	$ 18,655,079	$ 158,442

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

CITY OF DEMOREST, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

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	$ 418,990	$ 6,695	$ -	$ 191,999	$ (220,296)
Police	785,012	302,413	-	20,539	(462,060)
Fire	455,371	15,457	-	-	(439,914)
Streets & Sanitation	239,194	109,191	-	33,944	(96,059)
Interest on long-term debt	8,031	-	-	-	(8,031)
Total Governmental Activities	1,906,599	433,756	-	246,482	(1,226,361)
Business-type Activities					
Water and Sewer Fund	3,987,762	4,675,934	-	0	688,172
Total Business-type Activities	3,987,762	4,675,934	-	0	688,172
Total Primary Government	5,894,361	5,109,690	-	246,482	(538,189)
Component Units					
Downtown Development Authority	8,121	19,559	-	-	11,438
Government Finance Authority	3,506	-	-	-	(3,506)
Total Componet Units	11,627	19,559	-	-	7,932

	Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
Change in Net Position				
Net (expense) revenue	$ (1,226,361)	$ 688,172	$ (538,189)	$ 7,932
General Revenues:				
Taxes:				
Property	283,623	-	283,623	-
Intangible and Transfer	3,204	-	3,204	-
Franchise	86,091	-	86,091	-
Beer and Wine	18,569	-	18,569	-
Insurance Premium	121,158	-	121,158	-
Business Taxes	11,926	-	11,926	-
Rent	800	-	800	-
Unrestricted Investment Earnings		7,115	7,115	-
Miscellaneous	105,311	-	105,311	-
Loss on Sale of Assets		(3,077)	(3,077)	
Transfers	709,340	(709,340)	-	-
Total General Revenues and Transfers	1,340,022	(705,302)	634,720	-
Change in net position	113,661	(17,130)	96,531	7,932
Net Position - Beginning of Year- as previously reported	1,527,098	17,141,294	18,668,392	150,510
Prior Period Adjustment	(109,844)		(109,844)	
Net Position - Beginning of Year- as restated	1,417,254	17,141,294	18,558,548	150,510
Net Position - End of Year	$ 1,530,915	$ 17,124,164	$ 18,655,079	$ 158,442

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

CITY OF DEMOREST, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

EXHIBIT 3

	GENERAL FUND	SPLOST VI CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash	$ 69,667	335,445	$ 405,112
Receivables			
Taxes	137,986	-	137,986
Intergovernmental	-	33,906	33,906
Accounts	20,575	-	20,575
TOTAL ASSETS	$ 228,228	$ 369,351	$ 597,579
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Accounts Payable	$ 57,096	-	$ 57,096
Accrued Payroll	16,913	-	16,913
Payroll Taxes Withheld and Accrued	6,399	-	6,399
TOTAL LIABILITIES	80,408	-	80,408
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue -property taxes	48,826	-	48,826
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	129,234	-	129,234
FUND BALANCE			
Restricted for:			
Capital Outlay Projects	-	369,351	369,351
Unassigned	98,994	-	98,994
TOTAL FUND BALANCE	98,994	369,351	468,345
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	$ 228,228	$ 369,351	$ 597,579

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

CITY OF DEMOREST, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

EXHIBIT 3-A

Total fund balance - total governmental funds	$	468,345
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds		1,467,108
Long-term assets (receivables) are not available to pay current period expenditures and, therefore, are deferred in the funds		
Property Taxes		48,826
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds		(48,562)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		(141,741)
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		(316,372)
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		69,916
Deferred Inflows - Pensions		(16,605)
Net Position of Governmental Activities (Exhibit "1")	$	1,530,915

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

CITY OF DEMOREST, GEORGIA **EXHIBIT 4**
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	GENERAL FUND	SPLOST VI CAPITAL PROJECTS	TOTAL GOVERNMENTAI FUNDS
REVENUES			
Taxes			
Property	$ 251,992	$ -	$ 251,992
Intangible and Transfer	3,204	-	3,204
Franchise	86,091	-	86,091
Beer and Wine	18,569	-	18,569
Insurance Premium	121,158	-	121,158
Business Taxes	11,926	-	11,926
License and Permits	6,695	-	6,695
Charges for Services	124,648	-	124,648
Intergovernmental	-	188,765	188,765
Fines and Forfeitures	211,752	-	211,752
GCIC	90,661	-	90,661
Rents	800	-	800
Miscellaneous	105,311	-	105,311
Interest Income	-	3,234	3,234
Grants	54,483	-	54,483
TOTAL REVENUE	1,087,290	191,999	1,279,289
EXPENDITURES			
Current:			
General Government	394,024	-	394,024
Police Department	743,922		743,922
Fire Department	418,655	-	418,655
Streets and Sanitation	214,864	15,206	230,070
Debt Service			
Principal Retirement	44,258	-	44,258
Interest and Fiscal Charges	8,031	-	8,031
TOTAL EXPENDITURES	1,823,754	15,206	1,838,960
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(736,464)	176,793	(559,671)
OTHER FINANCING SOURCES (USES)			
Interfund Transfers	809,000	(99,660)	709,340
TOTAL OTHER FINANCING SOURCES (USES)	809,000	(99,660)	709,340
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES (USES) OVER (UNDER) EXPENDITURES	72,536	77,133	149,669
FUND BALANCE - BEGINNING OF YEAR	26,458	292,218	318,676
FUND BALANCE - END OF YEAR	$ 98,994	$ 369,351	$ 468,345

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

CITY OF DEMOREST, GEORGIA **EXHIBIT 4-A**
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

Adjustments to the Statement of Activities		
Net Change in Fund Balance	$	149,669
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 Depreciation ($155,000) exceeded Capital Outlay $41,058		(113,951)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		31,631
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 repayment ($44,258) exceed debt proceeds of $0.		44,258
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		(26,118)
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		28,172
Change in net position of governmental activities (Exhibit 2)	$	113,661

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

CITY OF DEMOREST, GEORGIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017

EXHIBIT 5

	BUSINESS TYPE ACTIVITIES
	WATER AND SEWER ENTERPRISE FUND
ASSETS	
Current Assets:	
Cash	$ 724,542
Restricted Cash	407,881
Accounts Receivable	577,929
Prepaid Expenses	37,415
Total Current Assets	1,747,767
Non-current Assets:	
Capital Assets	
Assets Not Being Depreciated	288,756
Depreciable Assets, Net	27,007,273
Total Noncurrent Assets	27,296,029
TOTAL ASSETS	29,043,796
Deferred Outflow of Resources	45,445
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 29,089,241
LIABILITIES	
Current Liabilities	
Accounts Payable	$ 236,164
Accrued Payroll	17,399
Payroll Taxes Withheld and Accrued	5,360
Accrued Interest	25,584
Current Portion of Notes Payable	251,202
Current Portion of Bonds Payable	230,000
Compensated Absences	74,144
Total Current Liabilities	839,853
Non-current Liabilities	
Water Deposits	317,174
Long-term Notes Payable	3,711,532
Bonds Payable	6,880,084
Net Pension Obligation	205,641
Total Non-current Liabilities	11,114,431
TOTAL LIABILITIES	11,954,284
Deferred Inflow of Resources	10,793
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	11,965,077
NET POSITION	
Net Investment in Capital Assets	16,223,211
Restricted	
Debt Service	407,881
Unrestricted	493,072
TOTAL NET POSITION	$ 17,124,164

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

CITY OF DEMOREST, GEORGIA **EXHIBIT 6**
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	WATER AND SEWER ENTERPRISE FUND
OPERATING REVENUES	
Water Sales	$ 3,832,129
Sewer Fees	549,907
Water and Sewer Taps	151,350
Rent	13,420
Miscellaneous Receipts	129,128
TOTAL OPERATING REVENUES	4,675,934
OPERATING EXPENSES	
Wages and benefits	855,807
Insurance	183,788
Sewer operations	3,177
Professional services	73,876
Amortization	1,592
Depreciation	859,571
Utilities	178,493
Water purchases	914,073
Purification system maintenance	13,362
Repairs and Maintenance	457,506
Office expenses	76,984
Supplies	3,077
Other expenses	118,593
TOTAL OPERATING EXPENSES	3,739,899
OPERATING INCOME	936,035
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	7,115
Interest Expense	(247,863)
Gain (loss) on disposition of capital assets	(3,077)
TOTAL NON-OPERATING INCOME (EXPENSES)	(243,825)
NET INCOME BEFORE TRANSFERS	692,210
TRANSFERS	
Tansfers In (Out)	(709,340)
CHANGE IN NET POSITION	(17,130)
TOTAL NET POSITION - BEGINNING OF YEAR	17,141,294
TOTAL NET POSITION - END OF YEAR	$ 17,124,164

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, 2017

EXHIBIT 7

	WATER AND SEWER ENTERPRISE FUND
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	$ 4,524,957
Payments to Suppliers	(1,972,347)
Payments to Employees	(943,816)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,608,794
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer(To) From other funds	(709,340)
NET CASH USED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	(709,340)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal Paid on Notes	(245,552)
Principal Paid on Bonds	(258,078)
Interest Paid	(247,863)
Acquisition Of Capital Assets	(148,112)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(899,605)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Earned	7,115
NET CASH PROVIDED BY INVESTING ACTIVITIES	7,115
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,964
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,125,459
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,132,423
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities	1,132,423
Operating Income (Loss)	$ 936,035
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By Operating Activities	
Depreciation	859,571
Amortization	1,592
(Increase) Decrease in Accounts Receivable	(150,332)
(Increase) Decrease in Prepaid Expenses	(1,194)
(Increase) Decrease in Deferred Outflows	48,215
Increase (Decrease) in Customer Deposits	(645)
Increase (Decrease) in Compensated Absences	(12,795)
Increase (Decrease) in Accrued Interest	1,204
Increase (Decrease) in Accounts Payable	50,572
Increase (Decrease) in Accrued Payroll	979
Increase (Decrease) in Payroll Liabilities	(40)
Increase (Decrease) in Net Pension Liability	(132,419)
Increase (Decrease) in Deferred Inflows	8,051
TOTAL ADJUSTMENTS	672,759
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,608,794

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 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 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.

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, 2017 the carrying amount of the City's deposits was $1,539,191 and the bank balance was $1,585,165. All bank balances of deposits as of December 31, 2017 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, 2017 consisted of the following:

	Cash	Receivables
SPLOST VI		
Capital Projects	335,445	33,906
	$ 335,445	$ 33,906

NOTE 5 – (Continued)

The City's restricted cash in the Proprietary Funds on December 31, 2017 consisted of the following:

	Cash
Water and Sewer Fund	
Debt Service	$ 407,881
	$ 407,881

NOTE 6 - RECEIVABLES

Receivables at December 31, 2017 consisted of the following:

Major Funds	
General Fund	
Taxes	$ 137,986
Service Fees	20,575
Enterprise Funds	
Water and Sewer	577,929
Total Primary Government	$ 736,490

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	$ 33,906
Total Primary Government	$ 33,906

NOTE 8 – INTERFUND TRANSFERS

	Major Funds			
	General	Splost	Proprietary	Combined
Transfer Out To:				
Major Funds				
General	$ -	$	$ (709,340)	$ (709,340)
Transfer In From:				
Major Funds				
Proprietary Fund	709,340			709,340
Total	$ 709,340	$ -	$ (709,340)	$ -

NOTE 9 - CHANGES IN FIXED ASSETS

Governmental Activities – Activity for the fiscal year ended December 31, 2017 was as follows:

Primary Government:	**Balance 12/31/2016**	**Increase**	**Decrease**	**Balance 12/31/2017**
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	995,920	41,058	-	1,036,978
Fixtures and Equipment	1,056,225	-	-	1,056,225
Total Depreciable Assets	2,438,661	41,058	-	2,479,719
Less: Accumulated Depreciation				
Software	5,124	10,247	-	15,371
Buildings	127,712	7,696	-	135,408
Highways and Streets	56,769	21,921	-	78,690
Fixtures and Equipment	697,046	115,144	-	812,190
Total Accumulated Depreciation	886,651	155,008	-	1,041,659
Total Depreciable Assets, Net	1,552,010	(113,950)	-	1,438,060
Governmental Activities capital assets, net	$ 1,581,058	$ (113,950)	$ -	$ 1,467,108

NOTE 9 – (Continued)

Depreciation was charged to governmental functions as follows:

General Government	$ 13,955
Fire Department	44,295
Police	45,168
Highways and Streets	51,590
	$ 155,008

Business-type Activities – Activity for the fiscal year ended December 31, 2017 was as follows:

	Balance 12/31/2016	Increase	Decrease	Balance 12/31/2017
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	21,232	-	35,878,341
Fixtures and Equipment	675,548	126,880	(48,508)	753,920
Total Depreciable Assets	36,854,726	148,112	(48,508)	36,954,330
Less: Accumulated Depreciation				
Software	6,075	-	-	6,075
Buildings	47,867	-	-	47,867
Infrastructure	8,455,833	834,916	-	9,290,749
Fixtures and Equipment	621,550	26,247	(45,431)	602,366
Total Accumulated Depreciation	9,131,325	861,163	(45,431)	9,947,057
Total Depreciable Assets, Net	27,723,401	(713,051)	(3,077)	27,007,273
Business-type Activities capital assets, net	$ 28,012,157	$ (713,051)	$ (3,077)	$ 27,296,029

NOTE 9 – (Continued)

Discretely Presented Component Units:

Demorest Government Finance Corporation – Activity for the fiscal year ended December 31, 2017 was as follows:

Discretely Presented Component Units **Governmental Finance Unit**	**Balance 12/31/2016**	**Increase**	**Decrease**	**Balance 12/31/2017**
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	80,661	3,506	-	84,167
Fixtures and Equipment	70,823	-	-	70,823
Total Accumulated Depreciation	151,484	3,506	-	154,990
Total Depreciable Assets, Net	59,615	(3,506)	-	56,109
Total capital assets, net	$ 69,615	$ (3,506)	$ -	$ 66,109

Demorest Downtown Development Authority – Activity for the fiscal year ended December 31, 2017 was as follows:

Discretely Presented Component Units **Downtown Development Authority**	**Balance 12/31/2016**	**Increase**	**Decrease**	**Balance 12/31/2017**
Depreciable assets				
Buildings	$ 178,364	$ 13,200	$ -	$ 191,564
Total Depreciatble Assets	178,364	13,200	-	191,564
Less: Accumulated				
Buildings	67,522	4,569	-	72,091
Total Accumulated Depreciation	67,522	4,569	-	72,091
Total Depreciable Assets, Net	$ 110,842	$ 8,631	$ -	$ 119,473

NOTE 9 – (Continued)

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

Net investment in Capital Assets

	Governmental Activities	Enterprise Fund	Component Units
Invested in Capital Assets, net of related debt:	$	$	$
Cost of Capital Assets	2,508,768	37,243,086	412,663
Accumulated Depreciation	(1,041,659)	(9,947,057)	(227,081)
Book Value	1,467,109	27,296,029	185,582
Capital Related Debt	(141,742)	(11,072,818)	(28,796)
Total	$ 1,325,367	$ 16,223,211	$ 156,786

NOTE 10 - LONG-TERM DEBT

CHANGES IN LONG-TERM LIABILITIES – PRIMARY GOVERNMENT

Long-term liability activity for the year ended December 31, 2017, was as follows:

	Balance 12/31/2016	Additions	Deductions	Balance 12/31/2017	Due Within One Year
Governmental activities					
Compensated Absences	$ 22,445	$ 26,117	$ -	$ 48,562	$ -
Notes Payable	186,000		44,258	141,742	49,290
Net Pension Liability	247,910	68,462	-	316,372	-
Total Governmental activities	$ 456,355	$ 94,579	$ 44,258	$ 506,676	$ 49,290
Business-type activities					
Compensated Absences	$ 86,939	$ -	$ 12,795	$ 74,144	$ -
Notes payable	4,208,285	-	245,551	3,962,734	251,202
Bonds payable	6,980,000	-	225,000	6,755,000	230,000
Unamortized Bond Premium	388,162	-	33,078	355,084	-
Net Pension Liability	338,060	-	132,419	205,641	-
Total business-type activities	$ 12,001,446	$ -	$ 648,843	$ 11,352,603	$ 481,202

CHANGES IN LONG-TERM LIABILITIES – COMPONENT UNITS

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

Component Unit	Balance 12/31/2016	Additions	Deductions	Balance 12/31/2017	Due Within One Year
Downtown Development Authority					
Notes Payable	$ 34,004	$ 7,200	$ 12,408	$ 28,796	$ 12,781
Total Downtown Devlopment Authority Component Unit	$ 34,004	$ 7,200	$ 12,408	$ 28,796	$ 12,781

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

NOTE 10 – (Continued)

$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:

Year Ending	Principal	Interest	Total
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	250,000	196,956	446,956
2023-2027	1,305,000	910,638	2,215,638
2028-2032	1,535,000	684,740	2,219,740
2033-2037	1,865,000	352,540	2,217,540
2038-2039	850,000	41,602	891,602
Totals	$ 6,755,000	$ 3,022,300	$ 9,777,300

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.

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

NOTE 10 – (Continued)

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 original note payable was $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:

2018	$ 70,580	$ 27,432	$ 98,012
2019	72,727	25,285	98,012
2020	74,930	23,082	98,012
2021	77,223	20,789	98,012
2022	79566	18446	98,012
2022-2026	435,636	54,424	490,060
2027-2029	135,977	3,085	139,062
Total	$ 946,639	$ 172,543	$ 1,119,182

Note Payable

The Water and Sewer Fund borrowed from Georgia Environmental Facilities Authority for construction of a sewer belt press. The original amount was $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:

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	2,943	11	2,954
Total	$ 69,357	$ 4,512	$ 73,869

NOTE 10 – (Continued)

Note Payable

The Water and Sewer Fund borrowed from Georgia Environmental Facilities Authority for emergency water system improvements. The original amount was $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:

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	$ 103,326	$ 5,249	$ 108,575

Note Payable

The Water and Sewer Fund borrowed from Georgia Environmental Facilities Authority for improvements and expansion of waterlines. The original amount was $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
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	20,405	10,064	30,469
2023-2027	114,523	37,823	152,346
2028-2032	138,514	13,831	152,345
Total	$ 347,724	$ 109,312	$ 457,036

NOTE 10 – (Continued)

Note Payable

The Water and Sewer Fund borrowed from Georgia Environmental Facilities Authority for water system improvements and meter replacements. The original amount was $2,844,572.60. 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:

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	135,584	31,181	166,765
2023-2027	712,060	121,765	833,825
2028-2032	772,480	61,345	833,825
2033-2035	354,780	6,543	361,323
Total	$ 2,495,685	$ 367,113	$ 2,862,798

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
2018	$ 16,322	$ 1,016	$ 17,338
2019	16,955	276	17,231
Total	$ 33,277	$ 1,292	$ 34,569

NOTE 10 – (Continued)

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
2018	$ 32,335	$ 2,613	$ 34,948
2019	33,249	1,699	34,948
2020	34,185	763	34,948
2021	8,697	40	8,737
Total	$ 108,465	$ 5,115	$ 113,580

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:

2018	$ 12,781	$ 511	$ 13,292
2019	8,824	125	8,949
Total	$ 21,605	$ 636	$ 22,241

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

NOTE 11 – (Continued)

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 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	33
Total number of participants	40

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 6.24% of annual covered payroll. The prior year contribution rate was 7.61%. The new rate is an decrease of 1.37% 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.

NOTE 12 – (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions
As of December 31, 2017, the City reported a net pension liability of $522,013. The net pension liability was measured on March 31, 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2017. For the fiscal year ended December 31, 2017, the City recognized a pension expense in the amount of $73,914.

At December 31, 2017, 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)

Other amounts reported as deferred outflows of resources will be recognized in pension expense as follows:

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

NOTE 12 – (Continued)

Actuarial Assumptions
The total pension liability in the July 1, 2017 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% 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, 2017 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 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.

NOTE 12 – (Continued)

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, 2017 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.

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

NOTE 12 – (Continued)

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- 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, 2017. No provisions have been made in the financial statements

NOTE 14 – (Continued)

for the year ended December 31, 2017 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 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 15– 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 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)

NOTE 16 – PRIOR PERIOD ADJUSTMENT

Governmental Activities

A prior period adjustment has been made to correct the net pension liability at December 31, 2016. The adjustment was caused by different expectations of return. This amount was not available in the prior period. This adjustment decreased the beginning net position by $109,844.

REQUIRED SUPPLEMENTARY INFORMATION
(unaudited)

CITY OF DEMOREST, GEORGIA Schedule 1
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	ORIGINAL BUDGET	BUDGET AS AMENDED	ACTUAL	VARIANCE FROM AMENDED
REVENUES				
Taxes				
Property	$ 271,000	$ 271,000	$ 251,992	$ (19,008)
Intangible and Transfer	3,400	3,400	3,204	(196)
Franchise	90,000	90,000	86,091	(3,909)
Beer and Wine	16,000	16,000	18,569	2,569
Insurance Premium	110,000	110,000	121,158	11,158
Business Taxes	21,000	21,000	11,926	(9,074)
License and Permits	6,000	6,000	6,695	695
Charges for Services	25,000	25,000	124,648	99,648
Fines and Forfeitures	100,000	200,000	211,752	11,752
GCIC	95,000	95,000	90,661	(4,339)
Rent	4,800	4,800	800	(4,000)
Miscellaneous	25,000	34,085	105,311	71,226
Grants	42,000	42,000	54,483	12,483
TOTAL REVENUE	809,200	918,285	1,087,290	169,005
EXPENDITURES				
Current:				
General Government	399,867	405,000	394,024	10,976
Police Department	706,463	785,000	743,922	41,078
Fire Department	422,076	425,000	418,655	6,345
Streets and Sanitation	212,267	218,000	214,864	3,136
Debt Service				
Principal Retirement	15,723	44,285	44,258	27
Interest and Fiscal Charges	1,615	8,031	8,031	-
TOTAL EXPENDITURES	1,758,011	1,885,316	1,823,754	61,562
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(948,811)	(967,031)	(736,464)	230,567
OTHER FINANCING SOURCES (USES)				
Interfund Transfers	948,811	967,031	809,000	(158,031)
TOTAL OTHER FINANCING SOURCES (USES)	948,811	967,031	809,000	(158,031)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES (USES) OVER (UNDER) EXPENDITURES	-	-	72,536	72,536
FUND BALANCE - BEGINNING OF YEAR			26,458	
FUND BALANCE - END OF YEAR			$ 98,994	

Schedule 2

CITY OF DEMOREST
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN FISCAL YEARS
DECEMBER 31, 2017
(Unaudited)

	2017	2016
Service Cost	$ 31,891	$ 28,231
Interest on Total Pension Liability	117,046	107,878
Difference between expected and actual experience	(25,132)	40,081
Change of assumptions	-	-
Changes of benefit terms	-	-
Benefits Payments, including refunds of employee contributions	(57,902)	(57,903)
Net Change in total pension liability	65,903	118,287
Total Pension Liability as of the beginning of year	1,539,219	1,420,932
Total Pension Liability as of March 31, (1)	$ 1,605,122	$ 1,539,219
Employer Contributions	$ 73,914	$ 73,223
Employee Contributions	-	-
Net Investment Income	120,295	3,112
Benefit Payments	(57,902)	(57,903)
Administrative Expense	(6,447)	(2,885)
Other	-	-
Net change in fiduciary net position	129,860	15,547
Fiduciary Net Position as of beginning of year	953,249	937,702
Fiduciary Net Position as of End of Year (2)	$ 1,083,109	$ 953,249
Net pension liability as of end of year (1)-(2)	$ 522,013	$ 585,970
Fiduciary Net Position as a % of Total Pension Liability (4)/(2)	67.48%	61.93%
Covered-employee payroll	$ 1,230,120	$ 1,029,526
Net pension liability as a % of covered-employee payroll	42.44%	56.92%

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

Schedule 3

CITY OF DEMOREST
SCHEDULE OF CONTRIBUTIONS
LAST TWO FISCAL YEARS
DECEMBER 31, 2017
(Unaudited)

	FISCAL YEAR END 2017	FISCAL YEAR END 2016
Actuarially determined contribution	69,541	74,451
Contributions in relation to the actuarially determined contribution	69,541	74,451
Contribution deficiency (excess)	139,082	-
Covered-employee payroll	1,029,526	982,610
Contributions as a percentage of covered-employee payroll	6.75	7.58%

** 2017 information will be determined after fiscal year end and will be included in the 2018 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, 2017

	DOWNTOWN DEVELOPMENT AUTHORITY	GOVERNMENT FINANCE AUTHORITY	TOTAL
ASSETS			
Current Assets	$	$	$
Cash	1,656	-	1,656
Total Current Assets	1,656	-	1,656
Noncurrent Assets			
Land	-	10,000	10,000
Capital Assets Net of Accumulated Depreciation	119,473	56,109	175,582
Total Noncurrent Assets	119,473	66,109	185,582
TOTAL ASSETS	$ 121,129	$ 66,109	$ 187,238
LIABILITIES			
Current Liabilities			
Current Portion of Long-Term Debt	$ 12,781	$ -	$ 12,781
Total Current Liabilities	12,781	-	12,781
Noncurrent Liabilities			
Long-Term Obligations, net of current portion	16,015	-	16,015
Total Noncurrent Liabilties	16,015	-	16,015
TOTAL LIABILTIES	28,796	-	28,796
NET POSITION			
Net Investment in Capital Assets	90,677	66,109	156,786
Unrestricted	1,656	-	1,656
TOTAL NET POSITION	$ 92,333	$ 66,109	$ 158,442

Schedule 6

CITY OF DEMOREST
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2017

	DOWNTOWN DEVELOPMENT AUTHORITY	GOVERNMENT FINANCE AUTHORITY	TOTAL
EXPENSES			
General Government	$ 2,623	$ -	$ 2,623
Depreciation	4,569	3,506	8,075
Interest	929	-	929
Total Expenses	8,121	3,506	11,627
PROGRAM REVENUES			
Rent	19,559	-	19,559
Total Program Revenues	19,559	-	19,559
CHANGE IN NET POSITION	11,438	(3,506)	7,932
NET POSITION - BEGINNING OF YEAR	80,895	69,615	150,510
NET POSITION - END OF YEAR	$ 92,333	$ 66,109	$ 158,442

Joseph Duncan, CPA
Joe Kitchens, CPA



DUNCAN & KITCHENS, LLC
Certified Public Accountants

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, 2017, 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 May 18, 2018.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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
May 18, 2018

CITY OF DEMOREST, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2017

1. FINANCIAL STATEMENT FINDINGS

A. Current Year Audit Findings

None

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.

STATE REPORTING SECTION

THIS SECTION CONTAINS ADDITIONAL REPORTS
REQUIRED BY THE STATE OF GEORGIA.

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, 2017

	Original Estimated Costs	Expenditures		
		Prior Years	Current Year	Total
Habersham County, Georgia SPLOST VI				
Water and Sewer	$ 831,853	$ -	$ -	$ -
Public Safety	140,000	-	-	-
Roads, Streets, and Bridges	285,000	-	15,206	15,206
	$ 1,256,853	$ -	$ 15,206	$ 15,206