CITY OF EAST ELLIJAY, GEORGIA

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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CITY OF EAST ELLIJAY, GEORGIA

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of East Ellijay, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of East Ellijay, Georgia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, each major fund, and the aggregate remaining fund information of the City of East Ellijay, Georgia, as of June 30, 2014, and the respective changes in financial position and the respective budgetary comparison for the General Fund 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 management's discussion and analysis and schedule of funding progress for the City's pension on pages 5 – 9 and 32, respectively, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of East Ellijay's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of projects constructed with special local option sales tax is presented for purposes of additional analysis as required by Official Code of Georgia Section 48-4-121, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of projects constructed with local option sales tax 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 nonmajor fund financial statements and the schedule of projects constructed with special local option sales tax 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 November 10, 2014, on our consideration of the City of East Ellijay'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 City of East Ellijay's internal control over financial reporting and compliance.

Welch, Walker & Associates, P.C., CPAs

Welch, Walker & Associates, P.C., CPAs
East Ellijay, Georgia
November 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THE AUDIT FOR 2014

As management of City of East Ellijay, Georgia, we offer readers of the City of East Ellijay's financial statements this narrative overview and analysis of the financial activities of the City of East Ellijay for the fiscal year ended June 30, 2014. The audit is required by Georgia law. The Statement of Net Position and the Statement of Activities will provide a picture about the activities of the City, and the fund financial statements will provide a more detailed view of the City's services and the revenue dedicated to provide them.

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expenses, and Changes in Fund Balance. The expenses are listed in the first column with the revenues from that particular program reported to the right. The result is a Net (Expenses) Revenue report. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues and if it is self-financing through fees, insurance, or grants.

REPORTING THE CITY AS A WHOLE

The Statement of Net Position begins on page 11. The Statement of Activities begins on page 12. These statements include all assets and deferred outflows of resources, liabilities and deferred inflows of resources using the full accrual basis of accounting. All of the 2014 fiscal year revenues and expenses are taken into account regardless of when cash is received or paid. The difference between income received and liabilities incurred will paint a picture of the City's health.

REPORTING THE CITY'S FUNDS

The fund financial statements begin on page 13 and provide detailed information about the funds. Some funds are required to be established by State law. However, the City can establish other funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

THE CITY AS A WHOLE

The Statement of Net Position and the Statement of Activities

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the City's finances is, "Is the city as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which are the government-wide statements, report information about the City as a whole and about its activities

in a way that helps answer this question. These statements include all assets and deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expense are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. One can think of the City's net position, the difference between assets and deferred outflows of resources, liabilities and deferred inflows of resources, as one way to measure the City's financial health. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors need to be considered, however, such as expansion and maintenance of infrastructure in the City, to assess the overall health of the City.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental funds. These funds are added together and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the government-wide financial statements.

This report includes two schedules (pages 14 and 16) which reconcile the amounts reported on the governmental fund financial statements (modified accrual basis of accounting) with the governmental activities reported on the government-wide financial statements (accrual basis of accounting).

New Accounting Standard Implementation

During fiscal year 2013, the City implemented a new accounting standard, Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* A deferred outflow of resources represents a consumption of net position that applies to a future period and these balances will not be recognized as an outflow of resources (expense/expenditure) until then. Likewise, a deferred inflow of resources represents an acquisition of net position that applies to a future period and these balances will not be recognized as an inflow of resources (revenue) until that time. During fiscal year 2014, the City implemented an additional accounting standard, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which supplements GASB No. 63 and continues to make changes in the financial reporting of deferred inflows and outflows of resources. This standard affects the Statement of Net Position in the government-wide statements for the fiscal year ended June 30, 2014, as well as the Governmental Funds Balance Sheet.

CONDENSED STATEMENTS OF NET POSITION

Table 1 below presents the City's Condensed Statement of Net Position as of June 30, 2014.

	Governmental Activities	
	2014	2013
Current and other assets	$ 2,476,766	$ 2,453,865
Capital assets, net	4,437,185	4,297,072
Total assets	6,913,951	6,750,937
Current liabilities	60,816	20,843
Deferred inflow of resources	-	11,437
Total liabilities and deferred inflows of resources	60,816	32,280
Net Position		
Invested in capital assets	4,437,185	4,297,072
Restricted for capital projects	341,916	378,493
Reserved for other purposes	1,695	13,455
Unrestricted	2,072,339	2,029,637
Total net position	$ 6,853,135	$ 6,718,657

The largest component of the City's net position is its investment in capital assets (e.g. land, infrastructure, buildings, equipment, and other). The City uses these capital assets to provide services to the citizens and the businesses in the City; consequently, these net assets are not available for future spending. The largest remaining portion of net position is unrestricted, which can be used to finance government operations.

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CONDENSED STATEMENT OF ACTIVITIES

Table 2 below presents the City's Condensed Statement of Activities for the year ended June 30, 2014. Over time, increases and decreases in net position measure whether the City's financial position in improving in deteriorating.

Table 2: Condensed Statement of Activities

	Governmental Activities	
	2014	2013
Revenues		
Program revenues		
Charges for services	$ 268,176	$ 308,924
Operating contributions	137	6,775
Capital contributions	141,955	458,716
General revenues		
Taxes		
Sales	618,595	602,092
Other	307,513	284,633
Unrestricted investment earnings	23,227	22,062
Gain (Loss) on sale of capital assets	(5,751)	1,500
Miscellaneous	1,781	15
Total revenues	1,355,633	1,684,717
Expenses		
General government	216,531	214,644
Judicial	167,056	151,669
Public safety	590,639	589,030
Public works	151,150	494,033
Housing and development	95,779	80,421
Total expenses	1,221,155	1,529,797
Increase in net position	134,478	154,920
Net position – beginning	6,718,657	6,563,737
Net position – ending	$ 6,853,135	$ 6,718,657

During the year ended June 30, 2014, the net position of the government activities increased $134,478 or 2%. Approximately 45% of the City's governmental activities revenues came from sales taxes and approximately 23% came from other taxes.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows and outflows and the balance of resources available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved, undesignated fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the close of the year, the City's governmental funds reported a combined ending fund balance of $2,357,992 with $1,995,881 reported as unassigned fund balance, $343,611 restricted for capital projects and program purposes, $8,189 assigned by Mayor & Council for program purposes, and $10,311 nonspendable due to prepaid insurance.

The General Fund is the operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was $1,995,881. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance to total fund expenditures for fiscal year 2014. Unassigned fund balance represents 170% of total General Fund expenditures. The net change in the General fund's fund balance for the year ended June 30, 2014 was an increase of $91,206.

General Fund Budgetary Highlights

The City did not exceed the appropriated amounts in any budget category by an amount greater than 1%.

Capital Asset Activity

At June 30, 2014, the City reported $4,437,185 in capital assets. Refer to note 3 on page 25 of the financial statements for more information.

In conclusion, the City of East Ellijay finished the year with an increase in fund balance and net position. Also, there were no significant budget overruns that were not covered by unexpected revenue. Fiscal management has been sound while providing the services that the citizens expect and deserve.

This financial report is designed to provide a general overview of the City of East Ellijay's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report of request for additional financial information should be addressed to City of East Ellijay, PO Box 1060; East Ellijay, Georgia 30539.

BASIC FINANICAL STATEMENTS

CITY OF EAST ELLIJAY, GEORGIA
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities
ASSETS	
Current Assets	
Cash	
Cash	$ 264,577
Restricted cash	375,904
Certificates of deposit	1,660,180
Taxes receivable	26,235
Fines receivable, net	99,189
Intergovernmental receivables	40,370
Prepaid Items	10,311
Total Current Assets	2,476,766
Noncurrent Assets	
Capital assets	
Land and other assets, not being depreciated	3,559,740
Depreciable assets, net	877,445
Total Noncurrent Assets	4,437,185
TOTAL ASSETS	$ 6,913,951
LIABILITIES AND NET POSITION	
Current Liabilities	
Accounts payable	$ 58,723
Salaries and wages payable	2,093
Total Current Liabilities	60,816
Net Position	
Investment in capital assets	4,437,185
Restricted for:	
Capital Projects	341,916
Program purposes:	
Public Safety	1,695
Housing and Development	-
Public Works	-
Unrestricted	2,072,339
Total Net Position	6,853,135
TOTAL LIABILITIES AND NET POSITION	$ 6,913,951

The notes to financial statements are an integral part of this statement.

CITY OF EAST ELLIJAY, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net Revenue (Expense) and Changes in Net Position: Primary Government: Governmental Activities
Primary government					
Governmental activities					
General government	$ 216,531	$ 35,500	$ -	$ -	$ (181,031)
Judicial	167,056	-	-	-	(167,056)
Public safety	590,639	232,676	137	-	(357,826)
Public works	151,150	-	-	141,955	(9,195)
Housing and development	95,779	-	-	-	(95,779)
Total governmental activities	$ 1,221,155	$ 268,176	$ 137	$ 141,955	(810,887)
General revenues					
Taxes					
General sales and use taxes					324,298
Selective sales and use taxes					294,297
Franchise taxes					189,443
Business taxes					118,070
Unrestricted investment earnings					23,227
Miscellaneous					1,781
Loss on disposal of capital assets					(5,751)
Total general revenues					945,365
Change in net position					134,478
Net position, beginning of year					6,718,657
Net position, end of year					$ 6,853,135

The notes to financial statements are an integral part of this statement.

CITY OF EAST ELLIJAY, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	Major		Nonmajor	
	General Fund	SPLOST	Governmental Funds	Total
ASSETS				
Cash	$ 257,449	$ 374,209	$ 8,823	$ 640,481
Certificates of deposit	1,660,180	-	-	1,660,180
Receivables				
Taxes	23,158	-	3,077	26,235
Fines, net of allowance	99,189	-	-	99,189
Intergovernmental	31,223	9,147	-	40,370
Prepaid Items	10,311	-	-	10,311
TOTAL ASSETS	$ 2,081,510	$ 383,356	$ 11,900	$ 2,476,766
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts payable	$ 15,267	$ 41,440	$ 2,016	$ 58,723
Salaries and wages payable	2,093	-	-	2,093
Deferred Inflows of Resources				
Deferred fine revenue	57,958	-	-	57,958
Total Liabilities and Deferred Inflows of Resources	75,318	41,440	2,016	118,774
Fund Balances				
Nonspendable	10,311	-	-	10,311
Restricted for				
Capital Projects	-	341,916	-	341,916
Public Safety	-	-	1,695	1,695
Assigned				
Housing and Development	-	-	8,189	8,189
Unassigned	1,995,881	-	-	1,995,881
Total Fund Balances	2,006,192	341,916	9,884	2,357,992
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 2,081,510	$ 383,356	$ 11,900	$ 2,476,766

The notes to financial statements are an integral part of this statement.

CITY OF EAST ELLIJAY, GEORGIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATMENT OF NET POSITION
JUNE 30, 2014

Total fund balance - governmental funds	$	2,357,992
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets of $4,853,937 net of accumulated depreciation of $416,752, are not current financial resources and, therefore, are not reported in the funds, but are reported in the government activities of the Statement of Net Assets.		4,437,185
Other long term assets reported are not available to pay for current period expenditures and, therefore are deferred in the fund financial statements.		57,958
Net position of governmental activities	$	6,853,135

The notes to financial statements are an integral part of this statement.

CITY OF EAST ELLIJAY, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Major		Nonmajor	
	General Fund	SPLOST	Funds	Total
REVENUES				
General sales and use taxes	$ 324,298	$ -	$ -	$ 324,298
Selective sales and use taxes	263,070	-	31,227	294,297
Other taxes	307,513	-	-	307,513
Fines and forfeitures	289,369	-	-	289,369
Licenses and permits	35,500	-	-	35,500
Intergovernmental	24,400	117,555	-	141,955
Contributions	-	-	137	137
Investment earnings	22,950	271	6	23,227
Miscellaneous	4	-	1,777	1,781
Total revenues	1,267,104	117,826	33,147	1,418,077
EXPENDITURES				
Current				
General government	202,724	-	-	202,724
Judicial	167,056	-	-	167,056
Public safety	577,601	-	4,546	582,147
Public works	164,910	-	-	164,910
Housing and development	63,607	-	32,172	95,779
Capital outlay				
Public works	-	154,403	-	154,403
Total expenditures	1,175,898	154,403	36,718	1,367,019
Net change in fund balances	91,206	(36,577)	(3,571)	51,058
Fund balances, beginning of year	1,914,986	378,493	13,455	2,306,934
Fund balances, end of year	$ 2,006,192	$ 341,916	$ 9,884	$ 2,357,992

The notes to financial statements are an integral part of this statement.

CITY OF EAST ELLIJAY, GEORGIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Net change in fund balances - governmental funds		$	51,058
Amounts reported for governmental activities in the statement of activities are different because			
Governmental funds report capital outlays as expenditures. However, in the government-wide financial statements, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of $197,551 exceeded depreciation expense of $51,687 in the current period.			145,864
Gains and losses on sales of capital assets that do not provide current financial resources are not reported as revenues at the fund financial reporting level.			(5,751)
Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues at the fund financial reporting level.			
Fines and forfeitures:			
Deferred June 30, 2013	(114,651)		
Deferred June 30, 2014	57,958		(56,693)
Change in net position of governmental activities		$	134,478

The notes to financial statements are an integral part of this statement.

CITY OF EAST ELLIJAY, GEORGIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts Budgetary Basis (See Note 1.E.)	Variance Final with Budget
	Original	Final		
REVENUES				
Taxes	$ 830,500	$ 830,500	$ 894,881	$ 64,381
Fines and forfeitures	225,000	225,000	289,369	64,369
Licenses and permits	34,500	34,500	35,500	1,000
Intergovernmental	6,000	6,000	24,400	18,400
Investment earnings	18,000	18,000	22,950	4,950
Miscellaneous	-	-	4	4
Total revenues	1,114,000	1,114,000	1,267,104	153,104
EXPENDITURES				
General government:				
Executive	31,310	31,310	25,691	5,619
General administration	210,719	210,719	177,033	33,686
Judicial				
Municipal court	166,600	166,600	167,056	(456)
Public safety				
Police	571,100	571,100	532,601	38,499
Fire	45,000	45,000	45,000	-
Public works				
Highways and streets	153,600	153,600	128,003	25,597
Solid waste	37,700	37,700	36,907	793
Housing and development				
Planning and code enforcement	69,575	69,575	63,607	5,968
Total expenditures	1,285,604	1,285,604	1,175,898	109,706
Net change in fund balance	(171,604)	(171,604)	91,206	262,810
Fund balance, beginning of year	1,914,986	1,914,986	1,914,986	-
Fund balance, end of year	$ 1,743,382	$ 1,743,382	$ 2,006,192	$ 262,810

The notes to financial statements are an integral part of this statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. The Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The City's basic financial statements include the City's accounts of 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. As of June 30, 2014, there were no component units to be included in the financial statements of the City.

B. Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Generally, municipalities' funds are grouped into two broad fund categories and four generic fund types for financial statement presentation purposes. The City's funds are grouped as one broad fund category and two generic fund types. Governmental funds include the general fund, capital projects fund and special revenue funds.

C. Adoption of New Accounting Standard

For the fiscal year ending June 30, 2013, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* Statement No. 63 identified net position as the residual of all other elements presented in a statement of financial position.

A deferred outflow of resources represents a consumption of net position that applies to a future period and these balances will not be recognized as an outflow of resources (expense/expenditure) until then. Likewise, a deferred inflow of resources

represents an acquisition of net position that applies to a future period and these balances will not be recognized as an inflow of resources (revenue) until that time. This standard affects the Statement of Net Position in the government-wide statements for the fiscal year ended June 30, 2014.

In fiscal year 2014, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was implemented. This standard supplemented GASB No. 63 and continued to make changes in the financial reporting of deferred inflows and outflows of resources.

D. Basis of Accounting

Government-Wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The statement of net position and the statement of activities display information about the City, the primary government, as a whole.

Transfers between funds reported in the governmental activities column are eliminated.

The government-wide statement of activities presents a comparison between expenses and program revenues for each governmental program of the City. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expense identifies the extent to which each program is self-financing or draws from the general revenues of the City.

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. It is the City's policy to utilize restricted resources, when available for use, before utilizing unrestricted resources.

Fund Financial Statements

Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measureable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the revenue sources must be deemed both measurable and available. This is defined as the revenue source being collectible within the current year or within sixty days of year-end and is available to pay obligations of the current period. This includes investment earnings, fines and forfeitures, and state-levied locally shared taxes. Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made or, when received in advance, deferred until expenditures are made. The City of East Ellijay, Georgia does not levy any property taxes.

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Fines receivable for the fiscal year ended 2014 totaled $198,378. An allowance for uncollectible fines of $99,189 was established resulting in a net receivable of $99,189 reported on the financial statements.

Expenditure recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. Allocations of costs such as depreciation are not recognized in the governmental funds.

The City reports the following major governmental funds:

General Fund – This is the City's primary operating fund. This fund accounts for all financial resources of the general government except those required to be accounted for in another fund.

SPLOST Fund – The Special Purpose Local Option Sales Tax Fund (SPLOST) is used to account for the revenues and expenditures related to the 2009 1% Special Local Option Sales Tax, authorized by special election, that is to be used for road, street and bridge purposes.

Additionally, the City reports the following fund type:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are restricted for specific purposes. Special Revenue Funds of the City include the Hotel/Motel Tax Fund and the Confiscated Assets Fund.

E. Budgets and Budgetary Accounting

The Mayor prepares a draft of the annual budget which is presented to the City Council for review and the proposed budget is discussed and finalized. Any change to original budgeted items must be approved by the Council. The proposed budget is advertised 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 the actual approval. Once all of these steps have been taken, the City Council and Mayor then formally adopt the annual balanced budget in a legally permissible manner. The legal level of control of the budget of the City of East Ellijay, Georgia is at the department level. All appropriations lapse at year end.

Budgets have been legally adopted for all funds. Budgets are adopted on a basis consistent with generally accepted accounting principles, and on the same basis of accounting used by each fund to which the budget applies.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and classed as follows: operating expenditures, capital outlay, and debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. Budget revisions at this level are subject to final review by the City Council. No expenditure materially exceeded appropriated amounts during fiscal year 2014.

F. Encumbrances

Encumbrance accounting involves recording purchase orders, contracts, and other commitments for the expenditures of monies in order to reserve that portion of the applicable appropriation. Encumbrance accounting is not employed by the City as it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control at this time.

G. Cash and Investments

Cash includes amounts in demand deposits. Statutes authorize the City to invest in obligations of the U.S. Government, U.S. Government agencies, the State of Georgia, other counties, and municipal corporations and political subdivisions of the State of Georgia which are rated "AA" or better by Moody's Investors Service, Inc., negotiable certificates of deposit issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking associations, U.S. Government or Agency collateralized repurchase agreements obligations, and pooled investment programs sponsored by the State of Georgia for the investment of local government funds. The City had no investments during fiscal year 2014.

H. Prepaid Items

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

I. Capital Assets

Capital assets are defined by the government as assets with an initial individual cost of more than $5,000 and infrastructure with a cost of more than $20,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets include all roads, bridges and other infrastructure assets acquired subsequent to July 1, 2003. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life is not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure	10-50 years
Buildings	50 years
Building improvements	20 years
Vehicles	2-15 years
Office & computer equipment	3-15 years

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, results could differ from those estimates.

K. Compensated Absences

City employees are granted vacation and sick leave in varying amounts. It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits up to the end of the year, at which time any vacation or sick pay not yet used is lost and cannot be carried forward to the subsequent year. Therefore, there is no accumulated compensated absence liability as of the fiscal year end.

L. 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 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) 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 enabling legislation adopted by the City or through external restriction imposed by creditors, grantors, or laws and regulations of other governments.
- *Committed* - Fund balances reported as committed include amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

- *Assigned* – Fund balances are reported as assigned when amounts are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed (i.e., an appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget). However, an assignment of fund balance can not cause a deficit in unassigned fund balance to occur.
- *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.

Flow Assumptions – When restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted, and then unrestricted amounts as they are needed.

When committed, assigned or unassigned amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use committed or assigned amounts first and then unassigned amounts as they are needed.

Net Position – Net position represents the difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings used (i.e., the amount that the City has spent) for the acquisition, construction, or improvement of those assets. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

2. SUMMARY OF DEPOSITS

Following is a reconciliation of the City's cash and certificates of deposit balances as of June 30, 2014:

	Government-wide Statement of Net Assets
Cash	$ 264,577
Restricted cash	375,904
Certificates of deposit	1,660,180
Total	$ 2,300,661

It is the City's policy for deposits to be secured at 110% by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation insurance.

At year end, the carrying amount of the City's demand and time deposits was $2,300,661, and the bank balance was $2,247,724. The bank balances differ from the carrying amounts due to outstanding checks, deposits in transit, and reconciling items. The City's

deposits are covered by Federal Depository Insurance or by collateral held by a pledging financial institution's agency in the City's name.

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning of Year	Increases	Decreases	End of Year
Governmental activities				
Non-depreciable capital assets				
Land	$ 3,559,740	$ -	$ -	$3,559,740
Construction in progress	-	-	-	-
Total capital assets not being depreciated	3,559,740	-	-	3,559,740
Depreciable capital assets				
Infrastructure	218,956	178,803	(12,311)	385,448
Buildings	531,436	-	-	531,436
Machinery and equipment	147,503	-	(33,919)	113,584
Vehicles	268,382	23,748	(28,401)	263,729
Total depreciable capital assets	1,166,277	202,551	(74,631)	1,294,197
Less accumulated depreciation				
Infrastructure	37,584	11,594	(12,311)	36,867
Buildings	87,434	10,629	-	98,063
Machinery and equipment	108,303	4,784	(31,334)	81,753
Vehicles	195,624	24,680	(20,235)	200,069
Total accumulated depreciation	428,948	51,687	(63,880)	416,752
Total depreciable capital assets, net	737,332	150,864	(10,751)	877,445
Governmental activities capital assets, net	$ 4,297,072	$ 150,864	$ (10,751)	$ 4,437,185

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

Governmental activities:	
General government	$ 13,807
Public safety	27,240
Public works	10,640
Total	$ 51,687

4. DUE FROM OTHER GOVERNMENTS

Intergovernmental receivables consist of the local option sales tax receivable in the amount of $27,351 from the State of Georgia and the ad valorem vehicle tax receivable in the amount of $3,872 from Gilmer County Tax Commissioner, totaling $31,223 for General Fund. For the SPLOST Fund, the special purpose local option sales tax receivable in the amount of $9,147 from Gilmer County Commissioner represents the total on the fund statement, for a total intergovernmental receivable for all funds of $40,370 as of June 30, 2014.

5. RETIREMENT PLANS

Plan Description. The City's defined benefit pension plan, City of East Ellijay Retirement Plan (CEERP), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CEERP is affiliated with the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer pension plan administered by the Georgia Municipal Association. The GMEBS assigns authority to establish and amend the benefit provisions of the plans that participate in GMEBS to the respective employer entities and, for the CEERP that authority rests with the City. The Georgia Municipal Association issued a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained by writing to the Georgia Municipal Association or by calling (404) 688-0472.

Funding Policy. The City is required to contribute at an actuarially determined amount annually to the CEERP. The contribution amount is determined using actuarial methods and assumptions approved by the GMEBS Board of Trustees and meets applicable State of Georgia funding standards. The recommended contribution for the plan year beginning January 1, 2014 of $26,911 is 8.97% of annual covered payroll, and includes the annual required contribution, administrative fees, and an adjustment for timing contributions over twelve months. The City's actual contribution during the year ended June 30, 2014 of $50,657 was based, in part, on the previous recommended contribution for the plan year beginning January 1, 2014. Plan members are not required to contribute to the plan. Only the City makes contributions to the plan. Employees become eligible after the first 6 months of employment and become vested in the plan after ten years of service if hired or rehired after November 1, 2004, and five years of service if hired or rehired before November 1, 2004, with service prior to April 1, 1983 not to be credited. Contributions and interest forfeited by employees who leave employment before ten years of service are used to reduce the City's current period contribution requirement.

Annual Pension Cost. The funding policy for the plan is to contribute an amount equal to the recommended contribution as determined by the plan's actuary. The chart below shows the annual pension costs for the current year and the prior two years.

Plan Year Beginning	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
1-1-2014	$ 50,657	100%	$0
1-1-2013	$ 53,939	100%	$0
1-1-2012	$ 49,254	100%	$0

As of the most recent valuation date of January 1, 2014, the funded status of the plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Unfunded/ (Surplus)(UAAL) (B) – (A)	Funded Ratio (A) / (B)	Annual Covered Payroll(C)	UAAL as a % of Covered Payroll
1/1/2014	$ 583,444	$ 560,374	$(23,070)	104.12%	$ 295,007	0.00%

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of January 1, 2014.

The methods and assumptions used in the January 1, 2014 actuarial valuation are as follows:

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 10 years
Asset Valuation Method	Sum of actuarial value at the 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 50% of market value for 2009, 44%
	of market value for 2013, 38% of market value for 2014, 32% of market value for 2014, 26% of market value for 2014, and 20% of market value for 2015 and later years.
Actuarial Assumptions:	
Net Investment Rate of Return	7.75%
Projected Salary Increases	3.50% plus age and service based merit increases
Cost of Living Adjustments	0.00%
Inflation Adjustment	3.50%

As of January 1, 2014, the most recent date of the actuarial valuation, plan membership was as follows:

Retirees and beneficiaries	6
Terminated plan members entitled to, but not receiving benefits	13
Active plan members	11
Total	30

6. COMMITMENTS, CONTINGENT LIABILITIES AND SUBSEQUENT EVENTS

The City has entered into various agreements and contracts in the normal course of business. Such agreements do not give rise to assets or liabilities considered to be material at June 30, 2014.

7. RISK MANAGEMENT

The City of East Ellijay is exposed to various risks of loss related to torts; theft of, damage to, destruction of assets; errors and omissions; and workers' compensation for which the City carries insurance coverage.

There are no significant reductions of insurance coverage compared to the prior year. Settled claims have not exceeded the commercial excess coverage in any of the past three fiscal years.

Risk Pools

The City has insurance coverage with a local insurance agency. Insurance coverage and deductible options for property, casualty, and crime under the policy are selected by the City's management based on anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed by the agency, as well as following loss reduction and prevention procedures established by the agency. The agency's responsibility includes paying claims, and representing the City in defense and settlement of claims. The agency's basis for estimating the liabilities for unpaid claims is established by an 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 which the City is liable up to the applicable deductible which were outstanding and unpaid at June 30, 2014. No provisions have been made in the financial statements for the year ended June 30, 2014 for any estimate of potential unpaid claims.

The City has elected to be a member of the Georgia Municipal Association Workers' Compensation Self-Insurance Fund (GMWACSIF), a risk management agency created under Georgia law. As a participant in the GMWACSIF, 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 statue creating GMWACSIF 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 basic financial statements for this contingency, as management believes the likelihood for assessment is remote.

8. JOINT VENTURE

The City of East Ellijay, Georgia, in conjunction with cities and counties in a fifteen (15) county area, is a member of the Northwest Georgia Regional Commission (NWGRC). 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 and House Bill 1216) provides for the organizational structure of the RCs. Each county and municipality in the state is required by law to pay minimum annual dues to the NWGRC. The City paid their annual dues to the NWGRC for the year ended June 30, 2014. The NWGRC 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 nonpublic Board member from a county.

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defined these commissions as "public agencies and instrumentalities of their member." Georgia laws also provide that

the member governments are liable for any debts or obligations of the regional commission beyond its resource (O.C.G.A. 50-8-39.1).

A copy of the audited financial statements of the Northwest Georgia Regional Commission may be obtained from their office at 1 Jackson Hill Drive, Rome, Georgia 30162.

9. HOTEL/MOTEL TAX

The City has levied a 3% lodging tax. During 2014, the City collected $31,227 of lodging tax. The City is required by State law to expend a percentage of the total taxes collected which is not less than the percentage of tax collections expended for such purposes during the immediately preceding fiscal year. The City expended 66% of the tax collections through a funding agreement between the City and the Gilmer County Chamber of Commerce. The City has therefore complied with the provisions of OCGA 48-13-51 of the State of Georgia.

10. RESTRICTED NET POSITION AND FUND EQUITY

Restricted – The following components of net position and cash are restricted for:

Capital projects financed with SPLOST tax revenues	$341,916
Public safety expenditures specific to program purposes	1,695
	$343,611

Assigned – The following components of fund balance are assigned for:

Tourism and city improvement expenditures specific to program purposes	$ 8,189

Nonspendable – The following components of fund balance are nonspendable because:

Prepaid items	$ 10,311

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EAST ELLIJAY, GEORGIA
SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Funded Status

The table below sets forth required supplementary information to be disclosed in the schedule of funding progress. The items presented are based on the actuarial valuation date.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded ALL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1-1-2014	$ 583,444	$ 560,374	$ (23,070)	104.12%	$ 295,007	0.00%
1-1-2013	$ 532,868	$ 546,695	$ 13,827	97.47%	$ 354,211	3.90%
1-1-2012	$ 483,376	$ 504,463	$ 21,087	95.82%	$ 409,323	5.15%
1-1-2011	$ 412,486	$ 457,936	$ 45,450	90.08%	$ 395,403	11.49%

Effect of Plan Changes on the Actuarial Accrued Liability

The effect on the actuarial accrued liability of any current-year changes in actuarial assumptions or benefit provisions is:

> The plan provisions valued and the actuarial assumptions are not the same as those used in the preceding valuation. Assumptions were changed for mortality, salary increases, net investment return and inflation in the most recent valuation.

Effect of Plan Changes on Recommended Contributions

The effect on the recommended contributions of any current-year changes in actuarial assumptions, benefit provisions or actuarial funding method is:

> The plan provisions valued and the actuarial assumptions and cost methods are not the same as those used to determine the contribution requirement for the preceding year. When assumptions are changed, the contribution requirement is adjusted to take into account a change in experience anticipated for all future years.

OTHER SUPPLEMENTARY INFORMATION

CITY OF EAST ELLIJAY, GEORGIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	Special Revenue Funds		
	Confiscated Assets	Hotel/Motel Tax	Total
ASSETS			
Cash	$ 1,695	$ 7,128	$ 8,823
Receivables			
Taxes	-	3,077	3,077
TOTAL ASSETS	$ 1,695	$ 10,205	$ 11,900
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ -	$ 2,016	$ 2,016
Total Liabilities	-	2,016	2,016
Fund Balances			
Restricted			
Public Safety	1,695	-	1,695
Assigned			
Housing and Development	-	8,189	8,189
Total Fund Balances	1,695	8,189	9,884
TOTAL LIABILITIES AND FUND BALANCES	$ 1,695	$ 10,205	$ 11,900

CITY OF EAST ELLIJAY, GEORGIA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Special Revenue Funds		
	Confiscated Assets	Hotel/Motel Tax	Total
REVENUES			
Selective sales and use tax	$ -	$ 31,227	$ 31,227
Confiscations	137	-	137
Investment earnings	1	5	6
Miscellaneous	1,725	52	1,777
Total revenues	1,863	31,284	33,147
EXPENDITURES			
Current			
Public safety	4,546	-	4,546
Housing and development	-	32,172	32,172
Total expenditures	4,546	32,172	36,718
Net change in fund balances	(2,683)	(888)	(3,571)
Fund balances, beginning of year	4,378	9,077	13,455
Fund balances, end of year	$ 1,695	$ 8,189	$ 9,884

CITY OF EAST ELLIJAY, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Project	Estimated Cost		Expenditures			Estimated % of Completion
	Original	Current	Prior Years	Current Year	Total	
2009 SPLOST						
Road, street and bridge purposes to include sidewalks and bicycle paths	$ 1,054,900	$ 1,054,900	$ 130,648	$ 154,403	$ 285,051	27.02%
	$ 1,054,900	$ 1,054,900	$ 130,648	$ 154,403	$ 285,051	

INTERNAL CONTROL AND COMPLIANCE

WELCH
WALKER
& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

540 N. MAIN STREET
JASPER, GA 30143
PH (706) 253-3700

489 HIGHLAND CROSSING, SUITE 208
EAST ELLIJAY, GA 30540
PH (706) 515-2000

22 KIKER STREET
ELLIJAY, GA 30540
PH (706) 635-7644

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*

To the Honorable Mayor and City Council
City of East Ellijay, 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, each major fund, and the aggregate remaining fund information of City of East Ellijay, Georgia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of East Ellijay, Georgia's basic financial statements, and have issued our report thereon dated November 10, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of East Ellijay, 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 City of East Ellijay, Georgia's internal control. Accordingly, we do not express an opinion on the effectiveness of City East Ellijay, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of East Ellijay, 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*.

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.

Welch, Walker & Associates, P.C., CPAs

Welch, Walker & Associates, P.C., CPAs
East Ellijay, Georgia
November 10, 2014