CITY OF ELLIJAY, GEORGIA

FINANCIAL REPORT

For the Year Ended December 31, 2017

CITY OF ELLIJAY, GEORGIA
TABLE OF CONTENTS
December 31, 2017

	PAGE
FINANCIAL SECTION	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet – Governmental Funds	9
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	10
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	13
Notes to Financial Statements	14-34
REQUIRED SUPPLEMENTARY INFORMATION:	
Retirement Plan - Schedule of Changes in Net Pension Liability and Related Ratios	35
OTHER SUPPLEMENTARY INFORMATION:	
Combining Balance Sheet – Nonmajor Governmental Funds	36
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	37
Schedule of Projects Constructed with Special Purpose Local Option Sales Tax	38
INTERNAL CONTROL AND COMPLIANCE SECTION	
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*	39-40
Schedule of Findings and Responses	41-42

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members
Of the City Council
City of 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 the City of Ellijay, 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 Ellijay, Georgia'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 Ellijay, Georgia, 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 management's discussion and analysis and budgetary comparison information on pages 3-6 and 13 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 Ellijay, Georgia's basic financial statements. The combining and individual 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 Purpose Local Option Sales Tax is presented for additional analysis as required by Official Code of Georgia Annotated 48-8-121, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the Schedule of Projects Constructed with Special Purpose 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 and individual nonmajor fund financial statements and the Schedule of Projects Constructed with Special Purpose 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 July 20, 2018, on our consideration of the City of Ellijay, Georgia'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 solely 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 the effectiveness of the City of Ellijay, Georgia's 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 Ellijay, Georgia's internal control over financial reporting and compliance.

R L Jennings & Associates, PC

Ellijay, GA
July 20, 2018

USING THE AUDIT FOR 2017

The Statement of Net Position and the Statement of Activities will provide a picture about the activities of the City. Financial Fund 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 or grants.

REPORTING THE CITY AS A WHOLE

The Statement of Net Position begins on page 7. The Statement of Activities begins on page 8. These statements include all assets and liabilities using the accrual basis of accounting. All of the 2017 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 9 and provide detailed information about the funds. Some funds are required to be established by State law and by bond covenants. However, the City establishes other funds to help it 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

Condensed Statements of Net Position

Table 1 below presents the City's condensed Statement of Net Position as of December 31, 2017 and 2016.

Table 1: Condensed Statement of Net Position

	Governmental Activities 2017	Governmental Activities 2016	Changes
Assets			
Current and other assets	$ 967,832	$ 991,130	$ (23,298)
Capital assets	4,718,692	4,780,399	(61,707)
Total Assets	5,686,524	5,771,529	(85,005)
Deferred Outflows			
Pension amounts	26,871	62,821	(35,950)
Liabilities			-
Other liabilities	91,917	141,895	(49,978)
Capital lease payable	35,620	181,588	(145,968)
Total Liabilities	127,537	323,483	(195,946)
			-
Deferred Inflows	109,040	127,013	(17,973)
Net Position			-
Net investment in capital assets	4,683,072	4,650,014	33,058
Restricted	22,129	15,990	6,139
Unrestricted	771,617	717,850	53,767
Total Net Position	$ 5,476,818	$ 5,383,854	$ 92,964

The largest component of the City's net position is its investment in capital assets (e.g. land, infrastructure, buildings, equipment, and other), less any related debt outstanding that was needed to acquire or construct the assets. The City uses these capital assets to provide services to the citizens and businesses in the City; consequently, this net position is not available for future spending. Restricted net position represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion of net position is unrestricted, which can be used to finance government operations.

Condensed Statement of Activities

Table 2 below presents the City's condensed Statement of Activities for the years ended December 31, 2017 and 2016. Over time, increases and decreases in net assets measure whether the City's financial position is improving or deteriorating.

Table 2: Condensed Statement of Activities

	Governmental Activities 2017	Governmental Activities 2016	Changes
Revenues:			
Program revenues:			
Charges for services	$ 308,662	$ 258,699	$ 49,963
Capital grants and contributions	367,255	653,451	(286,196)
Operating grants and contributions	-	1,000	(1,000)
General revenues:			-
Property taxes	380,281	368,477	11,804
Sales taxes	780,899	707,957	72,942
Other revenues and taxes	390,921	408,457	(17,536)
Total Revenues	2,228,018	2,398,041	(170,023)
Expenses:			
General government	378,072	383,867	(5,795)
Public safety	1,082,185	959,159	123,026
Public works	450,128	489,741	(39,613)
Culture and recreation	115,959	67,319	48,640
Judicial	92,625	76,906	15,719
Housing and development	11,437	14,770	(3,333)
Interest on long-term debt	2,920	6,635	(3,715)
Total Expenses	2,133,326	1,998,397	134,929
Change in net position	94,692	399,644	(304,952)
Beginning net position as restated	5,382,126	4,982,482	399,644
Ending net position	$ 5,476,818	$ 5,382,126	$ 94,692

During the year ending December 31, 2017, the net position of the government activities increased $94,692.

Approximately 17% of the City's revenues came from property taxes and approximately 47% came from other taxes. 14% of the City's revenue was derived from charges for services. The City's expenses cover a range of services with 21% related to public works, 51% related to public safety, and 18% related to general governmental activities.

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 $527,227 with $478,621 reported as unassigned fund balance and the remaining amount of $48,606 restricted or assigned for specific purposes.

The General Fund is the operating fund of the City. At the end of the current year, the fund balance for the General Fund was $448,800. As a measure of the General Fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Fund balance represents 25% of total General Fund expenditures. The net change in the General Fund's fund balance for the year ended December 31, 2017, was an increase of $70,727.

GENERAL FUND BUDGETARY HIGHLIGHTS

During 2017, the City adopted an original budget of $1,771,864 in revenues and $1,771,364 in expenditures. Actual operating revenues of the General Fund exceed budget by $128,778 while actual operating expenditures exceed anticipated amounts by $7.662.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

At December 31, 2017, the City reported $4,718,692 in capital assets for governmental activities. Major capital asset transactions during the year included the completion of Streetscapes projects phase III. Refer to Note 5 to the financial statements for additional information on capital assets.

At December 31, 2017, the City reported debt and obligations of $50,125. This debt consists primarily of capital leases being repaid for the purchase of police cars, a fire car and the capital lease obtained for the public safety building. Refer to Note 7 to the financial statements for additional information on long-term debt.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact:

City of Ellijay
197 North Main Street
Ellijay, Georgia 30540
Telephone: (706) 635-4711

BASIC FINANCIAL STATEMENTS

CITY OF ELLIJAY, GEORGIA
STATEMENT OF NET POSITION
December 31, 2017

	Governmental Activities
ASSETS	
Cash	$ 363,972
Certificates of deposit	2,892
Receivables	415,721
Internal balances	52,235
Due from other governments	88,303
Net pension assets	44,709
Capital assets:	
Nondepreciable capital assets	466,160
Depreciable capital assets, net	4,252,532
Total assets	5,686,524
DEFERRED OUTFLOWS OF RESOURCES	
Pension amounts	26,871
LIABILITIES	
Accounts payable and accrued expenses	91,917
Capital lease payable - current	35,620
Total liabilities	127,537
DEFERRED INFLOWS	
Pension amounts	70,048
Advanced receipts	38,992
Total deferred inflows	109,040
NET POSITION	
Net investment in capital assets	4,697,364
Restricted for:	
Public safety	-
Tourism	22,076
Unrestricted	757,378
Total net position	$ 5,476,818

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

CITY OF ELLIJAY, GEORGIA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Primary Government:					
Governmental Activities					
General government	$ 378,072	$ 70,935	$ -	$ -	$ (307,137)
Judicial	92,625	3,975	-	-	(88,650)
Public safety	1,082,185	220,770	-	-	(861,415)
Public works	450,128	-	-	313,765	(136,363)
Culture and recreation	115,959	-	-	53,490	(62,469)
Housing and development	11,437	12,982	-	-	1,545
Interest on long-term debt	2,920	-	-	-	(2,920)
Total Governmental Activities	$ 2,133,326	$ 308,662	$ -	$ 367,255	(1,457,409)
General Revenues:					
Property taxes, levied for general purposes					380,281
Franchise taxes					261,513
Business taxes					118,804
Sales and excise taxes					780,899
Unrestricted investment earnings					290
Miscellaneous					10,314
Total general revenues					1,552,101
Change in net position					94,692
Net position - beginning of year as restated					5,382,126
Net position - end of year					$ 5,476,818

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

CITY OF ELLIJAY, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017

	General Fund	SPLOST Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash	$ 214,206	$ 83,102	$ 66,664	$ 363,972
Certificates of deposit	-	-	2,892	2,892
Taxes receivable, net	415,721	-	845	416,566
Due from other funds	114,890	-	38,096	152,986
Due from other governments	66,436	21,867	-	88,303
Other receivables	91,165	-	-	91,165
Prepaid items	-	-	-	-
Total Assets	902,418	104,969	108,497	1,115,884
Liabilities				
Accounts payable	39,383	1,620	18,529	59,532
Due to other funds	38,096	111,890	3,000	152,986
Due to other governments	1,916	-	-	1,916
Accrued liabilities	12,938	-	-	12,938
Unavailable revenue	-	-	-	-
Total Liabilities	92,333	113,510	21,529	227,372
Deferred Inflows				
Unavailable revenue	361,285	-	-	361,285
Total Deferred Inflows	361,285	-	-	361,285
Fund balances				
Nonspendable	-	-	-	-
Restricted	-	-	67,202	67,202
Assigned	-	-	26,530	26,530
Unassigned	448,800	(8,541)	(6,764)	433,495
Total Fund Balances	$ 448,800	$ (8,541)	$ 86,968	$ 527,227

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

CITY OF ELLIJAY, GEORGIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2017

Total fund balance, governmental funds		$ 527,227
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		4,718,692
Certain other long-term assets, such as deferred taxes, are not available to pay current period expenditures, and therefore, are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		319,501
In the Statement of Net Position, management has established an allowance for uncollectible accounts against certain revenues which are deferred in the governmental funds financial statements.		(39,775)
Pension amounts reported as deferred outflows of resources on the Statement of Net Position and which do not provide current financial resources, are not recognized in the governmental funds financial statements. Such amounts are as follows:		
Deferred pension contributions		26,871
Pension amounts reported as deferred inflows of resources on the Statement of Net Position and which do not use current financial resources, are not recognized on the governmental funds financial statements. Such amounts are as follows:		
Difference between expected and actual experience	$ (68,268)	
Changes in actuarial assumptions	(897)	
Net amortized investment earnings over expectations	(883)	(70,048)
Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position. These liabilities include the following:		
Capital leases	(35,620)	
Compensated absences	(14,292)	
Net pension asset	44,709	
Accrued interest	(447)	(5,650)
Net Position of Governmental Activities in the Statement of Net Position		$ 5,476,818

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

CITY OF ELLIJAY, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2017

	General Fund	SPLOST Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	$ 378,991	$ -	$ -	$ 378,991
General and selective sales tax	699,577	-	13,716	713,293
Franchise taxes	251,660	-	-	251,660
Insurance premium taxes	107,600	-	-	107,600
Alcohol beverage taxes	67,606	-	-	67,606
Financial institution taxes	11,204	-	-	11,204
Fines and forfeitures	237,059	-	42,964	280,023
Licenses and permits	80,574	-	-	80,574
Intergovernmental	-	233,539	133,630	367,169
Charges for services	4,958	-	3,021	7,979
Investment earnings	210	86	80	376
Miscellaneous	3,324	-	-	3,324
Total Revenues	1,842,763	233,625	193,411	2,269,799
Expenditures:				
Current:				
General government	394,734	-	-	394,734
Public safety	949,128	-	42,964	992,092
Public works	143,396	-	103,222	246,618
Judicial	92,625	-	-	92,625
Culture and recreation	3,209	8,599	-	11,808
Housing and development	2,574	-	8,863	11,437
Capital Outlay:				
Public safety	132,067	-	-	132,067
Public works	-	200,770	-	200,770
Culture and recreation	-	-	102,138	102,138
Debt Service:				
Principal	59,752	-	-	59,752
Interest	1,541	-	-	1,541
Total Expenditures	1,779,026	209,369	257,187	2,245,582
Excess (Deficiency) of Revenues over Expenditures	63,737	24,256	(63,776)	24,217
Other Financing Sources (Uses):				
Proceeds from sale of fixed assets	-		-	
Insurance recoveries	6,990	-	-	6,990
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources and Uses	6,990	-	-	6,990
Net change in fund balances	70,727	24,256	(63,776)	31,207
Fund balances - beginning of year, as restated	378,073	(32,797)	150,744	496,020
Fund balances - end of year	$ 448,800	$ (8,541)	$ 86,968	$ 527,227

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

CITY OF ELLIJAY, GEORGIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

Net change in fund balances - total governmental funds:			$ 31,207
Amounts reported for Governmental Activities in the Statement of Activities are different because:			
Governmental funds report capital outlays to purchase or construct capital assets as expenditures. However, in the Statement of Activities, the cost of capitalizable assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which such assets charged to capital outlays exceeded depreciation in the current year.			
Capital outlays	$ 230,118		
Depreciation expense	(291,825)		(61,707)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. This is the amount by which reported revenues in the Statement of Activities exceeded revenues considered available by governmental funds.			(5,807)
Governmental funds report repayment of capital leases as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount of capital lease principal payments during the current period.			94,764
Certain expenses reported in the Statement of Activities do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds. Likewise, certain expenditures in governmental funds are not recognized as expenses in the Statement of Activities to the extent they increase deferred outflows of resources or decrease liabilities or deferred inflows of resources.			
Accrued compensated absences	4,978		
Accrued interest	608		
Change in net pension liability and deferred amounts	30,649		36,235
Change in net position of governmental activities			$ 94,692

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

CITY OF ELLIJAY, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL FUND
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Property taxes	$ 370,585	$ 370,585	$ 378,991	$ 8,406
Sales and miscellaneous taxes	1,072,000	1,072,000	1,137,647	65,647
Fines and forfeitures	190,200	190,200	237,059	46,859
Licenses and permits	78,400	78,400	80,574	2,174
Charges for services	1,400	1,400	4,958	3,558
Investment earnings	200	200	210	10
Miscellaneous	1,200	1,200	3,324	2,124
Total Revenues	1,713,985	1,713,985	1,842,763	128,778
Expenditures:				
Current:				
General government				
Legislative	17,974	17,974	20,689	2,715
Executive and administrative	403,579	403,579	374,045	(29,534)
Judicial		-		
Court	69,500	69,500	92,625	23,125
Public safety		-		
Police	699,418	699,418	688,587	(10,831)
Fire	430,849	430,849	453,901	23,052
Public works		-		
Streets and sidewalks	148,794	148,794	143,396	(5,398)
Culture and recreation		-		
Library	1,000	1,000	3,000	2,000
Parks	250	250	209	(41)
Housing and development		-		
Better Hometown	-	-	2,574	2,574
Total Expenditures	1,771,364	1,771,364	1,779,026	7,662
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(57,379)	(57,379)	63,737	121,116
Other Financing Sources (Uses)				
Insurance recoveries	5,000	5,000	6,990	1,990
Transfers in	52,879	52,879	-	(52,879)
Total Other Financing Sources and Uses	57,879	57,879	6,990	(50,889)
Net Change in Fund Balances	500	500	70,727	70,227
Fund Balances, beginning of year, as restated	378,073	378,073	378,073	-
Prior period adjustment	-	-	-	-
Fund Balances, end of year	$ 378,573	$ 378,573	$ 448,800	$ 70,227

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. The Reporting Entity

The City was incorporated on December 29, 1834, and is an incorporated community in Gilmer County, Georgia. The City operates under a city council/mayor form of government. Policy making and legislative authority are vested in the mayor and a five member City Council elected at large. The Mayor is responsible for the daily operations of the City. The City provides basic services which include general government, public safety, public works, culture and recreation, and housing and development.

In defining the reporting entity for financial reporting purposes and as required by accounting principles generally accepted in the United States of America, management has considered all potential component units. The criteria for including an organization within the City's reporting entity as a component unit is financial accountability. Financial accountability is defined as appointment of a voting majority of the organization's board and either the ability to impose will by the primary government or the possibility that the organization will provide a financial benefit or impose a financial burden on the primary government. As a result of applying these criteria, there are no component units included in the financial statements of the City as of December 31, 2017.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from the government-wide statements, Governmental *activities*, which normally are supported by taxes and intergovernmental revenues.

The Statement of Activities reports the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to those who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. The comparison of direct expenses and program revenues identifies the extent to which each program is self-financing or draws from the general revenues of the City.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City's 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. The City's funds are grouped into two broad fund categories and four generic fund types for financial statement presentation purposes. Governmental funds include the general, special revenue and capital projects funds. At present, the City operates five special revenue funds and two capital projects funds.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for the City's governmental funds.

The fund financial statements report detailed information about the City's funds. The focus of fund financial statements is on major governmental funds rather than on fund types. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The SPLOST Fund (2014) is used to account for revenues provided by referendums authorizing a one percent Special Purpose Local Option Sales Tax for Gilmer County, to be shared with the City. The use of SPLOST proceeds received by the City is restricted to capital projects specified according to the intergovernmental agreements with Gilmer County in connection with each SPLOST referendum.
- The Multiple Grant Fund is used to account for revenues provided by grants received by the City for various projects.

Additionally, the City reports the following fund types:

- Special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.
- Capital projects funds account for financial resources used to acquire, construct, and maintain capital projects for use by the City.

The City currently operates three special revenue funds; all three are considered nonmajor. Additionally, it has a capital projects fund that is also considered nonmajor.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Sales taxes are recognized when the underlying transaction occurs. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government-wide 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 or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Net position restricted for capital projects reflect the restrictions of their use.

Governmental fund financial statements, on the other hand, are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Expenditures generally are recorded in the accounting period in which a fund liability is incurred, as under accrual 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.

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes, sales taxes, franchise taxes, licenses, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Investments

Amounts reported as cash by the City in the accompanying financial statements include cash on hand and on deposit with financial institutions.

State of Georgia statutes require all financial institution deposits and investments in excess of the federal depository insured amount to be fully collateralized by an equivalent amount of state or U.S. obligations. State of Georgia statutes authorize the City to invest in (1) U.S. Government obligations; (2) U.S. Government agency obligations; (3) obligations of the State of Georgia; (4) obligations of other counties, municipal corporations and political subdivisions of the State of Georgia which are rated "AA" or better by Moody's Investor's Service, Inc.; (5) 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 association; (6) repurchase agreements when collateralized by U.S. Government or agency obligations; and (7) pooled investment programs sponsored by the State of Georgia for the investment of local government funds.

Investments are reported at fair market value as determined by quoted market prices. For purposes of the statement of cash flows, all highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

E. Prepaid Items

Certain payments to vendors for services that will benefit future accounting periods are recorded as prepaid items in both government-wide and governmental fund financial statements. Prepaid items reported by governmental funds are also equally offset by fund balance classified as non spendable, which indicates they do not constitute "available, spendable financial resources" even though they are a component of net current assets.

F. Capital Assets

Capital assets, which include land, buildings and improvements, machinery and equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. In accordance with authoritative accounting principles, infrastructure assets acquired prior to January 1, 2004, have not been capitalized as of December 31, 2015. Capital assets are defined by the City as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets useful lifes are expensed as incurred.

Land and construction in progress are not depreciated. Other capital assets of the City are depreciated using the straight line method over the following useful lives:

Asset Class	Years
Vehicles	5-12
Machinery and equipment	5-20
Building improvements	15-30
Infrastructure	20-50
Buildings	25-50

G. Compensated Absences

The City offers full-time employees compensated time off for personal leave which may be used for vacation or sickness. Personal leave is accrued on a monthly basis according to length of service. Policy permits employees to carry forward accumulated, but unused, leave time. The City's liability has been calculated using the vesting method; leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future for such payments, are included.

H. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities column of the Statement of Net Position.

I. Interfund Transactions and Balances

Quasi-external transactions are accounted for as revenues and expenditures and are not eliminated. The City had no quasi-external transactions during the year.

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Outstanding interfund balances at year end related to such reimbursements, as well as activity between funds representative of lending/borrowing arrangements, are reported as "due to/from other funds" in the governmental fund financial statements. All other interfund transactions are reported as transfers. At year end, all interfund balances outstanding and all transfers among governmental funds are eliminated in the government-wide statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receipts and/or payments to or from other governmental units, not included in the reporting entity of the City, are not reported as transfers, but rather according to the purpose for which the receipt or payment is made.

J. Deferred Outflows / Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one type of item which arises under the *economic resources measurement focus* and accrual accounting that qualifies for reporting in this category. Accordingly, a deferred pension asset has been recorded as required by the newly issued accounting standards, GASB 68 – Accounting and Financial Reporting for Pensions, and GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has only two types of items which arise under the *current financial resources measurement focus* and modified accrual accounting that qualifies for reporting in this category.

In accordance with the newly issued pension standards as noted above, the City also has one type of item which arises under the *economic resources measurement focus* and accrual accounting that qualifies for reporting as a *deferred inflow of resources*. Accordingly, a deferred pension liability has been recorded as required by the newly issued pension standards noted above.

K. Fund Balance

Fund balances of governmental funds are presented in various classifications that comprise a hierarchy which is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. Descriptions and the City's policies with respect to these classifications are as follows:

- ***Nonspendable*** – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The City has classified prepaid items as nonspendable as these items are not resources in spendable form.
- ***Restricted*** – includes amounts that are restricted to specific purposes by external sources (creditors, grantors, contributors or laws or regulations of other governments) or by constitutional provision or enabling legislation. The City's capital projects funds are legally restricted to expenditures for specific purposes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

- ***Committed*** – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to resolutions passed by the City Council, the City's highest level of decision-making authority. Commitments may be modified or rescinded only through adoption of a subsequent resolution.
- ***Assigned*** – includes amounts that have been constrained by the City's intent to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. The City Council has retained, for itself, the authority to assign or earmark funds for specific use. However, unlike commitments, assignments do not require formal action and generally only exist temporarily. This classification also includes all remaining positive fund balance for all governmental funds other than the General Fund.
- ***Unassigned*** – includes amounts that do not fall into one of the above four categories. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

The City's policy would be to use restricted fund balances first when expenditure is made for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Otherwise, it is the City's policy to reduce committed amounts first, followed by assigned amounts, and then unassigned amounts when expenditures are made for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

L. Net Position

Net position in financial reporting is based on the *economic resources measurement focus* and represents the difference between (a) total assets and deferred outflows of resources and (b) total liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted using the same definition as used for restricted fund balance as described in the section above. The remaining portion of net position is reported as unrestricted.

The City's policy would be to use restricted net position first when expenditure is made for purposes for which both restricted and unrestricted net position is available

M. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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. Actual results could differ from these estimates.

NOTE 2. LEGAL COMPLIANCE - BUDGETS

A. Budgets and Budgetary Accounting

The applicable statutes of the State of Georgia require the City to operate under an annual balanced budget adopted by resolution for all governmental funds. A budget is defined as being balanced when the sum of estimated net revenues and appropriated fund balance is equal to appropriations. Annual budgets are adopted for the General Fund and each special revenue fund. Capital projects funds have project length budgets. The budget is 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 and expenditures are budgeted by department, which constitutes the legal level of control and the level at which expenditures may not legally exceed appropriations. All annual appropriations lapse at year end.

Budget revisions at the department level are subject to final review by the City Council. Amendments to the budget were made for the year to reflect greater than expected revenues and increased operating costs in certain departments.

B. Excess of expenditures over appropriations

As shown in the accompanying budgetary comparison statement for the General Fund, departmental expenditures did not exceed amended appropriated budget amounts during the year.

NOTE 3. CASH DEPOSITS AND INVESTMENTS

Cash on the accompanying financial statements includes cash on hand, demand deposits and money market accounts with financial institutions. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. At December 31, 2017, the City had no deposits that were exposed to custodial credit risk.

Investments at December 31, 2017, consist of certificates of deposit with FDIC insured financial institutions. The General Fund certificate bears interest at 0.25% and the Water and Sewerage Fund certificates bear interest at 0.1% and 0.25%. All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

NOTE 4. RECEIVABLES

Receivables at December 31, 2017, for the City's activities in the aggregate are as follows:

Receivables:	General Fund	SPLOST IV Fund	Total
Property taxes	$ 168,315	$ -	$ 168,315
Franchise taxes	251,710	-	251,710
Fines	85,315		85,315
Alcoholic beverage excise tax	5,850		5,850
Hotel/motel tax	-	-	-
Other governments:			-
Title ad valorem tax	5,268		5,268
Sales taxes	61,168		61,168
Grants	-		-
SPLOST allocation	-	21,867	21,867
Gross receivables	577,626	21,867	599,493
Less allowance for uncollectibles	-	-	-
Net receivables	$ 577,626	$ 21,867	$ 599,493

The City bills and collects its own property taxes. Property taxes were levied in October 2017. The tax levy was payable on or before January 20, 2018, after which the account is assessed penalties. Interest on unpaid taxes began accruing on April 20, 2018. The property is subject to lien, as applicable, after those dates. Property taxes receivable at year-end is estimated based on the tax levy, less amounts collected prior to December 31, 2017. The property taxes levied in October 2017 were intended for use in the 2017 budget year. Therefore, only the taxes not collected within 60 days of the year-end are included in deferred inflows of resources on the governmental fund balance sheet. Prior year levies were recorded using substantially the same principles, and remaining receivables are re-evaluated annually for collectability.

The City has not established a lien date for unpaid property taxes.

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NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, was as follows:

Governmental Activities:	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not depreciated:				
Land	$ 415,068	$ -	$ -	$ 415,068
Construction in progress	404,769	65,892	(419,569)	51,092
Total capital assets not depreciated	819,837	65,892	(419,569)	466,160
Capital assets depreciated:				
Infrastructure	2,437,236	489,328	-	2,926,564
Buildings	2,550,141	-	-	2,550,141
Land improvements	370,467	-	-	370,467
Machinery and equipment	658,084		-	658,084
Vehicles	1,128,247	94,467	-	1,222,714
Total capital assets depreciated	7,144,175	583,795	-	7,727,970
Less accumulated depreciation for:				
Infrastructure	815,164	128,704	-	943,868
Buildings	600,823	51,893	-	652,716
Land improvements	194,785	10,486	-	205,271
Machinery and equipment	529,542	9,486	-	539,028
Vehicles	1,043,299	91,256	-	1,134,555
Total accumulated depreciation	3,183,613	291,825	-	3,475,438
Total capital assets depreciated, net	3,960,562	291,970	-	4,252,532
Governmental activities - capital assets, net	$ 4,780,399	$ 357,862	(419,569)	$ 4,718,692

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NOTE 5. CAPITAL ASSETS (CONCLUDED)

Depreciation expense for the year ended December 31, 2017, was charged to functions/programs of the primary government as follows:

Governmental Activities:	Depreciation Expense
General government	$ 14,361
Public safety	135,887
Public works	139,564
Culture and recreation	2,013
Total expense - Governmental activities	$ 291,825

NOTE 6. RESTRICTED ASSETS

Restrictions:	Governmental Activities
Restricted cash:	
SPLOST Fund - for purposes legally authorized under the 2014 SPLOST intergovernmental agreement	$ 83,102
Multiple Grant Fund - for purposes of grant received	7,030
Nonmajor fund - for tourism, conventions, and trade shows	24,231
Nonmajor fund - for cemetery care and maintenance	14,474
Nonmajor fund - for law enforcement purposes	11,181
Total restricted cash	$ 140,018

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NOTE 7. LONG-TERM DEBT

Primary Government

The City has entered into capital leases for the purchase of capital assets. The following is a summary of capital leases for governmental-type activities at December 31, 2017:

PNC Equipment Finance, LLC, car lease payable in annual installments of $37,000, including interest at 2.798%. Original balance of $106,500, matures July 2018.	$ 35,620
Less current portion	(35,620)
	$ -

The following is a summary of long-term debt activity for the year ended December 31, 2017:

Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One year
Capital leases	$ 130,386	$ -	$ (94,552)	$ 35,834	$ 35,834
Compensated absences (1)	19,269	29,184	(34,162)	14,291	14,291
Total	$ 149,655	$ 29,184	$ (128,714)	$ 50,125	$ 50,125

(1) Typically, compensated absences under governmental activities are paid by the General Fund. The City encourages and expects employees will use leave time annually as it accrues.

The City's future principal and interest payments relating to revenue bonds and the notes for the next five years and until maturity are as follows:

	Capital Leases		
Year	Principal	Interest	Total
2018	$ 35,620	$ 1,380	$ 37,000

Other long-term liabilities have been liquidated in prior years in the fund in which the liabilities were incurred.

NOTE 7. LONG-TERM DEBT (CONCLUDED)

The following total represents capital assets purchased with the above capital leases and the related accumulated depreciation:

Governmental Activities:	Asset	Accumulated Depreciation	Net Book Value
Fire station	$ 1,718,212	$ (343,642)	$ 1,374,570
Police interceptors	106,500	(41,494)	65,006
Total	$ 1,824,712	$ (385,136)	$ 1,439,576

NOTE 8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund activity consisted of the following for the year ended December 31, 2017:

Receivable Fund	Payable Fund	Amount
General Fund	SPLOST	$ 111,890
General Fund	Hotel/Motel Fund	3,000
Multigrant Fund	General Fund	38,096
		$ 152,986

NOTE 9. FUND EQUITY

Restricted – The following fund balances are restricted for:	
Multiple Grant Fund – capital projects financed with grant revenues.	$ 45,126
Nonmajor Special Revenue Funds – purposes of tourism, street capital projects, and public safety expenditures.	22,076
	$ 67,202
Assigned – The following fund balances are assigned for:	
Nonmajor Special Revenue Funds – purposes of community development and cemetery expenses.	$ 26,530

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NOTE 10. PENSION PLANS

A. Plan Description

The City, as authorized by the City Council, has established The City of Ellijay Retirement Plan (CBRP), a defined benefit pension plan, covering all full-time employees. The City's pension plan is affiliated with the Georgia Municipal Employee Benefit System (GMEBS), an agent multiple-employer pension plan administered by the Georgia Municipal Association. Contributions made by the City are commingled with contributions made by other members of GMEBS for investment purposes. The City makes no investments on behalf of the CBRP. Investment income from the securities is allocated on a pro rata basis. The Georgia Municipal Association issues a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained at www.gmanet.com or by writing to Georgia Municipal Association, Risk Management and Employee Benefit Services, 201 Pryor Street, NW, Atlanta, Georgia 30303 or by calling (404) 688-0472.

As provided by state law, benefit provisions for participants in GMEBS are established by the respective employers. As authorized by City Council, the CBRP provides pension benefits and death and disability benefits for plan members and beneficiaries. Eligibility for participation is available immediately beginning with date of employment for all full-time employees who work at least forty hours a week. Elected officials are not covered by the CBRP. Employee benefits fully vest after five years of service.

To receive full benefits, an employee must be age 65 with at least 5 years of service. The benefit is based on the highest five years average earnings. Employees do not contribute toward the plan.

Plan Membership. At July 1, 2017, the date of the most recent actuarial valuation, there were 58 participants consisting of the following:

Retired participants and beneficiaries	14
Vested former participants	15
Active participants	25
Total	54

Contributions. The plan is subject to minimum funding standards of the Georgia Public Retirement Systems Standards law (Georgia Code Section 47-20-10). The Board of Trustees of GMEBS has adopted an actuarial funding policy for the plan which meets state minimum requirements and will accumulate sufficient funds to provide the benefits under the plan. The funding policy for the plan, as adopted by the City Council, is to contribute an amount equal to or greater than the recommended contribution rate. This rate is based on the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. For the year ended December 31, 2017, the City's recommended contribution (and amount contributed) of $29,164 was 4.65% of expected payroll.

NOTE 10. PENSION PLANS (CONTINUED)

B. Net Pension Liability of the City

Effective January 1, 2015, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, as well as Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, which significantly changed the City's accounting for pension amounts. The information disclosed below is presented in accordance with these new standards.

Actuarial data developed in connection with the City's actuarial valuation as of July 1, 2017, were used to measure total pension liability as of March 31, 2017. The balances as of March 31, 2017, constitute measurements of the net pension liability for the year ending December 31, 2017.

Actuarial assumptions. The total pension liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Net investment rate of return	7.75%
Projected salary increases	3.25% (plus service base merit increases)
Cost of living adjustments	0.00%
Inflation	3.25%

Mortality rates for the July 1, 2017, valuation 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. For disabled mortality, the RP-2000 Disabled Retiree Mortality Table with sex-distinct rates was used.

The actuarial assumptions used in the July 1, 2017, valuation were based on the results of an actuarial experience study for the period January 1, 2010, through 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 rates 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.

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NOTE 10. PENSION PLAN (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%	6.71%
International equity	20%	7.71%
Real estate	10%	5.21%
Global fixed income	5%	3.36%
Domestic fixed income	20%	2.11%
Cash	0%	-
	100%	

Discount rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from the City will be made at the recommended contribution rate as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all of the projected benefit payments to determine the total pension liability.

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NOTE 10. PENSION PLAN (CONTINUED)

Changes in the Net Pension Liability of the City. The changes in the components of the net pension liability of the City for the year ended December 31, 2017, were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2017	$ 720,631	$ 688,698	$ 31,933
Changes for the year:			
Service cost	23,989	-	23,989
Interest	54,815	-	54,815
Differences between expected and actual experience	(48,746)	-	(48,746)
Contributions - employer	-	30,830	(30,830)
Contributions - employee	-	-	-
Net investment income	-	86,478	(86,478)
Benefit payments, including refunds of employee contributions	(26,684)	(26,684)	-
Administrative expense	-	(10,608)	10,608
Other changes	-	-	-
Net changes	3,374	80,016	(76,642)
Balances at December 31, 2017	$ 724,005	$ 768,714	$ (44,709)

The required schedule of changes in the City's net pension liability and related ratios immediately following the notes to the financial statements presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 7.75 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.75 percent) or 1 percentage-point higher (8.75 percent) than the current rate:

	1% Decrease 6.75%	Current Discount Rate 7.75%	1% Increase 8.75%
City's net pension liability	$ 51,670	$ (44,709)	$ (125,195)

NOTE 10. PENSION PLAN (CONCLUDED)

Changes in the Net Pension Liability of the City. 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 July 1, 2015.

C. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2017, the City recognized pension expense of $11,513. At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ (68,268)
Changes in assumptions	-	(897)
Net difference between projected and actual earnings on pension plan investments	-	(883)
City contributions subsequent to the measurement date	26,871	-
Total	$ 26,871	$ (70,048)

City contributions of $26,871 subsequent to the measurement date and are thus reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	
2018	$ (31,109)
2019	(12,487)
2020	(10,032)
2021	(16,420)
Total	$ (70,048)

NOTE 11. JOINT VENTURE

The City of Ellijay, Georgia, in conjunction with cities and counties in the fifteen (15) county Northwest Georgia areas 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) provides for the organizational structure of the regional development centers (RDCs), and was amended in 2008 to consolidate the existing RDCs into fewer organizations called Regional Commissions (RCs). Each county and municipality in the state is required by law to pay minimum annual dues to the RC. An RC 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.

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RDCs (later transferred to RCs) as "public agencies and instrumentalities of their members". Georgia law also provides that the member governments are liable for any debts or obligations of an RC beyond its resources (O.C.G.A. 50-8-39.1). Separate financial statements can be provided by contacting the RC directly.

NOTE 12. 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; and natural disasters for which, except as described in the following paragraph, the City carries commercial insurance in amounts deemed prudent by City management.

The City has insurance coverage with a local agency. Insurance coverage and deductible options for property, casualty and crime under the policy are selected by the City's management based on the 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 establishing 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 that 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 for the year ended December 31, 2017, 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 (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 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 the GMAWCSIF permits the fund to levy an assessment upon its members to make up any deficiency the fund may have in surplus reserves. No amount has been recorded in the financial statements for this contingency, as management believes the likelihood for assessment is remote. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 12. RISK MANAGEMENT (CONCLUDED)

As part of these risk pools, the City is obligated to pay all contributions and assessments as prescribed by the pools, to cooperate with the pools' agents and attorneys, to follow loss reduction procedures established by the funds, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss.

The City is also to allow the pools' agents and attorneys to represent the City in investigation, settlement discussions and all levels of litigation arising out of any claim made against the City within the scope of loss protection furnished by the funds. The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member government contract and in accordance with the workers' compensation law of Georgia.

The funds are to pay all costs taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

There have been no significant reductions of insurance coverage from coverage in the prior year, and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Grant Contingencies

The City has received Federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to the disallowance of certain expenditures previously reimbursed by those agencies. Based upon prior experience, City management believes such disallowances, if any, will not be significant.

Commitments

The City routinely enters into agreements and commitments during the year in the ordinary course of business. Such agreements do not give rise to assets or liabilities considered material.

Litigation

There are no suits pending on unasserted claims that would result in material liabilities to the City. The City has entered into various agreements and contracts in the normal course of business. There were no such agreements which give rise to assets or liabilities that are considered to be material at December 31, 2017.

NOTE 14. HOTEL/MOTEL TAX

The City has levied a 5% lodging tax for applicable businesses inside the City. During the year ended December 31, 2017, $13,716 was earned as revenue from the lodging tax. Per state law, 40% of the revenue was required to be spent to promote tourism, conventions and trade shows. The City spent $4,593 (representing 33%) in the current year for these purposes. The excess revenue from 2017 will be spent in 2018 to comply with the requirements of state law.

NOTE 15. PRIOR PERIOD RESTATEMENT

The City has determined that restatements are required to properly reflect costs to prior periods cost as follows:

		Governmental Activities
Net Position, December 31, 2016, as originally reported	$	5,383,854
Prepaid expense		(10,954)
Accounts payable		9,226
Net position, December 31, 2016, as restated	$	5,382,126

		General Fund
Fund balance, December 31, 2016 as originally reported	$	379,802
Prepaid expense		(10,954)
Accounts payable		9,226
Fund balance, December 31, 2016, as restated	$	378,074

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ELLIJAY, GEORGIA
RETIREMENT PLAN
SCHEDULES OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2017

		Year End 2017	Year End 2016	Year End 2015
Total pension liability				
Service cost		$ 23,989	$ 20,631	$ 19,974
Interest		54,815	52,585	54,896
Differences between expected and actual experience		(48,746)	(19,247)	(70,900)
Changes of assumptions		-	-	(3,586)
Benefit payments, including refunds of employee contributions		(26,684)	(23,702)	(36,718)
Net change in total pension liability		3,374	30,267	(36,334)
Total pension liability - beginning		720,631	690,364	726,698
Total pension liability - ending	(a)	$ 724,005	$ 720,631	$ 690,364
Plan fiduciary net position				
Contributions - employer		$ 30,830	$ 27,638	$ 27,830
Net investment income		86,478	2,162	61,602
Benefit payments, including refunds of employee contributions		(26,684)	(23,702)	(36,718)
Administrative expense		(10,608)	(7,532)	(7,045)
Net change in plan fiduciary net position		80,016	(1,434)	45,669
Plan fiduciary net position - beginning		688,698	690,132	644,463
Plan fiduciary net position - ending	(b)	$ 768,714	$ 688,698	$ 690,132
Net pension liability (asset) - ending	(a) - (b)	$ (44,709)	$ 31,933	$ 232
Plan fiduciary net position as a percentage of total pension liability		106.18%	95.57%	99.97%
Covered-employee payroll		$ 729,126	$ 821,999	617,354
Net pension liability as a percentage of covered-employee payroll		-6.13%	3.88%	0.04%

Historical information prior to implementation of GASB 68 is not required.

OTHER SUPPLEMENTARY INFORMATION

CITY OF ELLIJAY, GEORGIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2017

	Special Revenue Funds						
	Better Hometown Fund	Confiscated Assets	Cemetery Fund	Hotel/Motel Fund	Bond Escrow Fund	Multi-grant Fund	Total
Assets							
Cash	$ 9,694	$ 53	$ 14,474	$ 24,231	$ 11,182	$ 7,030	$ 66,664
Due from other funds	-	-	-	-	-	38,096	38,096
Due from other governments	-	-	-	-	-	-	-
Certificates of deposit	-	-	2,892	-	-	-	2,892
Taxes receivable	-	-	-	845	-	-	845
Total Assets	$ 9,694	$ 53	$ 17,366	$ 25,076	$ 11,182	$ 45,126	$ 108,497
Liabilities:							
Accounts payable	$ 583	$ -	$ -	$ -	$ 17,946	$ -	$ 18,529
Due to other funds	-	-	-	3,000	-	-	3,000
Total Liabilities	583	-	-	3,000	17,946	-	21,529
Fund Balances:							
Restricted	-	-	-	22,076	-	45,126	67,202
Assigned	9,111	53	17,366	-	-		26,530
Unassigned	-	-	-	-	(6,764)	-	(6,764)
Total Fund Balances (Deficit)	9,111	53	17,366	22,076	(6,764)	45,126	86,968
Total Liabilities and Fund Balances	$ 9,694	$ 53	$ 17,366	$ 25,076	$ 11,182	$ 45,126	$ 108,497

CITY OF ELLIJAY, GEORGIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2017

	Special Revenue Funds						
	Better Hometown Fund	Confiscated Assets	Cemetery Fund	Hotel/Motel Fund	Bond Escrow Fund	Multi-grant Fund	Total
Revenues:							
Selective sales taxes	$ -	$ -	$ -	$ 13,716	$ -	$ -	$ 13,716
Fines and forfeitures	-	-	-	-	42,964	-	42,964
Intergovernmental	-	-	-	-	-	133,630	133,630
Charges for services	3,021	-	-	-	-	-	3,021
Investment earnings	10	-	9	16	11	34	80
Total Revenues	3,031	-	9	13,732	42,975	133,664	193,411
Expenditures:							
Current:							
Public safety	-	-	-	-	42,964		42,964
Public works	-	-	-	-	-	103,222	103,222
Housing and development	4,270	-	-	4,593	-		8,863
Capital outlay							
Culture and recreation	-	-	-	-	-	102,138	102,138
Total Expenditures	4,270	-	-	4,593	42,964	205,360	257,187
Net change in fund balances	(1,239)	-	9	9,139	11	(71,696)	(63,776)
Fund Balances - beginning of year	10,350	53	17,357	12,937	(6,775)	116,822	150,744
Fund Balances (deficit) - end of year	$ 9,111	$ 53	$ 17,366	$ 22,076	$ (6,764)	$ 45,126	$ 86,968

CITY OF ELLIJAY, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
FOR THE YEAR ENDED DECEMBER 31, 2017

PROJECT	Estimated Cost		Expenditures			Estimated % of Completion
	Original	Current	Prior Years	Current Year	Total	
SPLOST 2014						
Road, street and bridge purposes, which purposes may include sidewalks, bicycle paths, parks recreation equipment and capital outlay	$ 1,287,000	$ 1,287,000	$ 813,410	$ 209,369	$ 1,022,779	79%

Note A: Basis of Accounting ---This schedule has been prepared on the modified accrual basis of accounting.

INTERNAL CONTROL AND COMPLIANCE SECTION

RL Jennings & Associates, PC

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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 Members
Of the City Council
City of 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ellijay, 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 Ellijay, Georgia's basic financial statements and have issued our report thereon dated July 20, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of 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 the City of Ellijay, Georgia's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies, and are identified as finding 2013-1 and 2013-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of 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.*

City of Ellijay, Georgia's Response to Findings

City of Ellijay, Georgia's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Ellijay, 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.

R L Jennings & associates, PC

Ellijay, Georgia
July 20, 2018

Repeat findings from prior years:

2013-1 Segregation of Duties

Criteria: Segregation of employees' duties is a common practice in an effective internal control structure. Policies should be in place requiring the segregation of duties involving cash receipts, cash disbursements, payroll, general ledger and bank reconciliation.

Condition/Context: During the course of the audit, we noted that duties are not segregated as to prevent employees from being placed in a position to have absolute control over functions of cash disbursements/accounts payable, general ledger posting, and bank reconciliations.

Effect: Without segregation of duties within these functions, there is increased exposure that someone could intentionally or unintentionally misappropriate the City's assets.

Cause: The limited number of employees at City Hall and the resulting overlapping of duties cause segregation of duties to be difficult.

Recommendation: To the extent possible, duties should be segregated to maintain the best control system possible. We feel segregation of duties could be improved if different employees performed the separate duties of processing cash disbursements, and maintaining the general ledger. Ideally, an effort should be made to divide the duties of the available personnel in such a manner as to achieve the greatest possible segregation of duties. In situations where additional personnel are not available, an effort should be made for a review of bank reconciliations and journal entries by a person independent of that function. Increased Council involvement in the City's finances is also encouraged to strengthen internal controls. When these suggestions are implemented, the City's system of internal control will be enhanced so that the risk of employee misappropriation of assets is reduced.

Response: The lack of segregation of duties is a recurring item that due to the limited number of employees is difficult to accomplish. Management plans to continue close involvement with the City's finances to aid in this matter.

2013-2 General Ledger Maintenance and Material Adjustments

Criteria: The City is responsible for preparing annual financial statements in accordance with generally accepted accounting principles (GAAP). Recording transactions on an accrual basis (or where applicable, the modified accrual basis) is in accordance with GAAP and provides more meaningful financial information.

Condition/Context: Although the year-end financial statements are prepared on the appropriate accrual basis (modified accrual basis, where applicable), the City maintains its general ledger on a cash basis throughout the year. The City did record accruals and deferrals at year-end, but during the course of the audit we noted several material corrections that were necessary to properly reflect the entries that had been posted.

Effect: Failure to properly record accruals of revenue and expenditures (expenses) distorts the financial information that is provided to management and the City Council, and may lead to critical financial decisions being made on erroneous data.

Cause: There is no routine preparation or reconcilement of detailed account balances for the accrual adjusting entries in order to post to the appropriate general ledger accounts.

Recommendation: We realize that the procedure of maintaining the City's general ledger on the accrual/modified accrual basis throughout the year can be a time consuming task. Therefore, we suggest that the City implement a procedure in which books are kept on a cash basis, and accrual adjustments are made prior to year-end and agree to supporting calculation workpapers. Interim financial information could then be maintained on the cash basis to simplify the monthly reporting procedures. This practice would enable the City to enjoy the best features of both methods: properly adjusted accrual financial reporting for year-end accounting, and more easily produced interim financial statements for monthly reporting to the City Council.

Response: The City agrees with this finding and will balance year-end accruals with supporting workpapers for the calculations.