**CITY OF HIAWASSEE, GEORGIA**

**ANNUAL FINANCIAL REPORT**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**WITH AUDITOR'S OPINION**
**JANUARY 29, 2018**

**CITY OF HIAWASSEE, GEORGIA**
**ANNUAL FINANCIAL REPORT**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**ED K. BURTON, LLC**
CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor Liz Ordiales and Members of the City Council
City of Hiawassee, Georgia

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund and the remaining fund information of the City of Hiawassee, Georgia as of and for the year ended June 30, 2017, and the related notes to 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 presentation 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 for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hiawassee, as of June 30, 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.



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**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budget comparison schedule, and schedule of funding progress for the City's retirement plan presented on pages 3-6 and 39-43 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 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 inquires 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 Hiawassee, Georgia's basic financial statements. The accompanying Schedule of Projects Financed with Special Purpose Local Option Sales Tax on page 49 is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of projects financed with special purpose local option sales tax, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the projects financed with special purpose local option sales tax are fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards,* we have also issued our report dated January 29, 2018, on our consideration of the City of Hiawassee, 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 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 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 Hiawassee, Georgia's internal control over financial reporting and compliance.

Ed K. Burton, LLC
Certified Public Accountants
Lavonia, Georgia
January 29, 2018

# MANAGEMENT'S DISCUSSION & ANALYSIS

**CITY OF HIAWASSEE, GEORGIA**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**JUNE 30, 2017**

Our discussion and analysis of City of Hiawassee, Georgia's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2017.

## USING THE JUNE 30, 2017 AUDIT

The audit of City of Hiawassee, Georgia, for the fiscal year ended June 30, 2017 consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 7 and 8) provide information about the activities of the City as a whole. The fund financial statements begin on page 9. These statements provide a more detailed view of the governmental activities of the City and explain how these services were financed in the short term as well as what remains for future spending.

## REPORTING THE CITY AS A WHOLE

The Statement of Net Position and Statement of Activities include all the City's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All the fiscal year revenues and expenses are taken into account regardless of when cash is received or paid.

## REPORTING THE CITY'S FUNDS

The fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by State law or by bond covenants. The City establishes and maintains many 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

Condensed Statement of Net Position

Table 1 below presents the City's Condensed Statement of Net Position as of June 30, 2017 as it compares to the previous fiscal year.

### Table 1: Condensed Statement of Net Position

| | Governmental Activities June 30, 2016 | Governmental Activities June 30, 2017 | Business-Type Activities June 30, 2016 | Business-Type Activities June 30, 2017 |
|---|---|---|---|---|
| **Assets and Deferred Outflows of Resources**: | | | | |
| Current and Other Assets | $ 561,746 | $ 492,370 | $ 2.177,322 | $ 2,257,965 |
| Capital assets | 890,159 | 1,027,690 | 11,575,430 | 11,606,462 |
| Deferred Outflows of Resources | 60,612 | 55,847 | 117,224 | 109,342 |
| **Total Assets** | $1,512,517 | $1,575,907 | $13,869,976 | $13,973,769 |
| **Liabilities and Deferred Inflows of Resources:** | | | | |
| Other Liabilities | $ 55,464 | $ 60,602 | $ 346,857 | $ 386,510 |
| Long-term Liabilities | 205,840 | 99,339 | 4,770,901 | 4,674,041 |
| Deferred Inflows of Resources | 21,420 | 84,840 | 31,275 | 136,195 |
| **Total Liabilities** | $ 282,724 | $ 244,781 | $ 5,149,033 | $ 5,196,746 |
| **Net Position:** | | | | |
| Invested in Capital Assets, Net of Related Debt | $ 836,669 | $1,000,275 | $ 6,907,936 | $ 6,843,272 |
| Restricted | 294,017 | 273,327 | 478,146 | 605,902 |
| Unrestricted | 99,107 | 57,524 | 1,334,861 | 1,327,849 |

| | | | | |
|---|---|---|---|---|
| **Total Net Position** | $1,229,793 | $1,331,126 | $ 8,720,943 | $ 8,777,023 |
| **Total Liabilities and Deferred Inflows of Resources and Net Position** | $1,512,517 | $1,575,907 | $13,869,976 | $13,973,769 |

The City uses its capital assets to provide services to the citizens and businesses in the City, consequently, these net assets are not available for future spending.

Restricted net assets are resources that are restricted in their use. The majority of restricted assets represent funds to repay debt.

Condensed Statement of Activities

Table 2 below presents the City's Condensed Statement of Activities for the fiscal year ended June 30, 2017 compared to the previous fiscal year.

## Table 2: Condensed Statement of Activities

| | Governmental Activities June 30, 2016 | Governmental Activities June 30, 2017 | Business-Type Activities June 30, 2016 | Business-Type Activities June 30, 2017 |
|---|---|---|---|---|
| **Revenues**: | | | | |
| Charges for Services | $ 140,974 | $ 196,767 | $ 2,379,554 | $ 2,482,202 |
| Operating Grants & Contributions | - | 16,355 | - | 10,163 |
| Capital Grants & Contributions | 164,867 | 256,573 | - | 157,623 |
| General Revenues: | | | | |
| Property Taxes | 178,580 | 187,831 | - | - |
| Other Taxes | 427,318 | 398,959 | - | - |
| Over Revenues | 15,928 | 1,460 | 1,823 | 2,134 |
| **Total Revenues** | $ 927,667 | $ 1,057,945 | $ 2,381,377 | $ 2,652,122 |
| **Expenses:** | | | | |
| General Government | $ 400,349 | $ 474,434 | $ - | $ - |
| Judicial | 6,860 | 5,496 | - | - |
| Public Safety | 374,593 | 388,053 | - | - |
| Water and Sewerage | | | 2,439,171 | 2,683,515 |
| (Gain) Loss on Sale Capital Assets | - | - | (2,102) | 1,155 |
| **Total Expenses** | $ 781,802 | $ 867,983 | $ 2,437,069 | $ 2,684,670 |
| **Increase (Decrease) in Net Position Before Other Items** | $ 145,865 | $ 189,962 | $ (55,692) | $ (32,548) |
| Transfers | ( - ) | ( 88,628) | - | 88,628 |
| **Change in Net Position** | $ 145,865 | $ 101,334 | $ (55,692) | $ 56,080 |
| **Beginning Net Position** | 1,083,928 | 1,229,793 | 8,776,634 | 8,720,943 |
| **Ending Net Position** | $1,229,793 | $1,331,127 | $ 8,720,943 | $ 8,777,023 |

During the fiscal year ended June 30, 2017 the net position of City of Hiawassee, Georgia's governmental activities increased $101,334 and the business-type activities increased $56,080. Revenues increased 14% over the previous fiscal year and expenditures and transfers out increased 22.3% in the governmental activities. Revenues and transfers increased 15% and expenses increased 10.1% over the previous fiscal year in the business-type activities.

Approximately 17.7% of the City's governmental activity revenue came from property taxes, 37.8% came from other taxes and revenues, and the balance of 44.5% came from charges for services, grants, and other sources.

Approximately 93.5% of the City's business-type activity revenue came from charges for services and the remaining 6.5% came from other sources.

The City's governmental activity expenses cover a wide range of services with 44.7% allotted to public safety, 54.6% to general government services, and the remaining 0.7% to judicial services. The City's business-type activity expenses are all related to water and sewerage.

## THE CITY'S FUNDS

The governmental fund statements provide information on inflows, outflows, and ending fund balance resources available for spending. This information is useful in determining the City's financing requirements. The nonspendable, restricted and unassigned fund balances serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of June 30, 2017, the City's governmental funds reported a combined ending fund balance of $372,326, of which $8,460 is nonspendable, $273,327 is restricted for specific purposes and $90,539 is unassigned.

The General Fund – the operating fund of the City – had a net decrease in fund balance of $99,316 during the current year.

The proprietary fund statements provide information on inflows, outflows, and ending net assets. This information is useful in evaluating the City's enterprise funds. The City reports two enterprise funds, the Water and Sewerage Fund and the Water Treatment Plant Fund. These funds operate mainly from charges for services provided, such as water fees.

As of June 30, 2017, the City's proprietary funds reported combined ending net position of $8,777,023 of which $6,843,272 is invested in capital assets, net of related debt, $605,902 is restricted for debt service, and $1,327,849 is unrestricted.

The proprietary funds had a net increase in unrestricted net position of $56,080, which is due in part to the profitability of the water treatment plant.

## GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget was revised during the year. Following is a recap of the final budget and actual revenues and expenditures for the 2017 year.

| Revenues: | Budget | Budget | Actual | Variance |
|---|---|---|---|---|
| Taxes & Assessments | $ 578,590 | $ 546,115 | $ 515,995 | $ (30,120) |
| Licenses & Permits | 36,300 | 43,850 | 51,134 | 7,284 |
| Fines & Forfeitures | 95,150 | 120,255 | 138,969 | 18,714 |
| Charges for Services | 7,000 | 6,520 | 6,664 | 144 |
| Investment Earnings | 2,200 | 2,200 | 1,272 | (928) |
| Contributions & Grants | 16,000 | 17,838 | 33,678 | 15,840 |
| | | | | |
| Expenditures: | | | | |
| General Government | $ 464,440 | $ 436,778 | $ 424,284 | $ 12,494 |
| Public Safety | 401,500 | 413,050 | 383,328 | 29,722 |
| Judicial | 7,300 | 5,400 | 5,496 | (96) |
| Debt Service | | | | |
| Principal | - | - | $ 32,831 | (32,831) |
| Interest | 7,000 | 550 | 1,089 | (539) |

There were differences between the final budgetary amounts and the actual figures due to the inclusion of prior years' fund balances in the final budget categories.

**CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY**

At June 30, 2017, City of Hiawassee, Georgia reported $1,027,690 in capital assets for governmental activities and $11,606,462 in capital assets for business-type activities. Refer to Note 6 to the financial statements for additional information on capital assets.

At June 30, 2017, governmental activities reported $99,339 long-term debt compared to $205,840 at June 30, 2016 and business-type activities long-term debt of $4,674,041 and $4,770,901 at June 30, 2017 and June 30, 2016, respectively in business-type activities. Refer to Note 10 in the financial statements for additional information on long-term liabilities.

**ECONOMIC FACTORS AND NEXT YEAR BUDGET AND RATES**

The City expects revenues to be up in the upcoming year due to improving economic conditions, an increase in water usage, more accurate utility billings and the addition of new customers. Due to improving economic conditions and greater retail activity, the City anticipates increasing revenue in local option sales taxes, the special purpose local option sales tax, and the Hotel Motel Tax in the current budget year. Property values within the city have also increased which will result in increased property taxes. The City will continue restructuring debt. The city is engaged in a replacement of the City wireless water meters which will result in more accurate utility reads and will increase utility revenue. The city has also undertaken an aggressive program of water audits and the repair of leaking water lines. An aggressive leak detection and repair program will reduce expresses associated with the water department.

**CONCLUSION**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's financial condition and to show the City's accountability for the money it receives. If you have questions concerning this report or need additional financial information, please contact City of Hiawassee, Georgia City Council at 50 River Street, Hiawassee, Georgia 30546.

**BASIC FINANCIAL STATEMENTS**

**CITY OF HIAWASSEE, GEORGIA**
**STATEMENT OF NET POSITION**
**JUNE 30, 2017**

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | | |
| CURRENT ASSETS: | | | |
| Cash and Cash Equivalents | $ 307,406 | $ 1,099,826 | $ 1,407,232 |
| Restricted Cash | - | 319,810 | 319,810 |
| Investments - Restricted | - | 109,199 | 109,199 |
| Taxes Receivables (Net) | 71,015 | - | 71,015 |
| Accounts Receivable (Net) | 66,830 | 338,137 | 404,967 |
| Intergovernmental Receivables | 38,659 | 6,699 | 45,358 |
| Inventory | - | 98,623 | 98,623 |
| Prepaid Expenses | 8,460 | 10,796 | 19,256 |
| TOTAL CURRENT ASSETS | $ 492,370 | $ 1,983,090 | $ 2,475,460 |
| NONCURRENT ASSETS: | | | |
| Restricted Intergovernmental Receivables | $ - | $ 231,750 | $ 231,750 |
| Capital Assets: | | | |
| Land, Non-Depreciable Improvements, and Construction in Progress | $ 155,183 | $ 57,515 | $ 212,698 |
| Other Capital Assets, Net of Depreciation | 872,507 | 11,548,947 | 12,421,454 |
| Total Capital Assets | $ 1,027,690 | $ 11,606,462 | $ 12,634,152 |
| Closing Costs and Other Assets, Net | $ - | $ 43,125 | $ 43,125 |
| TOTAL NONCURRENT ASSETS | $ 1,027,690 | $ 11,881,337 | $ 12,909,027 |
| TOTAL ASSETS | $ 1,520,060 | $ 13,864,427 | $ 15,384,487 |
| DEFERRED OUTFLOWS OF RESOURCES | $ 55,847 | $ 109,342 | $ 165,189 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | $ 1,575,907 | $ 13,973,769 | $ 15,549,676 |
| **LIABILITIES AND DEFERRED INFLOWS OF RESOURCES** | | | |
| CURRENT LIABILITIES: | | | |
| Accounts Payable | $ 18,045 | $ 72,198 | $ 90,243 |
| Accrued Interest | - | 25,916 | 25,916 |
| Accrued Expenses | 8,291 | 14,888 | 23,179 |
| Due to Water Fund | 6,851 | (6,851) | - |
| Current Portion of Long-term Debt | 27,415 | 122,565 | 149,980 |
| Liabilities Payable from Restricted Assets: | | | |
| Bonds Payable | - | 102,937 | 102,937 |
| Customer Deposits | - | 54,857 | 54,857 |
| TOTAL CURRENT LIABILITIES | $ 60,602 | $ 386,510 | $ 447,112 |
| LONG-TERM LIABILITIES: | | | |
| Compensated Absences | $ 6,703 | $ 9,534 | $ 16,237 |
| Net Pension Liability | 92,636 | 126,819 | 219,455 |
| Due in More Than One Year | - | 4,537,688 | 4,537,688 |
| TOTAL LONG-TERM LIABILITIES | $ 99,339 | $ 4,674,041 | $ 4,773,380 |
| DEFERRED INFLOWS OF RESOURCES | $ 84,840 | $ 136,195 | $ 221,035 |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | $ 244,781 | $ 5,196,746 | $ 5,441,527 |
| **NET POSITION** | | | |
| Net Investment in Capital Assets | $ 1,000,275 | $ 6,843,272 | $ 7,843,547 |
| Restricted for Debt Service | - | 605,902 | 605,902 |
| Restricted for: | | | |
| Public Safety | 836 | - | 836 |
| Tourism | 15,134 | - | 15,134 |
| Capital Outlay | 257,357 | - | 257,357 |
| Unrestricted | 57,524 | 1,327,849 | 1,385,373 |
| TOTAL NET POSITION | $ 1,331,126 | $ 8,777,023 | $ 10,108,149 |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION | $ 1,575,907 | $ 13,973,769 | $ 15,549,676 |

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**CITY OF HIAWASSEE, GEORGIA**
**STATEMENT OF ACTIVITIES**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities | Primary Government: Business-Type Activities | Primary Government: Total |
|---|---|---|---|---|---|---|---|
| Primary Government: | | | | | | | |
| Governmental Activities: | | | | | | | |
| General Government | $ 474,434 | $ 57,798 | $ 16,355 | $ 256,573 | $ (143,708) | $ - | $ (143,708) |
| Public Safety | 386,964 | 138,969 | - | - | (247,995) | - | (247,995) |
| Judicial | 5,496 | - | - | - | (5,496) | - | (5,496) |
| Interest Expense | 1,089 | | | | (1,089) | | (1,089) |
| Total Governmental Activities | $ 867,983 | $ 196,767 | $ 16,355 | $ 256,573 | $ (398,288) | $ - | $ (398,288) |
| Business-Type Activities: | | | | | | | |
| Water and Sewerage | $ 2,683,515 | $ 2,482,202 | $ 10,163 | $ 157,623 | $ - | $ (33,527) | $ (33,527) |
| Total Business-Type Activities | $ 2,683,515 | $ 2,482,202 | $ 10,163 | $ 157,623 | $ - | $ (33,527) | $ (33,527) |
| Total Primary Government | $ 3,551,498 | $ 2,678,969 | $ 26,518 | $ 414,196 | $ (398,288) | $ (33,527) | $ (431,815) |
| General Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property Taxes, Levied for General Purpose | | | | | $ 187,831 | $ - | $ 187,831 |
| Franchise Taxes | | | | | 29,291 | - | 29,291 |
| Local Option Sales & Use Tax & Hotel/Motel Tax | | | | | 238,194 | - | 238,194 |
| Business Taxes | | | | | 59,826 | - | 59,826 |
| Other Taxes | | | | | 71,648 | - | 71,648 |
| Contributions from Private Sources | | | | | 188 | - | 188 |
| Unrestricted Investment Earnings | | | | | 1,272 | 1,634 | 2,906 |
| Miscellaneous Income | | | | | - | 500 | 500 |
| Gain (Loss) on Sale/Abandonment of Assets | | | | | - | (1,155) | (1,155) |
| Transfers (Net) | | | | | (88,628) | 88,628 | - |
| Total General Revenues and Transfers | | | | | $ 499,622 | $ 89,607 | $ 589,229 |
| Change in Net Position | | | | | $ 101,334 | $ 56,080 | $ 157,414 |
| Net Position, Beginning | | | | | 1,229,793 | 8,720,943 | 9,950,736 |
| Net Position, Ending | | | | | $ 1,331,126 | $ 8,777,023 | $ 10,108,150 |

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**CITY OF HIAWASSEE, GEORGIA**
**BALANCE SHEET**
**GOVERNMENTAL FUNDS**
**JUNE 30, 2017**

| | GENERAL FUND | SPLOST | NONMAJOR FUND HOTEL/MOTEL FUND | TOTAL GOVERNMENTAL FUNDS |
|---|---|---|---|---|
| **ASSETS:** | | | | |
| Cash and Cash Equivalents | $ 35,608 | $ 256,664 | $ 15,134 | $ 307,406 |
| Accounts Receivable | - | 15,822 | - | 15,822 |
| Taxes Receivable | 71,015 | - | - | 71,015 |
| Intergovernmental Receivable | 38,659 | - | - | 38,659 |
| Due from SPLOST | 15,000 | - | - | 15,000 |
| Other Receivables | 51,008 | - | - | 51,008 |
| Prepaid Expenses | 8,460 | - | - | 8,460 |
| | | - | - | |
| TOTAL ASSETS | $ 219,750 | $ 272,486 | $ 15,134 | $ 507,370 |
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE:** | | | | |
| LIABILITIES: | | | | |
| Accounts Payable | $ 17,916 | $ 129 | $ - | $ 18,045 |
| Accrued Expenses | 8,291 | - | - | 8,291 |
| Due to Water Fund | 6,851 | - | - | 6,851 |
| Due to General Fund | - | 15,000 | - | 15,000 |
| Notes Payable | 17,450 | - | - | 17,450 |
| TOTAL LIABILITIES | $ 50,508 | $ 15,129 | $ - | $ 65,637 |
| DEFERRED INFLOW OF RESOURCES: | 69,407 | - | - | 69,407 |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | $ 119,915 | $ 15,129 | $ - | $ 135,044 |
| FUND BALANCES: | | | | |
| Nonspendable: | | | | |
| Prepaid Expenses | $ 8,460 | $ - | $ - | $ 8,460 |
| Restricted for: | | | | |
| Drug Seizures | 836 | - | - | 836 |
| Capital Outlay | - | 257,357 | - | 257,357 |
| Tourism | - | - | 15,134 | 15,134 |
| Unassigned (Deficit) | 90,539 | - | - | 90,539 |
| TOTAL FUND BALANCES | $ 99,835 | $ 257,357 | $ 15,134 | $ 372,326 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 219,750 | $ 272,486 | $ 15,134 | $ 507,370 |

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**CITY OF HIAWASSEE, GEORGIA**
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**
**TO THE STATEMENT OF NET POSITION**
**JUNE 30, 2017**

| | | |
|---|---|---|
| **TOTAL GOVERNMENTAL FUND BALANCES** | | $ 372,326 |
| *Amounts Reported for Governmental Activities in The Government-Wide Statement of Net Position Are Different Because:* | | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds: | | |
| Cost | $ 1,341,570 | |
| Less Accumulated Depreciation | (313,880) | 1,027,690 |
| Certain long-term assets (such as deferred taxes) are not available to pay current period expenditures and therefore are reported in the fund financial statement, but are not reported in the governmental activities of the Statement of Net Position. | | |
| Property Taxes | | 69,407 |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the fund financial statement, but are reported in the government-wide Statement of Net Position. | | |
| Deferred Outflows - Pensions | | 55,847 |
| Deferred Inflows - Pensions | | (84,840) |
| Liabilities not due and payable in the current period and therefore are not reported in the governmental fund balance sheet but are reported in the government-wide Statement of Net Position. | | |
| Compensated Absences | | (6,703) |
| Long Term Debt | | (9,965) |
| Net Pension Liability | | (92,636) |
| Interfund receivables and payables between governmental funds are reported on the fund balance sheet but eliminated on the government-wide Statement of Net Position: | | |
| Interfund Receivables | $ 15,000 | |
| Interfund Payables | (15,000) | - |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | | $ 1,331,126 |

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**CITY OF HIAWASSEE, GEORGIA**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**
**GOVERNMENTAL FUNDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| | GENERAL FUND | SPLOST | NONMAJOR FUND HOTEL/MOTEL FUND | TOTAL GOVERNMENTAL FUNDS |
|---|---|---|---|---|
| **REVENUES:** | | | | |
| Taxes and Assessments | $ 515,995 | $ - | $ 53,940 | $ 569,935 |
| Licenses and Permits | 51,134 | - | - | 51,134 |
| Fines and Forfeitures | 138,969 | - | - | 138,969 |
| Intergovernmental Revenues | - | 239,373 | - | 239,373 |
| Charges for Services | 6,664 | - | - | 6,664 |
| Investment Earnings | 1,272 | 65 | - | 1,337 |
| Contributions and Grants | 33,678 | - | - | 33,678 |
| TOTAL REVENUES | $ 747,712 | $ 239,438 | $ 53,940 | $ 1,041,090 |
| **EXPENDITURES:** | | | | |
| Current Operating: | | | | |
| General Government | $ 399,972 | $ 1,330 | $ 59,089 | $ 460,391 |
| Public Safety/Public Works | 376,192 | - | - | 376,192 |
| Judicial | 5,496 | - | - | 5,496 |
| Capital Outlay: | | | | |
| General Government | 24,312 | 152,218 | - | 176,530 |
| Public Safety/Public Works | 7,136 | - | - | 7,136 |
| Judicial | - | - | - | - |
| Debt Service: | | | | |
| Prinicipal | 32,831 | - | - | 32,831 |
| Interest | 1,089 | - | - | 1,089 |
| TOTAL EXPENDITURES | $ 847,028 | $ 153,548 | $ 59,089 | $ 1,059,665 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | $ (99,316) | $ 85,890 | $ (5,149) | $ (18,575) |
| **OTHER FINANCING SOURCES (USES):** | | | | |
| Transfers from/(to) Water | $ - | $ (88,628) | $ - | $ (88,628) |
| NET OTHER FINANCING SOURCES (USES) | $ - | $ (88,628) | $ - | $ (88,628) |
| NET CHANGES IN FUND BALANCES | $ (99,316) | $ (2,738) | $ (5,149) | $ (107,203) |
| **FUND BALANCES (DEFICITS):** | | | | |
| Beginning of Year | 199,151 | 260,095 | 20,283 | 479,529 |
| End of Year | $ 99,835 | $ 257,357 | $ 15,134 | $ 372,326 |

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**CITY OF HIAWASSEE, 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, 2017**

| | | |
|---|---|---|
| **NET CHANGES IN FUND BALANCES-TOTAL GOVERNMENTAL FUNDS** | | $ (107,203) |
| *Amounts Reported for Governmental Activities in the Government-Wide Statement of Activities Are Different Because:* | | |
| Governmental funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period. | | |
| Capital Outlay | $ 179,871 | |
| Depreciation Expense | (42,339) | 137,532 |
| Governmental funds do not present revenues (such as deferred taxes) that are not available to pay current obligations. In contrast, such revenues are reported in the Government-Wide Statement of Activities when earned. | | 16,857 |
| Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount in which proceeds exceeded payments. | | 32,831 |
| Some expenses reported in the Government-Wide Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds: | | |
| Accrued Compensated Absences | | 1,999 |
| Pension Expense | | 19,318 |
| TOTAL CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES | | $ 101,334 |

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**CITY OF HIAWASSEE, GEORGIA**
**STATEMENT OF NET POSITION**
**PROPRIETARY FUNDS**
**JUNE 30, 2017**

| | ENTERPRISE FUNDS | | |
|---|---|---|---|
| | WATER AND SEWERAGE FUND | WATER TREATMENT PLANT FUND | TOTAL |
| **ASSETS AND DEFERRED OUTFLOWS OF OF RESOURCES:** | | | |
| CURRENT ASSETS: | | | |
| Cash and Cash Equivalents | $ 689,317 | $ 410,509 | $ 1,099,826 |
| Restricted Cash | 319,810 | - | 319,810 |
| Investments - Restricted | 109,199 | - | 109,199 |
| Accounts Receivable (Net) | 310,981 | 27,156 | 338,137 |
| Interfund Receivables | 6,851 | 574,635 | 581,486 |
| Intergovernmental Receivables | 6,699 | - | 6,699 |
| Inventories | 98,623 | - | 98,623 |
| Prepaid Expenses | 6,145 | 4,651 | 10,796 |
| TOTAL CURRENT ASSETS | $ 1,547,625 | $ 1,016,951 | $ 2,564,576 |
| NONCURRENT ASSETS: | | | |
| Restricted Intergovernmental Receivables | $ 231,750 | $ - | $ 231,750 |
| Capital Assets: | | | |
| Land, Improvements, and Construction in Progress | 57,515 | - | 57,515 |
| Depreciable Capital Assets, Net | 10,680,694 | 868,253 | 11,548,947 |
| Other Assets: | | | |
| Engineering Planning Fees, Net | 17,397 | - | 17,397 |
| Closing Costs, Net | 25,728 | - | 25,728 |
| TOTAL NONCURRENT ASSETS | $ 11,013,084 | $ 868,253 | $ 11,881,337 |
| DEFERRED OUTFLOWS OF RESOURCES | $ 70,875 | $ 38,467 | $ 109,342 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | $ 12,631,584 | $ 1,923,671 | $ 14,555,255 |
| **LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION:** | | | |
| **LIABILITIES:** | | | |
| CURRENT LIABILITES: | | | |
| Accounts Payable | $ 51,520 | $ 20,678 | $ 72,198 |
| Interfund Payables | 574,635 | - | 574,635 |
| Accrued Interest | 25,401 | 515 | 25,916 |
| Accrued Expenses | 9,366 | 5,522 | 14,888 |
| Current Portion of Long Term Debt | 113,426 | 9,139 | 122,565 |
| Liabilities Payable from Restricted Assets: | | | |
| Customer Deposits | 54,857 | - | 54,857 |
| Revenue Bonds Payable | 102,937 | - | 102,937 |
| TOTAL CURRENT LIABILITIES | $ 932,142 | $ 35,854 | $ 967,996 |
| LONG-TERM LIABILITIES: | | | |
| Revenue Bonds Payable | $ 2,886,010 | $ - | $ 2,886,010 |
| Notes Payable | 1,453,836 | 197,842 | 1,651,678 |
| Net Pension Liability | 87,793 | 39,026 | 126,819 |
| Compensated Absences | 4,429 | 5,105 | 9,534 |
| TOTAL LONG-TERM LIABILITIES | $ 4,432,068 | $ 241,973 | $ 4,674,041 |
| TOTAL LIABILITIES | $ 5,364,210 | $ 277,827 | $ 5,642,037 |
| DEFERRED INFLOWS OF RESOURCES | 87,640 | 48,555 | 136,195 |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | $ 5,451,850 | $ 326,382 | $ 5,778,232 |
| **NET POSITION:** | | | |
| Net Investment in Capital Assets | $ 6,182,000 | $ 661,272 | $ 6,843,272 |
| Restricted for Debt Service | 605,902 | - | 605,902 |
| Unrestricted | 391,832 | 936,017 | 1,327,849 |
| TOTAL NET POSITION | $ 7,179,734 | $ 1,597,289 | $ 8,777,023 |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION | $ 12,631,584 | $ 1,923,671 | $ 14,555,255 |

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**CITY OF HIAWASSEE, GEORGIA**
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**
**PROPRIETARY FUNDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| | ENTERPRISE FUNDS | | |
|---|---|---|---|
| | WATER AND SEWERAGE FUND | WATER TREATMENT PLANT FUND | TOTAL |
| **OPERATING REVENUES:** | | | |
| Water Fees | $ 1,081,895 | $ 349,965 | $ 1,431,860 |
| Sewer Fees | 688,063 | - | 688,063 |
| Program Fees | 57,014 | - | 57,014 |
| Interfund Water Sales | - | 305,265 | 305,265 |
| TOTAL OPERATING REVENUES | $ 1,826,972 | $ 655,230 | $ 2,482,202 |
| **OPERATING EXPENSES:** | | | |
| Personnel Services | $ 457,118 | $ 332,167 | $ 789,285 |
| Supplies and Other Expenses | 393,040 | 114,588 | 507,628 |
| Utilities | 144,474 | 102,919 | 247,393 |
| Interfund Water Purchased | 305,265 | - | 305,265 |
| Repairs and Maintenance | 83,878 | 9,521 | 93,399 |
| Depreciation and Amortization | 512,078 | 75,607 | 587,685 |
| TOTAL OPERATING EXPENSES | $ 1,895,853 | $ 634,802 | $ 2,530,655 |
| OPERATING INCOME (LOSS) | $ (68,881) | $ 20,428 | $ (48,453) |
| **NON-OPERATING REVENUES (EXPENSES):** | | | |
| Interest Income | $ 1,421 | $ 213 | $ 1,634 |
| Grants - Other | 163,709 | 4,077 | 167,786 |
| Miscellaneous Income | - | 500 | 500 |
| Gain (Loss) on Sale/Abandonment of Capital Assets | - | (1,155) | (1,155) |
| Interest Expense | (152,860) | - | (152,860) |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | $ 12,270 | $ 3,635 | $ 15,905 |
| **INCOME (LOSS) BEFORE TRANSFERS** | $ (56,611) | $ 24,063 | $ (32,548) |
| Transfers from SPLOST Fund | 88,628 | - | 88,628 |
| CHANGE IN NET POSITION | $ 32,017 | $ 24,063 | $ 56,080 |
| **NET POSITION:** | | | |
| Beginning Balance | 7,147,717 | 1,573,226 | 8,720,943 |
| Ending Balance | $ 7,179,734 | $ 1,597,289 | $ 8,777,023 |

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**CITY OF HIAWASSEE, GEORGIA**
**STATEMENT OF CASH FLOWS**
**PROPRIETARY FUNDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| | ENTERPRISE FUNDS | | |
|---|---|---|---|
| | WATER AND SEWERAGE FUND | WATER TREATMENT PLANT FUND | TOTAL |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Cash Received from Customers | $ 1,801,865 | $ 355,353 | $ 2,157,218 |
| Cash Received from Interfund Services Provided | - | 305,265 | 305,265 |
| Cash Payments for Personnel Services | (362,083) | (352,634) | (714,717) |
| Cash Payments for Interfund Services Provided | (305,265) | - | (305,265) |
| Cash Payments for Goods and Services | (671,700) | (227,028) | (898,728) |
| Change in Payables and Prepaids Related to Goods and Services | 45,515 | (107,431) | (61,916) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | $ 508,332 | $ (26,475) | $ 481,857 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:** | | | |
| Proceeds from Short-term Debt | $ 285,691 | $ - | $ 285,691 |
| Capital Contribution | | - | - |
| Grants Received | 163,709 | 4,077 | 167,786 |
| Transfers Received from SPLOST Fund | 88,628 | - | 88,628 |
| Proceeds Related to Miscellaneous Income | $ - | $ 500 | $ 500 |
| Interest Paid | (156,336) | - | (156,336) |
| Principal Paid | (181,136) | (8,858) | (189,994) |
| Payments for Capital Acquisitions | (555,703) | (62,209) | (617,912) |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | $ (355,147) | $ (66,490) | $ (421,637) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Investment Earnings | $ 1,421 | $ 213 | $ 1,634 |
| Purchase of Certificates of Deposits | (608) | - | (608) |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | $ 813 | $ 213 | $ 1,026 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | $ 153,998 | $ (92,752) | $ 61,246 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 855,129 | 501,495 | 1,356,624 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 1,009,127 | $ 408,743 | $ 1,417,870 |
| RECONCILIATION OF TOTAL CASH: | | | |
| Restricted | $ 319,810 | $ - | $ 319,810 |
| Unrestricted | 689,317 | 410,509 | 1,099,826 |
| | $ 1,009,127 | $ 410,509 | $ 1,419,636 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:** | | | |
| Operating Income (Loss) | $ (68,881) | $ 20,428 | $ (48,453) |
| Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities: | | | |
| Depreciation and Amortization | 512,078 | 75,607 | 587,685 |
| (Increase) Decrease in Accounts Receivable | (18,817) | 5,388 | (13,429) |
| (Increase) Decrease in Inventory | (50,308) | - | (50,308) |
| (Increase) Decrease in Prepaid Expenses and Other Assets | 44,227 | (116,841) | (72,614) |
| Increase (Decrease) in Accounts Payable | 1,288 | 9,410 | 10,698 |
| Increase (Decrease) in Customer Deposits | (6,290) | - | (6,290) |
| Increase (Decrease) in Compensated Absences | (6,122) | (6,123) | (12,245) |
| Increase (Decrease) in Net Pension Liability and Deferred Inflows | (25,381) | (14,461) | (39,842) |
| Increase (Decrease) in Accrued Expenses | 126,538 | 117 | 126,655 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | $ 508,332 | $ (26,475) | $ 481,857 |

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

# NOTES TO FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Hiawassee, Georgia conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. The more significant accounting policies established in GAAP and used by the City are described below.

### A. THE REPORTING ENTITY

The City was incorporated on May 17, 1956 and is located on beautiful Lake Chatuge in Towns County. The City operates under a council-mayor form of government and provides services such as public safety, highways and streets, public improvements, and water and sewer to the community.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The City's financial statements include the City's accounts 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, 2017, there are no component units 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.

The City's funds are grouped into two broad fund categories and three generic fund types for financial statement presentation purposes. Governmental funds include the general and special revenue funds. Proprietary funds include enterprise funds.

### C. BASIS OF ACCOUNTING

GOVERNMENT – WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities display information about the City, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfers between governmental and business-type activities on the government-wide statement of activities are reported below general revenues as the last item before the change in net position. Transfers between funds reported in the governmental activities column are eliminated. Transfers between funds reported in the business-type activities column are eliminated.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the City and for each governmental program. 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 and 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 expenses identifies the extent to which each program or business segment 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, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for capital improvements result from both the capital projects and enterprise funds and the restrictions on their net position use.

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major 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 measurable.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance

In accordance with Government Accounting Standards Board 54, fund equity at the governmental fund financial reporting level is classified as "fund balance" whereas fund equity for all other reporting is classified as "net assets." In the fund financial statements, governmental funds report fund 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 the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

- Committed – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the adoption of a resolution. The City Council also may modify or rescind the commitment.

- Assigned – Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed.

- 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 funds.

Flow Assumptions

When both restricted and unrestricted amounts of fund balances are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the City has spent) for the acquisition, construction, or improvement of those assets. Net positions are reported as restricted as described in the fund balance section above. All other net positions are reported as unrestricted. The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within sixty days of year-end and available to pay obligations of the current period). This includes investment earnings, property taxes, income taxes withheld by employers, estate taxes, fines and forfeitures and state levied locally shared taxes (including motor vehicle fees). 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.

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.

Expenditures Recognition

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

General Fund – This is a major governmental fund of the City of Hiawassee. The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

SPLOST Capital Projects Fund – This is a major governmental fund of the City of Hiawassee. The SPLOST Fund is used to account for capital expenditures and projects financed by the passage of the special purpose local option sales tax passed by the 2011 referendum.

PROPRIETARY FUNDS

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at each year-end.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges for water and sewer usage. Operating expenses for the enterprise funds include all costs to operate the water and sewer system and to deliver water and sewer service to customers. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The City reports the following major enterprise funds:

Water and Sewerage Fund: This fund accounts for the development, operation and maintenance of the utility system that provides water and sewerage service.

Water Treatment Plant Fund: This fund accounts for the operation of the utility system that provides water to the City and other governmental entities.

Additionally the City reports the following fund types:

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the proceeds of specific revenues sources (other than special assessments, expendable trusts, or major capital projects) that are restricted for specified purposes. The only Special Revenue Fund the City has is the Hotel/Motel Fund.

D. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

E. CASH, CASH EQUIVALENTS AND INVESTMENTS

For purposes of the Statement of Cash Flows, the City of Hiawassee, Georgia considers all highly liquid investments, (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash includes amounts in demand deposits. Statues authorize the City to invest in U.S. Government obligations, U.S. Government agency obligations, State of Georgia obligations, obligations of other counties, municipal corporations and political subdivisions of the State of Georgia which are rated AA or better by Moody's Investors Services, 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 association, repurchase agreements when collateralized by U.S. Government or agency obligations, and pooled investment programs sponsored by the State of Georgia for the investment of local government funds.

The City has no investments except for Certificate of Deposits at June 30, 2017. These Certificates of Deposits are carried at fair value, which is the same as cost.

F. INVENTORIES

Inventories consist of supplies acquired for infrastructure repair and maintenance or for possible future expansion and are stated at average cost. Inventories are accounted for on the first-in, first-out (FIFO) method of accounting for inventory. The City uses the consumption method of accounting for inventories under which materials and supplies are recorded as inventory when purchased and are recorded as an expense when used.

G. PREPAIDS

Expenditures for insurance and similar services that will benefit periods beyond June 30, 2017 are recorded as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the period in which the items are consumed. At the fund reporting level, an equal amount of fund balance is reserved as this amount is not available for general appropriation.

H. CAPITAL ASSETS

All assets over the capitalization threshold with a useful life extending beyond one year are capitalized and depreciated over time using the straight-line method. The capitalization threshold was $2,500 as of June 30, 2017. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are at their estimated fair value at the date of donation. General infrastructure assets consist of the road network assets that were acquired or that received substantial improvements after July 1, 2003. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

| Asset Class | Estimated Useful Lives |
|---|---|
| Infrastructure | 30-50 |
| Buildings | 50 |
| Building Improvements | 15-40 |
| Vehicles | 5-6 |
| Office Furniture & Equipment | 5-20 |

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. INTEREST CAPITALIZATION

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds are used to finance the construction of assets.

J. COMPENSATED ABSENCES

The liability for compensated absences in the government-wide and proprietary fund statements consists of unpaid accumulated annual leave balances. The liability has been calculated using the vesting method, in which 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 to receive such payments upon termination are included.

K. LONG-TERM DEBT

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of these funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year. Bonds and capital leases are recognized as a liability in the governmental fund financial statements when due.

L. 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(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City reports deferred out flows of resources related to their defined benefit pension plans.

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(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, property taxes. The City also reports deferred inflows of resources related to their defined benefit pension plans. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. CONTRIBUTIONS OF CAPITAL

Contributed Capital is recorded in the proprietary fund when capital grants or contributions are received from developers, customers or other funds.

N. 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, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Accordingly, actual results could differ from estimates.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

*Budgetary Information*

The application statutes of the State of Georgia require the City to operate under an annual balanced budget adopted by resolution. A budget is defined as being balanced when the sum of estimated net revenues and appropriated fund balance is equal to appropriations. Because the City adopts each of its operating budgets at the function level, the applicable statutes require that total expenditures not exceed the total amount of appropriations at the function level. Unspent appropriations lapse at year-end.

Annual budgets are adopted for all governmental funds and proprietary funds. 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. An operating budget is adopted for the Proprietary Water Fund for administrative control purposes.

The legal level of control (the level at which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the department level within each individual fund. Any change in total to a fund or departmental appropriation within a fund requires approval of the Mayor and City Council.

3. DEPOSITS & INVESTMENTS

The City's cash and investment deposits were limited to demand and money market accounts, and time deposits at local banks. The City's deposits shall be secured by Federal Depositary Insurance Corporation (FDIC) coverage and/or bank pledges. State statutes required banks holding public funds to secure these funds by FDIC insurance, securities pledged at par value, and surety bonds at face value in combined aggregate totaling not less than 110 percent of the public funds held.

DEPOSITS & INVESTMENTS (Continued)

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits may not be recovered. As of June 30, 2017 all the City's deposits were covered either by FDIC coverage or collateralized by the financial institution or a combination of the two. At year end, the bank balance of the City's demand and time deposits was $1,844,436 and the carrying amount was $1,827,872. No formal investment policy has been adopted as of June 30, 2017.

## 4. PROPERTY TAXES AND OTHER RECEIVABLES

The City of Hiawassee property tax calendar is as follows:

| | |
|---|---|
| Levy date | October 4, 2016 |
| Due date | January 10, 2017 |
| Delinquent date | January 11, 2017 |
| Lien date | None |

The total levy for the 2017 tax digest was $165,157.

Accounts receivable in the Water and Sewerage Fund and fines receivable in the General Fund are stated at gross amounts receivable less an allowance for estimated uncollectible accounts. The allowance is computed as a percentage of the revenue at year end based primarily on the age of the indebtedness. The balance in the allowance for uncollectible accounts for water and sewer receivables at June 30, 2017 is $7,390 and for fines receivable is $7,756.

## 5. INTERGOVERNMENTAL RECEIVABLE

The following amounts are due from other governments at June 30, 2017:

| | |
|---|---|
| General Fund | |
| Unrestricted: | |
| Georgia Department of Revenue | $ 35,739 |
| Towns County | 2,920 |
| | $ 38,659 |
| Enterprise Funds | |
| Restricted: | |
| Towns County Water Authority | $231,750 |
| Unrestricted: | |
| Towns County Water Authority | $ 6,699 |

## 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

| | Balances | Increases | Decreases | Balances |
|---|---|---|---|---|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Infrastructure in progress (Beg balance restated) | $ 56,460 | $ 150,530 | $ 51,807 | $ 155,183 |
| Total capital assets not being depreciated | $ 56,460 | $ 150,530 | $ - | $ 155,183 |
| Capital assets being depreciated: | | | | |
| Improvements | $ 1,892 | $ - | $ - | $ 1,892 |
| Equipment and furniture | 65,164 | 27,052 | 2,320 | 89,896 |
| Infrastructure | 227,209 | 49,700 | - | 276,909 |
| Buildings | 673,834 | - | - | 673,834 |
| Vehicles | 171,712 | 4,396 | 32,251 | 143,857 |
| Total capital assets being depreciated | $ 1,139,811 | $ 81,148 | $ 34,571 | $ 1,186,388 |
| Accumulated depreciation: | | | | |
| Improvements | $ 1,159 | $ 94 | $ - | $ 1,253 |
| Equipment and furniture | 55,430 | 6,422 | 2,320 | 59,532 |
| Infrastructure | 83,582 | 8,807 | - | 92,389 |
| Buildings | 43,988 | 13,477 | - | 57,465 |
| Vehicles | 121,953 | 13,540 | 32,251 | 103,242 |
| Total accumulated depreciation | $ 306,112 | $ 42,340 | $ 34,571 | $ 313,881 |
| Total capital assets being depreciated, net | $ 833,699 | $ 38,808 | $ - | $ 872,507 |

| | Beginning Balances | Increases | Decreases | Ending Balances |
|---|---|---|---|---|
| Business-type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 53,015 | $ - | $ - | $ 53,015 |
| Construction in progress | 112,152 | 61,203 | 145,295 | 28,060 |
| Total capital assets not being depreciated | $ 165,167 | $ 61,203 | $ 145,295 | $ 81,075 |
| Capital assets being depreciated: | | | | |
| Equipment, vehicles and furniture | $ 2,868,317 | $ 702,005 | $ 37,721 | $ 3,532,601 |
| Infrastructure | 12,903,859 | - | - | 12,903,859 |
| Buildings | 2,870,042 | - | - | 2,870,042 |
| Total capital assets being depreciated | $ 18,642,218 | $ 702,005 | $ 37,721 | $ 19,306,502 |
| Accumulated depreciation: | | | | |
| Equipment, vehicles and furniture | $ 1,185,102 | $ 210,912 | $ 36,565 | $ 1,359,449 |
| Infrastructure | 4,491,170 | 302,972 | - | 4,794,142 |
| Buildings | 1,555,682 | 71,842 | - | 1,627,524 |
| Total accumulated depreciation | $ 7,231,954 | $ 585,726 | $ 36,565 | $ 7,781,115 |
| Total capital assets being depreciated, net | $ 11,410,264 | $ 116,279 | $ 1,156 | $ 11,525,387 |
| Business-type activities, capital assets, net | $ 11,575,431 | $ 177,482 | $ 146,451 | $ 11,606,462 |

CAPITAL ASSETS (Continued)

The total increases above for accumulated depreciation do not include amortization on closing costs in the amount of $1,960.

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

| | |
|---|---|
| Governmental Activities: | |
| General Government | $25,311 |
| Public Safety | 17,029 |
| | $42,340 |

## 7. INTERGOVERNMENTAL CONTRACTS

The City of Hiawassee and the Towns County Water Authority have entered into a contract whereby the Authority has a reserved capacity of 45% in the Hiawassee surface water treatment plant. The old contract expired on May 31, 2017 and a new contract was signed on November 7, 2017. The City has ownership of the plant assets and is responsible for payment of the 1989 Water and Sewerage Revenue Bonds. The cost of operating the water treatment and distribution system to the County has been determined by financial analysis to be $1.65 per thousand gallons of water. Beginning September 1, 2017, the Authority will pay $1.65 per thousand gallons of water up to 45% of plant capacity plus a 20% surcharge on amounts in excess of the reserve.

It is critical to the finances of both parties to maintain an equitable wholesale contract. On a regular basis, the City and the Authority should review the wholesale cost of water to ensure that the $1.65 is meeting the cost of producing and delivering water to the Authority.

## 8. RESTRICTED ASSETS

Water System Fund

Certain assets of the Water System have been restricted for debt service and customers' deposits of the water system.

| | Cash | Certificates of Deposit | Receivables |
|---|---|---|---|
| Debt Service | $264,953 | $109,199 | $231,750 |
| Customer Deposits | 54,857 | - | - |
| | $319,810 | $109,199 | $231,750 |

2012 Water & Sewerage Revenue Bonds – Assets totaling $12,880 are restricted in a reserve account. The City must pay $347.70 per month into this account until a balance of $41,724 has been reached.

1999 Water Revenue Bonds - Assets totaling $108,612 in 2017 are restricted for the purpose of paying interest and principal on the series 1999 Water Revenue Bonds. The City deposited monthly increments to cover the principal and interest into the sinking fund. The required reserve was maintained at June 30, 2017.

RESTRICTED ASSETS (Continued)

Water System Fund (Continued)

1989 Water Revenue Bonds - Assets totaling $78,528 in 2017 are restricted for the purpose of paying interest and principal on the series 1989 Water Revenue Bonds. The City deposited monthly increments to cover the principal and interest into the sinking fund. The debt service reserve along with the interest earned on these accounts cannot be withdrawn until a reserve of $60,000 is maintained. The required reserve was maintained at June 30, 2017.

1984 Water Revenue Bonds - Assets totaling $37,071 at June 30, 2017 are restricted for the purpose of paying interest and principal on the series 1984 Water Revenue Bonds. The City deposited monthly increments to cover principal and interest into the sinking fund. The debt service reserve along with the interest earned on these accounts cannot be withdrawn until a reserve of $25,000 is maintained. At June 30, 2017 the required reserve was maintained.

The receivable in restricted funds from Towns County Water Authority of $231,750 is a receivable for 45% of the 1989 water revenue bonds.

9. SHORT-TERM DEBT

Governmental Activities:

At June 30, 2017, the City had a loan with a local bank. The loan proceeds were used to pay off an installment loan for a Ford Explorer for the Police Department that was purchased in a prior year. The balance on this loan at June 30, 2017 was $17,450. The note called for a ten regular payments of $572.37 at 3.15% and a balloon due at December 31, 2017.

Business-Type Activities:

There were no temporary loans outstanding at June 30, 2017.

10. LONG-TERM OBLIGATIONS

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

Notes Payable

Georgia Environmental Facilities Agency (GEFA) advanced money to the City for the purpose of replacing the existing water meters on a city-wide basis with an automatic meter reading system and related appurtenances. The total amount disbursed on this project was $443,313.45. Of this amount $157,622.55 of the principal was forgiven and a term note was set up for the remaining $285,690.90. The note is to be repaid in 120 consecutive monthly installments of $2,441.27 at .5%, beginning August 1, 2017 and ending on July 1, 2027.

LONG-TERM OBLIGATIONS (Continued)

Notes Payable (Continued)

GEFA has also advanced money to the City for four other projects. One is for water system improvements. The loan is payable in monthly installments of $7,359 with interest at 3%. The principal balance on this loan is $836,964 at June 30, 2017. Another project is for sewer rehabilitation and upgrades. The loan is payable in monthly installments of $890 with interest of 3%. The principal balance on this outstanding loan is $124,890 at June 30, 2017. Another project is to finance force main upgrades. The loan is payable in the monthly installments of $2,384 with interest at 3.81%. The principal balance on this loan is $319,713 at June 30, 2017. Another project is for the water intake at the water treatment plant. The loan is payable in monthly installments of $1,291 with interest at 3.13%. The principal balance on this loan is $206,981 at June 30, 2017.

Debt service requirements to maturity, including principal and interest for notes payable are as follows:

| Year Ending | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 122,565 | $ 47,379 | $ 169,944 |
| 2019 | 128,128 | 44,257 | 172,385 |
| 2020 | 131,470 | 40,916 | 172,386 |
| 2021 | 134,916 | 37,469 | 172,385 |
| 2022 | 138,469 | 33,916 | 172,385 |
| 2023-2027 | 749,664 | 112,261 | 861,925 |
| 2028-2032 | 334,225 | 26,807 | 361,032 |
| 2033-2035 | 34,806 | 1,332 | 36,138 |
| | $ 1,774,243 | $ 344,337 | $ 2,118,580 |

Revenue Bonds

Bonds payable at June 30, 2017 are comprised of the following:

Series 2012 Water and Sewerage Revenue Bonds were issued in the amount of $996,000 to the United States Department of Agriculture, Rural Development. The purpose of the issuance was for the cost of acquiring, constructing and installing the sewerage improvements project, refunding the interim loan and paying for the costs of issuance. The effective date of the bonds was May 28, 2014. The first payment was made on June 30, 2014. Payments are to be made monthly in the amount of $3,477 at 2.75% interest. The bond principal and interest payments are shown in the following schedules of bond principal and interest requirements that are presented in the following pages.

Series 1999 A & B Water Revenues Bonds, dated November 19, 1999, due in monthly installments of $7,826 from December, 1999 through December, 2039. Interest is payable monthly at the rate of 3.25-4.375% per annum beginning November 1, 2000. The purpose was to construct, expand, and repair the water and sewer system.

Series 1989 A & B Water Revenues Bonds, dated September 6, 1989, due in annual installments of $9,000 to $57,000 plus interest from December, 1990 through December, 2028. Interest is payable annually at the rate of 5% per annum beginning December 1, 1990. The purpose was to construct, expand, and repair the water and sewer system.

LONG-TERM OBLIGATIONS (Continued)

Series 1984 Water Revenues Bonds, dated March 6, 1984, due in annual installments of $1,000 to $20,000 plus interest from January, 1987 through January, 2024. Interest is payable annually at the rate of 8.375% per annum beginning January 1, 1985. The purpose was to construct and expand the water and sewer system.

Revenue Bonds (Continued)

Revenue Bonds Payable balances outstanding at June 30, 2017 consist of the following:

| Revenue Bond Series | Original Amount | Balance June 30, 2016 | Principal Additions (Reductions) | Balance June 30, 2017 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Series 1999 A & B | $1,878,300 | $1,434,231 | $ (38,603) | $1,395,628 | $40,121 |
| Series 1989 A & B | 974,000 | 545,000 | (30,000) | 515,000 | 32,000 |
| Series 1984 | 274,000 | 141,000 | (12,000) | 129,000 | 15,000 |
| Series 2012 | 996,000 | 964,707 | (15,387) | 949,320 | 15,816 |
| | $4,122,300 | $3,084,938 | $ (95,990) | $2,988,948 | $102,937 |

Debt service requirements to maturity, including principal and interest for the bonds are as follows:

Principal Payments

| Year Ending June 30, | Proprietary Fund Revenue Bonds Series 2012 | Series 1999 | Series 1989 | Series 1984 | Total |
|---|---|---|---|---|---|
| 2018 | $ 15,816 | $ 40,121 | $ 32,000 | $ 15,000 | $ 102,937 |
| 2019 | 16,257 | 41,701 | 34,000 | 18,000 | 109,958 |
| 2020 | 16,709 | 43,343 | 35,000 | 18,000 | 113,052 |
| 2021 | 17,175 | 45,052 | 37,000 | 19,000 | 118,227 |
| 2022 | 17,652 | 46,829 | 39,000 | 19,000 | 122,481 |
| 2023-2027 | 95,918 | 263,422 | 228,000 | 40,000 | 627,340 |
| 2028-2032 | 110,040 | 319,953 | 110,000 | - | 539,993 |
| 2033-2037 | 126,240 | 388,914 | - | - | 515,154 |
| 2038-2042 | 144,825 | 206,293 | - | - | 351,118 |
| 2043-2047 | 166,146 | - | - | - | 166,146 |
| 2048-2052 | 190,607 | - | - | - | 190,607 |
| 2053 | 31,935 | - | - | - | 31,935 |
| | $ 949,320 | $1,395,628 | $ 515,000 | $ 129,000 | $ 2,988,948 |

Interest Payments

| Year Ending June 30, | Proprietary Fund Revenue Bonds Series 2012 | Series 1999 | Series 1989 | Series 1984 | Total |
|---|---|---|---|---|---|
| 2018 | $ 25,908 | $ 53,790 | $ 25,750 | $ 10,804 | $ 116,252 |
| 2019 | 25,468 | 52,211 | 24,150 | 9,547 | 111,376 |
| 2020 | 25,015 | 50,569 | 22,450 | 8,040 | 106,074 |
| 2021 | 24,549 | 48,860 | 20,700 | 6,533 | 100,642 |
| 2022 | 24,073 | 47,083 | 18,850 | 4,941 | 94,947 |
| 2023-2027 | 112,702 | 206,138 | 62,850 | 5,025 | 386,715 |
| 2028-2032 | 98,580 | 149,607 | 8,350 | - | 256,537 |
| 2033-2037 | 82,380 | 80,646 | - | - | 163,026 |
| 2038-2042 | 63,795 | 9,875 | - | - | 73,670 |
| 2043-2047 | 42,474 | - | - | - | 42,474 |
| 2048-2052 | 18,013 | - | - | - | 18,013 |
| 2053 | 322 | - | - | - | 322 |
| | $ 543,279 | $ 698,779 | $ 183,100 | $ 44,890 | $ 1,470,048 |

## LONG-TERM OBLIGATIONS (Continued)

### Revenue Bonds (Continued)

This debt constitutes a lien on the revenues of the water and sewer system and is reported in that fund.

Changes in Long-Term Obligations

| | Balance 6/30/16 | Additions | Reductions | Balance 6/30/17 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Governmental Activities: | | | | | |
| Capital Leases | $ 19,570 | $ -- | $ 9,605 | $ 9,965 | $ 9,965 |
| Compensated Absences | 8,702 | -- | 1,999 | 6,703 | -- |
| Total Governmental Type Activities: | $ 28,272 | -- | $ 11,604 | $ 16,668 | $ 9,965 |
| Business-Type Activities: | | | | | |
| Notes Payable | $ 1,582,555 | $ 285,691 | $ 94,003 | $ 1,774,243 | $ 122,565 |
| Bonds Payable | 3,084,938 | -- | 95,990 | 2,988,948 | 102,937 |
| Compensated Absences | 21,779 | -- | 12,246 | 9,553 | -- |
| Total Business-Type Activities | $ 4,689,272 | $ 285,691 | $ 202,239 | $4,772,744 | $ 225,502 |

All long-term obligations of the City's water and sewer fund and water treatment plant fund will be financed through future expendable available financial sources as they become due. The compensated absences liability will be paid from the fund from which the employees' salaries are paid. In prior years long-term liabilities, such as compensated absences, of the governmental activities were liquidated in the General Fund. Interest paid on long-term debt during fiscal year ended June 30, 2017 was $159,467.

### Capital Lease Obligations

The City entered into a capital lease agreement with Ford Motor Company during the prior year for the purchase of a police interceptor utility vehicle. The future minimum payments are as follows:

| | |
|---|---|
| FYE 6/30/18 | $10,326 |
| | $10,326 |
| Less amount representing interest | (360) |
| Present value of minimum lease payments | $ 9,966 |
| Less Current Portion | (9,966) |
| Capital Lease Obligation, less current portion | $ 0 |

The vehicle under capital lease that is included in property and equipment on the government-wide financial statements is as follows:

| | |
|---|---|
| Depreciable basis | $37,699 |
| Less accumulated depreciation | (20,106) |
| Net book value | $17,593 |

Depreciation on the vehicle under capital lease for the current year was $7,540.

## 11. RESERVED FUND EQUITIES

Restricted Net Position/Reserved Retained Earnings:

In the proprietary fund statements, $605,902 has been reserved for the purpose of debt service. Net Positions have been restricted in the government-wide statements in the same amount.

Nonspendable Fund Balance: In the general fund, $8,460 of fund balance for prepaid insurance has been shown as nonspendable fund balances.

Restricted Fund Balance: In the general fund and SPLOST fund, $836 and $257,357 are restricted for various purposes. There is also $15,134 restricted for tourism in the Hotel/Motel fund. See detail on page 9 of the financials.

## 12. PENSION PLANS

*Plan Description*. The City is a participating member of the Georgia Municipal Employees Benefit System (GMEBS), a state-wide agent, multiple-employer retirement system, administered by the Georgia Municipal Association. This is a defined benefit pension plan, which provides retirement, disability and death benefits to plan members and beneficiaries. The Commission has established provisions, which assign the authority to the Commission council members to establish and amend the benefit provisions of the plan.

Control over the operation and administration of the plan is vested with GMEBS along with custody of the plan assets. The plan provides that the City has no liability with respect to payments or benefits or otherwise under the plan except to pay over to GMEBS such actuarially determined contributions as are required to meet minimum funding standards of the Public Retirement Systems Standards Law and provide benefits thereunder. If terminated, the plan provides that if there are funds remaining after the satisfaction of all liabilities, such funds shall not revert to the City but shall be allocated to employees. All employees are eligible for immediate participation. Officials are covered under the plan and are eligible for immediate participation.

There are no loans to any of the City officials or other “party-in-interest,” and there are no prohibited transactions. The plan assets do not include any securities or investments in the City of Hiawassee. The funds are managed by independent money managers.

The annual report and more detailed information regarding the plan can be obtained from the Plan Administrator, the Georgia Municipal Employees Benefit System.

At January 1, 2017, the date of the most recent actuarial valuation, there were 24 participants consisting of the following:

| | |
|---|---|
| Pensioners as of the valuation date | 5 |
| Participants inactive during the year with vested rights | 3 |
| Participants active during the year | 16 |
| Total number of participants | 24 |

PENSION PLANS (Continued)

*Benefits Provided*. The plan provides retirement, disability, and death benefits. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 65 with no reduction in benefit.

Officials and Class One members (City Manager and City Clerk) are eligible to retire at age 65 with no reduction in benefit. Members and officials with ten years of total service are eligible to retire at age 55 with no reduction in benefit. Officials and Class One members are eligible for early retirement at age 55 with no reduction in benefit. Members are eligible for early retirement with reduced benefits based on the early retirement reduction table at age 55 after 10 years of service. The benefit formula is 1.5% with a five year vesting schedule. Officials and Class One members benefit formula is 1.5% with benefits vesting immediately.

*Contributions*. Employees make no contributions to the plan. The City is required to contribute the remaining amounts necessary to fund the plan in compliance with the minimum funding standards of the Public Retirement Systems Standards Law. This funding policy, as specified by ordinance, has been the same since the inception of the plan.

*Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions*. At June 30, 2017, the City reported a net pension liability of $219,455. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of January 1, 2017. For the fiscal year ended June 30, 2017, the City recognized pension expense in the amount of $34,149.

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 41,856 | $ (167,130) |
| Changes in assumptions | - | (14,735) |
| Net difference between projected and actual earnings on pension plan investments | 39,807 | (39,170) |
| City contributions subsequent to the measurement date | 83,526 | - |
| Totals | $ 165,189 | $ (221,035) |

The $83,526 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net position liability in the fiscal year ending June 30, 2018.

PENSION PLANS (Continued)

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

| Year Ending June 30 | |
|---|---|
| 2018 | $ 49,036 |
| 2019 | 49,036 |
| 2020 | 43,295 |
| 2021 | 43,295 |
| 2022 | 36,373 |
| 2023 and thereafter | - |
| Totals | $ 221,035 |

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

| | |
|---|---|
| Inflation | 3.25% |
| Projected salary increases | 3.25% plus service based merit increases |
| Cost of living adjustments | 0.00% |
| Net investment rate of return | 7.75% |

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

The mortality and economic actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period of 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016 are summarized in the following table:

PENSION PLANS (Continued)

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

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

Changes in Net Pension Liability*:*

| | Total Pension Liability (Asset) (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
|---|---|---|---|
| Balances at 9/30/2015 | $ 1,456,051 | $ 1,004,332 | $ 451,719 |
| Changes for the year: | | | |
| Service Cost | $ 28,478 | $ - | $ 28,478 |
| Interest | 111,159 | - | 111,159 |
| Differences between expected and actual experience | (182,764) | - | (182,764) |
| Contributions - employer | - | 77,828 | (77,828) |
| Net Investment Income | - | 113,684 | (113,684) |
| Benefit Payments, including refunds of employee contributions | (43,485) | (43,485) | - |
| Administrative expense | - | (2,375) | 2,375 |
| Other | - | - | - |
| Net changes | $ (86,612) | $ 145,652 | $ (232,264) |
| Balances at 9/30/2016 | $ 1,369,439 | $ 1,149,984 | $ 219,455 |

PENSION PLANS (Continued)

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

| | Discount Rate | Net Pension Liability (Asset) |
|---|---|---|
| 1% decrease | 6.75% | $ 385,005 |
| Current discount rate | 7.75% | 219,455 |
| 1% increase | 8.75% | 79,408 |

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

*Other Plans.* In addition to the plan above, various City employees are covered under the Peace Officers' Annuity and Benefit Fund of Georgia. The City of Hiawassee's share of the collective net pension liability is $8,987. The City's portion of the collective pension expense and revenue from the State of Georgia is $2,625. Further information regarding this plan can be obtained from the plan's annual report.

13. JOINT VENTURE

The City of Hiawassee, Georgia, in conjunction with cities and counties in the thirteen county area are members of the Georgia Mountain Regional Commission. Membership in a regional commission (RC) 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 RCs. Each county and municipality in the state is required by law to pay minimum annual dues to the RC. The City paid no annual dues to the RC for the year ended June 30, 2017 because currently all dues are paid on the City's behalf by Towns County. A 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 the county. The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RCs as "public agencies and instrumentality's of their members". Georgia laws also provide 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). Complete financial statements of the Georgia Mountain Regional Commission can be obtained directly from their office at:

Georgia Mountain Regional Commission
Post Office Box 1720
Gainesville, Georgia 30503

## 14. INTERNAL ACTIVITY

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement.

All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation. During the year, there were no interfund transfers.

There was an interfund receivable and payable of $574,635 between the Water Fund and Water Treatment Plant on the Statement of Net Position for Proprietary Funds. These interfund balances are not reflected on the government-wide Statement of Net Position. The receivable resulted from the payment of loans by the Water Treatment Plant related to improvements to the water system. These payments should have been made from the Water Fund. The City does not expect for this receivable to be paid back within the next year from Water Fund to the Water Treatment Fund. This balance may be reclassified as a transfer in the next fiscal year upon council approval and if so will be reflected appropriately in the amended budget.

There was also an interfund receivable and payable of $6,851 between the Water Fund and General Fund and $15,000 between the General Fund and SPLOST Fund.

## 15. RISK MANAGEMENT

The City of Hiawassee, Georgia 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 the following insurance coverage. There are no significant reductions of insurance coverage compared to the prior year. Settled claims have not exceeded the commercial excess coverage any of the past three fiscal years.

### Risk Pools

The City has insurance coverage with Norton Insurance Agency. Insurance coverage and deductible options for property, casualty and crime under the policy are selected by City's management based on anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed by the 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

RISK MANAGEMENT (Continued)

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 for which the City is liable (up to the applicable deductible) which were outstanding and unpaid at June 30, 2017. No provisions have been made in the financial statements for the year ended June 30, 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 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 stature creating GMAWCSIF permits the fund to levy an assessment upon its members to make up any deficiency the fund may have in surplus or reserves. No amount has been recorded in the general purpose financial statements for this contingency, as management believes the likelihood for assessment is remote.

Self Insurance

The City pays unemployment claims to the State Department of Labor on a reimbursement basis. Liabilities for such claims are immaterial and are therefore not accrued.

16. HOTEL/MOTEL TAX

The City of Hiawassee, Georgia has levied a 5% lodging tax. The City has complied with the provisions of OCGA 48-13-51 of the State of Georgia. All of the proceeds received from the Hotel/Motel tax are collected by Towns County and then distributed to the City of Hiawassee. The City then pays a collection fee of one-percent (1%) to the Tax Commissioner. A total of $59,089 was spent this year to promote Tourism in the City of Hiawassee. During the year, the City executed a contract with the Towns County Chamber of Commerce. A balance of $15,134 was in the hotel/motel account at June 30, 2017 to be paid to the Chamber to promote tourism.

17. COMMITMENTS AND CONTINGENCIES

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, 2017.

The City is involved in a lawsuit. After taking into consideration legal counsel’s evaluation of the lawsuit, the City is of the opinion that it has no liability, and that the outcome of the lawsuit will not have a significant effect on the City’s financial statements.

18. SUBSEQUENT EVENTS

Subsequent events were evaluated through January 29, 2018, which is the date that the financials were available to be issued. The City does not believe that there are any subsequent events that need to be disclosed in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF HIAWASSEE, GEORGIA**
**BUDGET COMPARISON SCHEDULE**
**GENERAL FUND**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
|---|---|---|---|---|
| **REVENUES:** | | | | |
| Taxes & Assessments | $ 578,590 | $ 546,115 | $ 515,995 | $ (30,120) |
| Licenses & Permits | 36,300 | 43,850 | 51,134 | 7,284 |
| Fines & Forfeitures | 95,150 | 120,255 | 138,969 | 18,714 |
| Charges for Services | 7,000 | 6,520 | 6,664 | 144 |
| Investment Earnings | 2,200 | 2,200 | 1,272 | (928) |
| Contributions & Grants | 16,000 | 17,838 | 33,678 | 15,840 |
| TOTAL REVENUES | $ 735,240 | $ 736,778 | $ 747,712 | $ 10,934 |
| **EXPENDITURES:** | | | | |
| **Current Operating:** | | | | |
| General Government | $ 464,440 | $ 436,778 | $ 424,284 | $ 12,494 |
| Public Safety | 401,500 | 413,050 | 383,328 | 29,722 |
| Judicial | 7,300 | 5,400 | 5,496 | (96) |
| **Debt Service:** | | | | |
| Principal | - | - | 32,831 | (32,831) |
| Interest | 7,000 | 550 | 1,089 | (539) |
| TOTAL EXPENDITURES | $ 880,240 | $ 855,778 | $ 847,028 | $ 8,750 |
| EXCESS OF EXPENDITURES OVER REVENUES | $ (145,000) | $ (119,000) | $ (99,316) | $ 19,684 |
| **OTHER FINANCING SOURCES (USES):** | | | | |
| Prior Year Reserves Utilized | $ 145,000 | $ 145,000 | $ - | $ 145,000 |
| Other Financing Source - Debt | - | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | $ 145,000 | $ 145,000 | $ - | $ 145,000 |
| NET CHANGE IN FUND BALANCE | $ - | $ 26,000 | $ (99,316) | $ (125,316) |
| **FUND BALANCES:** | | | | |
| Beginning of Year | - | - | 199,151 | 199,151 |
| End of Year | $ - | $ 26,000 | $ 99,835 | $ 73,835 |

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

CITY OF HIAWASSEE, GEORGIA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN FISCAL YEARS
JUNE 30, 2017

| | Fiscal Year End 2017 | Fiscal Year End 2016 | Fiscal Year End 2015 |
|---|---|---|---|
| Total Pension Liability | | | |
| Service cost | $ 28,478 | $ 26,612 | $ 27,525 |
| Interest | 111,159 | 100,166 | 96,313 |
| Differences between expected and actual experience | (182,764) | 55,809 | (23,720) |
| Changes in assumptions | - | - | - |
| Changes of benefit terms | - | - | - |
| Benefit payments, including refunds of employee contributions | (43,485) | (38,012) | (15,639) |
| Other | - | - | (23,572) |
| Net change in total pension liability | $ (86,612) | $ 144,575 | $ 60,907 |
| Total pension liability - beginning | 1,456,051 | 1,311,476 | 1,250,569 |
| Total pension liability - ending (a) | $ 1,369,439 | $ 1,456,051 | $ 1,311,476 |
| Plan Fiduciary Net Position | | | |
| Contributions - Employer | $ 77,828 | $ 83,703 | $ 74,942 |
| Contributions - Employee | - | - | - |
| Net investment income | 113,684 | 9,111 | 93,055 |
| Benefit payments, including refunds of employee contributions | (43,485) | (38,012) | (15,639) |
| Administrative expense | (2,375) | (2,519) | (2,013) |
| Other | - | - | - |
| Net change in Plan Fiduciary Net Position | $ 145,652 | $ 52,283 | $ 150,345 |
| Plan Fiduciary Net Position - beginning | 1,004,332 | 952,049 | 801,704 |
| Plan Fiduciary Net Position - ending (b) | $ 1,149,984 | $ 1,004,332 | $ 952,049 |
| Net Pension Liability - ending: (a) - (b) | $ 219,455 | $ 451,719 | $ 359,427 |
| Plan fiduciary net position as a percent of total pension liability | 83.97% | 68.98% | 72.59% |
| Covered-employee payroll | $ 703,240 | $ 770,166 | $ 797,509 |
| Net pension liability as a percentage of covered-employee payroll | 31.21% | 58.65% | 45.07% |

Notes to Schedule:
*2015 was the first fiscal year that data was measured in accordance with GASB Statement 68.*
*Historical information prior to implementation of GASB 67/68 is not required*

CITY OF HIAWASSEE, GEORGIA
SCHEDULE OF CONTRIBUTIONS - PENSIONS
LAST TEN FISCAL YEARS
JUNE 30, 2017

| | Fiscal Year End 2017 | Fiscal Year End 2016 | Fiscal Year End 2015 |
|---|---|---|---|
| Actuarially determined contribution | $ 83,526 | $ 75,929 | $ 78,472 |
| Contributions in relation to the actuarilly determined contribution | (83,526) | (75,929) | (78,472) |
| Contribution deficiency (excess) | $ - | $ - | $ - |
| Covered-employee payroll | $ 703,240 | $ 770,166 | $ 797,509 |
| Contributions as a percentage of covered-employee payroll | 11.88% | 9.86% | 9.84% |

Notes to Schedule:
*2015 was the first fiscal year that data was measured in accordance with GASB Statement 68.*
*Historical information prior to implementation of GASB 67/68 is not required*

1. Budgets and Budgetary Accounting

The City of Hiawassee prepares a budget for all City Funds. The budget shows a comparison of current year revenues and expenditures with the proposed revenues and expenditures of the upcoming year.

The City sets the date of submission of the proposed budget to the governing body. On that date a copy of the proposed budget is placed for public inspection during regular business hours. Also, at this time, a notice is published in the local newspaper stating the time and place of a public hearing on the proposed budget.

The budget hearing precedes the formal adoption of the budget by at least one week. The budget is then formally adopted at a public meeting.

Any amendments to the budget are approved by the City Council and adopted by appropriations ordinance. The Mayor recommends changes within the department level; however, changes for each department must be approved by the City Council.

The budget for the General Fund is prepared on the modified accrual basis of accounting, and the budget for the Water and Sewer Fund is prepared on the accrual basis of accounting.

Expenditures may not legally exceed budgeted appropriations at the departmental level in the General Fund. The following exceeded their budget.

| | Budget | Actual | Excess Over Budget |
|---|---|---|---|
| Judicial: | $5,400 | $ 5,496 | $ 96 |
| Debt Service: | | | |
| Principal | --- | 32,831 | 32,831 |
| Interest | 550 | 1,089 | 539 |

The City has established procedures to more accurately monitor budget variances and take appropriate actions to avoid over spending the approved budgets in the future.

2. Pensions

a. Valuation Date

The actuarially determined contribution rate was determined as of January 1, 2017, with an interest adjustment to the fiscal year. Contributions in relation to this actuarially determined contribution rate will be reported for the fiscal year ending June 30, 2017.

b. Methods and Assumptions Used to Determine Contribution Rates

- Actuarial cost method = Projected unit credit
- Amortization method = Closed level dollar for remaining unfunded liability
- Remaining amortization period = Remaining amortization period varies for the bases, with a net effective amortization period of 10 years

Methods and Assumptions Used to Determine Contribution Rates (Continued)

- Asset valuation method = Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at end of year. The actuarial value is adjusted, if necessary, to be within 20% of market value.
- Net investment rate of return = 7.75%
- Projected salary increases = 3.25% plus service based merit increases
- Cost of living adjustments = 0.00%
- Retirement age = 65
- Mortality = Healthy mortality rates were based on the RP-2000 Combined Healthy Mortality Table with sex-distinct rates, set forward two years for males and one year for females. Disabled mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with sex-distinct rates.

c. Changes in Benefits

There were no changes in benefit provisions in the last two fiscal years.

d. Changes of Assumptions

Amounts reported for the fiscal year ending in 2017 and later reflect the following assumption changes based on the results of an actuarial experience study covering the period of January 1, 2010 to June 30, 2014:

The mortality table for disabled participants was changed to remove the two-year set-forward for males and the one-year set-forward for females.

The turnover rates were updated to introduce select rates for service less than five years and to reduce the ultimate rate by 15% and to assume no turnover on and after age 55. The select period rates were further constrained to not be less than the ultimate rates.

The retirement rates where normal retirement is only available on or after age 65 were changed from the prior assumption of 100% at age 65 to the new assumption of 60% at ages 65 to 69 and 100% at age 70. Where normal retirement is available prior to age 65, the rates were changed from the prior assumption of 100% at earliest unreduced age, but not below age 60, to the new assumption of 10% at ages 55 to 59, 20% at age 60, 25% at age 61, 35% at age 62, 40% at age 63, 45% at age 64, 50% at ages 65 to 69, and 100% at age 70.

The inflation assumption remained 3.25%. There was no cost-of-living adjustment assumption.

The salary increase assumption was changed from select period rates during the first five years of service, followed by age-related rates to an assumption based on new service- related rates. The salary increases range from 3.75% to 8.75% and include an inflation assumption of 3.25%.

# GOVERNMENTAL REPORTS

**ED K. BURTON, LLC**
CERTIFIED PUBLIC ACCOUNTANTS

Ed K. Burton, CPA
Alan M. Burton, CPA
T. Scott Slaton, CPA

Members American Institute of CPA's and Georgia Society of CPA's

## 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*

The Honorable Mayor Liz Ordiales and Members of the City Council
City of Hiawassee, Georgia

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hiawassee, Georgia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 29, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Hiawassee, Georgia's internal control over financial reporting 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 Hiawassee, Georgia's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hiawassee, 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. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency (2017-1) in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hiawassee, Georgia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 did disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs in 2017-2.



12333 Augusta Road ◊ P.O. Box 40 ◊ Lavonia, Georgia 30553 ◊ Telephone (706) 460-5750 ◊ Fax (706) 460-5747 ◊ E-mail: ed@edkburtonllc.com

We noted certain matters that we reported to management of City of Hiawassee, Georgia in a separate letter dated January 29, 2018.

City of Hiawassee, Georgia's Response to Findings

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

Ed K. Burton, LLC

Lavonia, Georgia
January 29, 2018

CITY OF HIAWASSEE, GEORGIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION 1 – SUMMARY OF AUDITOR'S RESULTS

**Financial Statements**

| | |
|---|---|
| Type of auditor's report issued: | Unmodified |
| Internal Control over financial reporting: | |
| Material weakness(es) identified? | None reported |
| Significant deficiencies identified not considered material weaknesses? | Yes |
| Noncompliance material to financial statements noted? | Yes |

**Federal Awards**

There was not an audit of major federal award programs due to the total amount expended on federal programs being less than $750,000.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

**Internal Control over Financial Reporting**

2017-1 Repeat from prior year: GAAP Financial Statements

Criteria: Annual financial statements are required to be prepared in accordance with generally accepted accounting principles (GAAP).

Condition: Several adjustments to the financial statements were required at year-end to state the financial position of the governmental activities, the business-type activities, and each major fund of the City of Hiawassee, Georgia in a fair manner. This includes accrual entries and certain issues regarding capital assets, such as recording capital outlay correctly, correctly capitalizing costs related to capital projects, recording revenues and expenditures for hotel/motel taxes, adjusting grant receivables, and classifying revenues and expenditures/expenses correctly.

Effect: This could result in internal and interim financial statements being misstated and unfairly presenting the City's financial position. This may cause management decisions to be misguided due to the incorrect presentation.

Cause: The transactions described above were not currently recorded correctly and timely.

Recommendation: We recommend that the necessary adjustments should be made timely as the events occur and that the appropriate schedules or information be maintained throughout the year to making these adjustments. Also, the financial statements and supporting information should be reviewed routinely during the year to ensure pertinent items are included.

Response: Management agrees with this finding and plans to make the proper adjustments in a timely manner in the future.

CITY OF HIAWASSEE, GEORGIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Compliance and Other Matters**

2017-2 Budget Requirements

Criteria: Georgia law requires budgets to be adopted at the department level and expenditures spent accordingly.

Condition: Actual expenditures exceeded the legally adopted budget at the department level, particularly as it relates to the public safety department.

Effect: Fiscal control and accountability over departmental expenditures may be jeopardized.

Cause: Payments were made on a capital lease related to the purchase of a police vehicle in a prior year, but those payments were not budgeted for the current fiscal year.

Recommendation: The City Council should amend the budget to prevent budgetary deficiencies.

Response: We continue to analyze budgetary financial data periodically and investigate budgetary deficiencies. In the future, we will adopt a budget amendment when appropriate.

SECTION 3 – FEDERAL AWARDS FINDINGS
Not applicable. No single audit required.

CITY OF HIAWASSEE, GEORGIA
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

2016-1: GAAP Financial Statements

Criteria: Annual financial statements are required to be prepared in accordance with generally accepted accounting principles (GAAP).

Condition: Several adjustments to the financial statements were required at year-end to state the financial position of the governmental activities, the business-type activities, and each major fund of the City of Hiawassee, Georgia in a fair manner. This includes accrual entries and certain issues regarding capital assets, such as recording capital outlay correctly, correctly capitalizing costs related to capital projects, recording revenues and expenditures for hotel/motel taxes, adjusting grant receivables, and classifying revenues and expenditures/expenses correctly.

Auditee Response/Status: Unresolved. Refer to current year finding at 2017-1.

2016-2 Budget Requirements

Criteria: Georgia law requires budgets to be adopted at the department level and expenditures spent accordingly.

Condition: Actual expenditures exceeded the legally adopted budget at the department level, particularly as it relates to debt service in the public safety department.

Effect: Fiscal control and accountability over departmental expenditures may be jeopardized.

Auditee Response/Status: Unresolved. Refer to current year finding at 2017-2.

## OTHER SUPPLEMENTARY INFORMATION

**CITY OF HIAWASSEE**
**SCHEDULE OF PROJECTS FINANCED WITH**
**SPECIAL PURPOSE LOCAL OPTION SALES TAX**
**FOR THE YEAR FISCAL ENDED JUNE 30, 2017**

| Project | Estimated Cost | | Expenditures | | | % of |
|---|---|---|---|---|---|---|
| | Original | Current | Prior Years | Current Year | Total | Completion |
| Parks | $ 150,000 | $ 160,000 | $ 54,181 | $ 103,898 | $ 158,079 | 98.80% |
| Fire Protection | 70,000 | 12,500 | 12,500 | - | 12,500 | 100.00% |
| Downtown Development | | | | | | |
| Roads/Sidewalks | 120,000 | 120,000 | 27,536 | 48,155 | 75,691 | 63.08% |
| City Hall & Police Station | 200,000 | 303,500 | 302,276 | - | 302,276 | 99.60% |
| Water Plant & Storage | | | | | | |
| Water Storage | 200,000 | 144,000 | 34,459 | 1,495 | 35,954 | 24.97% |
| Pumps | 50,000 | 50,000 | - | - | - | 0.00% |
| Water & Sewer | | | | | | |
| Replacement of Infrastructure | 303,000 | 303,000 | 91,726 | 88,628 | 180,354 | 59.52% |
| Sewer Plant | 50,000 | 50,000 | - | - | - | 0.00% |
| Total | $ 1,143,000 | $ 1,143,000 | $ 522,678 | $ 242,176 | $ 764,854 | 66.92% |