CITY OF McCAYSVILLE, GEORGIA

FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2016

CITY OF McCAYSVILLE, GEORGIA
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FINANCIAL SECTION

The financial section includes the independent auditor's report on the financial statement audit and the basic financial statements, including footnotes.

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of McCaysville, 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 of the City of McCaysville, Georgia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of McCaysville, Georgia's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of McCaysville, Georgia, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial

statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of McCaysville, Georgia's basic financial statements. The Schedule of Projects Constructed with Special Local Option Sales Tax Proceeds is presented for purposes of additional analysis as required by the Official Code of Georgia Annotated Section 48-8-121 and is not a required part of the basic financial statements.

The Schedule of Projects Constructed with Special Local Option Sales Tax Proceeds is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, The Schedule of Projects Constructed with Special Local Option Sales Tax Proceeds is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2016, on our consideration of the City of McCaysville, 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 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 McCaysville, Georgia's internal control over financial reporting and compliance.

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

Welch, Walker & Associates, P.C., CPAs
East Ellijay, Georgia
December 28, 2016

BASIC FINANCIAL STATEMENTS

The basic financial statements include the government-wide statement of net assets and government-wide statement of activities, which include all of the primary government's activities. In addition, the basic financial statements include the fund financial statements and the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF McCAYSVILLE, GEORGIA
STATEMENT OF NET POSITION
June 30, 2016

	Governmental Activities	Business-type Activities	Total Primary Government
ASSETS			
Current Assets:			
Cash	$ 1,370,385	$ 731,676	$ 2,102,061
Restricted cash	335,390	346,280	681,670
Restricted cash equivalents	175,846	-	175,846
Investments	463,503	-	463,503
Restricted investments	-	396,639	396,639
Taxes receivable, net	13,934	-	13,934
Intergovernmental receivable	96,517	-	96,517
Fines receivable, net	14,063	245,804	259,867
Other receivables	25	-	25
Internal balances	21,690	(21,690)	-
Inventories	-	134,448	134,448
Prepaid items	26,606	18,411	45,017
Total Current Assets	2,517,959	1,851,568	4,369,527
Non-current Assets:			
Capital Assets:			
Non-depreciable capital assets	69,363	48,006	117,369
Depreciable capital assets, net	1,645,928	9,851,536	11,497,464
Total Non-current Assets	1,715,291	9,899,542	11,614,833
Total Assets	4,233,250	11,751,110	15,984,360
LIABILITIES			
Current Liabilities:			
Accounts payable	14,898	59,310	74,208
Accrued expenses	15,540	15,767	31,307
Accrued interest	-	31,893	31,893
Current portion of notes payable	-	251,682	251,682
Current portion of bonds payable	-	114,780	114,780
Liabilities payable from restricted assets:			
Customer deposits	-	103,765	103,765
Total Current Liabilities	30,438	577,197	607,635
Non-current liabilities:			
Notes payable	-	4,852,527	4,852,527
Bonds payable	-	458,690	458,690
Total Non-current liabilities	-	5,311,217	5,311,217
Total Liabilities	30,438	5,888,414	5,918,852
NET POSITION			
Net investment in capital assets	1,684,853	4,221,863	5,906,716
Restricted for capital projects	556,592	96,942	653,534
Restricted for debt service	-	145,573	145,573
Unrestricted	1,961,367	1,398,318	3,359,685
Total Net Position	$ 4,202,812	$ 5,862,696	$ 10,065,508

The accompanying notes are an integral part of this statement.

CITY OF McCAYSVILLE, GEORGIA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2016

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	Net (Expense) Revenue and Changes in Net Position: Primary Government: Business-type Activities	Net (Expense) Revenue and Changes in Net Position: Primary Government: Total
Primary Government							
Governmental activities:							
General government	$ 166,986	$ -	$ -	$ -	$ (166,986)	$ -	$ (166,986)
Judicial	15,977	32,974	-	-	16,997	-	16,997
Public safety	293,151	-	-	-	(293,151)	-	(293,151)
Public works	258,300	-	-	264,968	6,668	-	6,668
Culture and recreation	16,830	-	-	-	(16,830)	-	(16,830)
Total governmental activities	751,244	32,974	-	264,968	(453,302)	-	(453,302)
Business-type activities:							
Water and sewer	1,641,870	2,067,939	-	726,021	-	1,152,090	1,152,090
Total business-type activities	1,641,870	2,067,939	-	726,021	-	1,152,090	1,152,090
Total Primary Government	$ 2,393,114	$ 2,100,913	$ -	$ 990,989			
General revenues:							
Taxes:							
Property taxes, levied for a general purpose					161,162	-	161,162
Franchise taxes					7,857	-	7,857
General sales and use taxes					484,146	-	484,146
Business taxes					16,718	-	16,718
Insurance premium taxes					60,847	-	60,847
Payments in lieu of taxes					8,842	-	8,842
Miscellaneous					7,564	5,444	13,008
Unrestricted investment earnings					4,972	1,516	6,488
Total general revenues					752,108	6,960	759,068
Special items					-	51,202	51,202
Total general revenues and special item					752,108	58,162	810,270
Change in net position					298,806	1,210,252	1,509,058
Net position, beginning of year					3,904,006	4,652,444	8,556,450
Net position, end of year					$ 4,202,812	$ 5,862,696	$ 10,065,508

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF McCAYSVILLE, GEORGIA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016

	GENERAL FUND	SPLOST FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash	$ 1,370,385	$ 335,390	$ 1,705,775
Cash equivalents	-	175,846.00	175,846
Investments	463,503	-	463,503
Taxes receivable, net	13,934	-	13,934
Fines receivable, net	14,063	-	14,063
Intergovernmental receivable	51,161	45,356	96,517
Other receivables	25	-	25
Interfund receivable	41,332	-	41,332
Prepaid expenditures	26,606	-	26,606
Total Assets	$ 1,981,009	$ 556,592	$ 2,537,601
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 14,898	$ -	$ 14,898
Accrued expenditures	15,540	-	15,540
Interfund payable	19,642	-	19,642
Total Liabilities	50,080	-	50,080
Deferred Inflows of Resources:			
Deferred fine revenue	18,360	-	18,360
Deferred tax revenue	15,406	-	15,406
Total Deferred Inflows of Resources	33,766	-	33,766
Fund Balances:			
Nonspendable	26,606	-	26,606
Restricted for capital projects	-	556,592	556,592
Unassigned	1,870,557	-	1,870,557
Total Fund Balances	1,897,163	556,592	2,453,755
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 1,981,009	$ 556,592	$ 2,537,601

The accompanying notes are an integral part of this statement.

CITY OF McCAYSVILLE, GEORGIA
RECONCILIATION OF THE GOVERNMENTAL BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2016

Total fund balances, governmental funds	$ 2,453,755
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds. The cost of assets is $2,246,803 and the accumulated depreciation is $531,512.	1,715,291
Revenue is recognized by governmental funds when it is both measurable and available. On the government-wide financial statements, however, revenue is recognized when it is earned and realizable. Deferred fine revenue of $15,406 and deferred tax revenue of $18,360 should, therefore, be considered earned revenue on the government-wide financial statements.	33,766
Total net position, governmental activities	$ 4,202,812

The accompanying notes are an integral part of this statement.

CITY OF McCAYSVILLE, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2016

	GENERAL FUND	SPLOST FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Taxes	$ 739,643	$ -	$ 739,643
Intergovernmental	-	264,388	264,388
Fines and forfeitures	28,040	-	28,040
Penalties and interest	4,972	580	5,552
Miscellaneous	7,565	-	7,565
Total Revenues	780,220	264,968	1,045,188
EXPENDITURES			
Current:			
General government	180,439	-	180,439
Judicial	15,977	-	15,977
Public safety	334,015	-	334,015
Public works	162,025	-	162,025
Culture and recreation	12,228	-	12,228
Capital Outlay:			
Public works	-	449,565	449,565
Total Expenditures	704,684	449,565	1,154,249
Net change in fund balances	75,536	(184,597)	(109,061)
Fund balances, beginning of year	1,821,627	741,189	2,562,816
Fund balances, end of year	$ 1,897,163	$ 556,592	$ 2,453,755

The accompanying notes are an integral part of this statement.

CITY OF McCAYSVILLE, 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, 2016

Net change in fund balance, governmental fund	$ (109,061)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The net effect on the Statement of Activities is the amount by which capital outlay of $468,347 exceeds depreciation expense of $65,343 in the period.	403,004
Revenue is recognized by governmental funds when it is both measurable and available. On the government-wide financial statements, however, revenue is recognized when it is earned and realizable. The net change in deferred fine revenue and deferred tax revenue should, therefore, be considered earned revenue on the government-wide financial statements.	4,863
Change in net position, governmental activities	$ 298,806

The accompanying notes are an integral part of this statement.

CITY OF McCAYSVILLE, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual Amount Budgetary Basis	Variance Over
	Original	Final	(See Note 2)	(Under)
Budgetary fund balance, beginning of year	$ 1,821,627	$ 1,821,627	$ 1,821,627	$ -
Resources (inflows):				
Property taxes	95,000	95,000	94,053	(947)
Motor vehicle taxes	60,300	60,300	67,180	6,880
Franchise taxes	7,500	7,500	7,857	357
General sales and use taxes	450,000	450,000	484,146	34,146
Business taxes	14,900	14,900	16,718	1,818
Insurance premium taxes	57,000	57,000	60,847	3,847
Penalties and interest on taxes	3,600	3,600	3,207	(393)
Payments in lieu of taxes	10,500	10,500	8,842	(1,658)
Fines and forfeitures	26,900	26,900	28,040	1,140
Interest	1,200	1,200	1,765	565
Miscellaneous	2,500	2,500	7,565	5,065
Reserve from prior years	2,000	2,000	-	(2,000)
Amounts available for appropriation	731,400	731,400	780,220	48,820
Charges to appropriations (outflows):				
General Government:				
Legislative	17,842	17,842	17,755	87
Executive	3,350	3,350	4,140	(790)
Financial administration	212,079	212,079	158,544	53,535
Judicial:				
Municipal court	6,400	6,400	15,977	(9,577)
Public Safety:				
Police	306,710	306,710	334,015	(27,305)
Public Works:				
Highways and streets	173,344	173,344	162,025	11,319
Culture and Recreation:				
Parks	11,675	11,675	12,228	(553)
Total charges to appropriations	731,400	731,400	704,684	26,716
Net change	-	-	75,536	75,536
Budgetary fund balance, end of year	$ 1,821,627	$ 1,821,627	$ 1,897,163	$ 75,536

The accompanying notes are an integral part of this statement.

CITY OF McCAYSVILLE, GEORGIA
STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
June 30, 2016

	ENTERPRISE FUND WATER AND SEWER
ASSETS	
Current Assets:	
Cash	$ 731,676
Restricted cash	346,280
Restricted investments	396,639
Accounts receivable, net	245,804
Interfund receivable	19,642
Inventories	134,448
Prepaid items	18,411
Total Current Assets	1,892,900
Non-current Assets:	
Capital Assets:	
Non-depreciable capital assets	48,006
Depreciable capital assets, net	9,851,536
Total Non-current Assets	9,899,542
Total Assets	$ 11,792,442
LIABILITIES AND NET POSITION	
Current Liabilities:	
Accounts payable	$ 59,310
Accrued expenses	15,767
Accrued interest	31,893
Interfund payable	41,332
Current portion of notes payable	251,682
Current portion of bonds payable	114,780
Liabilities payable from restricted assets:	
Customer deposits	103,765
Total Current Liabilities	618,529
Non-current Liabilities:	
Notes payable	4,852,527
Bonds payable	458,690
Total Non-current Liabilities	5,311,217
Total Liabilities	5,929,746
Net Position:	
Net investment in capital assets	4,221,863
Restricted for capital projects	96,942
Restricted for debt service	145,573
Unrestricted	1,398,318
Total Net Position	5,862,696
Total Liabilities and Net Position	$ 11,792,442

The accompanying notes are an integral part of this statement.

CITY OF McCAYSVILLE, GEORGIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2016

	ENTERPRISE FUND WATER AND SEWER
Operating Revenues:	
Charges for services	$ 1,972,113
Tap fees	29,250
Surcharge fees	12,303
Penalties	31,037
Connect fees	10,870
Rent	12,366
Miscellaneous	5,444
Total operating revenues	2,073,383
Operating Expenses:	
Sewer	518,023
Water treatment	71,966
Water distribution	702,015
Sanitation	59,717
Total operating expenses before depreciation	1,351,721
Depreciation expense	165,773
Total operating expenses	1,517,494
Operating income (loss)	555,889
Non-operating Revenues (Expenses):	
Interest revenue	1,516
Interest expense	(124,376)
Intergovernmental	300,000
Contributions from private sources	426,021
Total non-operating revenues (expenses)	603,161
Special item	
Debt forgiveness	51,202
Change in net position	1,210,252
Net position, beginning of year	4,652,444
Net position, end of year	$ 5,862,696

The accompanying notes are an integral part of this statement.

CITY OF McCAYSVILLE, GEORGIA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2016

	ENTERPRISE FUND WATER AND SEWER
Cash flows from operating activities:	
Receipts from customers	$ 2,054,373
Payments to suppliers	(771,644)
Payments to employees	(640,316)
Net cash provided by (used in) operating activities	642,413
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(1,207,559)
Principal received in financing construction	878,581
Principal payments on capital debt	(259,424)
Interest paid on capital debt	(128,788)
Net cash provided by (used in) capital and related financing activities	(717,190)
Cash flows from investing activities:	
Interest income	1,151
Cash provided by (used in) investing activities	1,151
Net increase (decrease) in cash	(73,626)
Cash, beginning of year	1,151,582
Cash, end of year	$ 1,077,956
Reconciliation of total cash:	
Restricted	$ 346,280
Unrestricted	731,676
	$ 1,077,956
Reconciliation of operating income to the net cash provided by (used in) operating activities:	
Operating income (loss)	$ 555,889
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	165,773
Change in assets and liabilities:	
Accounts receivable	(23,330)
Interfund receivable	(15,767)
Inventories	(40,288)
Prepaid items	(12,145)
Accounts payable	(17,405)
Salaries payable	7,101
Interfund payable	18,265
Customer deposits	4,320
Net cash provided by (used in) operating activities	$ 642,413
Noncash capital and related financing activities disclosure:	
Contribution of capital assets	$ 426,021
Debt forgiveness	$ 51,202

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

The notes to the financial statements are a required component of the basic financial statements of the City. The notes provide required and essential information for the fair presentation of the statements that have not been disclosed on the face of the financial statements.

1. SUMMARY OF ACCOUNTING POLICIES

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

A. THE REPORTING ENTITY

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The City's financial statements include the 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 or impose a financial burden on the primary government. GASB 14 was amended in a later released standard, Governmental Accounting Standards Board's Statement No. 61, which further emphasized and defined the existence of a financial burden or benefit between a primary government and the component unit. As a result of applying the criteria of these two standards, there have been no component units included the financial statements of the City at June 30, 2016.

The Housing Authority of the City of McCaysville is considered a related organization as a result of applying the criteria of GASB 14 and 61. The Authority is a legally separate entity having a board composed of members appointed originally by the City of McCaysville. The City is not able to impose its will upon the Authority, and a financial benefit/burden does not exist between them as of June 30, 2016.

B. GOVERNMENT-WIDE STATEMENTS AND FUND FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS
The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which may rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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 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 net position, both governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position are reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. 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 restriction on their net position use. When both restricted and

unrestricted net position is available, it is the City's policy to first apply restricted resources when an expense is incurred for restricted purposes. Upon utilizing restricted resources completely, unrestricted resources would be used secondly.

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 expense identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

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. The City has no nonmajor funds in the current year.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The measurement focus describes the type of transactions and events that are reported in a fund's operating statements. Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund statements. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized in the accounting period in which they become both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are property taxes, intergovernmental revenues (including sales tax allocations), licenses, interest revenue and charges for services.

For the fiscal year ending June 30, 2013, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* Statement No. 63 identified net position as the residual of all other elements presented in a statement of financial position. For the fiscal year ending June 30, 2014, the City implemented GASB Statement No. 65, *Items Previous Reported as Assets and Liabilities.* This standard continued to make changes in the financial reporting of deferred inflows and outflows of resources.

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

these balances will not be recognized as an inflow of resources (revenue) until that time. This standard affects the Statement of Net Position in the government-wide statements as well as the Governmental Fund Balance Sheet and the Proprietary Fund Statement of Net Position in the fund statements.

The City's funds are grouped into two broad fund categories and four generic fund types for financial statement presentation purposes. Governmental funds include the general, special revenue, and capital project funds. Proprietary funds include enterprise funds. The City has no special revenue funds in the current year.

Governmental Funds

The focus of the governmental funds' measurement in the funds statement is upon determination of financial position and changes in financial positions (sources, uses, and balances of financial resources) rather than upon net income.

The City reports the following major governmental funds:

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

SPLOST Fund – This is a capital projects fund that accounts for financial resources to be used for the acquisition and construction of major capital projects, and for the maintenance of streets and roads, which are not financed by another source of governmental funds.

Proprietary Funds

Proprietary funds distinguish operating revenues and expense from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges for water usage. Operating expenses for the enterprise funds include all costs to operate the water system and to deliver water service to customers. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The generally accepted accounting principles applicable are those similar to business in the private sector.

The City reports the following major enterprise fund:

Water and Sewerage Fund – This fund accounts for the development, operation and maintenance of the water distribution system.

D. ENCUMBRANCES

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of 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 AND INVESTMENTS

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

Cash includes amounts in demand deposits. Statutes 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 Service, Inc., negotiable certificates of deposit issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking 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.

F. INTEREST CAPITALIZATION

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds are used to finance the construction of assets. During fiscal year 2016, the City did not capitalize interest for any projects. Interest expense was paid as incurred for interim financing of projects.

G. INVENTORIES

Inventories are valued at the lower of cost or market in the proprietary fund types. Inventories consist of expendable supplies and items needed for repairs or improvements to the water utility system. Inventories are accounted for on the first-in, first-out (FIFO) method of accounting for inventories. Inventory was valued at $134,448 at June 30, 2016.

H. PREPAID ITEMS

Expenditures for insurance and similar services extending over more than one accounting period in governmental and proprietary funds are amortized over their useful policy period. Prepaid expenditures are similarly reported in the government-wide and fund financial statements.

I. CAPITAL ASSETS AND DEPRECIATION

Capital assets which include property, equipment and infrastructure (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of one year. All purchased or constructed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, are not reported in the basic financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to July 1, 2003. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend 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
Land improvements	15 years
Infrastructure	30-50 years
Buildings and improvements	15-50 years
Machinery and equipment	10-15 years
Office furniture	10 years
Vehicles	5 years

J. COMPENSATED ABSENCES

Vacation pay is typically accrued when incurred in the government-wide and proprietary fund financial statements. The current City policy does not allow for vacation pay to carry forward to subsequent fiscal years if unused. Therefore, there is no liability shown for vacation pay on the government-wide or proprietary fund financial statements for City of McCaysville, Georgia.

Accumulated sick pay benefits have not been recorded as a liability because the payment of these benefits is contingent upon the future illness of an employee. It is not expected that any unrecorded sick pay benefits

will exceed a normal year's accumulation. In accordance with the provisions of Statement of Financial Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay bonus.

K. LONG-TERM OBLIGATIONS

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position. In the fund financial statements, governmental fund types recognize the face amount of debt issued in the current period as other financing sources.

L. FUND EQUITY

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last. The policy applies also to the net position of the government-wide statements.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The City Council has by resolution authorized the City Clerk to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The City has not adopted a minimum fund balance policy at this time. This is something that the City is actively researching to implement in the near future.

M. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 those estimates.

N. INTERFUND BALANCES

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables and payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The applicable 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 department level (the legal level of control), the applicable statutes require that total expenditures not exceed the total amount of appropriations at the departmental level. Unspent appropriations lapse at year-end.

Annual budgets were adopted in a legally permissible manner in fiscal year 2016 for all governmental funds of the City. 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.

Excess of Expenditures over Appropriations – Governmental Funds

For the year ended June 30, 2016, expenditures did materially exceed appropriations for the Municipal Court and Police departments in the General Fund, as depicted on page 9 of the financial statements. This excess was mitigated by unused appropriations in other departments. Overall the operating budget of the City had a variance of expenditures under appropriations in the amount of $26,716.

3. DEPOSITS

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of June 30, 2016, the City had no bank balance that was exposed to custodial credit risk.

4. RECEIVABLES

Property tax revenues are recognized when levied to the extent that they result in current receivables. Property taxes levied each year are based on values as of January 1st and are due within 60 days of the levy date. The City's property tax calendar for the 2015 levy is as follows:

Levy date	September 9, 2015
Due date	December 31, 2015
Delinquent date	February 1, 2016

There is no lien date established.

Accounts receivable in the Water Fund are stated at gross amounts receivable less an allowance for estimated uncollectible amounts, if material. The allowance is computed as a percentage of the revenue at year end based primarily on the age of the indebtedness. The allowance for uncollectible accounts for water receivables at June 30, 2016 amounted to $14,349. Accounts receivable includes unbilled receivables totaling $61,912 at June 30, 2016. This resulted in a net receivable balance of $245,804, as shown in the Statement of Net Position on page 10.

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5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

Governmental activities:	Beginning Balances	Reclassifications and Adjustments	Restated Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:						
Land	$ 69,363	$ -	$ 69,363	$ -	$ -	$ 69,363
Total capital assets not being depreciated	69,363	-	69,363	-	-	69,363
Capital assets being depreciated:						
Land improvements	2,050	-	2,050	-	-	2,050
Buildings and improvements	223,341	-	223,341	-	-	223,341
Machinery and equipment	254,464	-	254,464	68,012	-	322,476
City park	212,838	-	212,838	-	-	212,838
Infrastructure	1,016,401	-	1,016,401	400,334	-	1,416,735
Total capital assets being depreciated	1,709,094	-	1,709,094	468,346	-	2,177,440
Less accumulated depreciation:						
Land improvements	2,187	(1,948)	239	137	-	376
Buildings and improvements	106,117	(11,617)	94,500	5,584	-	100,084
Machinery and equipment	130,404	11,616	142,020	21,578	-	163,598
City park	129,855	-	129,855	4,602	-	134,457
Infrastructure	97,607	1,948	99,555	33,442	-	132,997
Total accumulated depreciation	466,170	(1)	466,169	65,343	-	531,512
Total capital assets being depreciated, net	1,242,924	1	1,242,925	403,003		1,645,928
Governmental activities capital assets, net	$1,312,287	1	1,312,288	$ 403,003	$ -	$1,715,291

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	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 44,785	$ 3,221	$ -	$ 48,006
Construction in progress	6,177,356	452,238	6,629,594	-
Total capital assets not being depreciated	6,222,141	455,459	6,629,594	48,006
Capital assets being depreciated:				
Buildings and improvements	56,811	18,392	-	75,203
Infrastructure	6,770,910	7,085,509	-	13,856,419
Machinery and equipment	284,418	10,549	-	294,967
Land improvements	27,441	-	-	27,441
Total capital assets being depreciated	7,139,580	7,114,450	-	14,254,030
Less accumulated depreciation:				
Buildings and improvements	41,278	1,284	-	42,562
Land improvements	27,441	-	-	27,441
Infrastructure	3,924,142	153,075	-	4,077,217
Machinery and equipment	243,860	11,414	-	255,274
Total accumulated depreciation	4,236,721	165,773	-	4,402,494
Total capital assets being depreciated, net	2,902,859	6,948,677	-	9,851,536
Business-type activities capital assets, net	$ 9,125,000	$ 7,404,136	$ 6,629,594	$ 9,899,542

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

Governmental activities:	
General government	$ 5,330
Public safety	8,367
Public works	47,044
Culture and recreation	4,602
	$ 65,343
Business-type activities:	
Water and sewerage	$ 165,773

6. INTERFUND BALANCES AND ACTIVITY

The amount shown as due to the General Fund from the Water Fund in the amount of $41,332, as well as the amount shown as due to Water Fund from the General Fund in the amount of $19,642, is related to salaries and wages paid on behalf of Water Fund employees by the General Fund. This amount will be reimbursed within the upcoming fiscal year.

7. CLASSIFICATIONS OF EQUITY

Restricted – The following fund balances are restricted for:

Capital Projects Fund:
SPLOST Fund – used to account for capital projects financed with SPLOST tax revenues. $ 556,592

A corresponding portion of net position restricted by enabling legislation has been shown for the SPLOST Fund capital project purposes on the Statement of Net Position on page 3.

8. LONG-TERM OBLIGATIONS

Business Type Activities
Notes Payable:
The following note payable had outstanding balances at June 30, 2016:

Georgia Environmental Facilities Authority, infrastructure construction, payable in quarterly installments of $9,031, including interest at 5.01%. Original balance $379,355, matures in August 2017.	$ 43,506
Georgia Environmental Facilities Authority, infrastructure construction, interest rate of 1.82%. Repayment commences January 1, 2016.	5,060,703
Total	5,104,209
Less current portion of notes payable	(251,682)
Non-current portion of notes payable	$ 4,852,527

Payments of principal and interest related to the above notes payable for the next four years until maturity are as follows:

Fiscal Year	Principal	Interest	Total
2017	$ 251,682	$ 91,836	$ 343,518
2018	229,999	86,427	316,426
2019	225,137	82,258	307,395
2020	229,269	78,126	307,395
2021	233,476	73,919	307,395
Amount not in repayment	3,934,646	548,197	4,482,843
	$ 5,104,209	$ 960,763	$ 6,064,972

The following bonds payable had outstanding balances at June 30, 2016:

$1,387,460 September 18, 1991 Water and Sewerage Revenue Bonds, due in annual installments of $25,380 to $90,250 plus interest of 5% through September 18, 2018.	$ 258,040
$398,970 September 18, 1991 Water and Sewerage Revenue Bonds, due in annual installments of $7,300 to $25,960 plus interest of 5% through September 18, 2018.	74,210
$359,100 September 18, 1991 Water and Sewer Revenue Bonds, due in annual installments of $2,320 to $22,600 plus interest of 6% through September 18, 2031.	241,220
Total	573,470
Less current portion of bonds payable	(114,780)
Non-current portion of bonds payable	$ 458,690

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Payments of principal and interest related to the above bonds payable for the next five years and until maturity are as follows:

Fiscal Year	Principal	Interest	Total
2017	114,780	31,087	145,867
2018	120,610	25,254	145,864
2019	126,760	19,124	145,884
2020	11,190	12,680	23,870
2021	11,860	12,008	23,868
2022 - 2026	70,850	48,476	119,326
2027 - 2031	94,820	24,513	119,333
2032	22,600	1,356	23,956
	$ 573,470	$ 174,498	$ 747,968

The following represents the changes in long-term debt from the previous year:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due in One Year
Business-Type Activities:					
Notes payable	$ 4,699,034	$ 578,581	$ 173,406	$5,104,209	$ 251,682
Bonds payable	710,690	-	137,220	573,470	114,780
	$ 5,409,724	$ 578,581	$ 310,626	$5,677,679	$ 366,462

Reductions shown above in business-type activities were liquidated by Water Fund. Interest expense in the amount of $124,376 was included in the direct expenses of the water business-type activity on the Statement of Activities.

9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and workers compensation for which the City carries the insurance coverage. There were no significant reductions of insurance coverage compared to the prior year. Settled claims have not exceeded the commercial excess coverage in any of the past three years.

10. RETIREMENT PLANS

Deferred Compensation Plan

In fiscal year 2014, the City provided a new benefit plan for employees. The City offered a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is considered to be a defined contribution plan. The plan is open and employees are entitled to make contributions to the plan, with a matching contribution from the City up to 4%. Total contributions made by employees were $52,921. The total contributions made by the City were $25,234 during fiscal year 2016.

In accordance with Section 457 of the Internal Revenue Code, plan assets are held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the assets and liabilities of the deferred compensation plan are not included in the financial statements.

11. JOINT VENTURE

The City, in conjunction with other cities and counties in the North Georgia area are members of the Northwest Georgia Regional Commission (NWGRC). Membership in NWGRC 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 RDCs, and was amended in 2008 to consolidate the existing RDC's into fewer larger organizations called Regional Commissions (RC). Each county and municipality in the state is required by

law to pay minimum annual dues to the RC. The City paid annual dues to the RC during the fiscal year 2016 in the amount of $1,059. The RC Board membership includes the chief elected official of each county and the chief elected official of the largest municipality in each county. The county board members elect one member of the Board who is a resident (but not an elected or appointed official or employee of the County or municipality) to serve as the non-public Board member from a county.

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RDC's (later transferred to RC's) as "public agencies and instrumentalities 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 Atlanta Regional Commission can be obtained directly from their office:

Northwest Georgia Regional Commission
503 W. Waugh Street
Dalton, Georgia 30720

12. SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 28, 2016, the date which the financial statements were available to be issued, and found no events which require disclosure or modifications to the financial statements.

13. COMMITMENTS AND CONTINGENCIES

The City, from time to time, may be involved in litigation, disputes and claims arising in the ordinary course of business. These matters arise from a wide variety of sources, including the day to day operations of the City and contracts/agreements related to its services and vendors.

14. SPECIAL ITEMS

During fiscal year 2016, the City was granted debt forgiveness related to the state revolving loan fund used to finance the water treatment plant upgrades and the cross country water main installation. The loan was forgiveness in the amount of $51,202, and is shown as a special item in the proprietary fund statement of revenue, expenses, and change in net position as well as the government-wide statement of activities for the fiscal year ending June 30, 2016.

OTHER SUPPLEMENTARY INFORMATION

CITY OF WALESKA, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
For the Fiscal Year Ended June 30, 2016

	Estimated Cost		Expenditures			
Project	Original	Current	Prior Years	Current Year	Total	Estimated % of Completion
Roads, streets and sidewalks	$ 1,400,000	$ 1,400,000	$ 713,202	$ 449,565	$ 1,162,767	83.05%

***Note A** : The SPLOST Schedule has been prepared on the modified accrual basis of accounting*

INTERNAL CONTROL

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

To the Honorable Mayor and City Council
City of McCaysville, Georgia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of McCaysville, Georgia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of McCaysville, Georgia's basic financial statements and have issued our report thereon dated December 28, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. See Findings 2014-001 and 2014-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of McCaysville, Georgia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of McCaysville, Georgia's Response to Findings

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

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

Welch, Walker & Associates, P.C., CPAs
East Ellijay, Georgia
December 28, 2016

CITY OF McCAYSVILLE, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June30, 2016

2014-001 Maintenance of Accrual Basis General Ledger

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

Condition/Context: Although the year-end financial statements are prepared on the appropriate accrual basis (modified accrual basis, where applicable), the City has failed to maintain all cash accounts and related activity in the general ledger system throughout the year.

Cause: Currently, the cash activity of the operational functions of the General Fund and Water Fund are being recorded in the general ledger routinely. Activity related to the capital projects, debt payment accounts and water deposit refund accounts are not entered in the general ledger throughout the year.

Effect: Failure to utilize a double-entry general ledger system for all activities of the City and provide for reconciliation of detailed account balances, including accruals of revenue and expenditures (expenses), distorts the financial information that is provided to management and the City Council and may lead to critical financial decisions being made on erroneous data.

Recommendation: We understand that the procedure to maintain the City's general ledger on the accrual/modified accrual basis throughout the year can be a time consuming task. We realize the cash basis method of accounting is easy to administer and understand. Thus, we suggest that you implement a procedure in which a cash-basis general ledger is utilized throughout the year with accrual adjustments made only at year-end. Interim financial information could then be maintained on the cash basis to simplify the monthly reporting procedures. This practice would enable the City to enjoy the best features of both methods: properly adjusted accrual financial reporting for year-end accounting, and more easily produced interim financial statements for monthly reporting to Council.

Response: The City agrees with this finding and will begin recording all activity related to the City in the general ledger as it occurs.

2014-002 Lack of Segregation of Duties

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

Condition/Context: During the course of the audit, we noted many critical duties are combined and given to the available employees. Presently, there are two employees who handle all of the cash receipt collection, opening of mail, preparation of deposits, preparation and signature of cash disbursements, bank reconciliations, performance of all payroll responsibilities, as well as maintaining the cash receipt and disbursement journals.

Cause: The City has only two employees consisting of the full-time city clerk and full-time water clerk that have traditionally handled all bookkeeping and cash duties of the City.

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

Recommendation: To the extent possible, duties should be segregated to maintain the best control system possible. We feel segregation of duties of could be improved if additional employee(s) were hired to perform the separate duties of processing cash receipts and cash disbursements, and maintaining the records of journals. In the situation where it is not feasible for the City to hire additional employee(s), continued Mayor and Council involvement in the City's finances is encouraged to strengthen internal controls. When these suggestions are implemented, the City's system of internal control will be enhanced, so that the risk of employee misappropriation of assets is reduced.

Response: The lack of segregation duties is a recurring item that due to the limited number of employees is difficult to accomplish. As more staff cannot be afforded nor is feasible, Mayor and Council will continue to be closely involved with the City's finances to aid in this matter.