

CITY OF HIAWASSEE, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
WITH AUDITOR'S OPINION
JANUARY 21, 2014

**CITY OF HIAWASSEE, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor Barbara Mathis and Members of the City Council
City of Hiawassee, Georgia

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, 2013, 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 remaining fund information of the City of Hiawassee, as of June 30, 2013 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budget comparison schedule, and schedule of funding progress for the City's retirement plan presented on pages 3-6 and 35-37 be presented to supplement the basis financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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.

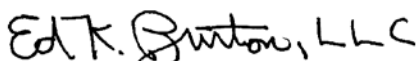
Other Information

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 Expenditures and Federal Awards on page 42 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The Grant Certification Form on Page 48 and the 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 and the schedule of expenditures and federal awards are the responsibility of management and were derived from and relate 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 schedules of expenditures of federal awards and 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 21, 2014, 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* and should be read in conjunction with this report in considering the results of our audit.



Ed K. Burton, LLC
Certified Public Accountants
Toccoa, Georgia
January 21, 2014

MANAGEMENT'S DISCUSSION & ANALYSIS

**CITY OF HIAWASSEE, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

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, 2013.

USING THE JUNE 30, 2013 AUDIT

The audit of City of Hiawassee, Georgia, for the fiscal year ended June 30, 2013 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, 2013 as it compares to the previous fiscal year.

Table 1: Condensed Statement of Net Position

	Governmental Activities <u>June 30, 2012</u>	Governmental Activities <u>June 30, 2013</u>	Business-Type Activities <u>June 30, 2012</u>	Business-Type Activities <u>June 30, 2013</u>
<u>Assets:</u>				
Current and other assets	\$ 585,153	\$ 194,231	\$ 2,471,898	\$ 2,440,893
Capital assets	<u>862,200</u>	<u>1,184,280</u>	<u>11,339,710</u>	<u>11,050,102</u>
Total Assets	<u>\$1,447,353</u>	<u>\$1,378,511</u>	<u>\$13,811,608</u>	<u>\$13,490,995</u>
<u>Liabilities:</u>				
Other liabilities	\$ 226,319	\$ 185,779	\$ 1,046,734	\$ 405,491
Long-term liabilities	<u>14,576</u>	<u>14,640</u>	<u>4,320,353</u>	<u>4,807,577</u>
Total Liabilities	<u>\$ 240,895</u>	<u>\$ 200,419</u>	<u>\$ 5,367,087</u>	<u>\$ 5,213,068</u>
<u>Net Position:</u>				
Invested in capital assets,				
Net of related debt	\$ 662,034	\$1,019,232	\$ 6,142,738	\$ 6,029,494
Restricted	---	---	518,089	506,757
Unrestricted	<u>544,424</u>	<u>158,860</u>	<u>1783,694</u>	<u>1,741,676</u>
Total Net Position	<u>\$1,206,458</u>	<u>\$1,178,092</u>	<u>\$ 8,444,521</u>	<u>\$ 8,277,927</u>
Total Liabilities and Net Position	<u>\$1,447,353</u>	<u>\$1,378,511</u>	<u>\$13,811,608</u>	<u>\$13,490,995</u>

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, 2013 compared to the previous fiscal year.

Table 2: Condensed Statement of Activities

	Governmental Activities <u>June 30, 2012</u>	Governmental Activities <u>June 30, 2013</u>	Business-Type Activities <u>June 30, 2012</u>	Business-Type Activities <u>June 30, 2013</u>
<u>Revenues:</u>				
Charges for Services	\$ 157,295	\$ 91,883	\$ 2,194,927	\$ 2,086,274
Operating grants & contributions	-	-	-	-
Capital grants & contributions	87,530	128,134	33,722	206,925
General Revenues:				
Property taxes	195,974	171,222	-	-
Other taxes	379,422	380,053	-	-
Over Revenues	<u>12,465</u>	<u>13,142</u>	<u>4,471</u>	<u>3,386</u>
Total Revenues	<u>\$ 832,686</u>	<u>\$ 784,434</u>	<u>\$ 2,233,120</u>	<u>\$ 2,296,585</u>
<u>Expenses:</u>				
General Government	\$ 415,396	\$ 439,778	\$ -	\$ -
Judicial	11,650	11,650	-	-
Public Safety	372,246	361,373	-	-
Water and Sewerage	-	-	2,371,035	2,463,178
Total Expenses	<u>\$ 799,292</u>	<u>\$ 812,800</u>	<u>\$ 2,371,035</u>	<u>\$ 2,463,178</u>
Increase (Decrease) in Net Position	\$ 33,394	\$ (28,366)	\$ (137,915)	\$ (166,593)
Beginning Net Position	<u>1,173,064</u>	<u>1,206,458</u>	<u>8,582,436</u>	<u>8,444,521</u>
Ending Net Position	<u>\$1,206,458</u>	<u>\$1,178,092</u>	<u>\$ 8,444,521</u>	<u>\$ 8,277,928</u>

During the fiscal year ended June 30, 2013 the net assets of City of Hiawassee, Georgia's governmental activities decreased \$28,366 and the business-type activities decreased \$166,593. Revenues decreased 5.80% over the previous fiscal year and expenditures increased 1.69% in the governmental activities. Revenues increased 2.84% and expenses increased 3.89% over the previous fiscal year in the business-type activities.

Approximately 21.83% of the City's governmental activity revenue came from property taxes, 48.45% came from other taxes and revenues, and the balance of 29.72% came from charges for services, grants, and other sources. Approximately 90.84% of the City's business-type activity revenue came from charges for services and the remaining 9.16% came from other sources.

The City's governmental activity expenses cover a wide range of services with 44.46% allotted to public safety, 54.11% to general government services, and the remaining 1.43% to judicial. 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, 2013, the City's governmental funds reported a combined ending fund balance (deficit) of (\$25,359), of which \$19,912 is nonspendable, \$33,942 is restricted for specific purposes and (\$79,214) is unassigned.

The General Fund – the operating fund of the City – had a net decrease in fund balance of \$274,353 during the current year. The decrease in fund balance is due to excess of expenditures over revenues.

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, 2013, the City's proprietary funds reported combined ending net position of \$8,277,928 of which \$6,029,494 is invested in capital assets, net of related debt, \$506,758 is restricted for debt service, and \$1,741,676 is unrestricted.

The proprietary funds had a net decrease in unrestricted net position of \$42,018, which is due in part to decreased operating revenues and increases in operating expenses.

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 2013 year.

	Original	Final		
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Taxes & Assessments	\$ 475,600	\$ 487,200	\$ 496,252	\$ 9,052
Licenses & Permits	32,000	25,900	31,762	5,862
Fines & Forfeitures	65,000	55,125	52,995	(2,130)
Charges for Services	6,000	7,125	7,125	-
Investment Earnings	2,000	3,000	3,446	446
Contributions & Grants		9,200	19,696	10,496
Expenditures:				
General Government	\$ 874,800	\$ 874,700	\$ 518,473	\$ 356,227
Public Safety	362,300	369,350	355,506	13,844
Judicial	13,500	13,500	11,650	1,850

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, 2013, City of Hiawassee, Georgia reported \$1,184,280 in capital assets for governmental activities and \$11,050,102 in capital assets for business-type activities. Refer to Note 6 to the financial statements for additional information on capital assets.

At June 30, 2013, governmental activities reported \$14,640 long-term debt compared to \$14,575 at June 30, 2012 and business-type activities long-term debt of \$4,807,577 and \$4,320,353 at June 30, 2013 and June 30, 2012, 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 down in the upcoming year due to a decrease in water usage and a loss of customers. Due to the current economic conditions, the City anticipates decreasing revenue for the current budget year. The City has again increased utility rates and decreased water and sewer budget expenditures in accordance with their expectations for the coming year. The city is also restructuring water department debt to address revenue shortfalls. Although the City anticipates overall decreasing revenue, several businesses are under construction which should increase the existing customer base and provide additional ongoing revenue.

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, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS:			
Cash and Cash Equivalents	\$ 62,475.28	\$ 1,501,718.98	\$ 1,564,194.26
Restricted Cash	-	179,738.60	179,738.60
Investments	-	-	-
Investments - Restricted	-	106,840.39	106,840.39
Taxes Receivables (Net)	41,193.51	-	41,193.51
Accounts Receivable (Net)	36,460.38	177,169.42	213,629.80
Intergovernmental Receivables	34,189.06	8,168.30	42,357.36
Inventory	-	37,242.81	37,242.81
Prepaid Expenses	19,912.48	27,023.46	46,935.94
TOTAL CURRENT ASSETS	\$ 194,230.71	\$ 2,037,901.96	\$ 2,232,132.67
NONCURRENT ASSETS:			
Restricted Intergovernmental Receivables	\$ -	\$ 282,600.00	\$ 282,600.00
Capital Assets:			
Land, Non-Depreciable Improvements, and Construction in Progress	\$ -	\$ 203,200.00	\$ 203,200.00
Other Capital Assets, Net of Depreciation	1,184,280.09	10,846,902.16	12,031,182.25
Total Capital Assets	\$ 1,184,280.09	\$ 11,050,102.16	\$ 12,234,382.25
Closing Costs and Other Assets, Net	\$ -	\$ 120,391.50	\$ 120,391.50
TOTAL NONCURRENT ASSETS	\$ 1,184,280.09	\$ 11,453,093.66	\$ 12,637,373.75
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -	\$ -
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,378,510.80	\$ 13,490,995.62	\$ 14,869,506.42
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
CURRENT LIABILITIES:			
Accounts Payable	\$ 16,371.79	\$ 63,260.22	\$ 79,632.01
Accrued Interest	-	31,529.54	31,529.54
Accrued Expenses	4,358.76	5,857.14	10,215.90
Notes Payable	165,048.37	-	165,048.37
Current Portion of Long-term Debt	-	173,030.57	173,030.57
Liabilities Payable from Restricted Assets:			
Bonds Payable	-	69,391.60	69,391.60
Customer Deposits	-	62,421.58	62,421.58
TOTAL CURRENT LIABILITIES	\$ 185,778.92	\$ 405,490.65	\$ 591,269.57
LONG-TERM LIABILITIES:			
Compensated Absences	\$ 14,639.63	\$ 29,391.52	\$ 44,031.15
Due in More Than One Year	-	4,778,185.72	4,778,185.72
TOTAL LONG-TERM LIABILITIES	\$ 14,639.63	\$ 4,807,577.24	\$ 4,822,216.87
DEFERRED INFLOWS OF RESOURCES	\$ -	\$ -	\$ -
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	\$ 200,418.55	\$ 5,213,067.89	\$ 5,413,486.44
NET POSITION			
Net Investment in Capital Assets	\$ 1,019,231.72	\$ 6,029,494.27	\$ 7,048,725.99
Restricted for Debt Service	-	506,757.41	506,757.41
Restricted for:			
Public Safety	10,776.44	-	10,776.44
Tourism	7,542.34	-	7,542.34
Capital Outlay	15,623.02	-	15,623.02
Unrestricted	124,918.73	1,741,676.05	1,866,594.78
TOTAL NET POSITION	\$ 1,178,092.25	\$ 8,277,927.73	\$ 9,456,019.98
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 1,378,510.80	\$ 13,490,995.62	\$ 14,869,506.42

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, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General Government	\$ 439,777.80	\$ 38,887.50	\$ -	\$ 128,134.42	\$ (272,755.88)	\$ -	\$ (272,755.88)	
Public Safety	361,372.56	52,995.01	-	-	(308,377.55)	-	(308,377.55)	
Judicial	11,650.00	-	-	-	(11,650.00)	-	(11,650.00)	
Total Governmental Activities	\$ 812,800.36	\$ 91,882.51	\$ -	\$ 128,134.42	\$ (592,783.43)	\$ -	\$ (592,783.43)	
Business-Type Activities:								
Water and Sewerage	\$ 2,463,178.44	\$ 2,086,273.88	\$ -	\$ 206,925.00	\$ -	\$ (169,979.56)	\$ (169,979.56)	
Total Business-Type Activities	\$ 2,463,178.44	\$ 2,086,273.88	\$ -	\$ 206,925.00	\$ -	\$ (169,979.56)	\$ (169,979.56)	
Total Primary Government	\$ 3,275,978.80	\$ 2,178,156.39	\$ -	\$ 335,059.42	\$ (592,783.43)	\$ (169,979.56)	\$ (762,762.99)	
General Revenues:								
Taxes:								
Property Taxes, Levied for General Purpose					\$ 171,222.25	\$ -	\$ 171,222.25	
Franchise Taxes					18,506.95	-	18,506.95	
Local Option Sales & Use Tax & Hotel/Motel Tax					220,972.65	-	220,972.65	
Business Taxes					62,339.09	-	62,339.09	
Other Taxes					78,234.73	-	78,234.73	
Contributions from Private Sources					9,696.05	-	9,696.05	
Unrestricted Investment Earnings					3,445.56	3,386.35	6,831.91	
Total General Revenues					\$ 564,417.28	\$ 3,386.35	\$ 567,803.63	
Change in Net Position					\$ (28,366.15)	\$ (166,593.21)	\$ (194,959.36)	
Net Position, Beginning					1,206,458.40	8,444,520.94	9,650,979.34	
Net Position, Ending					\$ 1,178,092.25	\$ 8,277,927.73	\$ 9,456,019.98	

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

**CITY OF HIAWASSEE, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	GENERAL FUND	SPLOST	NONMAJOR FUND HOTEL/MOTEL FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS:				
Cash and Cash Equivalents	\$ 39,309.92	\$ 15,623.02	\$ 7,542.34	\$ 62,475.28
Investments	-	-	-	-
Taxes Receivable	41,193.51	-	-	41,193.51
Intergovernmental Receivable	34,189.06	-	-	34,189.06
Other Receivables	36,460.38	-	-	36,460.38
Prepaid Expenses	19,912.48	-	-	19,912.48
		-	-	
TOTAL ASSETS	<u>\$ 171,065.35</u>	<u>\$ 15,623.02</u>	<u>\$ 7,542.34</u>	<u>\$ 194,230.71</u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts Payable	\$ 16,371.79	\$ -	\$ -	\$ 16,371.79
Unearned Reveune	33,811.01	-	-	33,811.01
Accrued Expenses	4,358.76	-	-	4,358.76
Notes Payable	165,048.37	-	-	165,048.37
		-	-	
TOTAL LIABILITIES	<u>\$ 219,589.93</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 219,589.93</u>
FUND BALANCES:				
Nonspendable:				
Prepaid Expenses	\$ 19,912.48	\$ -	\$ -	\$ 19,912.48
Restricted for:				
Shop with a Cop	9,547.41	-	-	9,547.41
Drug Seizures	1,229.03	-	-	1,229.03
Capital Outlay	-	15,623.02	-	15,623.02
Tourism			7,542.34	7,542.34
Unassigned (Deficit)	(79,213.50)	-	-	(79,213.50)
		-	-	
TOTAL FUND BALANCES	<u>\$ (48,524.58)</u>	<u>\$ 15,623.02</u>	<u>\$ 7,542.34</u>	<u>\$ (25,359.22)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 171,065.35</u>	<u>\$ 15,623.02</u>	<u>\$ 7,542.34</u>	<u>\$ 194,230.71</u>

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, 2013**

TOTAL GOVERNMENTAL FUND BALANCES **\$ (25,359.22)**

*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	\$ 1,418,131.61	
Less Accumulated Depreciation	<u>(233,851.52)</u>	1,184,280.09

Certain other 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. 33,811.01

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	<u>(14,639.63)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 1,178,092.25**

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, 2013

	GENERAL FUND	SPLOST	NONMAJOR FUND HOTEL/MOTEL FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
Taxes and Assessments	\$ 496,251.83	\$ -	\$ 56,687.43	\$ 552,939.26
Licenses and Permits	31,762.50	-	-	31,762.50
Fines and Forfeitures	52,995.01	-	-	52,995.01
Intergovernmental Revenues	-	127,963.49	-	127,963.49
Charges for Services	7,125.00	-	-	7,125.00
Investment Earnings	3,445.56	170.93	-	3,616.49
Contributions and Grants	19,696.05	-	-	19,696.05
	<u>611,275.95</u>	<u>128,134.42</u>	<u>56,687.43</u>	<u>796,097.80</u>
TOTAL REVENUES	\$ 611,275.95	\$ 128,134.42	\$ 56,687.43	\$ 796,097.80
EXPENDITURES:				
Current:				
General Government	\$ 367,555.95	\$ -	\$ 49,145.09	\$ 416,701.04
Public Safety	344,182.77	-	-	344,182.77
Judicial	11,650.00	-	-	11,650.00
	<u>723,388.72</u>	<u>-</u>	<u>49,145.09</u>	<u>772,533.81</u>
Capital Outlay	162,240.42	200,041.60	-	362,282.02
	<u>885,629.14</u>	<u>200,041.60</u>	<u>49,145.09</u>	<u>1,134,815.83</u>
TOTAL EXPENDITURES	\$ 885,629.14	\$ 200,041.60	\$ 49,145.09	\$ 1,134,815.83
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ (274,353.19)	\$ (71,907.18)	\$ 7,542.34	\$ (338,718.03)
NET CHANGES IN FUND BALANCES	\$ (274,353.19)	\$ (71,907.18)	\$ 7,542.34	\$ (338,718.03)
FUND BALANCES (DEFICITS):				
Beginning of Year	225,828.61	87,530.20	-	313,358.81
End of Year	\$ (48,524.58)	\$ 15,623.02	\$ 7,542.34	\$ (25,359.22)

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, 2013

NET CHANGES IN FUND BALANCES-TOTAL GOVERNMENTAL FUNDS **\$ (338,718.03)**

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	\$ 362,281.66	
Depreciation Expense	<u>(40,201.94)</u>	322,079.72

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. (11,663.68)

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		<u>(64.16)</u>
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TOTAL CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ (28,366.15)</u>
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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, 2013

	ENTERPRISE FUNDS		
	WATER AND SEWERAGE FUND	WATER TREATMENT PLANT FUND	TOTAL
ASSETS:			
CURRENT ASSETS:			
Cash and Cash Equivalents	\$ 732,001.87	\$ 769,717.11	\$ 1,501,718.98
Restricted Cash	179,738.60	-	179,738.60
Investments	-	-	-
Investments - Restricted	106,840.39	-	106,840.39
Accounts Receivable (Net)	151,219.42	25,950.00	177,169.42
Interfund Receivables		41,252.42	41,252.42
Intergovernmental Receivables	8,168.30	-	8,168.30
Inventories	37,242.81	-	37,242.81
Prepaid Expenses	18,163.92	8,859.54	27,023.46
TOTAL CURRENT ASSETS	\$ 1,233,375.31	\$ 845,779.07	\$ 2,079,154.38
NONCURRENT ASSETS:			
Restricted Intergovernmental Receivables	\$ 282,600.00	\$ -	\$ 282,600.00
Capital Assets:			
Land, Improvements, and Construction in Progress	152,925.00	50,275.00	203,200.00
Depreciable Capital Assets, Net	10,627,504.59	219,397.57	10,846,902.16
Other Assets:			
Engineering Planning Fees, Net	86,986.50	-	86,986.50
Closing Costs, Net	33,405.00	-	33,405.00
TOTAL NONCURRENT ASSETS	\$ 11,183,421.09	\$ 269,672.57	\$ 11,453,093.66
TOTAL ASSETS	\$ 12,416,796.40	\$ 1,115,451.64	\$ 13,532,248.04
LIABILITIES AND NET POSITION:			
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	\$ 42,408.63	\$ 20,851.59	\$ 63,260.22
Interfund Payables	41,252.42	-	41,252.42
Accrued Interest	31,529.54	-	31,529.54
Accrued Expenses	4,814.41	1,042.73	5,857.14
Notes Payable	-	-	-
Current Portion of Long Term Debt	173,030.57	-	173,030.57
Liabilities Payable from Restricted Assets:			
Customer Deposits	62,421.58	-	62,421.58
Revenue Bonds Payable	69,391.60	-	69,391.60
TOTAL CURRENT LIABILITIES	\$ 424,848.75	\$ 21,894.32	\$ 446,743.07
LONG-TERM LIABILITIES:			
Revenue Bonds Payable	\$ 3,016,783.70	\$ -	\$ 3,016,783.70
Notes Payable	1,759,721.72	1,680.30	1,761,402.02
Compensated Absences	20,141.52	9,250.00	29,391.52
TOTAL LONG-TERM LIABILITIES	\$ 4,796,646.94	\$ 10,930.30	\$ 4,807,577.24
TOTAL LIABILITIES	\$ 5,221,495.69	\$ 32,824.62	\$ 5,254,320.31
NET POSITION:			
Net Investment in Capital Assets	\$ 5,761,502.00	\$ 267,992.27	\$ 6,029,494.27
Restricted for Debt Service	506,757.41	-	506,757.41
Unrestricted	927,041.30	814,634.75	1,741,676.05
TOTAL NET POSITION	\$ 7,195,300.71	\$ 1,082,627.02	\$ 8,277,927.73
TOTAL LIABILITIES AND NET POSITION	\$ 12,416,796.40	\$ 1,115,451.64	\$ 13,532,248.04

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, 2013

	ENTERPRISE FUNDS		
	WATER AND SEWERAGE FUND	WATER TREATMENT PLANT FUND	TOTAL
OPERATING REVENUES:			
Water Fees	\$ 731,510.82	\$ 295,434.00	\$ 1,026,944.82
Sewer Fees	652,048.80	-	652,048.80
Program Fees	53,790.00	-	53,790.00
Interfund Water Sales	-	339,276.00	339,276.00
TOTAL OPERATING REVENUES	\$ 1,437,349.62	\$ 634,710.00	\$ 2,072,059.62
OPERATING EXPENSES:			
Personnel Services	\$ 574,092.30	\$ 225,866.10	\$ 799,958.40
Supplies and Other Expenses	170,310.30	61,664.65	231,974.95
Utilities	162,535.20	98,880.69	261,415.89
Interfund Water Purchased	339,276.00	-	339,276.00
Repairs and Maintenance	123,111.48	33,445.60	156,557.08
Depreciation and Amortization	450,061.65	30,408.79	480,470.44
TOTAL OPERATING EXPENSES	\$ 1,819,386.93	\$ 450,265.83	\$ 2,269,652.76
OPERATING INCOME (LOSS)	\$ (382,037.31)	\$ 184,444.17	\$ (197,593.14)
NON-OPERATING REVENUES (EXPENSES):			
Interest Income	\$ 2,529.45	\$ 856.90	\$ 3,386.35
Grants - Other	150,300.00	-	150,300.00
Other Income	14,214.26	-	14,214.26
Interest Expense	(193,525.68)	-	(193,525.68)
TOTAL NON-OPERATING REVENUES (EXPENSES)	\$ (26,481.97)	\$ 856.90	\$ (25,625.07)
INCOME (LOSS) BEFORE CONTRIBUTIONS	\$ (408,519.28)	\$ 185,301.07	\$ (223,218.21)
Capital Contributions	56,625.00	-	56,625.00
CHANGE IN NET POSITION	\$ (351,894.28)	\$ 185,301.07	\$ (166,593.21)
NET POSITION:			
Beginning Balance	7,547,194.99	897,325.95	8,444,520.94
Ending Balance	<u>\$ 7,195,300.71</u>	<u>\$ 1,082,627.02</u>	<u>\$ 8,277,927.73</u>

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, 2013**

	ENTERPRISE FUNDS		
	WATER AND SEWERAGE FUND	WATER TREATMENT PLANT FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 1,583,043.03	\$ 294,141.58	\$ 1,877,184.61
Cash Received from Interfund Services Provided	-	339,276.00	339,276.00
Cash Payments for Personnel Services	(569,276.63)	(224,823.21)	(794,099.84)
Cash Payments for Interfund Services Provided	(339,276.00)	-	(339,276.00)
Cash Payments for Goods and Services	(426,143.47)	(191,133.20)	(617,276.67)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 248,346.93	\$ 217,461.17	\$ 465,808.10
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from Short-term Debt	\$ 745,348.30	\$ 1,680.30	\$ 747,028.60
Capital Contribution	56,625.00	-	56,625.00
Grants Received	150,300.00	-	150,300.00
Interest Paid	(190,279.55)	-	(190,279.55)
Principal Paid	(923,392.44)	-	(923,392.44)
Proceeds from Sale of Capital Assets and Insurance Refunds	14,214.26	-	14,214.26
Payments for Capital Acquisitions	(151,745.96)	(39,116.70)	(190,862.66)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (298,930.39)	\$ (37,436.40)	\$ (336,366.79)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment Earnings	\$ 2,529.45	\$ 856.90	\$ 3,386.35
Purchase of Certificates of Deposits	(834.17)	-	(834.17)
Redemption of Certificates of Deposits	131,725.76	-	131,725.76
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 133,421.04	\$ 856.90	\$ 134,277.94
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 82,837.58	\$ 180,881.67	\$ 263,719.25
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	828,902.89	588,835.44	1,417,738.33
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 911,740.47	\$ 769,717.11	\$ 1,681,457.58
RECONCILIATION OF TOTAL CASH:			
Restricted	\$ 179,738.60	\$ -	\$ 179,738.60
Unrestricted	732,001.87	769,717.11	1,501,718.98
	\$ 911,740.47	\$ 769,717.11	\$ 1,681,457.58
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating Income (Loss)	\$ (382,037.31)	\$ 184,444.17	\$ (197,593.14)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities:			
Depreciation and Amortization	450,061.65	30,408.79	480,470.44
(Increase) Decrease in Accounts Receivable	141,713.41	(1,292.42)	140,420.99
(Increase) Decrease in Inventory	2,650.49	-	2,650.49
(Increase) Decrease in Prepaid Expenses and Other Assets	21,789.89	(1,029.49)	20,760.40
Increase (Decrease) in Accounts Payable	5,373.13	3,887.23	9,260.36
Increase (Decrease) in Customer Deposits	3,980.00	-	3,980.00
Increase (Decrease) in Compensated Absences	4,076.66	0.16	4,076.82
Increase (Decrease) in Accrued Expenses	739.01	1,042.73	1,781.74
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 248,346.93	\$ 217,461.17	\$ 465,808.10

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

NOTES TO FINANCIAL STATEMENTS

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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 commission-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, 2013, 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.

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

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013. 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, 2013 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 of \$1,000 with a useful life extending beyond one year are capitalized and depreciated over time using the straight-line method. 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:

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

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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 reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. There were no deferred outflows of resources at June 30, 2013.

In addition to liabilities, the Statement of Financial Position reports 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. There were no deferred inflows of resources at June 30, 2013.

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.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

O. DEFERRED DEBT EXPENSE AND BOND DISCOUNT

Bond issuance costs, bond discounts and the difference between the reacquisition price and the net carrying value of proprietary refunded debt are capitalized and amortized over the terms of the respective bonds using a method which approximates the effective interest method.

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.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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.

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, 2013 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 \$1,873,306 and the carrying amount was \$1,851,571. No formal investment policy has been adopted as of June 30, 2013.

4. PROPERTY TAXES AND OTHER RECEIVABLES

The City of Hiawassee property tax calendar is as follows:

Levy date	November 27, 2012
Due date	February 10, 2013
Delinquent date	February 11, 2013
Lien date	None

The total levy for the 2013 tax digest was \$173,322.

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, 2013 is \$3,913 and for fines receivable is \$2,500.

5. INTERGOVERNMENTAL RECEIVABLE

The following amounts are due from other governments at June 30, 2013:

General Fund

Unrestricted:

Georgia Department of Revenue	\$ 30,824
GA Assoc. of Chiefs of Police	375
Towns County	<u>2,990</u>
	<u>\$ 34,189</u>

Enterprise Funds

Restricted:

Towns County Water Authority	<u>\$282,600</u>
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Unrestricted:

Towns County Water Authority	<u>\$ 8,168</u>
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CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Infrastructure in progress	\$ 282,949	\$ -	\$ 282,949	\$ -
Total capital assets not being depreciated	<u>\$ 282,949</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Capital assets being depreciated:				
Improvements	\$ 1,892	\$ -	\$ -	\$ 1,892
Equipment and furniture	52,667	17,117	4,620	65,164
Infrastructure	227,209	-	-	227,209
Buildings	387,240	628,114	-	1,015,354
Vehicles	108,513	-	-	108,513
Total capital assets being depreciated	<u>\$ 777,521</u>	<u>\$ 645,231</u>	<u>\$ 4,620</u>	<u>\$ 1,418,132</u>
Accumulated depreciation:				
Improvements	\$ 780	\$ 95	\$ -	\$ 875
Equipment and furniture	32,347	7,058	4,620	34,785
Infrastructure	53,877	7,426	-	61,303
Buildings	41,951	12,979	-	54,930
Vehicles	69,315	12,644	-	81,959
Total accumulated depreciation	<u>\$ 198,270</u>	<u>\$ 40,202</u>	<u>\$ 4,620</u>	<u>\$ 233,852</u>
Total capital assets being depreciated, net	<u>\$ 579,251</u>	<u>\$ 605,029</u>	<u>\$ -</u>	<u>\$ 1,184,280</u>
	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 53,015	\$ -	\$ -	\$ 53,015
Construction in progress	73,570	76,615	-	150,185
Total capital assets not being depreciated	<u>\$ 126,585</u>	<u>\$ 76,615</u>	<u>\$ -</u>	<u>\$ 203,200</u>
Capital assets being depreciated:				
Equipment, vehicles and furniture	\$ 1,772,927	\$ 112,288	\$ -	\$ 1,885,215
Infrastructure	11,822,452	-	-	11,822,452
Buildings	2,870,042	-	-	2,870,042
Total capital assets being depreciated	<u>\$ 16,465,421</u>	<u>\$ 112,288</u>	<u>\$ -</u>	<u>\$ 16,577,709</u>
Accumulated depreciation:				
Equipment, vehicles and furniture	\$ 659,750	\$ 129,743	\$ -	\$ 789,493
Infrastructure	3,329,465	275,588	-	3,605,053
Buildings	1,263,081	73,179	-	1,336,260
Total accumulated depreciation	<u>\$ 5,252,296</u>	<u>\$ 478,510</u>	<u>\$ -</u>	<u>\$ 5,730,806</u>
Total capital assets being depreciated, net	<u>\$ 11,213,125</u>	<u>\$ (366,222)</u>	<u>\$ -</u>	<u>\$ 10,846,903</u>
Business-type activities, capital assets, net	<u>\$ 11,339,710</u>	<u>\$ (289,607)</u>	<u>\$ -</u>	<u>\$ 11,050,103</u>

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

CAPITAL ASSETS (Continued)

The total increases above for accumulated depreciation do not include amortization on closing costs in the amount of \$1,961.

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

Governmental Activities:	
General Government	\$23,012
Public Safety	<u>17,190</u>
	<u>\$40,202</u>

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 contract will expire on May 31, 2016. 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 \$1.50 per thousand gallons of water. Beginning June 1, 2011, the Authority has paid \$1.50 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 \$1.50 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.

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Receivables</u>
Debt Service	\$ 117,317	\$106,840	\$282,600
Customer Deposits	<u>62,422</u>	<u>-</u>	<u>-</u>
	<u>\$179,739</u>	<u>\$106,840</u>	<u>\$282,600</u>

1999 Water Revenue Bonds - Assets totaling \$119,257 in 2013 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, 2013.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1989 Water Revenue Bonds - Assets totaling \$78,496 in 2013 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, 2013.

1984 Water Revenue Bonds - Assets totaling \$37,049 at June 30, 2013 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, 2013 the required reserve was maintained.

The receivable in restricted funds from Towns County Water Authority of \$282,600 is a receivable for 45% of the 1989 water revenue bonds.

9. SHORT-TERM DEBT

Governmental Activities:

At June 30, 2013, the City has a temporary loan, in the amount of \$165,048 which is used to finance the acquisition of a commercial building that was previously used as the City Hall. The note was renewed on January 2, 2013 at \$181,127 with an interest rate of 3.25%. Interest paid during fiscal year ended June 30, 2013 was \$7,948.

Business-Type Activities:

There were no temporary loans outstanding at June 30, 2013.

Changes in short-term debt are as follows:

	Outstanding <u>06/30/12</u>	Additions	Reductions	Outstanding <u>06/30/13</u>
<u>Governmental Activities</u>				
Note payable	<u>\$242,270</u>	<u>\$181,186</u>	<u>\$258,408</u>	<u>\$165,048</u>
<u>Business-type Activities</u>				
Note payable	<u>\$688,020</u>	<u>\$ -</u>	<u>\$688,020</u>	<u>\$ -</u>

10. LONG-TERM OBLIGATIONS

Notes Payable

Georgia Environmental Facilities Agency (GEFA) advanced money to the City for the purpose of construction of water system improvements with interest accruing at an annual rate of 3% until the loan is fully disbursed; thereafter, principal and interest will be payable in 236 consecutive monthly installments; secured by the pledging of revenue-raising power. This loan was finalized as of August 1, 2008. The loan is payable in monthly installments of \$7,359 with interest at 3%. The balance on this long-term debt at June 30, 2013 was \$1,074,912.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

LONG-TERM OBLIGATIONS (Continued)

GEFA has also advanced money to the City for three other projects. One 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 \$150,999 at June 30, 2013. 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 \$380,572 at June 30, 2013. The final advance is for the water intake at the water treatment plant. Only \$1,680.30 has been advanced on this loan at June 30, 2013. A total of \$230,000 can be drawn down on this note. It will be termed out when the project is completed. Interest will be paid at 3.13% on this note.

The City also has a loan with Siemens Public Inc. The money was borrowed during fiscal year 2007 in the amount of \$874,623. This loan was for the acquisition of water meters, and is payable in monthly installments of \$8,978 with interest at 4.295%. The balance on this long-term debt at June 30, 2013 was \$326,269.

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

<u>Year</u> <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 173,031	\$ 62,312	\$ 235,343
2015	179,693	55,649	235,342
2016	186,620	48,722	235,342
2017	111,849	42,689	154,538
2018	87,829	39,774	127,603
2019-2023	483,174	154,840	638,014
2024-2028	565,755	72,259	638,014
2029-2032	144,801	8,735	153,536
	<u>\$ 1,932,752</u>	<u>\$ 484,980</u>	<u>\$ 2,417,732</u>

Revenue Bonds

Bonds payable at June 30, 2013 are comprised of the following:

Series 2012 Water and Sewerage Revenue Bonds shall be issued in the amount of \$996,000 to the United States Department of Agriculture, Rural Development. USDA has agreed to purchase the bonds making advances to the City up to but not exceeding the \$996,000. The purpose of the issuance is for the cost of acquiring, constructing and installing the sewerage improvements project, refunding the interim loan and paying for the costs of issuance. At June 30, 2013, a total of \$743,668 had been advanced. Additional withdrawals will be made in FYE June 30, 2014 until the debt reaches the total of \$996,000. Effective May 28, 2014 the loan will start. The first payment will be due on June 28, 2014. There will be 468 monthly payments of \$3,471.86 including 2.75% interest. The total advanced of \$743,668 at June 30, 2013 is shown in long-term bonds payable. The bond principal and interest payments are not shown in the following schedules of bond principal and interest requirements that are presented in the following pages.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

LONG-TERM OBLIGATIONS (Continued)

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.

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 Payable balances outstanding at June 30, 2013 consist of the following:

Revenue Bond Series	Original Amount	Balance June 30, 2012	Principal Reductions	Balance June 30, 2013	Amounts Due Within One Year
Series 1999 A & B	\$1,878,300	\$1,574,602	\$33,095	\$1,541,507	\$34,392
Series 1989 A & B	974,000	653,000	25,000	628,000	26,000
Series 1984	274,000	182,000	9,000	173,000	9,000
Series 2012	-	-	-	743,668	-
	<u>\$3,126,300</u>	<u>\$2,409,602</u>	<u>\$67,095</u>	<u>\$3,086,175</u>	<u>\$69,392</u>

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 1999	Series 1989	Series 1984	Total
2014	\$ 34,392	\$ 26,000	\$ 9,000	\$ 69,392
2015	35,741	28,000	11,000	74,741
2016	37,144	29,000	12,000	78,144
2017	38,603	30,000	12,000	80,603
2018	40,121	32,000	15,000	87,121
2019-2023	225,603	186,000	94,000	505,603
2024-2028	273,849	240,000	20,000	533,849
2029-2033	332,670	57,000	-	389,670
2034-2038	404,433	-	-	404,433
2039-2040	118,951	-	-	118,951
	<u>\$1,541,507</u>	<u>\$ 628,000</u>	<u>\$ 173,000</u>	<u>\$ 2,342,507</u>

Interest Payments

Year Ending June 30,	Proprietary Fund Revenue Bonds			
	Series 1999	Series 1989	Series 1984	Total
2014	\$ 59,520	\$ 31,400	\$ 14,489	\$ 105,409
2015	58,171	30,100	13,735	102,006
2016	56,768	28,700	12,814	98,282
2017	55,309	27,250	11,809	94,368
2018	53,791	25,750	10,804	90,345
2019-2023	243,957	103,050	32,411	379,418
2024-2028	196,515	51,450	1,675	249,640
2029-2033	136,890	2,850	-	139,740
2034-2038	80,646	-	-	80,646
2039-2040	9,875	-	-	9,875
	<u>\$ 951,442</u>	<u>\$ 300,550</u>	<u>\$ 97,737</u>	<u>\$1,349,729</u>

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

LONG-TERM OBLIGATIONS (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 6/30/12	Additions	Reductions	Balance 6/30/13	Amounts Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 14,575	\$ 65	\$ -	\$ 14,640	\$ -
Business-Type Activities:					
Notes Payable	\$2,099,350	\$ 1,680	\$ 166,597	\$1,934,433	\$173,031
Bonds Payable	2,409,602	743,668	67,095	3,086,175	69,392
Compensated Absences	25,315	4,077	-	29,392	-
Total Business-Type Activities	<u>\$4,534,267</u>	<u>\$749,425</u>	<u>\$ 233,692</u>	<u>\$5,050,000</u>	<u>\$242,422</u>

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, 2013 was \$193,526.

11. RESERVED FUND EQUITIES

Restricted Net Assets/Reserved Retained Earnings:

In the proprietary fund statements, \$506,757 has been reserved for the purpose of debt service. Retained earnings have been restricted in the government-wide statements in the same amount.

Nonspendable Fund Balance: In the general fund, \$19,912 of fund balance for prepaid insurance has been shown as nonspendable fund balances.

Restricted Fund Balance: In the general fund and SPLOST fund, \$10,776 and \$15,623 are restricted for various purposes. See detail on page 9 of the financials.

12. RETIREMENT PLANS

Pension Plan

Plan Description - The City's defined benefit pension plan, City of Hiawassee Retirement Plan (CHRP), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CHRP is affiliated with the Georgia Municipal Employee Benefit System (GMEBS), an agent multiple employer pension plan administered by the Georgia Municipal Association. The GMEBS assigns the authority to establish and amend the benefit provisions of the plans that participate in GMEBS to the respected employer entities, for the CHRP, the authority rests with the City of Hiawassee, Georgia. The Georgia Municipal

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

RETIREMENT PLANS (Continued)

Association issued a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained by writing to the Georgia Municipal Association or by calling (404) 688-0472.

Funding Policy - The City is required to contribute at an actuarially determined rate; the current rate is 10.20% of annual covered payroll. Employees become eligible after the first full year of employment and become vested in the plan after ten years of service. Only the City of Hiawassee, Georgia, the employer, makes contributions to the plan. City contributions for, and interest forfeited by employees who leave employment before ten years of service, are used to reduce the City's current period contribution requirement. The contribution requirements of plan members and the City are established and may be amended by the GMEBS Board of Trustees.

Annual Pension Cost - Based on results of the January 1, 2013 actuarial valuation, the City's annual pension cost of \$73,696 for GMEBS was equal to the City's required contribution. Current year total payroll was \$881,870. Covered current payroll was \$710,361. The City's actual contribution for the year ended June 30, 2013 was \$84,604. The required contribution was determined as part of the January 1, 2012 actuarial valuation using the projected unit credit cost method. The actuarial value of the assets was \$652,448 and the actuarial accrued liability was \$889,639. The unfunded actuarial liability was \$237,191 and the funded ratio was 73.34%. The ratio of the unfunded actuarial liability to annual covered payroll is 39.39%. The significant actuarial assumption used to compute the actuarial accrued liability and the annual recommended contribution of the Plan meet the actuarial standards of Practice No.4, Measuring Pension Obligations, establishing generally accepted actuarial principles and practices. The actuarial assumptions included (a) 7.75% investment rate of return, (b) projected salary increases of 3.5% plus age and service based merit increases and (c) inflation rate increase of 3.5% and no post-retirement benefit increases.

The actuarial value of CHRP assets was determined using a smoothing technique which gradually incorporates investment performance that exceeds or falls short of the expected return of 7.75%. The amortization of the unfunded actuarial accrued liability is level dollar over 30 years for the initial unfunded accrued liability, 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods as a level dollar amount. The amortization periods, if applicable, are closed for this plan year.

Immediately following the notes is a schedule of funding progress to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations, if applicable.

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

RETIREMENT PLANS (Continued)

Fiscal Year Ended	Trend Information for CHRP (Dollar amounts in thousands)		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06-30-13	\$ 73,696	100%	-0-
06-30-12	\$ 84,604	100%	-0-
06-30-11	\$ 80,996	100%	-0-

Based on the results of the January 1, 2013 actuarial valuation.

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 Development Center (RDC). Membership in a regional development center (RDC) 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. Each county and municipality in the state is required by law to pay minimum annual dues to the RDC. The City paid no annual dues to the RDC for the year ended June 30, 2013 because currently all dues are paid on the City's behalf by Towns County. An RDC 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 RDCs 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 RDC beyond its resources. (O.C.G.A. 50-8-39.1). Complete financial statements of the Georgia Mountain Regional Development Center can be obtained directly from their office at:

Georgia Mountain Regional Development Center
Post Office Box 1720
Gainesville, Georgia 30503

14. 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 the Georgia Municipal Association. Insurance coverage and deductible options for property, casualty and crime under the policy are selected by City's management based on anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed by the Association, as well as following loss reduction and

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

RISK MANAGEMENT (Continued)

prevention procedures established by the Association. The Association's responsibility includes paying claims, and representing the City in defense and settlement of claims. The Association's basis for estimating the liabilities for unpaid claims is established by 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, 2013. No provisions have been made in the financial statements for the year ended June 30, 2013 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 statute creating GMAWCSIF permits the fund to levy an assessment upon its members to make up any deficiency the fund may have in surplus or reserves. No amount has been recorded in the general purpose financial statements for this contingency, as management believes the likelihood for assessment is remote.

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.

15. 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, except there was no signed agreement with the Towns County Tourism Board. 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 Commission and all remaining collections are paid to the Towns County Tourism Board to promote tourism in the City of Hiawassee, Georgia. However, a balance of \$7,542 was due to the Tourism Board as of June 30, 2013.

Tourism
Board

Revenues Collected for the City	\$ 56,687
Disbursed as of June 30, 2013	<u>(49,145)</u>
Balance as of June 30, 2013	<u>\$ 7,542</u>

CITY OF HIAWASSEE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

16. 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, 2013.

17. DEFICIT FUND BALANCE

The General Fund reported a deficit fund balance of \$48,524.58 at June 30, 2013. The deficit was made up of the following at June 30, 2013:

Non-Spendable – Prepaid Expenses	\$19,912.48
Restricted – Public Safety	10,776.44
Unassigned (Deficit)	<u>(79,213.50)</u>
Total Fund Balances (Deficit)	<u>\$(48,254.58)</u>

The fund deficit occurred in part because a total of \$145,123.46 in capital expenditures was paid out of the general fund for capital improvements to the City Municipal Building. The investments in certificates of deposits were exhausted as well as a portion of cash in the general fund bank accounts.

Last year, the City purchased a bank building downtown for the purpose of converting it into the City Municipal Building. The City did not want to incur additional long-term debt and elected to pay for the improvements instead. These large capital expenditures will not be made in the future. The City expects the deficit to return to a positive fund balance in the coming year.

18. SUBSEQUENT EVENTS

Subsequent events were evaluated through January 21, 2014, 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, 2013**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Taxes & Assessments	\$ 475,600.00	\$ 487,200.00	\$ 496,251.83	\$ 9,051.83
Licenses & Permits	32,000.00	25,900.00	31,762.50	5,862.50
Fines & Forfeitures	65,000.00	55,125.00	52,995.01	(2,129.99)
Charges for Services	6,000.00	7,125.00	7,125.00	-
Investment Earnings	2,000.00	3,000.00	3,445.56	445.56
Contributions & Grants	-	9,200.00	19,696.05	10,496.05
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL REVENUES	\$ 580,600.00	\$ 587,550.00	\$ 611,275.95	\$ 23,725.95
EXPENDITURES:				
Current Operating:				
General Government	\$ 874,800.00	\$ 874,700.00	\$ 518,473.37	\$ 356,226.63
Public Safety	362,300.00	369,350.00	355,505.77	13,844.23
Judicial	13,500.00	13,500.00	11,650.00	1,850.00
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENDITURES	\$ 1,250,600.00	\$ 1,257,550.00	\$ 885,629.14	\$ 371,920.86
EXCESS OF EXPENDITURES OVER REVENUES	\$ (670,000.00)	\$ (670,000.00)	\$ (274,353.19)	\$ 395,646.81
OTHER FINANCING SOURCES (USES):				
Prior Year Reserves Utilized	\$ 670,000.00	\$ 670,000.00	\$ -	\$ 670,000.00
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ 670,000.00	\$ 670,000.00	\$ -	\$ 670,000.00
NET CHANGE IN FUND BALANCE	\$ -	\$ -	\$ (274,353.19)	\$ (274,353.19)
FUND BALANCES:				
Beginning of Year	-	-	225,828.61	225,828.61
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
End of Year	\$ -	\$ -	\$ (48,524.58)	\$ (48,524.58)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

**CITY OF HIAWASSEE, GEORGIA
SCHEDULE OF FUNDING PROGRESS FOR
CITY OF HIAWASSEE RETIREMENT PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Analysis of Funding Progress

	Actuarial	Actuarial		Unfunded		Percentage of
Actuarial	Value of	Liability(ALL)	Funded	ALL	Covered	Covered
Valuation	Assets	Entry Age	Ratio	(UAAL)	Payroll	Payroll
<u>Date</u>	<u>(A)</u>	<u>(B)</u>	<u>(NB)</u>	<u>(B-A)</u>	<u>(C)</u>	<u>(B-A)/C</u>
05/01/2011	\$464,996	\$ 773,483	60.1%	\$ 308,487	\$ 676,333	45.6%
05/01/2012	\$548,452	\$ 848,481	64.6%	\$ 300,029	\$ 678,412	44.2%
05/01/2013	\$652,448	\$ 889,639	73.3%	\$ 237,191	\$ 710,361	33.4%

Effect of plan changes on the actuarial accrued liability:

The effect on the actuarial accrued liability of any current-year changes in actuarial assumptions or benefit provisions will be provided upon request. The actuarial assumptions are the same as those used in the preceding valuation.

Effect of plan changes on recommended contributions:

The effect on the recommended contributions of any current-year changes in actuarial assumptions, benefit provisions or actuarial funding method will be provided upon request. The actuarial assumptions and cost methods are the same as those used to determine the contribution requirement for the preceding year.

CITY OF HIAWASSEE, GEORGIA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2013

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.

COMPLIANCE AND SINGLE AUDIT SECTION



ED K. BURTON, LLC

CERTIFIED PUBLIC ACCOUNTANTS

Ed K. Burton, CPA

Alan M. Burton, CPA

T. Scott Slaton, CPA

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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**

The Honorable Mayor Barbara Mathis 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 remaining fund information of the City of Hiawassee, Georgia, as of and for the year ended June 30, 2013, which collectively comprise the City of Hiawassee, Georgia's basic financial statements and have issued our report thereon dated January 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, 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 (2013-1) in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be 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 disclosed an instance of noncompliance or other matter that required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questions costs as item 2013-2.

We noted certain matters that we reported to management of City of Hiawassee, Georgia in a separate letter dated January 21, 2014.

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

Toccoa, Georgia
January 21, 2014



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

The Honorable Mayor Barbara Mathis and Members of the City Council
City of Hiawassee, Georgia

Report on Compliance for Each Major Federal Program

We have audited City of Hiawassee, Georgia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Hiawassee, Georgia's major federal programs for the year ended June 30, 2013. City of Hiawassee, Georgia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Hiawassee, Georgia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Hiawassee, Georgia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Hiawassee, Georgia's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Hiawassee, Georgia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of City of Hiawassee, Georgia, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Hiawassee, Georgia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Hiawassee, Georgia's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Ed K. Burton, LLC". The signature is written in a cursive, slightly slanted style.

Ed K. Burton, LLC
Certified Public Accountants
Toccoa, Georgia
January 21, 2014

CITY OF HIAWASSEE, GEORGIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass-Through Number	Federal Expenditures
U.S. Environmental Protection Agency: Pass Through Programs from: Georgia Environmental Facilities Authority Water & Sewer; Water Intake Upgrades	66.458	2011-L18WJ	\$ 1,680.30
U.S. Department of Agriculture: Pass Through Programs - USDA Rural Development USDA Sewer Improvements	N/A	11-039-581732049	743,668.00
Total Federal Expenditures			<u>\$ 745,348.30</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE

CITY OF HIAWASSEE, GEORGIA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION AND ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

In instances where the grant agreement requires the City to match grant awards with City funds, such matching funds are excluded in the accompanying Schedule of Expenditures of Federal Awards. Pass-through entity identifying numbers are presented where available.

CITY OF HIAWASSEE, GEORGIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
Material weakness(es) identified ?	None reported
Significant deficiencies identified not considered material weaknesses?	None reported

There are no audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, Section 510(a).

Identification of major programs:

- CFDA # 66.458 - U.S. Environmental Protection Agency / Georgia Environmental Facilities Authority/Clean Water State Revolving Fund – ARRA
- U.S. Department of Agriculture – USDA Rural Development – Sewer Improvements

Dollar threshold used to distinguish between type A and type B programs - \$300,000

Auditee does not qualify as a low-risk auditee.

SECTION 2 – FINANCIAL STATEMENT FINDINGS

Internal Control over Financial Reporting

2013-1 Repeat from prior year: GAAP Financial Statements

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

CITY OF HIAWASSEE, GEORGIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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.

Compliance and Other Matters

2013-2 Current Year Finding:

Criteria: GA Code § 48-13-51(C) states "that the proceeds of the taxes collected under Hotel Motel Tax shall be expended pursuant to a contract or a memorandum of understanding between the county or municipality, the private sector nonprofit organization and the charitable trust..."

Condition: The City does not have a signed contract or memorandum of understanding with the Towns County Tourism Association, a private sector nonprofit organization. The Association refuses to sign such an agreement with the City.

Effect: By not having a signed agreement in place there is no way to make sure that the proceeds of the Hotel Motel Tax are being spent per the expenditure requirements for the proper purpose which is to promote tourism.

Cause: The Towns County Tourism Association will not sign the contract/memorandum of understanding with the City.

Recommendation: The City needs to get the agreement signed with the Tourism Association so that the funds can be spent in order to meet the state expenditure requirements. If an agreement can't be reached, then the City may need to send the Hotel Motel Tax to the local Chamber of Commerce or a local Development Authority in order to promote tourism and meet the state required expenditures.

Response: The City will get the agreement signed or use a different organization to meet the requirements by the Department of Community of Affairs.

SECTION 3 – FEDERAL AWARDS FINDINGS

None reported

CITY OF HIAWASSEE, GEORGIA
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

2002-1 Segregation of Duties

Criteria: Key employee duties should be separated to reduce the chance of having unauthorized transactions occur.

Condition: There is a lack of segregation of duties related to the handling of cash and bookkeeping function. One person should not be responsible for entering all transactions into the system as well as handling all cash receipts and disbursements. These should be performed by different employees to properly segregate related duties.

Auditee Response/Status: Resolved – The City hired another employee to assist with billing and the segregation of duties.

2007-1: 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 Hiawasse, 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 2013-1.

OTHER SUPPLEMENTARY INFORMATION



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Independent Accountant's Report

We have examined management's assertion included in the accompanying State of Georgia Grant Certification Form about the City of Hiawassee's compliance during the fiscal year ended with the requirement to use grant proceeds solely for the purpose or purposes for which the grant was made for the following grant award:

Governor's Office of Highway Safety Highway Safety Grant # GA-2013-000-00307

Management is responsible for the City of Hiawassee's compliance with this requirement. Our responsibility is to express an opinion on management's assertion about the City of Hiawassee's compliance based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City of Hiawassee's compliance with this requirement and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City of Hiawassee's compliance with the specified requirement.

In our opinion, management's assertion that the City of Hiawassee complied with the aforementioned requirement during the fiscal year ended June 30, 2013 is fairly stated, in all material respects.

This report is intended solely for the information and use of the Georgia Department of Audits and Accounts and the State grantor agency identified on the Grant Certification Form and is not intended to be and should not be used by anyone other than the specified parties.

Ed K. Burton, LLC

Ed K. Burton, LLC
January 21, 2014

State of Georgia Grant Certification Form
Local Government Recipient (with no subrecipient)

LINE

A	Local Government	City Of Hiawassee
B	State Awarding Agency	Governor's Office of Highway Safety
C	Grant Identification Number	GA-2013-000-00307
D	Grant Title	Highway-Safety Grant
E	Grant Award Date	08/14/12
F	Grant Amount	\$10,000.00

	COLUMN 1 Current Year Activity For the Year Ended:	COLUMN 2 Cumulative Grant Activity Through the Year Ended:
G		
H	Balance - Prior Year (Cash or Accrued or Deferred Revenue) \$0.00	
I	Grant Receipts or Revenue Recognized \$10,000.00	\$10,000.00
J	Grant Disbursements or Expenditures EXCLUDING AUDIT FEES \$10,000.00	\$10,000.00
K	Disbursements or Expenditures for Audit Fees \$0.00	\$0.00
L	Balance - Current Year (Cash or Accrued or Deferred Revenue) [Line H (col 1 only) + Line I - Line J - Line K] \$0.00	\$0.00

EDIT CHECKS IF FORM COMPLETED ON EXCEL SPREADSHEET:

Column 1, Line L equals Column 2, Line L.
 Grant Receipts/Revenue Does Not Exceed Grant Award.
 Date Must Be Provided in Line G, Column 1.
 Date Must Be Provided in Line G, Column 2.
 Year End Dates On Line G Agree.
 Column 1, Line L Foots Correctly.
 Column 2, Line L Foots Correctly.
 Audit Fee is Within 2% Limit (\$250 max).

Line A is Completed.
 Line B is Completed.
 Line C is Completed.
 Line D is Completed.
 Line E is Completed.
 Line F is Completed.

Certification of Local Government Officials

I have reviewed the information presented above and certify that it is accurate and correct. I further certify that the proceeds of the grant award identified above were used solely for the express purpose or purposes for which the grant was made.

Signature of Chief Elected Official Barbara Mathis Date 1/21/2014

Signature of Chief Financial Officer Wylene White Date 1/21/14

**CITY OF HIAWASSEE
SCHEDULE OF PROJECTS FINANCED WITH
SPECIAL PURPOSE LOCAL OPTION SALES TAX
FOR THE YEAR FISCAL ENDED JUNE 30, 2013**

Project	Estimated Cost		Expenditures			% of Completion
	Original	Current	Prior Years	Current Year	Total	
Parks	\$ 150,000.00	\$ 150,000.00	\$ -	\$ -	\$ -	0.00%
Fire Protection	70,000.00	69,958.00	-	-	-	0.00%
Downtown Development Roads/Sidewalks City Hall & Police Station	120,000.00 200,000.00	120,000.00 200,042.00		200,042.00	- 200,042.00	0.00% 100.00%
Water Plant & Storage Water Storage Pumps	200,000.00 50,000.00	200,000.00 50,000.00			- -	0.00% 0.00%
Water & Sewer Replacement of Infrastructure	303,000.00	303,000.00			-	0.00%
Sewer Plant	50,000.00	50,000.00	-	-	-	0.00%
Total	\$ 1,143,000.00	\$ 1,143,000.00	\$ -	\$ 200,042.00	\$ 200,042.00	17.50%