

**CITY OF HIAWASSEE, GEORGIA**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**  
**WITH AUDITOR'S OPINION**  
**DECEMBER 29, 2014**

**CITY OF HIAWASSEE, GEORGIA  
ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**ED K. BURTON, LLC**

CERTIFIED PUBLIC ACCOUNTANTS

Ed K. Burton, CPA

Alan M. Burton, CPA

T. Scott Slaton, CPA

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

## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund and the remaining fund information of the City of Hiawassee, Georgia as of and for the year ended June 30, 2014, 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, 2014 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 36-38 be presented to supplement the basic 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 Supplementary 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 of Federal Awards on page 43 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 Source and Application of Funds Schedule and Project Cost Schedule for One Georgia Authority on Pages 48 and 49 and the Schedule of Projects Financed with Special Purpose Local Option Sales Tax on page 50 are also presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of projects financed with special purpose local option sales tax, the source and application funds schedule and project cost schedule related to One Georgia Funds 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 as well as the source and application funds schedule and project cost schedule 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 December 29, 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  
December 29, 2014

## **MANAGEMENT'S DISCUSSION & ANALYSIS**

**CITY OF HIAWASSEE, GEORGIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

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, 2014.

**USING THE JUNE 30, 2014 AUDIT**

The audit of City of Hiawassee, Georgia, for the fiscal year ended June 30, 2014 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, 2014 as it compares to the previous fiscal year.

**Table 1: Condensed Statement of Net Position**

	Governmental Activities <u>June 30, 2013</u>	Governmental Activities <u>June 30, 2014</u>	Business-Type Activities <u>June 30, 2013</u>	Business-Type Activities <u>June 30, 2014</u>
<b><u>Assets:</u></b>				
Current and other assets	\$ 194,231	\$ 256,879	\$ 2,440,893	\$ 2,571,204
Capital assets	<u>1,184,280</u>	<u>1,137,750</u>	<u>11,050,102</u>	<u>11,977,797</u>
<b>Total Assets</b>	<b><u>\$1,378,511</u></b>	<b><u>\$1,394,629</u></b>	<b><u>\$13,490,995</u></b>	<b><u>\$14,549,001</u></b>
<b><u>Liabilities:</u></b>				
Other liabilities	\$ 185,779	\$ 180,124	\$ 405,491	\$ 736,608
Long-term liabilities	<u>14,640</u>	<u>13,691</u>	<u>4,807,577</u>	<u>4,878,461</u>
<b>Total Liabilities</b>	<b><u>\$ 200,419</u></b>	<b><u>\$ 193,815</u></b>	<b><u>\$ 5,213,068</u></b>	<b><u>\$ 5,615,069</u></b>
<b><u>Net Position:</u></b>				
Invested in capital assets,				
Net of related debt	\$1,019,232	\$ 995,063	\$ 6,029,494	\$ 6,873,254
Restricted	---	70,258	506,757	494,978
Unrestricted	<u>158,860</u>	<u>135,493</u>	<u>1,741,676</u>	<u>1,565,700</u>
<b>Total Net Position</b>	<b><u>\$1,178,092</u></b>	<b><u>\$1,200,814</u></b>	<b><u>\$ 8,277,927</u></b>	<b><u>\$ 8,933,932</u></b>
<b>Total Liabilities and Net Position</b>	<b><u>\$1,378,511</u></b>	<b><u>\$1,394,629</u></b>	<b><u>\$13,490,995</u></b>	<b><u>\$14,549,001</u></b>

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, 2014 compared to the previous fiscal year.

**Table 2: Condensed Statement of Activities**

	Governmental Activities June 30, 2013	Governmental Activities June 30, 2014	Business-Type Activities June 30, 2013	Business-Type Activities June 30, 2014
<b><u>Revenues:</u></b>				
Charges for Services	\$ 91,883	\$ 136,161	\$ 2,086,274	\$ 2,423,908
Operating grants & contributions	-	-	-	-
Capital grants & contributions	128,134	187,541	206,925	567,512
General Revenues:				
Property taxes	171,222	161,679	-	-
Other taxes	380,053	429,701	-	-
Over Revenues	<u>13,142</u>	<u>13,196</u>	<u>3,386</u>	<u>139</u>
<b>Total Revenues</b>	<b><u>\$ 784,434</u></b>	<b><u>\$ 928,278</u></b>	<b><u>\$ 2,296,585</u></b>	<b><u>\$ 2,991,559</u></b>
<b><u>Expenses:</u></b>				
General Government	\$ 439,778	\$ 400,982	\$ -	\$ -
Judicial	11,650	12,150	-	-
Public Safety	361,373	385,034	-	-
Water and Sewerage	-	-	<u>2,463,178</u>	<u>2,442,945</u>
<b>Total Expenses</b>	<b><u>\$ 812,800</u></b>	<b><u>\$ 798,166</u></b>	<b><u>\$ 2,463,178</u></b>	<b><u>\$ 2,442,945</u></b>
<b>Increase (Decrease) in Net Position Before Other Items</b>	<b>\$ (28,366)</b>	<b>\$ 130,112</b>	<b>\$ (166,593)</b>	<b>\$ 548,614</b>
Transfers	-	<u>(107,390)</u>	-	<u>107,390</u>
<b>Beginning Net Position</b>	<b><u>1,206,458</u></b>	<b><u>1,178,092</u></b>	<b><u>8,444,521</u></b>	<b><u>8,277,928</u></b>
<b>Ending Net Position</b>	<b><u>\$1,178,092</u></b>	<b><u>\$1,200,814</u></b>	<b><u>\$ 8,277,928</u></b>	<b><u>\$ 8,933,932</u></b>

During the fiscal year ended June 30, 2014 the net assets of City of Hiawassee, Georgia's governmental activities increased \$22,722 and the business-type activities increased \$656,004. Revenues increased 18.34% over the previous fiscal year and expenditures and transfers out increased 11.41% in the governmental activities. Revenues and transfers in increased 34.94% and expenses decreased 0.82% over the previous fiscal year in the business-type activities.

Approximately 17.42% of the City's governmental activity revenue came from property taxes, 46.29% came from other taxes and revenues, and the balance of 36.29% came from charges for services, grants, and other sources. Approximately 78.22% of the City's business-type activity revenue came from charges for services and the remaining 21.78% came from other sources.

The City's governmental activity expenses cover a wide range of services with 48.24% allotted to public safety, 50.24% to general government services, and the remaining 1.52% 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, 2014, the City's governmental funds reported a combined ending fund balance of \$55,186, of which \$5,472 is nonspendable, \$51,313 is restricted for specific purposes and (\$1,600) is unassigned.

The General Fund – the operating fund of the City – had a net increase in fund balance of \$63,873 during the current year. The increase in fund balance is due to excess of revenues over expenditures.

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, 2014, the City's proprietary funds reported combined ending net position of \$8,933,932 of which \$6,873,254 is invested in capital assets, net of related debt, \$494,978 is restricted for debt service, and \$1,565,700 is unrestricted.

The proprietary funds had a net decrease in unrestricted net position of \$175,976, which is due in part to increases in operating expenses and capital expenditures.

## **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 2014 year.

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Taxes & Assessments	\$ 498,700	\$ 511,150	\$ 543,023	\$ 31,873
Licenses & Permits	27,500	23,400	24,690	1,290
Fines & Forfeitures	65,150	65,250	103,949	38,699
Charges for Services	500	6,000	7,522	1,522
Investment Earnings	9,000	2,500	2,881	381
Contributions & Grants		10,000	10,315	315
Expenditures:				
General Government	\$ 359,800	\$ 347,650	\$ 247,119	\$ 100,531
Public Safety	354,550	377,150	369,239	7,911
Judicial	13,500	13,500	12,150	1,350



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, 2014, City of Hiawassee, Georgia reported \$1,137,750 in capital assets for governmental activities and \$11,977,796 in capital assets for business-type activities. Refer to Note 6 to the financial statements for additional information on capital assets.

At June 30, 2014, governmental activities reported \$13,691 long-term debt compared to \$14,640 at June 30, 2013 and business-type activities long-term debt of \$4,878,461 and \$4,807,577 at June 30, 2014 and June 30, 2013, respectively in business-type activities. Refer to Note 10 in the financial statements for additional information on long-term liabilities.

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

The City expects revenues to be up in the upcoming year due to an increase in water usage and the addition of new customers. Due to the current economic conditions, the City anticipates increasing revenue for the current budget year. The City is also restructuring water department debt to address revenue shortfalls. Several businesses are under construction which should increase the existing customer base and provide additional ongoing revenue in the future.

### **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, 2014**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and Cash Equivalents	\$ 94,684.77	\$ 1,550,370.60	\$ 1,645,055.37
Restricted Cash	-	183,014.35	183,014.35
Investments	-	-	-
Investments - Restricted	-	107,392.83	107,392.83
Taxes Receivables (Net)	26,533.64	-	26,533.64
Accounts Receivable (Net)	75,104.74	321,540.11	396,644.85
Due from Water Fund	20,436.92	(20,436.92)	-
Intergovernmental Receivables	34,647.23	7,830.12	42,477.35
Inventory	-	39,612.38	39,612.38
Prepaid Expenses	5,472.00	9,783.68	15,255.68
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 256,879.30</b>	<b>\$ 2,199,107.15</b>	<b>\$ 2,455,986.45</b>
<b>NONCURRENT ASSETS:</b>			
Restricted Intergovernmental Receivables	\$ -	\$ 270,900.00	\$ 270,900.00
Capital Assets:			
Land, Non-Depreciable Improvements, and Construction in Progress	\$ -	\$ 748,618.54	\$ 748,618.54
Other Capital Assets, Net of Depreciation	1,137,749.66	11,229,177.90	12,366,927.56
Total Capital Assets	\$ 1,137,749.66	\$ 11,977,796.44	\$ 13,115,546.10
Closing Costs and Other Assets, Net	\$ -	\$ 101,197.35	\$ 101,197.35
<b>TOTAL NONCURRENT ASSETS</b>	<b>\$ 1,137,749.66</b>	<b>\$ 12,349,893.79</b>	<b>\$ 13,487,643.45</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,394,628.96</b>	<b>\$ 14,549,000.94</b>	<b>\$ 15,943,629.90</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts Payable	\$ 33,064.43	\$ 382,705.24	\$ 415,769.67
Accrued Interest	-	30,080.47	30,080.47
Accrued Expenses	4,373.35	6,414.08	10,787.43
Notes Payable	142,686.59	-	142,686.59
Current Portion of Long-term Debt	-	176,338.38	176,338.38
Liabilities Payable from Restricted Assets:			
Bonds Payable	-	74,740.75	74,740.75
Customer Deposits	-	66,329.23	66,329.23
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 180,124.37</b>	<b>\$ 736,608.15</b>	<b>\$ 916,732.52</b>
<b>LONG-TERM LIABILITIES:</b>			
Compensated Absences	\$ 13,690.80	\$ 24,997.76	\$ 38,688.56
Due in More Than One Year	-	4,853,463.54	4,853,463.54
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>\$ 13,690.80</b>	<b>\$ 4,878,461.30</b>	<b>\$ 4,892,152.10</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 193,815.17</b>	<b>\$ 5,615,069.45</b>	<b>\$ 5,808,884.62</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	\$ 995,063.07	\$ 6,873,253.77	\$ 7,868,316.84
Restricted for Debt Service	-	494,977.95	494,977.95
Restricted for:			
Public Safety	11,476.44	-	11,476.44
Tourism	33,002.47	-	33,002.47
Capital Outlay	25,779.00	-	25,779.00
Unrestricted	135,492.81	1,565,699.77	1,701,192.58
<b>TOTAL NET POSITION</b>	<b>\$ 1,200,813.79</b>	<b>\$ 8,933,931.49</b>	<b>\$ 10,134,745.28</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 1,394,628.96</b>	<b>\$ 14,549,000.94</b>	<b>\$ 15,943,629.90</b>

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, 2014**

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	\$ 400,982.27	\$ 32,212.00	\$ -	\$ 187,540.60	\$ (181,229.67)	\$ -	\$ (181,229.67)
Public Safety	385,034.26	103,949.47	-	-	(281,084.79)	-	(281,084.79)
Judicial	12,150.00	-	-	-	(12,150.00)	-	(12,150.00)
Total Governmental Activities	\$ 798,166.53	\$ 136,161.47	\$ -	\$ 187,540.60	\$ (474,464.46)	\$ -	\$ (474,464.46)
Business-Type Activities:							
Water and Sewerage	\$ 2,442,945.20	\$ 2,423,908.61	\$ -	\$ 567,512.09	\$ -	\$ 548,475.50	\$ 548,475.50
Total Business-Type Activities	\$ 2,442,945.20	\$ 2,423,908.61	\$ -	\$ 567,512.09	\$ -	\$ 548,475.50	\$ 548,475.50
Total Primary Government	\$ 3,241,111.73	\$ 2,560,070.08	\$ -	\$ 755,052.69	\$ (474,464.46)	\$ 548,475.50	\$ 74,011.04
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purpose					\$ 161,678.55	\$ -	\$ 161,678.55
Franchise Taxes					32,807.51	-	32,807.51
Local Option Sales & Use Tax & Hotel/Motel Tax					259,095.21	-	259,095.21
Business Taxes					53,814.90	-	53,814.90
Other Taxes					83,983.04	-	83,983.04
Contributions from Private Sources					10,315.00	-	10,315.00
Unrestricted Investment Earnings					2,881.43	3,774.36	6,655.79
Gain (Loss) on Sale/Abandonment of Assets					-	(3,635.74)	(3,635.74)
Transfers (Net)					(107,389.64)	107,389.64	-
Total General Revenues and Transfers					\$ 497,186.00	\$ 107,528.26	\$ 604,714.26
Change in Net Position					\$ 22,721.54	\$ 656,003.76	\$ 678,725.30
Net Position, Beginning					1,178,092.25	8,277,927.73	9,456,019.98
Net Position, Ending					\$ 1,200,813.79	\$ 8,933,931.49	\$ 10,134,745.28

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

**CITY OF HIAWASSEE, GEORGIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014**

	GENERAL FUND	SPLOST	NONMAJOR FUND HOTEL/MOTEL FUND	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS:</b>				
Cash and Cash Equivalents	\$ 35,903.30	\$ 25,779.00	\$ 33,002.47	\$ 94,684.77
Investments	-	-	-	-
Taxes Receivable	26,533.64	-	-	26,533.64
Intergovernmental Receivable	34,647.23	-	-	34,647.23
Due from Water Fund	20,436.92	-	-	20,436.92
Other Receivables	75,104.74	-	-	75,104.74
Prepaid Expenses	5,472.00	-	-	5,472.00
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 198,097.83</u>	<u>\$ 25,779.00</u>	<u>\$ 33,002.47</u>	<u>\$ 256,879.30</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE:</b>				
<b>LIABILITIES:</b>				
Accounts Payable	\$ 14,119.93	\$ 18,944.50	\$ -	\$ 33,064.43
Accrued Expenses	4,373.35	-	-	4,373.35
Notes Payable	142,686.59	-	-	142,686.59
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	\$ 161,179.87	\$ 18,944.50	\$ -	\$ 180,124.37
DEFERRED INFLOW OF RESOURCES:	<u>21,569.27</u>	<u>-</u>	<u>-</u>	<u>21,569.27</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>\$ 182,749.14</u>	<u>\$ 18,944.50</u>	<u>\$ -</u>	<u>\$ 201,693.64</u>
<b>FUND BALANCES:</b>				
Nonspendable:				
Prepaid Expenses	\$ 5,472.00	\$ -	\$ -	\$ 5,472.00
Restricted for:				
Shop with a Cop	10,647.41	-	-	10,647.41
Drug Seizures	829.03	-	-	829.03
Capital Outlay	-	6,834.50	-	6,834.50
Tourism	-	-	33,002.47	33,002.47
Unassigned (Deficit)	(1,599.75)	-	-	(1,599.75)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	<u>\$ 15,348.69</u>	<u>\$ 6,834.50</u>	<u>\$ 33,002.47</u>	<u>\$ 55,185.66</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 198,097.83</u>	<u>\$ 25,779.00</u>	<u>\$ 33,002.47</u>	<u>\$ 256,879.30</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, 2014**

**TOTAL GOVERNMENTAL FUND BALANCES** **\$ 55,185.66**

*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>(280,381.95)</u>	1,137,749.66

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. 21,569.27

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>(13,690.80)</u>
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**NET ASSETS OF GOVERNMENTAL ACTIVITIES** **\$ 1,200,813.79**

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, 2014**

	GENERAL FUND	SPLOST	NONMAJOR FUND HOTEL/MOTEL FUND	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES:</b>				
Taxes and Assessments	\$ 543,023.37	\$ -	\$ 60,597.58	\$ 603,620.95
Licenses and Permits	24,690.00	-	-	24,690.00
Fines and Forfeitures	103,949.47	-	-	103,949.47
Intergovernmental Revenues	-	187,522.25	-	187,522.25
Charges for Services	7,522.00	-	-	7,522.00
Investment Earnings	2,881.43	18.35	-	2,899.78
Contributions and Grants	10,315.00	-	-	10,315.00
TOTAL REVENUES	<u>\$ 692,381.27</u>	<u>\$ 187,540.60</u>	<u>\$ 60,597.58</u>	<u>\$ 940,519.45</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	\$ 247,119.27	\$ -	\$ 35,137.45	\$ 282,256.72
Public Safety	369,238.73	-	-	369,238.73
Judicial	12,150.00	-	-	12,150.00
Capital Outlay	<u>\$ 628,508.00</u>	<u>\$ 88,939.48</u>	<u>\$ 35,137.45</u>	<u>\$ 663,645.45</u>
TOTAL EXPENDITURES	<u>\$ 628,508.00</u>	<u>\$ 88,939.48</u>	<u>\$ 35,137.45</u>	<u>\$ 752,584.93</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 63,873.27</u>	<u>\$ 98,601.12</u>	<u>\$ 25,460.13</u>	<u>\$ 187,934.52</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers from/(to) Water	\$ -	\$ (107,389.64)	\$ -	\$ (107,389.64)
NET OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ (107,389.64)</u>	<u>\$ -</u>	<u>\$ (107,389.64)</u>
NET CHANGES IN FUND BALANCES	<u>\$ 63,873.27</u>	<u>\$ (8,788.52)</u>	<u>\$ 25,460.13</u>	<u>\$ 80,544.88</u>
<b>FUND BALANCES (DEFICITS):</b>				
Beginning of Year	(48,524.58)	15,623.02	7,542.34	(25,359.22)
End of Year	<u>\$ 15,348.69</u>	<u>\$ 6,834.50</u>	<u>\$ 33,002.47</u>	<u>\$ 55,185.66</u>

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, 2014**

**NET CHANGES IN FUND BALANCES-TOTAL GOVERNMENTAL FUNDS** **\$ 80,544.88**

*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		
Depreciation Expense	<u>\$ (46,530.43)</u>	(46,530.43)

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. (12,241.74)

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>948.83</u>
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<b>TOTAL CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 22,721.54</u></b>
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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, 2014**

	ENTERPRISE FUNDS		
	WATER AND SEWERAGE FUND	WATER TREATMENT PLANT FUND	TOTAL
<b>ASSETS:</b>			
<b>CURRENT ASSETS:</b>			
Cash and Cash Equivalents	\$ 605,626.23	\$ 944,744.37	\$ 1,550,370.60
Restricted Cash	183,014.35	-	183,014.35
Investments	-	-	-
Investments - Restricted	107,392.83	-	107,392.83
Accounts Receivable (Net)	290,231.07	31,309.04	321,540.11
Interfund Receivables	43,572.72	-	43,572.72
Intergovernmental Receivables	7,830.12	-	7,830.12
Inventories	39,612.38	-	39,612.38
Prepaid Expenses	6,044.73	3,738.95	9,783.68
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 1,283,324.43</b>	<b>\$ 979,792.36</b>	<b>\$ 2,263,116.79</b>
<b>NONCURRENT ASSETS:</b>			
Restricted Intergovernmental Receivables	\$ 270,900.00	\$ -	\$ 270,900.00
Capital Assets:			
Land, Improvements, and Construction in Progress	278,410.00	470,208.54	748,618.54
Depreciable Capital Assets, Net	11,009,663.74	219,514.16	11,229,177.90
Other Assets:			
Engineering Planning Fees, Net	69,589.20	-	69,589.20
Closing Costs, Net	31,608.15	-	31,608.15
<b>TOTAL NONCURRENT ASSETS</b>	<b>\$ 11,660,171.09</b>	<b>\$ 689,722.70</b>	<b>\$ 12,349,893.79</b>
<b>TOTAL ASSETS</b>	<b>\$ 12,943,495.52</b>	<b>\$ 1,669,515.06</b>	<b>\$ 14,613,010.58</b>
<b>LIABILITIES AND NET POSITION:</b>			
<b>LIABILITIES:</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts Payable	\$ 175,087.39	\$ 207,617.85	\$ 382,705.24
Due to General Fund	20,436.92	-	20,436.92
Interfund Payables	-	43,572.72	43,572.72
Accrued Interest	30,080.47	-	30,080.47
Accrued Expenses	5,506.24	907.84	6,414.08
Notes Payable	-	-	-
Current Portion of Long Term Debt	176,338.38	-	176,338.38
Liabilities Payable from Restricted Assets:			
Customer Deposits	66,329.23	-	66,329.23
Revenue Bonds Payable	74,740.75	-	74,740.75
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 548,519.38</b>	<b>\$ 252,098.41</b>	<b>\$ 800,617.79</b>
<b>LONG-TERM LIABILITIES:</b>			
Revenue Bonds Payable	\$ 3,193,188.08	\$ -	\$ 3,193,188.08
Notes Payable	1,575,232.34	85,043.12	1,660,275.46
Compensated Absences	15,196.16	9,801.60	24,997.76
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>\$ 4,783,616.58</b>	<b>\$ 94,844.72</b>	<b>\$ 4,878,461.30</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 5,332,135.96</b>	<b>\$ 346,943.13</b>	<b>\$ 5,679,079.09</b>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	\$ 6,268,574.19	\$ 604,679.58	\$ 6,873,253.77
Restricted for Debt Service	494,977.95	-	494,977.95
Unrestricted	847,807.42	717,892.35	1,565,699.77
<b>TOTAL NET POSITION</b>	<b>\$ 7,611,359.56</b>	<b>\$ 1,322,571.93</b>	<b>\$ 8,933,931.49</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 12,943,495.52</b>	<b>\$ 1,669,515.06</b>	<b>\$ 14,613,010.58</b>

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, 2014**

	ENTERPRISE FUNDS		
	WATER AND SEWERAGE FUND	WATER TREATMENT PLANT FUND	TOTAL
<b>OPERATING REVENUES:</b>			
Water Fees	\$ 975,313.56	\$ 338,636.70	\$ 1,313,950.26
Sewer Fees	665,292.35	-	665,292.35
Program Fees	85,170.00	-	85,170.00
Interfund Water Sales	-	359,496.00	359,496.00
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 1,725,775.91</b>	<b>\$ 698,132.70</b>	<b>\$ 2,423,908.61</b>
<b>OPERATING EXPENSES:</b>			
Personnel Services	\$ 557,625.80	\$ 236,839.60	\$ 794,465.40
Supplies and Other Expenses	213,031.50	55,100.36	268,131.86
Utilities	157,072.96	103,952.21	261,025.17
Interfund Water Purchased	359,496.00	-	359,496.00
Repairs and Maintenance	80,105.74	31,528.42	111,634.16
Depreciation and Amortization	460,608.10	31,885.52	492,493.62
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,827,940.10</b>	<b>\$ 459,306.11</b>	<b>\$ 2,287,246.21</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (102,164.19)</b>	<b>\$ 238,826.59</b>	<b>\$ 136,662.40</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest Income	\$ 2,656.04	\$ 1,118.32	\$ 3,774.36
Grants - Other	567,512.09	-	567,512.09
Gain (Loss) on Sale/Abandonment of Capital Assets	(3,635.74)	-	(3,635.74)
Interest Expense	(155,698.99)	-	(155,698.99)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>\$ 410,833.40</b>	<b>\$ 1,118.32</b>	<b>\$ 411,951.72</b>
<b>INCOME BEFORE TRANSFERS</b>	<b>\$ 308,669.21</b>	<b>\$ 239,944.91</b>	<b>\$ 548,614.12</b>
Transfers from SPLOST Fund	107,389.64	-	107,389.64
<b>CHANGE IN NET POSITION</b>	<b>\$ 416,058.85</b>	<b>\$ 239,944.91</b>	<b>\$ 656,003.76</b>
<b>NET POSITION:</b>			
Beginning Balance	7,195,300.71	1,082,627.02	8,277,927.73
Ending Balance	<u>\$ 7,611,359.56</u>	<u>\$ 1,322,571.93</u>	<u>\$ 8,933,931.49</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, 2014**

	ENTERPRISE FUNDS		
	WATER AND SEWERAGE FUND	WATER TREATMENT PLANT FUND	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash Received from Customers	\$ 1,559,137.37	\$ 374,530.08	\$ 1,933,667.45
Cash Received from Interfund Services Provided	-	359,496.00	359,496.00
Cash Payments for Personnel Services	(561,879.33)	(236,422.89)	(798,302.22)
Cash Payments for Interfund Services Provided	(359,496.00)	-	(359,496.00)
Cash Payments for Goods and Services	(311,200.02)	44,878.58	(266,321.44)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 326,562.02	\$ 542,481.77	\$ 869,043.79
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Proceeds from Short-term Debt	\$ 272,332.00	\$ 83,362.82	\$ 355,694.82
Grants Received	567,512.09	-	567,512.09
Transfers Received from SPLOST Fund	107,389.64	-	107,389.64
Interest Paid	(157,148.06)	-	(157,148.06)
Principal Paid	(271,760.04)	-	(271,760.04)
Payments for Capital Acquisitions	(970,091.14)	(451,935.65)	(1,422,026.79)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (451,765.51)	\$ (368,572.83)	\$ (820,338.34)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment Earnings	\$ 2,656.04	\$ 1,118.32	\$ 3,774.36
Purchase of Certificates of Deposits	(552.44)	-	(552.44)
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 2,103.60	\$ 1,118.32	\$ 3,221.92
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (123,099.89)	\$ 175,027.26	\$ 51,927.37
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	911,740.47	769,717.11	1,681,457.58
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 788,640.58	\$ 944,744.37	\$ 1,733,384.95
<b>RECONCILIATION OF TOTAL CASH:</b>			
Restricted	\$ 183,014.35	\$ -	\$ 183,014.35
Unrestricted	605,626.23	944,744.37	1,550,370.60
	\$ 788,640.58	\$ 944,744.37	\$ 1,733,384.95
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating Income (Loss)	\$ (102,164.19)	\$ 238,826.59	\$ 136,662.40
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities:			
Depreciation and Amortization	460,608.10	31,885.52	492,493.62
(Increase) Decrease in Accounts Receivable	(170,546.19)	35,893.38	(134,652.81)
(Increase) Decrease in Inventory	(2,369.57)	-	(2,369.57)
(Increase) Decrease in Prepaid Expenses and Other Assets	29,516.49	5,120.59	34,637.08
Increase (Decrease) in Accounts Payable	111,863.26	230,338.98	342,202.24
Increase (Decrease) in Customer Deposits	3,907.65	-	3,907.65
Increase (Decrease) in Compensated Absences	(4,945.36)	551.60	(4,393.76)
Increase (Decrease) in Accrued Expenses	691.83	(134.89)	556.94
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 326,562.02	\$ 542,481.77	\$ 869,043.79

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, 2014

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, 2014, 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.

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for capital improvements result from both the capital projects and enterprise funds and the restrictions on their net position use.

#### FUND FINANCIAL STATEMENTS

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

#### GOVERNMENTAL FUNDS

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

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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, 2014

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  
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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  
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash includes amounts in demand deposits. Statutes authorize the City to invest in U.S. Government obligations, U.S. Government agency obligations, State of Georgia obligations, obligations of other counties, municipal corporations and political subdivisions of the State of Georgia which are rated AA or better by Moody's Investors 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, 2014. 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, 2014 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  
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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, 2014.

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. The government has one item, which arises under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, deferred property taxes are reported only in the governmental funds balance sheet.

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  
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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  
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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, 2014 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 \$1,997,958 and the carrying amount was \$1,935,463. No formal investment policy has been adopted as of June 30, 2014.

4. PROPERTY TAXES AND OTHER RECEIVABLES

The City of Hiawassee property tax calendar is as follows:

Levy date	October 30, 2013
Due date	January 10, 2014
Delinquent date	January 11, 2014
Lien date	None

The total levy for the 2014 tax digest was \$167,531.

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, 2014 is \$5,608 and for fines receivable is \$10,120.

5. INTERGOVERNMENTAL RECEIVABLE

The following amounts are due from other governments at June 30, 2014:

<u>General Fund</u>	
<u>Unrestricted:</u>	
Georgia Department of Revenue	\$ 33,445
Towns County	<u>1,202</u>
	<u>\$ 34,647</u>
<u>Enterprise Funds</u>	
<u>Restricted:</u>	
Towns County Water Authority	<u>\$270,900</u>
<u>Unrestricted:</u>	
Towns County Water Authority	<u>\$ 7,830</u>

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

6. CAPITAL ASSETS

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

	Beginning			Ending
	<u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u>
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Infrastructure in progress	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	\$ -	\$ -	\$ -	\$ -
Capital assets being depreciated:				
Improvements	\$ 1,892	\$ -	\$ -	\$ 1,892
Equipment and furniture	65,164	-	-	65,164
Infrastructure	227,209	-	-	227,209
Buildings	1,015,354	-	-	1,015,354
Vehicles	108,513	-	-	108,513
Total capital assets being depreciated	\$ 1,418,132	\$ -	\$ -	\$ 1,418,132
Accumulated depreciation:				
Improvements	\$ 875	\$ 95	\$ -	\$ 970
Equipment and furniture	34,785	8,057	-	42,842
Infrastructure	61,303	7,426	-	68,729
Buildings	54,930	20,307	-	75,237
Vehicles	81,959	10,645	-	92,604
Total accumulated depreciation	\$ 233,852	\$ 46,530	\$ -	\$ 280,382
 Total capital assets being depreciated, net	 \$ 1,184,280	 \$ (46,530)	 \$ -	 \$ 1,137,750
	Beginning			Ending
	<u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 53,015	\$ -	\$ -	\$ 53,015
Construction in progress	150,185	1,320,960	775,541	695,604
Total capital assets not being depreciated	\$ 203,200	\$ 1,320,960	\$ 775,541	\$ 748,619
Capital assets being depreciated:				
Equipment, vehicles and furniture	\$ 1,885,215	\$ 62,974	\$ 27,605	\$ 1,920,584
Infrastructure	11,822,452	813,634	-	12,636,086
Buildings	2,870,042	-	-	2,870,042
Total capital assets being depreciated	\$ 16,577,709	\$ 876,608	\$ 27,605	\$ 17,426,712
Accumulated depreciation:				
Equipment, vehicles and furniture	\$ 789,493	\$ 136,388	\$ 23,969	\$ 901,912
Infrastructure	3,605,053	281,131	-	3,886,184
Buildings	1,336,260	73,179	-	1,409,439
Total accumulated depreciation	\$ 5,730,806	\$ 490,698	\$ 23,969	\$ 6,197,535
 Total capital assets being depreciated, net	 \$ 10,846,903	 \$ 385,910	 \$ 3,636	 \$ 11,229,177
 Business-type activities, capital assets, net	 \$ 11,050,103	 \$ 1,706,870	 \$ 779,177	 \$ 11,977,796

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
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CAPITAL ASSETS (Continued)

The total increases above for accumulated depreciation do not include amortization on closing costs in the amount of \$1,797.

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

Governmental Activities:	
General Government	\$30,735
Public Safety	<u>15,795</u>
	<u>\$46,530</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	\$116,685	\$107,393	\$270,900
Customer Deposits	<u>66,329</u>	<u>-</u>	<u>-</u>
	<u>\$179,739</u>	<u>\$107,393</u>	<u>\$270,900</u>

1999 Water Revenue Bonds - Assets totaling \$108,612 in 2014 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, 2014.

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
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RESTRICTED ASSETS (Continued)

Water System Fund (Continued)

1989 Water Revenue Bonds - Assets totaling \$78,416 in 2014 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, 2014.

1984 Water Revenue Bonds - Assets totaling \$37,050 at June 30, 2014 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, 2014 the required reserve was maintained.

The receivable in restricted funds from Towns County Water Authority of \$270,900 is a receivable for 45% of the 1989 water revenue bonds.

9. SHORT-TERM DEBT

Governmental Activities:

At June 30, 2014, the City has a temporary loan, in the amount of \$142,687 which is used to finance the acquisition of a commercial building that was previously used as the City Hall. The note was renewed on February 27, 2014 at \$146,642 with an interest rate of 4%. Interest paid during fiscal year ended June 30, 2014 was \$2,884.

Business-Type Activities:

There were no temporary loans outstanding at June 30, 2014.

Changes in short-term debt are as follows:

	Outstanding <u>06/30/13</u>	Additions	Reductions	Outstanding <u>06/30/14</u>
Governmental Activities				
Note Payable	\$165,048	\$146,642	\$169,003	\$142,687
Business-type Activities				
Note Payable	\$ -	20,000	20,000	-



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NOTES TO FINANCIAL STATEMENTS  
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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, 2014 was \$1,018,049.

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 \$144,762 at June 30, 2014. 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 \$366,214 at June 30, 2014. The final advance is for the water intake at the water treatment plant. \$85,043 has been advanced on this loan at June 30, 2014. 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, 2014 was \$222,523.

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>
2015	\$ 176,338	\$ 54,738	\$ 231,076
2016	192,073	48,410	240,483
2017	101,598	42,582	144,180
2018	87,829	39,774	127,603
2019	90,640	36,963	127,603
2020-2024	498,654	139,360	638,014
2025-2029	509,289	54,942	564,231
2030-2032	95,150	4,570	99,720
	<u>\$ 1,751,571</u>	<u>\$ 421,339</u>	<u>\$2,172,910</u>

Revenue Bonds

Bonds payable at June 30, 2014 are comprised of the following:

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LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds (Continued)

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, 2014, a total of \$951,324 had been advanced. A receivable of \$44,676 has been entered in the Water and Sewer Utility Fund and the 2012 Water and Sewer Revenue bonds have been increased by this same amount. Additional withdrawals will be made in FYE June 30, 2015 until the debt reaches the total of \$996,000. The effective date of the loan is May 28, 2014. The first payment was made on June 30, 2014 in the amount of \$3,477. There will be 468 total monthly payments of \$3,477 including 2.76% interest. The bond principal and interest payments are shown in the following schedules of bond principal and interest requirements that are presented in the following pages.

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

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

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, 2014 consist of the following:

<u>Revenue Bond Series</u>	<u>Original Amount</u>	<u>Balance June 30, 2013</u>	<u>Principal Additions (Reductions)</u>	<u>Balance June 30, 2014</u>	<u>Amounts Due Within One Year</u>
Series 1999 A & B	\$1,878,300	\$1,541,507	\$ (34,391)	\$1,507,116	\$35,741
Series 1989 A & B	974,000	628,000	(26,000)	602,000	28,000
Series 1984	274,000	173,000	(9,000)	164,000	11,000
Series 2012	-	743,668	207,656	951,324	14,457
	<u>\$3,126,300</u>	<u>\$2,409,602</u>	<u>\$ 137,725</u>	<u>\$3,224,440</u>	<u>\$89,118</u>

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
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LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds (Continued)

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

Principal Payments

Year Ending June 30,	Proprietary Fund Revenue Bonds				
	Series 2012	Series 1999	Series 1989	Series 1984	Total
2015	\$ 14,457	\$ 35,741	\$ 28,000	\$ 11,000	\$ 89,198
2016	14,861	37,144	29,000	12,000	93,005
2017	15,276	38,603	30,000	12,000	95,879
2018	15,703	40,121	32,000	15,000	102,824
2019	16,142	41,701	34,000	18,000	109,843
2020-2024	87,734	234,505	195,000	96,000	613,239
2025-2029	100,696	284,699	254,000	-	639,395
2030-2034	115,574	345,902	-	-	461,476
2035-2039	132,649	420,584	-	-	553,233
2040-2044	152,248	28,116	-	-	180,364
2045-2049	174,742	-	-	-	174,742
2050-2053	154,730	-	-	-	154,730
	<u>\$ 994,812</u>	<u>\$1,507,116</u>	<u>\$ 602,000</u>	<u>\$ 164,000</u>	<u>\$ 3,267,928</u>

Interest Payments

Year Ending June 30,	Proprietary Fund Revenue Bonds				
	Series 2012	Series 1999	Series 1989	Series 1984	Total
2015	\$ 27,267	\$ 58,171	\$ 30,100	\$ 13,735	\$ 129,273
2016	26,863	56,768	28,700	12,814	125,145
2017	26,448	55,309	27,250	11,809	120,816
2018	26,021	53,791	25,750	10,804	116,366
2019	25,582	52,211	24,150	9,548	111,491
2020-2024	120,886	235,055	93,750	24,539	474,230
2025-2029	107,924	184,861	39,450	-	332,235
2030-2034	93,046	123,658	-	-	216,704
2035-2039	75,971	48,976	-	-	124,947
2040-2044	56,372	228	-	-	56,600
2045-2049	33,878	-	-	-	33,878
2050-2053	8,688	-	-	-	8,688
	<u>\$ 628,946</u>	<u>\$ 869,028</u>	<u>\$ 269,150</u>	<u>\$ 83,249</u>	<u>\$ 1,850,373</u>

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 6/30/13	Additions	Reductions	Balance 6/30/14	Amounts Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 14,640	\$ -	\$ 949	\$ 13,691	\$ -
Business-Type Activities:					
Notes Payable	\$1,934,433	\$ 103,363	\$ 201,182	\$1,836,614	\$176,338
Bonds Payable	3,086,175	743,668	67,095	3,762,748	74,741
Compensated Absences	29,392	5,408	-	34,800	-
Total Business-Type Activities	<u>\$5,050,000</u>	<u>\$ 852,439</u>	<u>\$ 268,277</u>	<u>\$5,634,162</u>	<u>\$251,079</u>

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
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LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds (Continued)

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, 2014 was \$155,699.

11. RESERVED FUND EQUITIES

Restricted Net Assets/Reserved Retained Earnings:

In the proprietary fund statements, \$491,703 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, \$5,472 of fund balance for prepaid insurance has been shown as nonspendable fund balances.

Restricted Fund Balance: In the general fund and SPLOST fund, \$11,476 and \$6,835 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

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 10.31% 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.

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JUNE 30, 2014

RETIREMENT PLANS (Continued)

*Annual Pension Cost* - Based on results of the January 1, 2014 actuarial valuation, the City's annual pension cost of \$84,392 for GMEBS was equal to the City's required contribution. Current year total payroll was \$863,460. Covered current payroll was \$804,332. The City's actual contribution for the year ended June 30, 2014 was \$73,695. The required contribution was determined as part of the January 1, 2013 actuarial valuation using the projected unit credit cost method. The actuarial value of the assets was \$771,410 and the actuarial accrued liability was \$1,030,404. The unfunded actuarial liability was \$258,994 and the funded ratio was 74.86%. The ratio of the unfunded actuarial liability to annual covered payroll is 32.20%. 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.

Trend Information for CHRP (Dollar amounts in thousands)			
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06-30-14	\$ 84,392	100%	-0-
06-30-13	\$ 73,696	100%	-0-
06-30-12	\$ 84,604	100%	-0-

Based on the results of the January 1, 2014 actuarial valuation.

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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, 2014 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. INTERNAL ACTIVITY

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

All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation. There was an interfund receivable and payable of \$43,572.72 between the Water Fund and Water Treatment Plant on the Statement of Net Position for Proprietary Funds. These interfund balances are not reflected on the government-wide Statement of Net Position.

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

15. RISK MANAGEMENT

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

Risk Pools

The City has insurance coverage with 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 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, 2014. No provisions have been made in the financial statements for the year ended June 30, 2014 for any estimate of potential unpaid claims.

The City has elected to be a member of the Georgia Municipal Association Workers' Compensation Self-Insurance Fund (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.

16. HOTEL/MOTEL TAX

The City of Hiawassee, Georgia has levied a 5% lodging tax. The City has complied with the provisions of OCGA 48-13-51 of the State of Georgia. All of the proceeds received from the Hotel/Motel tax are collected by Towns County and then distributed to the City of Hiawassee. The City then pays a collection fee of one-percent (1%) to the Tax Commission. A total of \$35,137 was spent this year to promote Tourism in the City of Hiawassee. During the year, the City executed a contract with the Towns County Chamber of Commerce. A balance of \$33,002.47 was in the hotel/motel account at June 30, 2014 to be paid to the Chamber to promote tourism.

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

17. COMMITMENTS AND CONTINGENCIES

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

18. SUBSEQUENT EVENTS

Subsequent events were evaluated through December 29, 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, 2014**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<b>REVENUES:</b>				
Taxes & Assessments	\$ 498,700.00	\$ 511,150.00	\$ 543,023.37	\$ 31,873.37
Licenses & Permits	27,500.00	23,400.00	24,690.00	1,290.00
Fines & Forfeitures	65,150.00	65,250.00	103,949.47	38,699.47
Charges for Services	7,000.00	6,000.00	7,522.00	1,522.00
Investment Earnings	500.00	2,500.00	2,881.43	381.43
Contributions & Grants	9,000.00	10,000.00	10,315.00	315.00
<b>TOTAL REVENUES</b>	<b>\$ 607,850.00</b>	<b>\$ 618,300.00</b>	<b>\$ 692,381.27</b>	<b>\$ 74,081.27</b>
<b>EXPENDITURES:</b>				
<b>Current Operating:</b>				
General Government	\$ 359,800.00	\$ 347,650.00	\$ 247,119.27	\$ 100,530.73
Public Safety	354,550.00	377,150.00	369,238.73	7,911.27
Judicial	13,500.00	13,500.00	12,150.00	1,350.00
<b>TOTAL EXPENDITURES</b>	<b>\$ 727,850.00</b>	<b>\$ 738,300.00</b>	<b>\$ 628,508.00</b>	<b>\$ 109,792.00</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>\$ (120,000.00)</b>	<b>\$ (120,000.00)</b>	<b>\$ 63,873.27</b>	<b>\$ 183,873.27</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Prior Year Reserves Utilized	\$ 120,000.00	\$ 120,000.00	\$ -	\$ 120,000.00
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 120,000.00</b>	<b>\$ 120,000.00</b>	<b>\$ -</b>	<b>\$ 120,000.00</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 63,873.27</b>	<b>\$ 63,873.27</b>
<b>FUND BALANCES:</b>				
Beginning of Year	-	-	(48,524.58)	(48,524.58)
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,348.69</u>	<u>\$ 15,348.69</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, 2014**

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>
05/01/2012	\$548,452	\$ 848,481	64.64%	\$ 300,029	\$ 678,412	44.2%
05/01/2013	\$652,448	\$ 889,639	73.34%	\$ 237,191	\$ 710,361	33.4%
05/01/2014	\$771,410	\$1,030,404	74.86%	\$ 258,994	\$ 804,332	32.2%

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, 2014

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

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

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

The Honorable Mayor 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, 2014, which collectively comprise the City of Hiawassee, Georgia's basic financial statements and have issued our report thereon dated December 29, 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 (2014-1) 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 did not disclose any instance of noncompliance or other matter that required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of Hiawassee, Georgia in a separate letter dated December 29, 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  
December 29, 2014



**ED K. BURTON, LLC**

CERTIFIED PUBLIC ACCOUNTANTS

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

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

**INDEPENDENT AUDITOR'S REPORT ON 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, 2014. 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, 2014.

**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  
December 29, 2014

**CITY OF HIAWASSEE, GEORGIA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FISCAL YEAR ENDED JUNE 30, 2014**

<b>Federal Grantor/Pass Through Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Pass-Through Number</b>	<b>Federal Expenditures</b>
<b>U.S. Environmental Protection Agency:</b>			
Pass Through Programs from:			
Georgia Environmental Facilities Authority			
Water & Sewer; Water Intake Upgrades	66.458	2011-L18WJ	83,363.00
 <b>Appalachian Regional Commission</b>			
Pass Through Programs - Tennessee Valley Authority			
Hiawassee Sewer Improvement Project	23.002	00072639	267,512.00
 <b>U.S. Department of Agriculture</b>			
Pass Through Programs - USDA Rural Development			
USDA Sewer Improvements	N/A	11-039-581732049	<u>207,656.00</u>
Total Federal Expenditures			<u>\$ 558,531.00</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, 2014

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, 2014

**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?	No

**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
- Grant # 11-039-581732049 U.S. Department of Agriculture – USDA Rural Development – Sewer Improvements
- CFDA # 23.002 – Appalachian Regional Commission / TVA Forcemain Water & Sewer Improvement Project

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**

2014-1 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, 2014

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**

None Reported

**SECTION 3 – FEDERAL AWARDS FINDINGS**

None reported

CITY OF HIAWASSEE, GEORGIA  
SCHEDULE OF PRIOR YEAR FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

2013-2 Hotel Motel Tax Legal Requirements

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

Auditee Response/Status: Resolved – In order to meet the requirements by the Department of Community of Affairs, the City now uses the Chamber of Commerce instead of the Tourism Association since no agreement could be reached between the City and Tourism Association.

2013-1: GAAP Financial Statements

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

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

Auditee Response/Status: Unresolved. Refer to current year finding at 2014-1.

## **OTHER SUPPLEMENTARY INFORMATION**

**City of Hiawassee, Georgia**  
**One Georgia Authority**  
**Georgia Department of Community Affairs**  
**Source and Application of Funds Schedule**

<hr/> Hiawassee Budget Year, Beginning July 1, 2013 Ending June 30, 2014 <hr/>		<b>Grant # 12gq-139-2-4703</b>
Total Program Year 2013-14 Funds allocated to recipient	\$	300,000.00
Less: Total Program Year 2013-14 Funds drawn down By recipient		(300,000.00)
Funds still available from Program Year 2013-14 Resources		<hr/> \$0.00
Total Program Year 2013-14 held at the beginning Of year	\$	-
Total Program Year 2013-14 funds drawn down and Received by Recipient		300,000.00
Less: Funds applied and expended to Program Year 2013-14		<hr/> (300,000.00)
Total Program Year 2013-14 Funds Held By Recipient	\$	<hr/> <hr/> -



**CITY OF HIAWASSEE, GEORGIA  
ONE GEORGIA AUTHORITY  
PROJECT COST SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2014**

Activity/Project	Grant #	Approved Budget	Total Expenditures in Current Year	Grand Total of Expenditures to Date
Water Tank Project	12gq-139-2-4703	300,000.00	300,000.00	300,000.00

**CITY OF HIAWASSEE  
SCHEDULE OF PROJECTS FINANCED WITH  
SPECIAL PURPOSE LOCAL OPTION SALES TAX  
FOR THE YEAR FISCAL ENDED JUNE 30, 2014**

Project	Estimated Cost		Expenditures			% of Completion
	Original	Current	Prior Years	Current Year	Total	
Parks	\$ 150,000.00	\$ 150,000.00	\$ -	\$ 2,380.00	\$ 2,380.00	1.59%
Fire Protection	70,000.00	12,500.00	-	12,500.00	12,500.00	100.00%
Downtown Development						
Roads/Sidewalks	120,000.00	120,000.00		3,420.00	3,420.00	2.85%
City Hall & Police Station	200,000.00	257,500.00	200,042.00	56,513.95	256,555.95	99.63%
Water Plant & Storage						
Water Storage	200,000.00	200,000.00		34,459.20	34,459.20	17.23%
Pumps	50,000.00	50,000.00			-	0.00%
Water & Sewer						
Replacement of Infrastructure	303,000.00	303,000.00		63,523.64	63,523.64	20.96%
Sewer Plant	50,000.00	50,000.00	-	-	-	0.00%
Total	<u>\$ 1,143,000.00</u>	<u>\$ 1,143,000.00</u>	<u>\$ 200,042.00</u>	<u>\$ 172,796.79</u>	<u>\$ 372,838.79</u>	32.62%