

**CITY OF HIAWASSEE, GEORGIA**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**  
**WITH AUDITOR'S OPINION**  
**DECEMBER 30, 2016**

**CITY OF HIAWASSEE, GEORGIA  
ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>FINANCIAL SECTION</b>	
<b>INDEPENDENT AUDITOR'S REPORT</b>	1-2
<b>MANAGEMENT'S DISCUSSION &amp; ANALYSIS</b>	3-6
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Position	7
Statement of Activities	8
<b>Fund Financial Statements:</b>	
<b>Governmental Funds:</b>	
Balance Sheet	9
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	10
Statement of Revenues, Expenditures and Changes in Fund Balances	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
<b>Proprietary Funds:</b>	
Statement of Net Position	13
Statement of Revenues, Expenses and Changes in Fund Net Position	14
Statement of Cash Flows	15
<b>Notes to Financial Statements</b>	16-38
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budget Comparison Schedule-General Fund	39
Schedule of Changes in Net Pension Liability & Related Ratios	40
Schedule of Contributions-Pensions	41
Notes to the Required Supplementary Information	42-43
<b>GOVERNMENTAL REPORTS</b>	
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	44-45
Schedule of Findings and Questioned Costs	46-47
Schedule of Prior Year Findings	48
<b>OTHER SUPPLEMENTARY INFORMATION</b>	
Schedule of Projects Financed with Special Purpose Local Option Sales Tax	49



**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, 2016, 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, 2016 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 39-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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.

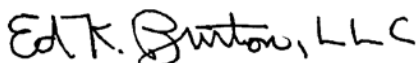
### *Other Supplementary Information*

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 Projects Financed with Special Purpose Local Option Sales Tax on page 49 is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

## **Other Reporting Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2016, 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  
Lavonia, Georgia  
December 30, 2016

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

**CITY OF HIAWASSEE, GEORGIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

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, 2016.

**USING THE JUNE 30, 2016 AUDIT**

The audit of City of Hiawassee, Georgia, for the fiscal year ended June 30, 2016 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, 2016 as it compares to the previous fiscal year.

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

	Governmental Activities <u>June 30, 2015</u>	Governmental Activities <u>June 30, 2016</u>	Business-Type Activities <u>June 30, 2015</u>	Business-Type Activities <u>June 30, 2016</u>
<b><u>Assets and Deferred Outflows of Resources:</u></b>				
Current and Other Assets	\$ 416,040	\$ 561,746	\$ 2,096,749	\$ 2,177,322
Capital assets	849,167	890,159	11,888,179	11,575,430
Deferred Outflows of Resources	30,973	60,612	47,500	117,224
<b>Total Assets</b>	<b><u>\$1,296,180</u></b>	<b><u>\$1,512,517</u></b>	<b><u>\$14,032,428</u></b>	<b><u>\$13,869,976</u></b>
<b><u>Liabilities and Deferred Inflows of Resources:</u></b>				
Other Liabilities	\$ 33,792	\$ 55,464	\$ 308,041	\$ 346,857
Long-term Liabilities	165,856	205,840	4,909,304	4,770,901
Deferred Inflows of Resources	25,899	21,420	38,449	31,275
<b>Total Liabilities</b>	<b><u>\$ 225,546</u></b>	<b><u>\$ 282,724</u></b>	<b><u>\$ 5,255,794</u></b>	<b><u>\$ 5,149,033</u></b>
<b><u>Net Position:</u></b>				
Invested in Capital Assets, Net of Related Debt	\$ 818,659	\$ 836,669	\$ 7,036,565	\$ 6,907,936
Restricted	172,186	294,017	485,077	478,146
Unrestricted	<u>79,788</u>	<u>99,107</u>	<u>1,254,992</u>	<u>1,334,861</u>

<b>Total Net Position</b>	<u>\$1,070,633</u>	<u>\$1,229,793</u>	<u>\$ 8,776,634</u>	<u>\$ 8,720,943</u>
<b>Total Liabilities and Deferred Inflows of Resources and Net Position</b>	<u>\$1,296,180</u>	<u>\$1,512,517</u>	<u>\$14,032,428</u>	<u>\$13,869,976</u>

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

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

### Condensed Statement of Activities

Table 2 below presents the City's Condensed Statement of Activities for the fiscal year ended June 30, 2016 compared to the previous fiscal year.

**Table 2: Condensed Statement of Activities**

	Governmental Activities <u>June 30, 2015</u>	Governmental Activities <u>June 30, 2016</u>	Business-Type Activities <u>June 30, 2015</u>	Business-Type Activities <u>June 30, 2016</u>
<b><u>Revenues:</u></b>				
Charges for Services	\$ 145,880	\$ 140,974	\$ 2,408,245	\$ 2,379,554
Operating Grants & Contributions	-	-	-	-
Capital Grants & Contributions	229,701	164,867	32,488	-
General Revenues:				
Property Taxes	166,603	178,580	-	-
Other Taxes	437,338	427,318	-	-
Over Revenues	<u>14,616</u>	<u>15,928</u>	<u>33,970</u>	<u>1,823</u>
<b>Total Revenues</b>	<u>\$ 994,138</u>	<u>\$ 927,667</u>	<u>\$ 2,474,703</u>	<u>\$ 2,381,377</u>
<b><u>Expenses:</u></b>				
General Government	\$ 445,106	\$ 400,349	\$ -	\$ -
Judicial	6,520	6,860	-	-
Public Safety	371,412	374,593	-	-
Water and Sewerage			2,403,488	2,439,171
(Gain) Loss on Sale Capital Assets	<u>146,112</u>	<u>-</u>	<u>9,758</u>	<u>(2,102)</u>
<b>Total Expenses</b>	<u>\$ 969,150</u>	<u>\$ 781,802</u>	<u>\$ 2,413,246</u>	<u>\$ 2,437,069</u>
<b>Increase (Decrease) in Net Position Before Other Items</b>	\$ 24,988	\$ 145,865	\$ 61,457	\$ (55,692)
Transfers	<u>( 4,670)</u>	<u>( - )</u>	<u>4,670</u>	<u>-</u>
<b>Beginning Net Position Restated</b>	<u>1,050,315</u>	<u>1,083,928</u>	<u>8,710,508</u>	<u>8,776,634</u>
<b>Ending Net Position</b>	<u>\$1,070,633</u>	<u>\$1,229,793</u>	<u>\$ 8,776,634</u>	<u>\$ 8,720,943</u>

During the fiscal year ended June 30, 2016 the net position of City of Hiawassee, Georgia's governmental activities increased \$159,160 and the business-type activities decreased \$55,692. Revenues decreased 6.69% over the previous fiscal year and expenditures and transfers out decreased 19.71% in the governmental activities. Revenues and transfers decreased 3.95% and expenses increased 0.99% over the previous fiscal year in the business-type activities.

Approximately 19.25% of the City's governmental activity revenue came from property taxes, 46.08% came from other taxes and revenues, and the balance of 34.67% came from charges for services, grants, and other sources. Approximately 99.92% of the City's business-type activity revenue came from charges for services and the remaining 0.08% came from other sources.

The City's governmental activity expenses cover a wide range of services with 47.91% allotted to public safety, 51.21% to general government services, and the remaining 0.88% to judicial services. The City's business-type activity expenses are all related to water and sewerage.

## **THE CITY'S FUNDS**

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

As of June 30, 2016, the City's governmental funds reported a combined ending fund balance of \$479,529, of which \$19,328 is nonspendable, \$294,017 is restricted for specific purposes and \$166,184 is unassigned.

The General Fund – the operating fund of the City – had a net increase in fund balance of \$12,756 during the current year.

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

As of June 30, 2016, the City's proprietary funds reported combined ending net position of \$8,720,943 of which \$6,907,936 is invested in capital assets, net of related debt, \$478,146 is restricted for debt service, and \$1,334,861 is unrestricted.

The proprietary funds had a net increase in unrestricted net position of \$79,869, which is due in part to the profitability of the water treatment plant.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The original budget was revised during the year. Following is a recap of the final budget and actual revenues and expenditures for the 2016 year.

Revenues:	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Taxes & Assessments	\$ 530,100	\$ 533,790	\$ 527,248	\$ (6,542)
Licenses & Permits	28,300	36,500	49,311	12,811
Fines & Forfeitures	95,700	93,150	84,109	(9,041)
Charges for Services	6,500	7,000	7,554	554
Investment Earnings	3,500	2,200	1,562	(638)
Contributions & Grants	12,000	18,000	29,366	11,366
Expenditures:				
General Government	\$ 455,150	\$ 494,160	\$ 321,389	\$ 172,771
Public Safety	378,300	354,400	381,071	(26,671)
Judicial	7,650	7,080	6,860	220
Debt Service				
Principal	-	-	\$ 2,274	(2,274)
Interest	-	-	300	(300)



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 lease payments will be budgeted in the future.

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

At June 30, 2016, City of Hiawassee, Georgia reported \$890,159 in capital assets for governmental activities and \$11,575,430 in capital assets for business-type activities. Refer to Note 6 to the financial statements for additional information on capital assets.

At June 30, 2016, governmental activities reported \$212,066 long-term debt compared to \$165,856 at June 30, 2015 and business-type activities long-term debt of \$4,770,901 and \$4,909,304 at June 30, 2016 and June 30, 2015, respectively in business-type activities. Refer to Note 10 in the financial statements for additional information on long-term liabilities.

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

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

### **CONCLUSION**

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

## **BASIC FINANCIAL STATEMENTS**

**CITY OF HIAWASSEE, GEORGIA**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>CURRENT ASSETS:</b>			
Cash and Cash Equivalents	\$ 387,006	\$ 1,171,173	\$ 1,558,179
Restricted Cash	-	185,451	185,451
Investments - Restricted	-	108,592	108,592
Taxes Receivables (Net)	55,447	-	55,447
Accounts Receivable (Net)	58,591	306,977	365,568
Intergovernmental Receivables	41,374	7,089	48,463
Inventory	-	48,315	48,315
Prepaid Expenses	19,328	41,992	61,320
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 561,746</b>	<b>\$ 1,869,589</b>	<b>\$ 2,431,335</b>
<b>NONCURRENT ASSETS:</b>			
Restricted Intergovernmental Receivables	\$ -	\$ 245,250	\$ 245,250
Capital Assets:			
Land, Non-Depreciable Improvements, and			
Construction in Progress	\$ 56,460	\$ 165,167	\$ 221,627
Other Capital Assets, Net of Depreciation	833,699	11,410,263	12,243,962
Total Capital Assets	\$ 890,159	\$ 11,575,430	\$ 12,465,589
Closing Costs and Other Assets, Net	\$ -	\$ 62,483	\$ 62,483
<b>TOTAL NONCURRENT ASSETS</b>	<b>\$ 890,159</b>	<b>\$ 11,883,163</b>	<b>\$ 12,773,322</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,451,905</b>	<b>\$ 13,752,752</b>	<b>\$ 15,204,657</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 60,612</b>	<b>\$ 117,224</b>	<b>\$ 177,836</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 1,512,517</b>	<b>\$ 13,869,976</b>	<b>\$ 15,382,493</b>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts Payable	\$ 13,783	\$ 61,500	\$ 75,283
Accrued Interest	-	29,414	29,414
Accrued Expenses	5,191	15,536	20,727
Due to Water Fund	10,693	(10,693)	-
Current Portion of Long-term Debt	25,797	93,962	119,759
Liabilities Payable from Restricted Assets:			
Bonds Payable	-	95,991	95,991
Customer Deposits	-	61,147	61,147
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 55,464</b>	<b>\$ 346,857</b>	<b>\$ 402,321</b>
<b>LONG-TERM LIABILITIES:</b>			
Compensated Absences	\$ 8,702	\$ 21,779	\$ 30,481
Net Pension Liability	180,138	271,581	451,719
Due in More Than One Year	17,000	4,477,541	4,494,541
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>\$ 205,840</b>	<b>\$ 4,770,901</b>	<b>\$ 4,976,741</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 21,420</b>	<b>\$ 31,275</b>	<b>\$ 52,695</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 282,724</b>	<b>\$ 5,149,033</b>	<b>\$ 5,431,757</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	\$ 836,669	\$ 6,907,936	\$ 7,744,605
Restricted for Debt Service	-	478,146	478,146
Restricted for:			
Public Safety	13,639	-	13,639
Tourism	20,283	-	20,283
Capital Outlay	260,095	-	260,095
Unrestricted	99,107	1,334,861	1,433,968
<b>TOTAL NET POSITION</b>	<b>\$ 1,229,793</b>	<b>\$ 8,720,943</b>	<b>\$ 9,950,736</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 1,512,517</b>	<b>\$ 13,869,976</b>	<b>\$ 15,382,493</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, 2016**

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	\$ 400,349	\$ 56,865	\$ -	\$ 164,867	\$ (178,617)	\$ -	\$ (178,617)
Public Safety	374,293	84,109	-	-	(290,184)	-	(290,184)
Judicial	6,860	-	-	-	(6,860)	-	(6,860)
Interest Expense	300						
Total Governmental Activities	\$ 781,802	\$ 140,974	\$ -	\$ 164,867	\$ (475,961)	\$ -	\$ (475,961)
Business-Type Activities:							
Water and Sewerage	\$ 2,439,171	\$ 2,379,554	\$ -	\$ -	\$ -	\$ (59,617)	\$ (59,617)
Total Business-Type Activities	\$ 2,439,171	\$ 2,379,554	\$ -	\$ -	\$ -	\$ (59,617)	\$ (59,617)
Total Primary Government	\$ 3,220,973	\$ 2,520,528	\$ -	\$ 164,867	\$ (475,961)	\$ (59,617)	\$ (535,578)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purpose					\$ 178,580	\$ -	\$ 178,580
Franchise Taxes					30,850	-	30,850
Local Option Sales & Use Tax & Hotel/Motel Tax					267,385	-	267,385
Business Taxes					50,826	-	50,826
Other Taxes					78,257	-	78,257
Contributions from Private Sources					14,366	-	14,366
Unrestricted Investment Earnings					1,562	1,546	3,108
Miscellaneous Income					-	277	277
Gain (Loss) on Sale/Abandonment of Assets					-	2,102	2,102
Total General Revenues and Transfers					\$ 621,826	\$ 3,925	\$ 625,751
Change in Net Position					\$ 145,865	\$ (55,692)	\$ 90,173
Net Position, Beginning (Restated - See Note 18 Pg. 37)					1,083,928	8,776,635	9,860,563
Net Position, Ending					\$ 1,229,793	\$ 8,720,943	\$ 9,950,736

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

**CITY OF HIAWASSEE, GEORGIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	GENERAL FUND	SPLOST	NONMAJOR FUND HOTEL/MOTEL FUND	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS:</b>				
Cash and Cash Equivalents	\$ 91,628	\$ 275,095	\$ 20,283	\$ 387,006
Accounts Receivable	-	-	-	-
Taxes Receivable	55,447	-	-	55,447
Intergovernmental Receivable	41,374	-	-	41,374
Due from SPLOST	15,000	-	-	15,000
Other Receivables	58,591	-	-	58,591
Prepaid Expenses	19,328	-	-	19,328
		-	-	
TOTAL ASSETS	<u>\$ 281,368</u>	<u>\$ 275,095</u>	<u>\$ 20,283</u>	<u>\$ 576,746</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE:</b>				
<b>LIABILITIES:</b>				
Accounts Payable	\$ 13,783	\$ -	\$ -	\$ 13,783
Accrued Expenses	5,191	-	-	5,191
Due to Water Fund	10,693	-	-	10,693
Due to General Fund	-	15,000	-	15,000
TOTAL LIABILITIES	\$ 29,667	\$ 15,000	\$ -	\$ 44,667
DEFERRED INFLOW OF RESOURCES:	<u>52,550</u>	<u>-</u>	<u>-</u>	<u>52,550</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>\$ 82,217</u>	<u>\$ 15,000</u>	<u>\$ -</u>	<u>\$ 97,217</u>
<b>FUND BALANCES:</b>				
Nonspendable:				
Prepaid Expenses	\$ 19,328	\$ -	\$ -	\$ 19,328
Restricted for:				
Shop with a Cop	12,845	-	-	12,845
Drug Seizures	794	-	-	794
Capital Outlay	-	260,095	-	260,095
Tourism	-	-	20,283	20,283
Unassigned (Deficit)	166,184	-	-	166,184
TOTAL FUND BALANCES	<u>\$ 199,151</u>	<u>\$ 260,095</u>	<u>\$ 20,283</u>	<u>\$ 479,529</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 281,368</u>	<u>\$ 275,095</u>	<u>\$ 20,283</u>	<u>\$ 576,746</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, 2016**

<b>TOTAL GOVERNMENTAL FUND BALANCES</b>	<b>\$</b>	<b>479,529</b>
---	-----------	----------------

*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	\$ 1,196,271	
Less Accumulated Depreciation	<u>(306,112)</u>	890,159

Certain long-term assets (such as deferred taxes) are not available to pay current period expenditures and therefore are reported in the fund financial statement, but are not reported in the governmental activities of the Statement of Net Position.

Property Taxes		52,550
----------------	--	--------

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the fund financial statement, but are reported in the government-wide Statement of Net Position.

Deferred Outflows - Pensions		60,612
Deferred Inflows - Pensions		<u>(21,420)</u>

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		(8,702)
Long Term Debt		(42,797)
Net Pension Liability		(180,138)

Interfund receivables and payables between governmental funds are reported on the fund balance sheet but eliminated on the government-wide Statement of Net Position:

Interfund Receivables	\$ 15,000	
Interfund Payables	<u>(15,000)</u>	<u>-</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES	<b>\$</b>	<b><u>1,229,793</u></b>
---	-----------	-------------------------

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, 2016**

	GENERAL FUND	SPLOST	NONMAJOR FUND HOTEL/MOTEL FUND	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES:</b>				
Taxes and Assessments	\$ 527,248	\$ -	\$ 65,970	\$ 593,218
Licenses and Permits	49,311	-	-	49,311
Fines and Forfeitures	84,109	-	-	84,109
Intergovernmental Revenues	-	149,830	-	149,830
Charges for Services	7,554	-	-	7,554
Investment Earnings	1,562	36	-	1,598
Contributions and Grants	29,366	-	-	29,366
<b>TOTAL REVENUES</b>	<b>\$ 699,150</b>	<b>\$ 149,866</b>	<b>\$ 65,970</b>	<b>\$ 914,986</b>
<b>EXPENDITURES:</b>				
Current Operating:				
General Government	\$ 321,389	\$ 516	\$ 57,365	\$ 379,270
Public Safety/Public Works	355,571	-	-	355,571
Judicial	6,860	-	-	6,860
Capital Outlay:				
General Government	-	37,990	-	37,990
Public Safety/Public Works	25,500	5,175	-	30,675
Judicial	-	-	-	-
Debt Service:				
Principal	2,274	-	-	2,274
Interest	300	-	-	300
<b>TOTAL EXPENDITURES</b>	<b>\$ 711,894</b>	<b>\$ 43,681</b>	<b>\$ 57,365</b>	<b>\$ 812,940</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ (12,744)</b>	<b>\$ 106,185</b>	<b>\$ 8,605</b>	<b>\$ 102,046</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Other Financing Source - Long Term Debt	\$ 25,500	\$ -	\$ -	\$ 25,500
<b>NET OTHER FINANCING SOURCES (USES)</b>	<b>\$ 25,500</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 25,500</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>\$ 12,756</b>	<b>\$ 106,185</b>	<b>\$ 8,605</b>	<b>\$ 127,546</b>
<b>FUND BALANCES (DEFICITS):</b>				
Beginning of Year	186,395	153,910	11,678	351,983
End of Year	\$ 199,151	\$ 260,095	\$ 20,283	\$ 479,529

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, 2016**

**NET CHANGES IN FUND BALANCES-TOTAL GOVERNMENTAL FUNDS** **\$ 127,546**

*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	\$ 68,665	
Depreciation Expense	<u>(40,968)</u>	27,697

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. 12,680

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount in which proceeds exceeded payments. (23,226)

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	2,523	
Pension Expense	<u>(1,355)</u>	

**TOTAL CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ 145,865**

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, 2016**

	ENTERPRISE FUNDS		
	WATER AND SEWERAGE FUND	WATER TREATMENT PLANT FUND	TOTAL
<b>ASSETS AND DEFERRED OUTFLOWS OF OF RESOURCES:</b>			
<b>CURRENT ASSETS:</b>			
Cash and Cash Equivalents	\$ 669,678	\$ 501,495	\$ 1,171,173
Restricted Cash	185,451	-	185,451
Investments - Restricted	108,592	-	108,592
Accounts Receivable (Net)	274,433	32,544	306,977
Interfund Receivables	10,693	447,310	458,003
Intergovernmental Receivables	7,089	-	7,089
Inventories	48,315	-	48,315
Prepaid Expenses	27,952	14,040	41,992
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 1,332,203</b>	<b>\$ 995,389</b>	<b>\$ 2,327,592</b>
<b>NONCURRENT ASSETS:</b>			
Restricted Intergovernmental Receivables	\$ 245,250	\$ -	\$ 245,250
Capital Assets:			
Land, Improvements, and Construction in Progress	165,167	-	165,167
Depreciable Capital Assets, Net	10,527,458	882,805	11,410,263
Other Assets:			
Engineering Planning Fees, Net	34,795	-	34,795
Closing Costs, Net	27,688	-	27,688
<b>TOTAL NONCURRENT ASSETS</b>	<b>\$ 11,000,358</b>	<b>\$ 882,805</b>	<b>\$ 11,883,163</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 75,896</b>	<b>\$ 41,328</b>	<b>\$ 117,224</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 12,408,457</b>	<b>\$ 1,919,522</b>	<b>\$ 14,327,979</b>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION:</b>			
<b>LIABILITIES:</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts Payable	\$ 50,233	\$ 11,267	\$ 61,500
Interfund Payables	447,310	-	447,310
Accrued Interest	28,877	537	29,414
Accrued Expenses	10,153	5,383	15,536
Current Portion of Long Term Debt	85,104	8,858	93,962
Liabilities Payable from Restricted Assets:			
Customer Deposits	61,147	-	61,147
Revenue Bonds Payable	95,991	-	95,991
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 778,815</b>	<b>\$ 26,045</b>	<b>\$ 804,860</b>
<b>LONG-TERM LIABILITIES:</b>			
Revenue Bonds Payable	\$ 2,988,948	\$ -	\$ 2,988,948
Notes Payable	1,281,612	206,981	1,488,593
Net Pension Liability	180,014	91,567	271,581
Compensated Absences	10,551	11,228	21,779
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>\$ 4,461,125</b>	<b>\$ 309,776</b>	<b>\$ 4,770,901</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 5,239,940</b>	<b>\$ 335,821</b>	<b>\$ 5,575,761</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>20,800</b>	<b>10,475</b>	<b>31,275</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 5,260,740</b>	<b>\$ 346,296</b>	<b>\$ 5,607,036</b>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	\$ 6,240,970	\$ 666,966	\$ 6,907,936
Restricted for Debt Service	478,146	-	478,146
Unrestricted	428,601	906,260	1,334,861
<b>TOTAL NET POSITION</b>	<b>\$ 7,147,717</b>	<b>\$ 1,573,226</b>	<b>\$ 8,720,943</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 12,408,457</b>	<b>\$ 1,919,522</b>	<b>\$ 14,327,979</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, 2016**

	ENTERPRISE FUNDS		
	WATER AND SEWERAGE FUND	WATER TREATMENT PLANT FUND	TOTAL
<b>OPERATING REVENUES:</b>			
Water Fees	\$ 931,447	\$ 365,108	\$ 1,296,555
Sewer Fees	692,553	-	692,553
Program Fees	81,418	-	81,418
Interfund Water Sales	-	309,028	309,028
TOTAL OPERATING REVENUES	<u>\$ 1,705,418</u>	<u>\$ 674,136</u>	<u>\$ 2,379,554</u>
<b>OPERATING EXPENSES:</b>			
Personnel Services	\$ 499,913	\$ 299,580	\$ 799,493
Supplies and Other Expenses	281,082	83,752	364,834
Utilities	133,174	101,973	235,147
Interfund Water Purchased	203,575	-	203,575
Repairs and Maintenance	95,321	21,191	116,512
Depreciation and Amortization	487,631	72,239	559,870
TOTAL OPERATING EXPENSES	<u>\$ 1,700,696</u>	<u>\$ 578,735</u>	<u>\$ 2,279,431</u>
OPERATING INCOME (LOSS)	<u>\$ 4,722</u>	<u>\$ 95,401</u>	<u>\$ 100,123</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest Income	\$ 1,337	\$ 209	\$ 1,546
Miscellaneous Income	-	277	277
Gain (Loss) on Sale/Abandonment of Capital Assets	2,102	-	2,102
Interest Expense	(159,740)	-	(159,740)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>\$ (156,301)</u>	<u>\$ 486</u>	<u>\$ (155,815)</u>
CHANGE IN NET POSITION	<u>\$ (151,579)</u>	<u>\$ 95,887</u>	<u>\$ (55,692)</u>
<b>NET POSITION:</b>			
Beginning Balance	<u>7,299,296</u>	<u>1,477,339</u>	<u>8,776,635</u>
Ending Balance	<u><u>\$ 7,147,717</u></u>	<u><u>\$ 1,573,226</u></u>	<u><u>\$ 8,720,943</u></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, 2016**

	ENTERPRISE FUNDS		
	WATER AND SEWERAGE FUND	WATER TREATMENT PLANT FUND	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash Received from Customers	\$ 1,710,442	\$ 361,514	\$ 2,071,956
Cash Received from Interfund Services Provided	-	309,028	309,028
Cash Payments for Personnel Services	(352,670)	(280,896)	(633,566)
Cash Payments for Interfund Services Provided	(203,575)	-	(203,575)
Cash Payments for Goods and Services	(513,690)	(206,916)	(720,606)
Change in Payables and Prepaids Related to Goods and Services	6,116	(146,419)	(140,303)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 646,623</b>	<b>\$ 36,311</b>	<b>\$ 682,934</b>
Proceeds Related to Miscellaneous Income	\$ -	\$ 277	\$ 277
Interest Paid	(157,679)	-	(157,679)
Principal Paid	(175,536)	(8,585)	(184,121)
Proceeds from Sale of Capital Assets and Insurance Refunds	2,102	-	2,102
Payments for Capital Acquisitions	(232,072)	(13,091)	(245,163)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (563,185)</b>	<b>\$ (21,399)</b>	<b>\$ (584,584)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment Earnings	\$ 1,337	\$ 209	\$ 1,546
Purchase of Certificates of Deposits	(606)	-	(606)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>\$ 731</b>	<b>\$ 209</b>	<b>\$ 940</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 84,169</b>	<b>\$ 15,121</b>	<b>\$ 99,290</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>770,960</b>	<b>486,374</b>	<b>1,257,334</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 855,129</b>	<b>\$ 501,495</b>	<b>\$ 1,356,624</b>
<b>RECONCILIATION OF TOTAL CASH:</b>			
Restricted	\$ 185,451	\$ -	\$ 185,451
Unrestricted	669,678	501,495	1,171,173
	<u>\$ 855,129</u>	<u>\$ 501,495</u>	<u>\$ 1,356,624</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating Income (Loss)	\$ 4,722	\$ 95,401	\$ 100,123
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities:			
Depreciation and Amortization	487,631	72,239	559,870
(Increase) Decrease in Accounts Receivable	12,569	(3,594)	8,975
(Increase) Decrease in Inventory	(4,114)	-	(4,114)
(Increase) Decrease in Prepaid Expenses and Other Assets	(30,261)	(148,431)	(178,692)
Increase (Decrease) in Accounts Payable	36,377	2,012	38,389
Increase (Decrease) in Customer Deposits	(7,545)	-	(7,545)
Increase (Decrease) in Compensated Absences	(6,743)	1,427	(5,316)
Increase (Decrease) in Net Pension Liability and Deferred Inflows	32,707	16,937	49,644
Increase (Decrease) in Accrued Expenses	121,280	320	121,600
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 646,623</b>	<b>\$ 36,311</b>	<b>\$ 682,934</b>

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, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. THE REPORTING ENTITY

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

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The City's financial statements include the City's accounts of all operations. The criteria for including organizations within the City's reporting entity, as set forth in Governmental Accounting Standards Board's Statement No. 14 (GASB 14), "The Financial Reporting Entity", is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. As of June 30, 2016, 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, 2016

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, 2016

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, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

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

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within sixty days of year-end and available to pay obligations of the current period). This includes investment earnings, property taxes, income taxes withheld by employers, estate taxes, fines and forfeitures and state levied locally shared taxes (including motor vehicle fees). Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditures Recognition

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

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

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

PROPRIETARY FUNDS

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



CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The City reports the following major enterprise funds:

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

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

Additionally the City reports the following fund types:

**SPECIAL REVENUE FUNDS**

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

**D. ENCUMBRANCES**

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

**E. CASH, CASH EQUIVALENTS AND INVESTMENTS**

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

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

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, 2016. 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, 2016 are recorded as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the period in which the items are consumed. At the fund reporting level, an equal amount of fund balance is reserved as this amount is not available for general appropriation.

H. CAPITAL ASSETS

All assets over the capitalization threshold with a useful life extending beyond one year are capitalized and depreciated over time using the straight-line method. The capitalization threshold was changed from \$1,000 to \$2,500 effective January 1, 2016. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are at their estimated fair value at the date of donation. General infrastructure assets consist of the road network assets that were acquired or that received substantial improvements after July 1, 2003. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. INTEREST CAPITALIZATION

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

J. COMPENSATED ABSENCES

The liability for compensated absences in the government-wide and proprietary fund statements consists of unpaid accumulated annual leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

K. LONG-TERM DEBT

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

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

L. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred out flows of resources related to their defined benefit pension plans.

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

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. CONTRIBUTIONS OF CAPITAL

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

N. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Accordingly, actual results could differ from estimates.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

*Budgetary Information*

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

Annual budgets are adopted for all governmental funds and proprietary funds. The budget is adopted on a basis consistent with generally accepted accounting principles, and on the same basis of accounting used by each fund to which the budget applies. An operating budget is adopted for the Proprietary Water Fund for administrative control purposes.

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

3. DEPOSITS & INVESTMENTS

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

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

DEPOSITS & INVESTMENTS (Continued)

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits may not be recovered. As of June 30, 2016 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 \$1,924,555 and the carrying amount was \$1,852,222. No formal investment policy has been adopted as of June 30, 2016.

4. PROPERTY TAXES AND OTHER RECEIVABLES

The City of Hiawassee property tax calendar is as follows:

Levy date	October 22, 2015
Due date	January 10, 2016
Delinquent date	January 11, 2016
Lien date	None

The total levy for the 2016 tax digest was \$164,584.

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, 2016 is \$2,354 and for fines receivable is \$9,157.

5. INTERGOVERNMENTAL RECEIVABLE

The following amounts are due from other governments at June 30, 2016:

General Fund

Unrestricted:

Georgia Department of Revenue	\$ 37,691
Towns County	<u>3,683</u>
	<u>\$ 41,374</u>

Enterprise Funds

Restricted:

Towns County Water Authority	<u>\$245,250</u>
------------------------------	------------------

Unrestricted:

Towns County Water Authority	<u>\$ 7,089</u>
------------------------------	-----------------

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 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 (Beg balance restated)	\$ 13,295	\$ 43,165	\$ -	\$ 56,460
Total capital assets not being depreciated	<u>\$ 13,295</u>	<u>\$ 43,165</u>	<u>\$ -</u>	<u>\$ 56,460</u>
Capital assets being depreciated:				
Improvements	\$ 1,892	\$ -	\$ -	\$ 1,892
Equipment and furniture	65,164	-	-	65,164
Infrastructure	227,209	-	-	227,209
Buildings	673,834	-	-	673,834
Vehicles	146,212	25,500	-	171,712
Total capital assets being depreciated	<u>\$ 1,114,311</u>	<u>\$ 25,500</u>	<u>\$ -</u>	<u>\$ 1,139,811</u>
Accumulated depreciation:				
Improvements	\$ 1,064	\$ 95	\$ -	\$ 1,159
Equipment and furniture	49,657	5,773	-	55,430
Infrastructure	76,156	7,426	-	83,582
Buildings	30,511	13,477	-	43,988
Vehicles	107,756	14,197	-	121,953
Total accumulated depreciation	<u>\$ 265,144</u>	<u>\$ 40,968</u>	<u>\$ -</u>	<u>\$ 306,112</u>
Total capital assets being depreciated, net	<u>\$ 849,167</u>	<u>\$ (15,468)</u>	<u>\$ -</u>	<u>\$ 833,699</u>
	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	721,519	96,527	705,894	112,152
Total capital assets not being depreciated	<u>\$ 774,533</u>	<u>\$ 96,527</u>	<u>\$ 705,894</u>	<u>\$ 165,167</u>
Capital assets being depreciated:				
Equipment, vehicles and furniture	\$ 2,037,013	\$ 854,691	\$ 23,387	\$ 2,868,317
Infrastructure	12,903,859	-	-	12,903,859
Buildings	2,870,042	-	-	2,870,042
Total capital assets being depreciated	<u>\$ 17,810,914</u>	<u>\$ 854,691</u>	<u>\$ 23,387</u>	<u>\$ 18,642,218</u>
Accumulated depreciation:				
Equipment, vehicles and furniture	\$ 1,026,452	\$ 182,037	\$ 23,387	\$ 1,185,102
Infrastructure	4,188,198	302,972	-	4,491,170
Buildings	1,482,618	73,064	-	1,555,682
Total accumulated depreciation	<u>\$ 6,697,268</u>	<u>\$ 558,073</u>	<u>\$ 23,387</u>	<u>\$ 7,231,954</u>
Total capital assets being depreciated, net	<u>\$ 11,113,646</u>	<u>\$ 296,618</u>	<u>\$ -</u>	<u>\$ 11,410,264</u>
Business-type activities, capital assets, net	<u>\$ 11,888,179</u>	<u>\$ 393,145</u>	<u>\$ 705,894</u>	<u>\$ 11,575,430</u>

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

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	\$22,882
Public Safety	<u>18,086</u>
	<u>\$40,968</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, 2017. The City has ownership of the plant assets and is responsible for payment of the 1989 Water and Sewerage Revenue Bonds. The cost of operating the water treatment and distribution system to the County has been determined by financial analysis to be \$1.50 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	\$124,304	\$108,592	\$245,250
Customer Deposits	<u>61,147</u>	<u>-</u>	<u>-</u>
	<u>\$185,451</u>	<u>\$108,592</u>	<u>\$245,250</u>

2012 Water & Sewerage Revenue Bonds – Assets totaling \$8,702 are restricted in a reserve account. The City must pay \$347.70 per month into this account until a balance of \$41,724 has been reached.

1999 Water Revenue Bonds - Assets totaling \$108,612 in 2015 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, 2016.

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

RESTRICTED ASSETS (Continued)

Water System Fund (Continued)

1989 Water Revenue Bonds - Assets totaling \$78,512 in 2016 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, 2016.

1984 Water Revenue Bonds - Assets totaling \$37,071 at June 30, 2016 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, 2016 the required reserve was maintained.

The receivable in restricted funds from Towns County Water Authority of \$245,250 is a receivable for 45% of the 1989 water revenue bonds.

9. SHORT-TERM DEBT

Governmental Activities:

At June 30, 2016, the City had a loan with a local bank used to purchase a Ford Explorer for the Police Department. The balance at June 30, 2016 was \$23,226. The note called for a ten regular payments of \$572.37 at 3.15% and a balloon due at December 31, 2016. The bank has agreed to extend the note for another year. Therefore this note has been treated as long-term debt and reclassified as other financing sources in the governmental fund. Therefore there is no short-term debt at June 30, 2016.

Business-Type Activities:

There were no temporary loans outstanding at June 30, 2016.

10. LONG-TERM OBLIGATIONS

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

Notes Payable

Georgia Environmental Facilities Agency (GEFA) advanced money to the City for the purpose of 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



CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

LONG-TERM OBLIGATIONS (Continued)

Notes Payable (Continued)

\$7,359 with interest at 3%. The balance on this long-term debt at June 30, 2016 was \$899,196.

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 \$131,714 at June 30, 2016. 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 \$335,807 at June 30, 2016. The final advance is for the water intake at the water treatment plant. The loan is payable in monthly installments of \$1,291 with interest at 3.13%. The principal balance on this loan is \$215,839 at June 30, 2016.

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>
2017	\$ 93,962	\$ 49,128	\$ 143,090
2018	96,966	46,124	143,090
2019	100,067	43,023	143,090
2020	103,269	39,821	143,090
2021	106,573	36,517	143,090
2022-2026	586,301	129,149	715,450
2027-2031	425,558	39,554	465,112
2032-2035	<u>69,859</u>	<u>2,905</u>	<u>72,764</u>
	<u>\$ 1,582,555</u>	<u>\$ 386,222</u>	<u>\$ 1,968,776</u>

Revenue Bonds

Bonds payable at June 30, 2016 are comprised of the following:

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

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

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

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

LONG-TERM OBLIGATIONS (Continued)

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

Revenue Bonds (Continued)

Revenue Bonds Payable balances outstanding at June 30, 2016 consist of the following:

Revenue Bond Series	Original Amount	Balance June 30, 2015	Principal Additions (Reductions)	Balance June 30, 2016	Amounts Due Within One Year
Series 1999 A & B	\$1,878,300	\$1,471,375	\$ (37,144)	\$1,434,231	\$38,603
Series 1989 A & B	974,000	574,000	(29,000)	545,000	30,000
Series 1984	274,000	153,000	(12,000)	141,000	12,000
Series 2012	996,000	979,678	(14,971)	964,707	15,388
	<u>\$4,122,300</u>	<u>\$3,267,929</u>	<u>\$ (89,876)</u>	<u>\$3,178,053</u>	<u>\$95,991</u>

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

Principal Payments

Year Ending June 30,	Proprietary Fund Revenue Bonds				
	Series 2012	Series 1999	Series 1989	Series 1984	Total
2017	\$ 15,388	\$ 38,603	\$ 30,000	\$ 12,000	\$ 95,991
2018	15,816	40,121	32,000	15,000	102,938
2019	16,257	41,701	34,000	18,000	109,957
2020	16,709	43,343	35,000	18,000	113,052
2021	17,175	45,052	37,000	19,000	118,227
2022-2026	93,319	253,399	217,000	59,000	622,718
2027-2031	107,058	307,732	160,000	-	574,790
2032-2036	122,819	374,002	-	-	496,821
2037-2041	140,901	290,278	-	-	431,179
2042-2046	161,645	-	-	-	161,645
2047-2051	185,442	-	-	-	185,442
2052-2053	72,179	-	-	-	72,179
	<u>\$ 964,708</u>	<u>\$1,434,231</u>	<u>\$ 545,000</u>	<u>\$ 141,000</u>	<u>\$ 3,084,939</u>

Interest Payments

Year Ending June 30,	Proprietary Fund Revenue Bonds				
	Series 2012	Series 1999	Series 1989	Series 1984	Total
2017	\$ 26,336	\$ 55,309	\$ 27,250	\$ 11,809	\$ 120,704
2018	25,908	53,790	25,750	10,804	116,252
2019	25,468	52,211	24,150	9,547	111,376
2020	25,015	50,569	22,450	8,040	106,074
2021	24,549	48,860	20,700	6,533	100,642
2022-2026	115,300	215,861	73,700	9,966	414,827
2027-2031	101,562	161,828	16,350	-	279,740
2032-2036	85,801	95,558	-	-	181,359
2037-2041	67,719	19,802	-	-	87,521
2042-2046	46,975	-	-	-	46,975
2047-2051	23,178	-	-	-	23,178
2052-2053	1,859	-	-	-	1,859
	<u>\$ 569,670</u>	<u>\$ 753,788</u>	<u>\$ 210,350</u>	<u>\$ 56,699</u>	<u>\$ 1,590,507</u>

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds (Continued)

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

Changes in Long-Term Obligations

	Balance 6/30/15	Additions	Reductions	Balance 6/30/16	Amounts Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 11,225	\$ -	\$ 2,523	\$ 8,702	\$ -
Business-Type Activities:					
Notes Payable	\$ 1,673,561	\$ --	\$ 91,006	\$ 1,582,555	\$ 93,962
Bonds Payable	3,178,053	--	93,115	3,084,938	95,991
Compensated Absences	27,095	--	19,313	7,782	-
Total Business-Type Activities	\$ 4,878,709	\$ ---	\$ 497,352	\$ 4,878,709	\$ 184,168

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, 2016 was \$163,241.

Capital Lease Obligations

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

	FYE 6/30/17	\$10,326
	FYE 6/30/18	<u>10,326</u>
		\$20,652
Less amount representing interest		<u>(1,081)</u>
Present value of minimum lease payments		\$19,571
Less Current Portion		<u>(9,605)</u>
Capital Lease Obligation, less current portion		<u>\$ 9,966</u>

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

Depreciable basis	\$37,699
Less accumulated depreciation	<u>(12,566)</u>
Net book value	<u>\$25,133</u>

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

11. RESERVED FUND EQUITIES

Restricted Net Position/Reserved Retained Earnings:

In the proprietary fund statements, \$478,146 has been reserved for the purpose of debt service. Net Positions have been restricted in the government-wide statements in the same amount.

Nonspendable Fund Balance: In the general fund, \$19,328 of fund balance for prepaid insurance has been shown as nonspendable fund balances.

Restricted Fund Balance: In the general fund and SPLOST fund, \$13,639 and \$260,095 are restricted for various purposes. See detail on page 9 of the financials.

12. PENSION PLANS

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

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

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

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

At January 1, 2016, the date of the most recent actuarial valuation, there were 20 participants consisting of the following:

Number of retired participants and beneficiaries	3
Number of active employees	<u>17</u>
Total number of participants	<u><u>20</u></u>

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

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

PENSION PLANS (Continued)

Officials and Class One members (City Manager and City Clerk) are eligible to retire at age 65 with no reduction in benefit. Members and officials with ten years of total service are eligible to retire at age 55 with no reduction in benefit. Officials and Class One members

are eligible for early retirement at age 55 with no reduction in benefit. Members are eligible for early retirement with reduced benefits based on the early retirement reduction table at age 55 after 10 years of service. The benefit formula is 1.5% with a five year vesting schedule. Officials and Class One members benefit formula is 1.5% with benefits vesting immediately.

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

*Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions.* At June 30, 2016, the City reported a net pension liability of \$451,719. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of January 1, 2016. For the fiscal year ended June 30, 2016, the City recognized pension expense in the amount of \$62,434.

At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 48,832	\$ (17,790)
Changes in assumptions	-	(17,682)
Net difference between projected and actual earnings on pension plan investments	53,076	(17,223)
City contributions subsequent to the measurement date	75,929	-
Totals	<u>\$ 177,837</u>	<u>\$ (52,695)</u>

The \$75,929 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net position liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

PENSION PLANS (Continued)

Year Ending <u>June 30</u>	
2017	\$ 11,653
2018	11,653
2019	11,653
2020	5,912
2021	5,912
2022 and thereafter	<u>5,912</u>
Totals	<u>\$ 52,695</u>

*Actuarial Assumptions.* The total pension liability in the January 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The mortality and economic actuarial assumptions used in the January 1, 2016 valuation were based on the results of an actuarial experience study for the period of January 1, 2010 through June 30, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015 are summarized in the following table:

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

PENSION PLANS (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Long-Term Nominal Real Rate of Return
Domestic Equity	50%	5.95%	9.20%
International Equity	15%	6.45%	9.70%
Fixed Income	25%	1.55%	4.80%
Real Estate	10%	3.75%	7.00%
Cash	0%		
Total	<u>100%</u>		

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

Changes in Net Pension Liability:

	Total Pension Liability (Asset)	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Balances at 9/30/2014	\$ 1,311,476	\$ 952,049	\$ 359,427
Changes for the year:			
Service Cost	\$ 26,612	\$ -	\$ 26,612
Interest	100,166	-	100,166
Differences between expected and actual experience	55,809	-	55,809
Contributions - employer	-	83,703	(83,703)
Net Investment Income	-	9,111	(9,111)
Benefit Payments, including refunds of employee contributions	(38,012)	(38,012)	-
Administrative expense	-	(2,519)	2,519
Other	-	-	-
Net changes	\$ 144,575	\$ 52,283	\$ 92,292
Balances at 9/30/2015	\$ 1,456,051	\$ 1,004,332	\$ 451,719

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

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

PENSION PLANS (Continued)

	Discount Rate	Net Pension Liability (Asset)
1% decrease	6.75%	\$ 649,816
Current discount rate	7.75%	451,719
1% increase	8.75%	285,134

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

*Other Plans.* In addition to the plan above, various City employees are covered under the Peace Officers' Annuity and Benefit Fund of Georgia. Further information regarding this plan can be obtained from the plan's annual report.

**13. JOINT VENTURE**

The City of Hiawassee, Georgia, in conjunction with cities and counties in the thirteen county area are members of the Georgia Mountain Regional Commission. Membership in a regional commission (RC) is automatic for each municipality and county in the state. The official Code of Georgia Section 50-8-34 (Georgia Planning Act of 1989) provides for the organizational structure of the RCs. Each county and municipality in the state is required by law to pay minimum annual dues to the RC. The City paid no annual dues to the RC for the year ended June 30, 2016 because currently all dues are paid on the City's behalf by Towns County. A RC Board membership includes the chief elected official of each county and the chief elected official of each municipality. The county board members and municipal board members from the same county elect one member of the Board who is a resident (but not an elected or appointed official or employee of the County or municipality) to serve as the non-public Board member from the county. The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RCs as "public agencies and instrumentality's of their members". Georgia laws also provide that the member governments are liable for any debts or obligations of an RC beyond its resources. (O.C.G.A. 50-8-39.1). Complete financial statements of the Georgia Mountain Regional Commission can be obtained directly from their office at:

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

**14. INTERNAL ACTIVITY**

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund



CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

INTERNAL ACTIVITY (Continued)

financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement.

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

There was an interfund receivable and payable of \$447,310 between the Water Fund and Water Treatment Plant on the Statement of Net Position for Proprietary Funds. These interfund balances are not reflected on the government-wide Statement of Net Position. The receivable resulted from the payment of loans by the Water Treatment Plant related to improvements to the water system. These payments should have been made from the Water Fund. The City does not expect for this receivable to be paid back within the next year from Water Fund to the Water Treatment Fund. This balance may be reclassified as a transfer in the next fiscal year upon council approval and if so will be reflected appropriately in the amended budget.

There was also an interfund receivable and payable of \$10,693 between the Water Fund and General Fund.

**15. RISK MANAGEMENT**

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

Risk Pools

The City has insurance coverage with Norton Insurance Agency. Insurance coverage and deductible options for property, casualty and crime under the policy are selected by City's management based on anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed by the Agency, as well as following loss reduction and prevention procedures established by the Agency. The Agency's responsibility includes paying claims, and representing the City in defense and settlement of claims. The Agency's basis for estimating the liabilities for unpaid claims is established by 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, 2016. No provisions have been made in the financial statements for the year ended June 30, 2016 for any estimate of potential unpaid claims.

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

RISK MANAGEMENT (Continued)

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 Commissioner. A total of \$57,365 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 \$20,283 was in the hotel/motel account at June 30, 2016 to be paid to the Chamber to promote tourism.

17. COMMITMENTS AND CONTINGENCIES

The City has entered into various agreements and contracts in the normal course of business. Such agreements do not give rise to assets or liabilities considered to be material at June 30, 2016.

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

18. PRIOR PERIOD ADJUSTMENTS

Net Position:

Construction in progress of \$13,295 was shown as a capital expenditure on the Statement of Revenues, Expenditure and Changes in Fund Balances in the prior year. However, this amount was incorrectly presented on the Government Wide Statement of Activities and inadvertently left off of the Government Wide Statement of Net Position. The beginning balance in Net Position has been restated to reflect this change on page 8 of the financial statements. The beginning balance in Construction in Progress is reflected in note 6 on page 25 of the notes to financial statements.

CITY OF HIAWASSEE, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

19. SUBSEQUENT EVENTS

Subsequent events were evaluated through December 30, 2016, which is the date that the financials were available to be issued. Hiawassee is undertaking a replacement program of its ¾ inch water meters (approximately 1,990 meters) which serves both water and sewer billings. The electronics of the existing meters are failing and the city program of replacing 30 meters per month is not keeping up with the failure rate. Thus, the city water and sewer departments are losing potential revenue.

The budget for the meter replacement program is Five Hundred Thousand Dollars (\$500,000.00). The budget will be funded through a loan with the Georgia Environmental Facilities Authority (GEFA) with a principal amount of Four Hundred and Fifty Thousand Dollars (\$450,000.00). Of the principal amount, \$160,000.00 will be forgiven when the city meets its loan commitment. The loan will be for ten (10) years at a one-half percent (0.5%) interest rate and a one percent (1.0 %) origination fee. An additional, \$50,000.00 has been allocated from Hiawassee Special Purpose Local Option Sales Tax (SPLOST) proceeds for this project. The project will be completed in January 2017.

The replacement program will generate additional revenue for the water and sewer departments from accounts now billed at the minimum rate rather than billed for actual water usage. With the new meters, usage will be measured more accurately. The new meters should also improve public confidence in the Hiawassee utility billings. Additionally, the city is updating outdated meter reading software and meter reading equipment as a part of the program.

The City Manager, Rick Stancil, will depart the City on January 31, 2017. Mr. Stancil has worked closely with the Auditors and the Hiawassee CPAs for over ten (10) years. He has been the point of contact for many questions on the budget, city financing, expenditures and grants. He is actively involved in the audit process. Mr. Stancil is an attorney who has over thirty (30) years' experience in audits, grant management, budget and public financing. No other City employee has his training, experience or knowledge. His departure could have negative effects on city administration in the foreseeable future. Mr. Stancil has an employment contract with the City. Under the terms of this agreement, the City could have an additional liability to Mr. Stancil.

The City does not believe that there are any other 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, 2016**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<b>REVENUES:</b>				
Taxes & Assessments	\$ 530,100	\$ 533,790	\$ 527,248	\$ (6,542)
Licenses & Permits	28,300	36,500	49,311	12,811
Fines & Forfeitures	95,700	93,150	84,109	(9,041)
Charges for Services	6,500	7,000	7,554	554
Investment Earnings	3,500	2,200	1,562	(638)
Contributions & Grants	12,000	18,000	29,366	11,366
<b>TOTAL REVENUES</b>	<b>\$ 676,100</b>	<b>\$ 690,640</b>	<b>\$ 699,150</b>	<b>\$ 8,510</b>
<b>EXPENDITURES:</b>				
<b>Current Operating:</b>				
General Government	\$ 455,150	\$ 494,160	\$ 321,389	\$ 172,771
Public Safety	378,300	354,400	381,071	(26,671)
Judicial	7,650	7,080	6,860	220
<b>Debt Service:</b>				
Principal	-	-	2,274	(2,274)
Interest	-	-	300	(300)
<b>TOTAL EXPENDITURES</b>	<b>\$ 841,100</b>	<b>\$ 855,640</b>	<b>\$ 711,894</b>	<b>\$ 143,746</b>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	<b>\$ (165,000)</b>	<b>\$ (165,000)</b>	<b>\$ (12,744)</b>	<b>\$ 152,256</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Prior Year Reserves Utilized	\$ 165,000	\$ 165,000	\$ -	\$ 165,000
Other Financing Source - Debt	-	-	25,500	(25,500)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 165,000</b>	<b>\$ 165,000</b>	<b>\$ 25,500</b>	<b>\$ 139,500</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,756</b>	<b>\$ 12,756</b>
<b>FUND BALANCES:</b>				
Beginning of Year	-	-	186,395	186,395
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 199,151</u>	<u>\$ 199,151</u>

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

CITY OF HIAWASSEE, GEORGIA  
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS  
LAST TEN FISCAL YEARS  
JUNE 30, 2016

	Fiscal Year End <u>2016</u>	Fiscal Year End <u>2015</u>
Total Pension Liability		
Service cost	\$ 26,612	\$ 27,525
Interest	100,166	96,313
Differences between expected and actual experience	55,809	(23,720)
Changes in assumptions	-	-
Changes of benefit terms	-	-
Benefit payments, including refunds of employee contributions	(38,012)	(15,639)
Other	<u>-</u>	<u>(23,572)</u>
Net change in total pension liability	\$ 144,575	\$ 60,907
Total pension liability - beginning	<u>1,311,476</u>	<u>1,250,569</u>
Total pension liability - ending (a)	<u><u>\$ 1,456,051</u></u>	<u><u>\$ 1,311,476</u></u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 83,703	\$ 74,942
Contributions - Employee	-	-
Net investment income	9,111	93,055
Benefit payments, including refunds of employee contributions	(38,012)	(15,639)
Administrative expense	(2,519)	(2,013)
Other	<u>-</u>	<u>-</u>
Net change in Plan Fiduciary Net Position	\$ 52,283	\$ 150,345
Plan Fiduciary Net Position - beginning	<u>952,049</u>	<u>801,704</u>
Plan Fiduciary Net Position - ending (b)	<u><u>\$ 1,004,332</u></u>	<u><u>\$ 952,049</u></u>
Net Pension Liability - ending: (a) - (b)	<u><u>\$ 451,719</u></u>	<u><u>\$ 359,427</u></u>
Covered-employee payroll	\$ 770,166	\$ 797,509
Net pension liability as a percentage of covered-employee payroll	58.65%	45.07%

CITY OF HIAWASSEE, GEORGIA  
SCHEDULE OF CONTRIBUTIONS - PENSIONS  
LAST TEN FISCAL YEARS  
JUNE 30, 2016

	Fiscal Year End <u>2016</u>	Fiscal Year End <u>2015</u>
Actuarially determined contribution	\$ 75,929	\$ 78,472
Contributions in relation to the actuarially determined contribution	<u>(75,929)</u>	<u>(78,472)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
 Covered-employee payroll	 \$ 770,166	 \$ 797,509
 Contributions as a percentage of covered-employee payroll	 9.86%	 9.84%

*Historical information prior to implementation of GASB 67/68 is not required*

CITY OF HIAWASSEE, GEORGIA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2016

1. Budgets and Budgetary Accounting

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

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

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

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

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

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

	<u>Budget</u>	<u>Actual</u>	<u>Excess Over Budget</u>
Public Safety:	\$354,400	\$381,071	\$26,671
Debt Service:			
Principal	---	\$2,274	\$2,274
Interest	---	300	300

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

2. Pensions

a. Valuation Date

The actuarially determined contribution rate was determined as of January 1, 2016, with an interest adjustment to the fiscal year. Contributions in relation to this actuarially determined contribution rate will be reported for the fiscal year ending June 30, 2016.

b. Methods and Assumptions Used to Determine Contribution Rates

- Actuarial cost method = Projected unit credit
- Amortization method = Closed level dollar for remaining unfunded liability
- Remaining amortization period = Remaining amortization period varies for the bases, with a net effective amortization period of 17 years



CITY OF HIAWASSEE, GEORGIA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2016

Methods and Assumptions Used to Determine Contribution Rates (Continued)

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

c. Changes in Benefits

Effective January 1, 2016, the Plan was amended to provide for immediate participation for employees. This change has no impact on service credited under the Plan and has no impact on benefits.

d. Changes of Assumptions

Amounts reported for the fiscal year ending in 2016 and later reflect the following assumption changes based on the results of an actuarial experience study covering the period of January 1, 2010 to June 30, 2014:

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

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

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

The inflation and cost-of-living adjustment assumptions were decreased from 3.50% to 3.25%.

The salary increase assumption was changed from select period rates during the first five years of service, followed by age-related rates to an assumption based on new service-related rates. Under the prior assumption, the salary increases range from 3.75% to 8.00% and include an inflation assumption of 3.25%.

## **GOVERNMENTAL REPORTS**



**ED K. BURTON, LLC**

CERTIFIED PUBLIC ACCOUNTANTS

Ed K. Burton, CPA

Alan M. Burton, CPA

T. Scott Slaton, CPA

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

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

The Honorable Mayor 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, 2016, which collectively comprise the City of Hiawassee, Georgia's basic financial statements and have issued our report thereon dated December 30, 2016.

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 (2016-1) 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 disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs in 2016-2.

We noted certain matters that we reported to management of City of Hiawassee, Georgia in a separate letter dated December 30, 2016.

#### 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 30, 2016

CITY OF HIAWASSEE, GEORGIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**SECTION 1 – SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

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

**Federal Awards**

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

**SECTION 2 – FINANCIAL STATEMENT FINDINGS**

**Internal Control over Financial Reporting**

**2016-1 Repeat from prior year: GAAP Financial Statements**

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

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

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

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

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

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

CITY OF HIAWASSEE, GEORGIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**Compliance and Other Matters**

2016-2 Budget Requirements

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

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

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

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

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

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

SECTION 3 – FEDERAL AWARDS FINDINGS

Not applicable. No single audit required.

CITY OF HIAWASSEE, GEORGIA  
SCHEDULE OF PRIOR YEAR FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

2015-1: GAAP Financial Statements

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

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

Auditee Response/Status: Unresolved. Refer to current year finding at 2016-1.

2015-2 Commingled Funds

Criteria: SPLOST funds must be held in a separate account from other funds of the City and cannot in any manner be commingled with any other funds until spent on the approved projects [O.C.G.A. Sec 48-8-121(a)].

Condition: Several SPLOST deposits were incorrectly deposited into the General Operating fund.

Auditee Response/Status: Management agreed with this finding and transferred all funds that were incorrectly deposited into the wrong account to the proper SPLOST account.

2015-3 Budget Requirements

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

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

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

Auditee Response/Status: Unresolved. Refer to current year finding at 2016-2.

## **OTHER SUPPLEMENTARY INFORMATION**



**CITY OF HIAWASSEE  
SCHEDULE OF PROJECTS FINANCED WITH  
SPECIAL PURPOSE LOCAL OPTION SALES TAX  
FOR THE YEAR FISCAL ENDED JUNE 30, 2016**

Project	Estimated Cost		Expenditures			% of Completion
	Original	Current	Prior Years	Current Year	Total	
Parks	\$ 150,000	\$ 150,000	\$ 15,675	\$ 38,506	\$ 54,181	36.12%
Fire Protection	70,000	12,500	12,500	-	12,500	100.00%
Downtown Development						
Roads/Sidewalks	120,000	120,000	22,361	5,175	27,536	22.95%
City Hall & Police Station	200,000	303,500	302,276	-	302,276	99.60%
Water Plant & Storage						
Water Storage	200,000	154,000	34,459	-	34,459	22.38%
Pumps	50,000	50,000	-	-	-	0.00%
Water & Sewer						
Replacement of Infrastructure	303,000	303,000	91,726	-	91,726	30.27%
Sewer Plant	50,000	50,000	-	-	-	0.00%
Total	<u>\$ 1,143,000</u>	<u>\$ 1,143,000</u>	<u>\$ 478,997</u>	<u>\$ 43,681</u>	<u>\$ 522,678</u>	45.73%