

CITY OF McCAYSVILLE, GEORGIA

FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2017

**CITY OF McCAYSVILLE, GEORGIA
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FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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FINANCIAL SECTION

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



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, and each major fund of the City of McCaysville, Georgia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, and each major fund of the City of McCaysville, Georgia, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2017, on our consideration of the City of McCaysville, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of McCaysville's internal control over financial reporting and compliance.

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

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

East Ellijay, Georgia

October 17, 2017

BASIC FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF McCAYSVILLE, GEORGIA
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities	Business-type Activities	Total Primary Government
ASSETS			
<i>Current Assets:</i>			
Cash	\$ 1,086,524	\$ 743,378	\$ 1,829,902
Restricted cash	242,100	345,586	587,686
Investments	463,967	-	463,967
Restricted investments	-	397,036	397,036
Taxes receivable, net	8,177	-	8,177
Intergovernmental receivable	101,375	-	101,375
Fines receivable, net	9,116	277,365	286,481
Other receivables	21,220	-	21,220
Internal balances	26,249	(26,249)	-
Inventories	-	143,111	143,111
Prepaid items	22,937	14,068	37,005
<i>Total Current Assets</i>	<u>1,981,665</u>	<u>1,894,295</u>	<u>3,875,960</u>
<i>Non-current Assets:</i>			
<i>Capital Assets:</i>			
Non-depreciable capital assets	220,775	48,006	268,781
Depreciable capital assets, net	2,267,575	9,907,614	12,175,189
<i>Total Non-current Assets</i>	<u>2,488,350</u>	<u>9,955,620</u>	<u>12,443,970</u>
Total Assets	<u>4,470,015</u>	<u>11,849,915</u>	<u>16,319,930</u>
LIABILITIES			
<i>Current Liabilities:</i>			
Accounts payable	15,682	60,965	76,647
Accrued expenses	5,616	1,296	6,912
Accrued interest	-	26,861	26,861
Current portion of notes payable	-	229,999	229,999
Current portion of bonds payable	-	120,610	120,610
<i>Liabilities payable from restricted assets:</i>			
Customer deposits	-	107,325	107,325
<i>Total Current Liabilities</i>	<u>21,298</u>	<u>547,056</u>	<u>568,354</u>
<i>Non-current liabilities:</i>			
Notes payable	-	4,622,528	4,622,528
Bonds payable	-	338,080	338,080
<i>Total Non-current liabilities</i>	<u>-</u>	<u>4,960,608</u>	<u>4,960,608</u>
Total Liabilities	<u>21,298</u>	<u>5,507,664</u>	<u>5,528,962</u>
NET POSITION			
Net investment in capital assets	-	4,644,403	4,644,403
Investment in capital assets	2,488,350	-	2,488,350
Restricted for capital projects	290,217	92,688	382,905
Restricted for debt service	-	145,573	145,573
Unrestricted	1,670,150	1,459,587	3,129,737
Total Net Position	<u>\$ 4,448,717</u>	<u>\$ 6,342,251</u>	<u>\$ 10,790,968</u>

The accompanying notes are an integral part of this statement.

CITY OF McCAYSVILLE, GEORGIA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		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	\$ 192,362	\$ -	\$ 4,313	\$ -	\$ (188,049)	\$ -	\$ (188,049)
Judicial	6,277	36,389	-	-	30,112	-	30,112
Public safety	361,798	-	-	-	(361,798)	-	(361,798)
Public works	246,255	-	-	275,000	28,745	-	28,745
Culture and recreation	50,867	-	-	6,000	(44,867)	-	(44,867)
Total governmental activities	<u>857,559</u>	<u>36,389</u>	<u>4,313</u>	<u>281,000</u>	<u>(535,857)</u>	<u>-</u>	<u>(535,857)</u>
Business-type activities:							
Water and sewer	<u>1,810,889</u>	<u>2,286,080</u>	<u>-</u>	<u>9,386</u>	<u>-</u>	<u>484,577</u>	<u>484,577</u>
Total business-type activities	<u>1,810,889</u>	<u>2,286,080</u>	<u>-</u>	<u>9,386</u>	<u>-</u>	<u>484,577</u>	<u>484,577</u>
Total Primary Government	<u>\$ 2,668,448</u>	<u>\$ 2,322,469</u>	<u>\$ 4,313</u>	<u>\$ 290,386</u>			
General revenues:							
Taxes:							
Property taxes, levied for a general purpose					152,273	-	152,273
Franchise taxes					7,576	-	7,576
General sales and use taxes					504,016	-	504,016
Business taxes					10,577	-	10,577
Insurance premium taxes					65,909	-	65,909
Payments in lieu of taxes					8,844	-	8,844
Miscellaneous					6,213	16,983	23,196
Unrestricted investment earnings					2,897	1,452	4,349
Total general revenues					<u>758,305</u>	<u>18,435</u>	<u>776,740</u>
Transfers					<u>23,457</u>	<u>(23,457)</u>	<u>-</u>
Total general revenues and special item					<u>781,762</u>	<u>(5,022)</u>	<u>776,740</u>
Change in net position					245,905	479,555	725,460
Net position, beginning of year					<u>4,202,812</u>	<u>5,862,696</u>	<u>10,065,508</u>
Net position, end of year					<u>\$ 4,448,717</u>	<u>\$ 6,342,251</u>	<u>\$ 10,790,968</u>

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF McCAYSVILLE, GEORGIA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017

	GENERAL FUND	SPLOST FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash	\$ 1,086,524	\$ 242,100	\$ 1,328,624
Investments	463,967	-	463,967
Taxes receivable, net	8,177	-	8,177
Fines receivable, net	9,116	-	9,116
Intergovernmental receivable	53,258	48,117	101,375
Other receivables	21,220	-	21,220
Interfund receivable	43,784	-	43,784
Prepaid items	22,937	-	22,937
Total Assets	\$ 1,708,983	\$ 290,217	\$ 1,999,200
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
<i>Liabilities:</i>			
Accounts payable	\$ 15,682	\$ -	\$ 15,682
Accrued expenditures	5,616	-	5,616
Interfund payable	17,535	-	17,535
Total Liabilities	38,833	-	38,833
<i>Deferred Inflows of Resources:</i>			
Deferred fine revenue	21,668	-	21,668
Deferred tax revenue	9,805	-	9,805
Total Deferred Inflows of Resources	31,473	-	31,473
<i>Fund Balances:</i>			
Nonspendable	22,937	-	22,937
Restricted for capital projects	-	290,217	290,217
Unassigned	1,615,740	-	1,615,740
Total Fund Balances	1,638,677	290,217	1,928,894
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,708,983	\$ 290,217	\$ 1,999,200

The accompanying notes are an integral part of this statement.

CITY OF McCAYSVILLE, GEORGIA
RECONCILIATION OF THE GOVERNMENTAL BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2017

Total fund balances, governmental funds \$ 1,928,894

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$3,125,303, which is presented net of related accumulated depreciation of \$636,953. 2,488,350

Revenue is recognized by governmental funds when it is both measurable and available. On the government-wide financial statements, however, revenue is recognized when it is earned and realizable. Deferred fine revenue of \$9,805 and deferred tax revenue of \$21,668 should, therefore, be considered earned revenue on the government-wide financial statements. 31,473

Total net position, governmental activities \$ 4,448,717

The accompanying notes are an integral part of this statement.

CITY OF McCAYSVILLE, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2017

	GENERAL FUND	SPLOST FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Taxes	\$ 759,111	\$ -	\$ 759,111
Intergovernmental	-	274,747	274,747
Fines and forfeitures	33,081	-	33,081
Penalties and interest	2,897	253	3,150
Contributions from private sources	6,000	-	6,000
Miscellaneous	6,213	-	6,213
Total Revenues	807,302	275,000	1,082,302
EXPENDITURES			
Current:			
General government	185,354	-	185,354
Judicial	6,277	-	6,277
Public safety	484,401	-	484,401
Public works	160,193	17,893	178,086
Culture and recreation	289,618	-	289,618
Capital Outlay:			
Public works	-	523,482	523,482
Total Expenditures	1,125,843	541,375	1,667,218
OTHER FINANCING SOURCES (USES)			
Proceeds from short-term debt	60,055	-	60,055
Total Other Financing Sources (Uses)	60,055	-	60,055
Net changes in fund balances	(258,486)	(266,375)	(524,861)
Fund balances, beginning of year	1,897,163	556,592	2,453,755
Fund balances, end of year	<u>\$ 1,638,677</u>	<u>\$ 290,217</u>	<u>\$ 1,928,894</u>

The accompanying notes are an integral part of this statement.

CITY OF McCAYSVILLE, GEORGIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2017

Net change in fund balance, governmental fund \$ (524,861)

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The net effect on the Statement of Activities is the amount by which capital outlay of \$855,043 exceeds depreciation expense of \$105,441 in the period. 749,602

Proceeds from short-term debt used for the purchase of capital assets is shown as revenue in the governmental fund. However, in the Statement of Activities, the proceeds are shown as principal additions in debt. 60,055

Repayment of short-term debt principal is an expenditure in the governmental fund, but the repayment reduces short-term liabilities in the Statement of Net Position. (60,055)

The transfer of an asset from a business-type fund to a governmental fund is not reflected on the governmental fund statements, but is recognized as a capital asset transfer on the government-wide financial statements. 23,457

Revenue is recognized by governmental funds when it is both measurable and available. On the government-wide financial statements, however, revenue is recognized when it is earned and realizable. The net change in deferred fine revenue and deferred tax revenue should, therefore, be considered earned revenue on the government-wide financial statements. (2,293)

Change in net position, governmental activities \$ 245,905

CITY OF McCAYSVILLE, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For the Fiscal Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amount</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u> <u>(See Note 2)</u>	
<i>Budgetary fund balance, beginning of year</i>	\$ 1,897,163	\$ 1,897,163	\$ 1,897,163	\$ -
Resources (inflows):				
Property taxes	95,050	95,050	92,989	(2,061)
Motor vehicle taxes	68,500	68,500	64,887	(3,613)
Franchise taxes	7,900	7,900	7,576	(324)
General sales and use taxes	450,000	450,000	504,016	54,016
Business taxes	16,800	16,800	14,890	(1,910)
Insurance premium taxes	61,000	61,000	65,909	4,909
Penalties and interest on taxes	3,150	3,150	1,239	(1,911)
Payments in lieu of taxes	9,000	9,000	8,844	(156)
Fines and forfeitures	33,500	33,500	33,081	(419)
Interest	35,000	35,000	1,658	(33,342)
Contributions from private sources	-	-	6,000	6,000
Miscellaneous	3,665	3,665	6,213	2,548
Reserve from prior years	<u>32,500</u>	<u>32,500</u>	<u>-</u>	<u>(32,500)</u>
Amounts available for appropriation	<u>816,065</u>	<u>816,065</u>	<u>807,302</u>	<u>(8,763)</u>
Charges to appropriations (outflows):				
General Government:				
Legislative	17,755	17,755	16,082	1,673
Financial administration	190,925	190,925	169,272	21,653
Judicial:				
Municipal court	6,500	6,500	6,277	223
Public Safety:				
Police	327,950	327,950	484,401	(156,451)
Public Works:				
Highways and streets	171,295	171,295	160,193	11,102
Culture and Recreation:				
Parks	<u>101,640</u>	<u>101,640</u>	<u>289,618</u>	<u>(187,978)</u>
Total charges to appropriations	<u>816,065</u>	<u>816,065</u>	<u>1,125,843</u>	<u>(309,778)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from short term debt	<u>-</u>	<u>-</u>	<u>60,055</u>	<u>60,055</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>60,055</u>	<u>60,055</u>
Net change	<u>-</u>	<u>-</u>	<u>(258,486)</u>	<u>(258,486)</u>
<i>Budgetary fund balance, end of year</i>	<u>\$ 1,897,163</u>	<u>\$ 1,897,163</u>	<u>\$ 1,638,677</u>	<u>\$ (258,486)</u>

The accompanying notes are an integral part of this statement.

CITY OF McCAYSVILLE, GEORGIA
STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
June 30, 2017

	<u>ENTERPRISE FUND</u>
	<u>WATER AND SEWER</u>
ASSETS	
<i>Current Assets:</i>	
Cash	\$ 743,378
Restricted cash	345,586
Restricted investments	397,036
Accounts receivable, net	277,365
Interfund receivable	17,535
Inventories	143,111
Prepaid items	14,068
<i>Total Current Assets</i>	<u>1,938,079</u>
<i>Non-current Assets:</i>	
<i>Capital Assets:</i>	
Non-depreciable capital assets	48,006
Depreciable capital assets, net	9,907,614
<i>Total Non-current Assets</i>	<u>9,955,620</u>
Total Assets	<u><u>\$ 11,893,699</u></u>
LIABILITIES AND FUND NET POSITION	
<i>Current Liabilities:</i>	
Accounts payable	\$ 60,965
Accrued expenses	1,296
Accrued interest	26,861
Interfund payable	43,784
Current portion of notes payable	229,999
Current portion of bonds payable	120,610
<i>Liabilities payable from restricted assets:</i>	
Customer deposits	107,325
<i>Total Current Liabilities</i>	<u>590,840</u>
<i>Non-current Liabilities:</i>	
Notes payable	4,622,528
Bonds payable	338,080
<i>Total Non-current Liabilities</i>	<u>4,960,608</u>
<i>Total Liabilities</i>	<u>5,551,448</u>
<i>Fund Net Position:</i>	
Net investment in capital assets	4,644,403
Restricted for capital projects	92,688
Restricted for debt service	145,573
Unrestricted	1,459,587
<i>Total Fund Net Position</i>	<u>6,342,251</u>
Total Liabilities and Fund Net Position	<u><u>\$ 11,893,699</u></u>

The accompanying notes are an integral part of this statement.

CITY OF McCAYSVILLE, GEORGIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2017

	<u>ENTERPRISE FUND</u> <u>WATER AND SEWER</u>
Operating Revenues:	
Charges for services	\$ 2,173,988
Tap fees	57,500
Penalties	32,626
Connect fees	9,600
Rent	12,366
Miscellaneous	<u>16,983</u>
Total operating revenues	<u>2,303,063</u>
 Operating Expenses:	
Sewer	443,920
Water treatment	76,802
Water distribution	840,284
Sanitation	<u>63,704</u>
Total operating expenses before depreciation	1,424,710
 Depreciation	<u>268,644</u>
 Total operating expenses	<u>1,693,354</u>
 Operating income (loss)	<u>609,709</u>
 Non-operating Revenues (Expenses):	
Interest revenue	1,452
Interest expense	(117,535)
Surcharge fees	9,386
Loss on disposal of capital asset	<u>(23,457)</u>
Total non-operating revenues (expenses)	<u>(130,154)</u>
 Change in fund net position	479,555
Fund net position, beginning of year	<u>5,862,696</u>
Fund net position, end of year	<u>\$ 6,342,251</u>

The accompanying notes are an integral part of this statement.

CITY OF McCAYSVILLE, GEORGIA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2017

	<u>ENTERPRISE FUND</u> <u>WATER AND SEWER</u>
Cash flows from operating activities:	
Receipts from customers	\$ 2,275,062
Payments to suppliers	(746,009)
Payments to employees	<u>(676,607)</u>
Net cash provided by (used in) operating activities	<u>852,446</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(339,392)
Surcharge fees collected	9,386
Transfer of capital assets to the General Fund	(23,457)
Principal payments on capital debt	(366,462)
Interest paid on capital debt	<u>(122,567)</u>
Net cash provided by (used in) capital and related financing activities	<u>(842,492)</u>
Cash flows from investing activities:	
Interest income	<u>1,054</u>
Cash provided by (used in) investing activities	<u>1,054</u>
Net increase (decrease) in cash	11,008
Cash, beginning of year	<u>1,077,956</u>
Cash, end of year	<u><u>\$ 1,088,964</u></u>
Reconciliation of total cash:	
Restricted	\$ 345,586
Unrestricted	<u>743,378</u>
	<u><u>\$ 1,088,964</u></u>
Reconciliation of operating income to the net cash provided by (used in) operating activities:	
Operating income (loss)	\$ 609,709
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	268,644
Change in assets and liabilities:	
Accounts receivable	(31,561)
Interfund receivable	2,107
Inventories	(8,662)
Prepaid items	4,343
Accounts payable	16,325
Salaries payable	(14,471)
Interfund payable	2,452
Customer deposits	<u>3,560</u>
Net cash provided by (used in) operating activities	<u><u>\$ 852,446</u></u>

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

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

CITY OF McCAYSVILLE, GEORGIA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

1. SUMMARY OF ACCOUNTING POLICIES

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

A. THE REPORTING ENTITY

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The City’s financial statements include the accounts of all operations. The criteria for including organizations within the City’s reporting entity, as set forth in Governmental Accounting Standards Board’s Statement No. 14 (GASB 14), “The Financial Reporting Entity”, is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit’s board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. GASB 14 was amended in a later released standard, Governmental Accounting Standards Board’s Statement No. 61, which further emphasized and defined the existence of a financial burden or benefit between a primary government and the component unit. As a result of applying the criteria of these two standards, there have been no component units included the financial statements of the City at June 30, 2017.

The Housing Authority of the City of McCaysville is considered a related organization as a result of applying the criteria of GASB 14 and 61. The Authority is a legally separate entity having a board composed of members appointed originally by the City of McCaysville. The City is not able to impose its will upon the Authority, and a financial benefit/burden does not exist between them as of June 30, 2017.

B. GOVERNMENT-WIDE STATEMENTS AND FUND FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

The government-wide statement of net position, both governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City’s net position are reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for capital improvements result from both the capital projects and enterprise funds and the restriction on their net position use. When both restricted and

NOTES TO FINANCIAL STATEMENTS (continued)

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

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

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The City has no nonmajor funds in the current year.

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (continued)

affects the Statement of Net Position in the government-wide statements as well as the Governmental Fund Balance Sheet and the Proprietary Fund Statement of Fund Net Position in the fund statements.

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

Governmental Funds

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

The City reports the following major governmental funds:

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

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

Proprietary Funds

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

The City reports the following major enterprise fund:

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

D. ENCUMBRANCES

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

E. CASH AND INVESTMENTS

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

Cash includes amounts in demand deposits. Statutes authorize the City to invest in U.S. Government obligations, U.S. Government agency obligations, State of Georgia obligations, obligations of other counties, municipal corporations and political subdivisions of the State of Georgia which are rated "AA" or better by Moody's Investors Service, Inc., negotiable certificates of deposit issued by any bank or trust company

NOTES TO FINANCIAL STATEMENTS (continued)

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.

Investments consist of certificates of deposit held at a financial institution with original maturities of three months or longer.

F. INTEREST CAPITALIZATION

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds are used to finance the construction of assets. During fiscal year 2017, the City did not capitalize interest for any projects. Interest expense was paid as incurred for interim financing of projects.

G. INVENTORIES

Inventories are valued at cost in the proprietary fund types. Inventories consist of expendable supplies and items needed for repairs or improvements to the water utility system. Inventories are accounted for on the first-in, first-out (FIFO) method of accounting for inventories. Inventory was valued at \$143,111 at June 30, 2017.

H. PREPAID ITEMS

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

I. CAPITAL ASSETS AND DEPRECIATION

Capital assets which include property, equipment and infrastructure (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of one year. All purchased or constructed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, are not reported in the basic financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to July 1, 2003. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Land improvements	15 years
Infrastructure	30-50 years
Buildings and improvements	15-50 years
Machinery and equipment	10-15 years
Office furniture	10 years
Vehicles	5 years

J. COMPENSATED ABSENCES

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

NOTES TO FINANCIAL STATEMENTS (continued)

Accumulated sick pay benefits have not been recorded as a liability because the payment of these benefits is contingent upon the future illness of an employee. It is not expected that any unrecorded sick pay benefits will exceed a normal year's accumulation. In accordance with the provisions of Statement of Financial Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay bonus.

K. LONG-TERM OBLIGATIONS

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

L. FUND EQUITY

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

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

Fund Balance Policies

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

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

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

Amounts may also be nonspendable in nature, because they are either 1) not in spendable form, or 2) legally or contractually required to be intact. Nonspendable items are those that are not expected to be converted to cash, such as prepaid items, inventory, long-term amounts of loans and notes receivable, and property

NOTES TO FINANCIAL STATEMENTS (continued)

acquired for resale. In fiscal year 2017, the City had \$22,937 in prepaid items. This amount is shown as nonspendable fund balance on page 5 of the financial statements.

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

M. ESTIMATES

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

N. INTERFUND BALANCES

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

Annual budgets were adopted in a legally permissible manner in fiscal year 2017 for all governmental funds of the City. The budget is adopted on a basis consistent with generally accepted accounting principles, and on the same basis of accounting used by each fund to which the budget applies. An operating budget is adopted for the proprietary Water Fund for administrative control purposes.

Excess of Expenditures over Appropriations – Governmental Funds

For the year ended June 30, 2017, expenditures materially exceed appropriations for the Public Safety and Culture and Recreation departments in the General Fund, as depicted on page 9 of the financial statements. This excess was not mitigated by unused appropriations in other departments. Overall the operating budget of the City had a variance of expenditures over appropriations in the amount of \$309,778. This variance of expenditures over appropriations was offset by utilizing fund balance reserves from previous years.

3. DEPOSITS

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of June 30, 2017, the City had no bank balance that was exposed to custodial credit risk.

NOTES TO FINANCIAL STATEMENTS (continued)

4. RECEIVABLES

Fines receivable in the General Fund are stated at gross amounts receivable less an allowance for estimated uncollectible amounts, if material. The allowance is computed as a percentage of the revenue at year end based primarily on the age of the indebtedness. Fines receivable consisted of \$27,438 with an associated allowance of uncollectible accounts of \$18,322. This resulted in a net receivable balance of \$9,116 as shown on the Balance Sheet – Governmental Funds on page 3.

Property tax revenues are recognized when levied to the extent that they result in current receivables. Property taxes receivable in the General Fund are stated at gross amounts receivable less an allowance for estimated uncollectible amounts, if material. The allowance is computed as a percentage of the revenue at year end based primarily on the age of the indebtedness. Property taxes receivable of \$9,805 is shown net of its related allowance for uncollectible accounts of \$1,628 on the Balance Sheet – Governmental Funds on page 3. Property taxes levied each year are based on values as of January 1st and are due within 60 days of the levy date. The City’s property tax calendar for the 2016 levy is as follows:

Levy date	September 9, 2016
Due date	December 31, 2016
Delinquent date	February 1, 2017
There is no lien date established.	

Accounts receivable in the Water Fund are stated at gross amounts receivable less an allowance for estimated uncollectible amounts, if material. The allowance is computed as a percentage of the revenue at year end based primarily on the age of the indebtedness. The allowance for uncollectible accounts for water receivables at June 30, 2017 amounted to \$14,796. Accounts receivable includes unbilled receivables totaling \$59,088 at June 30, 2017. This resulted in a net receivable balance of \$277,365, as shown in the Statement of Fund Net Position on page 10.

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NOTES TO FINANCIAL STATEMENTS (continued)

5. CAPITAL ASSETS

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	\$ 69,363	\$ 151,412	\$ -	\$ 220,775
Total capital assets not being depreciated	69,363	151,412	-	220,775
Capital assets being depreciated:				
Land improvements	2,050	4,400	-	6,450
Buildings and improvements	223,341	35,609	-	258,950
Machinery and equipment	322,476	210,287	-	532,763
Furniture and fixtures	-	3,864	-	3,864
City park	212,838	-	-	212,838
Infrastructure	1,416,735	472,928	-	1,889,663
Total capital assets being depreciated	2,177,440	727,088	-	2,904,528
Less accumulated depreciation:				
Land improvements	376	297	-	673
Buildings and improvements	100,084	5,761	-	105,845
Machinery and equipment	163,598	39,113	-	202,711
	-	32	-	32
City park	134,457	4,602	-	139,059
Infrastructure	132,997	55,636	-	188,633
Total accumulated depreciation	531,512	105,441	-	636,953
Total capital assets being depreciated, net	1,645,928	621,647	-	2,267,575
Governmental activities capital assets, net	\$ 1,715,291	\$ 773,059	\$ -	\$ 2,488,350
	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Business-type activities:</i>				
Capital assets not being depreciated:				
Land	\$ 48,006	\$ -	\$ -	\$ 48,006
Total capital assets not being depreciated	48,006	-	-	48,006
Capital assets being depreciated:				
Land improvements	27,441	80,691	-	108,132
Buildings and improvements	75,203	26,659	-	101,862
Infrastructure	13,856,419	192,969	-	14,049,388
Machinery and equipment	294,967	24,403	-	319,370
Total capital assets being depreciated	14,254,030	324,722	-	14,578,752
Less accumulated depreciation:				
Land improvements	27,441	-	-	27,441
Buildings and improvements	42,562	1,913	-	44,475
Infrastructure	4,077,217	252,065	-	4,329,282
Machinery and equipment	255,274	14,666	-	269,940
Total accumulated depreciation	4,402,494	268,644	-	4,671,138
Total capital assets being depreciated, net	9,851,536	56,078	-	9,907,614
Business-type activities capital assets, net	\$ 9,899,542	\$ 56,078	\$ -	\$ 9,955,620

NOTES TO FINANCIAL STATEMENTS (continued)

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

Governmental activities:

General government	\$	7,806
Public safety		19,091
Public works		69,359
Culture and recreation		<u>9,185</u>
	\$	<u>105,441</u>

Business-type activities:

Water and sewerage	\$	<u>268,644</u>
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6. INTERFUND BALANCES AND ACTIVITY

The amount shown as due to the General Fund from the Water Fund in the amount of \$43,784, as well as the amount shown as due to Water Fund from the General Fund in the amount of \$17,535, is related to salaries and wages paid on behalf of Water Fund employees by the General Fund. This amount will be reimbursed within the upcoming fiscal year.

During the fiscal year 2017, the Water Fund contributed a total of \$23,457 in capital assets to the General Fund for use in the police department. This is shown as a transfer on the government wide statements.

7. CLASSIFICATIONS OF EQUITY

Restricted – The following fund balances are restricted for:

Capital Projects Fund:

SPLOST Fund – used to account for capital projects financed with SPLOST tax revenues. \$ 290,217

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

8. SHORT-TERM OBLIGATIONS

Governmental Activities

In October, 2016, the City obtained a loan in the amount of \$60,055 for the purchase of capital assets for the public safety department, with an interest paid at a rate of 3.99%. This loan was repaid in its entirety on December 6, 2016, with total principal payments of \$60,055 and total interest payments of \$226.

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental Activities:				
Note payable	\$ _____ -	\$ <u>60,055</u>	\$ <u>60,055</u>	\$ _____ -

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NOTES TO FINANCIAL STATEMENTS (continued)

9. LONG-TERM OBLIGATIONS

Business Type Activities

Notes Payable:

The following note payable had outstanding balances at June 30, 2017:

Georgia Environmental Facilities Authority, infrastructure construction, payable in quarterly installments of \$9,031, including interest at 5.01%. Original balance of \$379,355, matures in August 2017. \$ 8,920

Georgia Environmental Facilities Authority, infrastructure construction, payable in monthly installments of \$25,616, including interest at 1.82%. Original balance of \$5,650,000 matures January, 2036. 4,843,607

Total 4,852,527

Less current portion of notes payable (229,999)

Non-current portion of notes payable \$ 4,622,528

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

Fiscal Year	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 229,999	\$ 86,427	\$ 316,426
2019	225,137	82,258	307,395
2020	229,269	78,126	307,395
2021	233,476	73,919	307,395
2022	237,761	69,634	307,395
2023-2027	1,255,883	281,092	1,536,975
2028-2032	1,375,435	161,540	1,536,975
2033-2036	<u>1,065,567</u>	<u>35,931</u>	<u>1,101,498</u>
	<u>\$ 4,852,527</u>	<u>\$ 868,927</u>	<u>\$ 5,721,454</u>

The following bonds payable had outstanding balances at June 30, 2017:

\$1,387,460 September 18, 1991 Water and Sewerage Revenue Bonds, due in annual installments of \$25,380 to \$90,250 plus interest of 5% through September 18, 2018. \$ 176,190

\$398,970 September 18, 1991 Water and Sewerage Revenue Bonds, due in annual installments of \$7,300 to \$25,960 plus interest of 5% through September 18, 2018. 50,670

\$359,100 September 18, 1991 Water and Sewer Revenue Bonds, due in annual installments of \$2,320 to \$22,600 plus interest of 6% through September 18, 2031. 231,830

Total 458,690

Less current portion of bonds payable (120,610)

Non-current portion of bonds payable \$ 338,080

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

Fiscal Year	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 120,610	\$ 25,254	\$ 145,864
2019	126,760	19,124	145,884
2020	11,190	12,680	23,870
2021	11,860	12,008	23,868
2022	12,570	11,297	23,867
2023 - 2027	75,100	44,225	119,325
2028 - 2032	<u>100,600</u>	<u>17,823</u>	<u>118,423</u>
	<u>\$ 458,690</u>	<u>\$ 142,411</u>	<u>\$ 601,101</u>

NOTES TO FINANCIAL STATEMENTS (continued)

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due in One Year</u>
Business-Type Activities:					
Notes payable	\$ 5,104,209	\$ -	\$ 251,682	\$4,852,527	\$ 229,999
Bonds payable	<u>573,470</u>	<u>-</u>	<u>114,780</u>	<u>458,690</u>	<u>120,610</u>
	<u>\$ 5,677,679</u>	<u>\$ -</u>	<u>\$ 366,462</u>	<u>\$5,311,217</u>	<u>\$ 350,609</u>

Reductions shown above in business-type activities were liquidated by Water Fund. Interest expense in the amount of \$117,535 was included in the direct expenses of the water business-type activity on the Statement of Activities.

10. RISK MANAGEMENT

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

11. RETIREMENT PLANS

Deferred Compensation Plan

The City offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457 for full time employees. This plan is administered by the Georgia Municipal Association and serviced by MetLife Resources. The City of McCaysville Defined Contribution Plan is open and employees are entitled to make contributions to the plan, with a matching contribution from the City up to 4%. Total contributions made by employees were \$40,177. The total contributions made by the City were \$27,549 during fiscal year 2017.

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

12. JOINT VENTURE

The City, in conjunction with other cities and counties in the North Georgia area are members of the Northwest Georgia Regional Commission (NWGRC). Membership in NWGRC is automatic for each municipality and county in the state. The official Code of Georgia Section 50-8-34 (Georgia Planning Act of 1989) provides for the organizational structure of the RDCs, and was amended in 2008 to consolidate the existing RDC's into fewer larger organizations called Regional Commissions (RC). Each county and municipality in the state is required by law to pay minimum annual dues to the RC. The City paid annual dues to the RC during the fiscal year 2017 in the amount of \$1,083. The RC Board membership includes the chief elected official of each county and the chief elected official of the largest municipality in each county. The county board members elect one member of the Board who is a resident (but not an elected or appointed official or employee of the County or municipality) to serve as the non-public Board member from a county.

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RDC's (later transferred to RC's) as "public agencies and instrumentalities of their members". Georgia laws also provide that the member governments are liable for any debts or obligations of an RC beyond its resources, (O.C.G.A. 50-8-39.1). Complete financial statements of the Atlanta Regional Commission can be obtained directly from their office:

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

NOTES TO FINANCIAL STATEMENTS (continued)

13. SUBSEQUENT EVENTS

The City has evaluated subsequent events through October 17, 2017, the date which the financial statements were available to be issued, and found one event which required disclosure to the financial statements. On July 25, 2017, the City was awarded a grant in the amount of \$500,000 by the Georgia Department of Community Affairs. This grant is to be used for the development of infrastructure on City-owned property along the Toccoa River. This development will connect to the existing park and will promote tourism and improve the overall appearance of the City. Design and construction will begin in fiscal year 2018.

14. COMMITMENTS AND CONTINGENCIES

The City, from time to time, may be involved in litigation, disputes and claims arising in the ordinary course of business. These matters arise from a wide variety of sources, including the day to day operations of the City and contracts/agreements related to its services and vendors. At the end of fiscal year 2017, the City had an Equal Employment Opportunity Commission (EEOC) claim filed against them. As of the date of this report, the matter has not been resolved, and the amount of the potential liability remains unknown.

OTHER SUPPLEMENTARY INFORMATION

CITY OF McCAYSVILLE, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
For the Fiscal Year Ended June 30, 2017

Project	Estimated Cost		Expenditures			Estimated % of Completion
	Original	Current	Prior Years	Current Year	Total	
Roads, streets and sidewalks	<u>\$ 1,400,000</u>	<u>\$ 1,400,000</u>	<u>\$ 1,162,767</u>	<u>\$541,375</u>	<u>\$ 1,704,142</u>	121.72%

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

Note B: *The expenditures for total SPLOST activity do not reconcile to the capital outlay total shown in the basic financial statements. There were purchases of items that were in compliance with the SPLOST referendum but that did not require capitalization. These items have been expensed in accordance with the financial policies of the City. However, the total expenditures shown above for the current fiscal year reconcile to the amount shown in the fund statements.*

INTERNAL CONTROL



CERTIFIED PUBLIC ACCOUNTANTS

540 N. MAIN STREET
JASPER, GA 30143
PH (706) 253-3700 FAX (706) 253-5973

489 HIGHLAND CROSSING
SUITE 208
EAST ELLIJAY, GA 30540
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activity, and each major fund of the City of McCaysville, Georgia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of McCaysville, Georgia's basic financial statements and have issued our report thereon dated October 17, 2017.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. See Findings 2014-001 and 2017-001.

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. We consider the deficiencies described in the accompany schedule of findings and responses to be significant deficiencies. See finding 2014-002.

Compliance and Other Matters

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

City of McCaysville, Georgia's Response to Findings

City of McCaysville, Georgia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of McCaysville, Georgia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Welch, Walker & Associates, P.C., CPAs
Welch, Walker & Associates, P.C., CPAs
East Ellijay, Georgia
October 17, 2017

CITY OF McCAYSVILLE, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June30, 2017

MATERIAL WEAKNESSES:

2014-001: Maintenance of Accrual Basis General Ledger

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

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

Cause: Currently, the cash activity of the operational functions of the General Fund and Water Fund are being recorded in the general ledger routinely. Activity related to the capital projects, debt payment accounts and water deposit refund accounts, however, are not entered in the general ledger throughout the year, nor are accrual entries and reconciliations of these subledgers performed on a routine basis.

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

Recommendation: We understand that the procedure to maintain the City's general ledger on the accrual/modified accrual basis throughout the year can be a time-consuming task. We realize the cash basis method of accounting is easy to administer and understand. In light of this, we have the following suggestions. Firstly, we recommend that all cash accounts be maintained on the general ledger, including those related to capital projects, debt payment accounts, and water deposit refund accounts. This will limit the risk of misstatement or fraud due to the omission of cash accounts on the general ledger. Secondly, we suggest that you implement a procedure in which a cash-basis general ledger is utilized throughout the year with accrual adjustments made only at year-end. Interim financial information could then be maintained on the cash basis to simplify the monthly reporting procedures. This practice would enable the City to enjoy the best features of both methods: properly adjusted accrual financial reporting for year-end accounting, and more easily produced interim financial statements for monthly reporting to Council.

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

2017-001: Manipulation of Invoice Timing

Criteria: Revenues and expenses should be recorded in the period in which the transaction occurred or in the period in which the benefit is obtained. Expenses and their associated liabilities should be recorded when a legally binding obligation has been created.

Condition/Context: In order to stay within budgeted amounts, an agreement to delay the payment of an invoice in the amount of \$5,850 was formed between one of the City's departments and the vendor. The assets purchased were received on the day of the sale on May 18, 2017, and the City was obligated

CITY OF McCAYSVILLE, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June30, 2017

at that time for the sale amount. However, due to the agreement to delay payment, no payment was made until after fiscal year end, and no accompanying liability was recorded by staff until an entry was recommended during the course of the audit.

Cause: Lack of segregation of duties and the circumvention of internal controls allowed for the manipulation of an invoice payment in order to falsely report compliance with budget at the departmental level.

Effect: The intentional delaying of payment for expenses to which a City is contractually obligated artificially allows for a department to appear in compliance with the approved budgeted amounts as set by Mayor and Council for each department.

Recommendation: Purchase approval should be obtained prior to the disbursements of funds and payments made on a timely basis. The circumvention of budgetary controls indicates a breakdown in the City's internal controls. While the City has implemented internal controls where possible for a City of its size, these internal controls should be monitored on a regular basis and followed without exception.

Response: The City agrees with this finding and will consider changing its purchasing approval process and those granted purchasing power.

SIGNIFICANT DEFICIENCIES:

2014-002: Lack of Segregation of Duties

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

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

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

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

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

CITY OF McCAYSVILLE, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June30, 2017

system of internal control will be enhanced, so that the risk of employee misappropriation of assets is reduced.

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