

**CITY OF ELLIJAY, GEORGIA**  
**ANNUAL FINANCIAL REPORT**  
**For the Year Ended December 31, 2018**

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**PRINCIPAL OFFICERS**

The City operates under the direction of the Mayor and Council with the daily operations carried out by the Mayor. Following is a list of officials:

**MAYOR**  
William A. Hoyle

**COUNCIL MEMBERS:**

Ruth Caudell  
Al Fuller  
Kathryn Lancey  
Lynelle Stewart  
David Westmoreland

**OFFICE PERSONNEL:**

City Clerk – Amy Crump

**CITY ATTORNEY**

Kayann Hayden West  
Attorney at Law

**INDEPENDENT AUDITOR**

Welch, Walker and Associates, P.C., CPA's



CERTIFIED PUBLIC ACCOUNTANTS

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JASPER, GA 30143  
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EAST ELLIJAY, GA 30540  
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**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Ellijay, Georgia, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of Ellijay, Georgia's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Ellijay, Georgia, as of December 31, 2018, 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*

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in Net Pension (Asset) Liability and Related Ratios and the Schedule of Contributions on pages 24 – 25 be presented to supplement the basic financial statements. Such 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. 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 inquiries 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.

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 Ellijay, Georgia's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Projects Constructed with Special Local Option Sales Tax is presented for purposes of additional analysis as required by Official Code of Georgia Annotated 48-4-121, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the Schedule of Projects Constructed with Special Local Option Sales Tax are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the Schedule of Projects Constructed with Special Local Option Sales Tax are 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 June 11, 2019, on our consideration of the City of Ellijay, 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 solely 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 effectiveness of the City of Ellijay, Georgia's 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 Ellijay, Georgia's internal control over financial reporting and compliance.

*Welch, Walker + Associates, P.C., CPAs*

East Ellijay, Georgia  
June 11, 2019

City of Ellijay, Georgia  
Statement of Net Position  
December 31, 2018

	<b>Primary Governmental Activities</b>
<b>Assets</b>	
<b>Current Assets</b>	
Cash	\$ 574,167
Restricted assets	
Cash and cash equivalents	146,761
Receivables	
Property taxes	162,824
Franchise taxes	242,222
Other taxes	6,312
Fines	91,563
Intergovernmental	96,675
Prepaid items	49,160
<b>Total Current Assets</b>	<b>1,369,684</b>
<b>Noncurrent Assets</b>	
Net pension assets	96,881
Capital assets	
Nondepreciable	415,068
Depreciable, net	4,271,228
<b>Total Noncurrent Assets</b>	<b>4,783,177</b>
<b>Total Assets</b>	<b>6,152,861</b>
<b>Deferred Outflows of Resources</b>	
Pension related	57,998
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	19,359
Accrued payroll liabilities	16,433
Accrued interest payable	1,006
Compensated absences payable	17,619
Capital leases payable	24,020
Payable from restricted assets	
Accounts payable	5,376
Bonds held in escrow	5,385
<b>Total Current Liabilities</b>	<b>89,198</b>
<b>Long-Term Liabilities (net of current portion)</b>	
Capital leases payable	24,931
<b>Total Long-Term Liabilities</b>	<b>24,931</b>
<b>Total Liabilities</b>	<b>114,129</b>
<b>Deferred Inflows of Resources</b>	
Pension related	105,442
<b>Total Deferred Inflows of Resources</b>	<b>105,442</b>
<b>Net Position</b>	
Net investment in capital assets	4,637,345
Restricted for	
Capital projects	156,065
Program purposes	
Public safety	7,433
Public works	38,114
Unrestricted	1,152,331
<b>Total Net Position</b>	<b>\$ 5,991,288</b>

See accompanying notes to the basic financial statements.



**City of Ellijay, Georgia**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2018**

	<u>General Fund</u>	<u>SPLOST</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Assets</b>				
Cash	\$ 440,386	\$ 89,819	\$ 190,723	\$ 720,928
Receivables (net)				
Property taxes	162,824	-	-	162,824
Franchise taxes	242,222	-	-	242,222
Other taxes	5,225	-	1,087	6,312
Fines	91,563	-	-	91,563
Intergovernmental				
State	66,016	-	-	66,016
County	8,281	22,378	-	30,659
Interfund	18,903	43,868	5,562	68,333
Prepaid items	49,160	-	-	49,160
<b>Total Assets</b>	<u>\$ 1,084,580</u>	<u>\$ 156,065</u>	<u>\$ 197,372</u>	<u>\$ 1,438,017</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 19,359	\$ -	\$ 5,376	\$ 24,735
Accrued payroll liabilities	16,433	-	-	16,433
Other	-	-	5,385	5,385
Interfund payable	-	-	68,333	68,333
<b>Total Liabilities</b>	<u>35,792</u>	<u>-</u>	<u>79,094</u>	<u>114,886</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue	184,468	-	-	184,468
<b>Fund Balances</b>				
Nonspendable				
Prepaid items	49,160	-	-	49,160
Restricted				
Capital projects	-	156,065	-	156,065
Program purposes				
Public safety	-	-	7,433	7,433
Public works	-	-	38,114	38,114
Committed				
Capital purchases	11,464	-	-	11,464
Public works	-	-	30,241	30,241
Assigned				
Economic development	-	-	35,715	35,715
Public works	-	-	7,108	7,108
Unassigned, reported in				
General fund	803,696	-	-	803,696
Special revenue funds	-	-	(333)	(333)
<b>Total Fund Balances</b>	<u>864,320</u>	<u>156,065</u>	<u>118,278</u>	<u>1,138,663</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 1,084,580</u>	<u>\$ 156,065</u>	<u>\$ 197,372</u>	<u>\$ 1,438,017</u>

See accompanying notes to the basic financial statements.

**City of Ellijay, Georgia**  
**Reconciliation of the Governmental Funds' Balance Sheet**  
**to the Statement of Net Position**  
**December 31, 2018**

<b>Total Governmental Fund Balances</b>	\$	1,138,663
 <b>Amounts reported for governmental activities in the statement of net position are different because:</b>		
 Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		
Cost of capital assets	\$ 8,388,620	
Less accumulated depreciation	<u>(3,702,324)</u>	4,686,296
 Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Property taxes	49,479	
Franchise taxes	19,213	
Fines	65,196	
Licenses and permits	50,580	
Deferred outflows of resources- pension related	<u>57,998</u>	242,466
 Interfund receivables and payables between governmental funds are reported on the governmental fund's balance sheet but eliminated on the government-wide statement of net assets.		
Interfund receivables	\$ 68,333	
Interfund payables	<u>(68,333)</u>	-
 Liabilities not due and payable in the current period are not reported in the governmental fund balance sheets but are reported on the government-wide statement of net position.		
Leases payable	(48,951)	
Compensated absences	(17,619)	
Accrued interest	(1,006)	
Net pension asset (obligation)	96,881	
Deferred inflow of resources- pension related	<u>(105,442)</u>	<u>(76,137)</u>
 <b>Net Position Of Governmental Activities</b>	 <b>\$</b>	 <b><u>5,991,288</u></b>

See accompanying notes to the basic financial statements.

**City of Ellijay, Georgia**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended December 31, 2018**

	<b>General Fund</b>	<b>SPLOST</b>	<b>Nonmajor Governmental Funds</b>	<b>Total</b>
<b>Revenues</b>				
Property taxes	\$ 248,886	\$ -	\$ -	\$ 248,886
Sales taxes	708,531	-	-	708,531
Other taxes	663,750	-	13,682	677,432
Licenses and permits	112,170	-	-	112,170
Intergovernmental	146,703	229,664	170,837	547,204
Charges for services	1,466	-	15,750	17,216
Fines and forfeitures	212,921	-	9,442	222,363
Contributions	-	-	22,000	22,000
Investment earnings	352	128	164	644
Miscellaneous	1,902	-	160	2,062
<b>Total Revenues</b>	<b>2,096,681</b>	<b>229,792</b>	<b>232,035</b>	<b>2,558,508</b>
<b>Expenditures</b>				
<b>Current</b>				
General government	449,533	-	-	449,533
Judicial	97,139	-	59	97,198
Public safety				
Police	614,417	-	120,575	734,992
Fire	297,773	-	-	297,773
Public works	270,835	11,175	38,342	320,352
Culture and recreation	3,308	-	-	3,308
Housing and economic development	-	-	8,617	8,617
<b>Capital Outlay</b>				
Public works	-	58,997	-	58,997
<b>Debt Service</b>				
Principal retirement	59,136	-	-	59,136
Interest and fiscal charges	3,740	-	-	3,740
<b>Total Expenditures</b>	<b>1,795,881</b>	<b>70,172</b>	<b>167,593</b>	<b>2,033,646</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>300,800</b>	<b>159,620</b>	<b>64,442</b>	<b>524,862</b>
<b>Other Financing Sources (Uses)</b>				
Sale of capital assets	2,650	-	-	2,650
Transfers in	13,117	-	-	13,117
Transfers out	-	-	(13,117)	(13,117)
<b>Total Other Financing Sources</b>	<b>15,767</b>	<b>-</b>	<b>(13,117)</b>	<b>2,650</b>
<b>Net Change in Fund Balances</b>	<b>316,567</b>	<b>159,620</b>	<b>51,325</b>	<b>527,512</b>
<b>Fund Balances Beginning of Year</b>	<b>448,800</b>	<b>(8,541)</b>	<b>86,968</b>	<b>527,227</b>
<b>Prior Period Adjustment</b>	<b>98,953</b>	<b>4,986</b>	<b>(20,015)</b>	<b>83,924</b>
<b>Fund Balances End of Year</b>	<b>\$ 864,320</b>	<b>\$ 156,065</b>	<b>\$ 118,278</b>	<b>\$ 1,138,663</b>

See accompanying notes to the basic financial statements.

**City of Ellijay, Georgia**  
**Reconciliation of the Governmental Funds' Statement of Revenues, Expenditures**  
**and Changes in Fund Balances to the Statement of Activities**  
**For the Year Ended December 31, 2018**

<b>Net Changes In Fund Balances - Total Governmental Funds</b>		\$ 527,512
 <b>Amounts reported for governmental activities in the Statement of Activities are different because:</b>		
Governmental funds report capital outlays as expenditures on the governmental fund type operating statement. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period.		
Depreciation expense	\$ (272,942)	
Capital outlay	<u>218,443</u>	(54,499)
 Contributions of capital assets are report in the government-wide statement of activities but not reported at the fund financial reporting level.		
		4,000
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues at the fund financial reporting level.		
Property taxes:		
Deferred at 12/31/17	\$ (27,538)	
Deferred at 12/31/18	<u>49,479</u>	21,941
Franchise taxes:		
Deferred at 12/31/17	\$ (251,710)	
Deferred at 12/31/18	<u>19,213</u>	(232,497)
Business licenses:		
Deferred at 12/31/17	\$ (34,568)	
Deferred at 12/31/18	<u>50,580</u>	16,012
Fines:		
Deferred at 12/31/17	\$ (40,253)	
Deferred at 12/31/18	<u>65,196</u>	24,943
 Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of activities.		
		59,136
 Pension expense represents the change in net pension liability from the beginning of the year to the end of the year on the statement of activities, but is measured by the amount actually paid in the governmental funds. This is the amount by which pension contributions paid in the current period exceeded the change in net pension liability and pension related deferrals		
		47,905
 Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. The change in the current year expenses are as follows:		
Accrued interest		
Liability @ 12/31/17	\$ -	
Liability @ 12/31/18	<u>(1,006)</u>	(1,006)
Compensated absences		
Liability @ 12/31/17	\$ 12,146	
Liability @ 12/31/18	<u>(17,619)</u>	<u>(5,473)</u>
 <b>Change In Net Position of Governmental Activities</b>		 <u><u>\$ 407,974</u></u>

See accompanying notes to the basic financial statements.

**City of Ellijay, Georgia**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances - Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2018**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance With Budget</b>
<b>Revenues</b>				
Property taxes	\$ 287,095	\$ 283,248	\$ 248,886	\$ (34,362)
Sales taxes	620,000	585,801	708,531	122,730
Other taxes	444,786	450,124	663,750	213,626
Licenses and permits	79,700	122,858	112,170	(10,688)
Intergovernmental	118,000	146,526	146,703	177
Charges for services	1,400	2,516	1,466	(1,050)
Fines and forfeitures	201,700	238,664	212,921	(25,743)
Investment earnings	200	340	352	12
Miscellaneous	6,000	1,643	1,902	259
<b>Total Revenues</b>	<b>1,758,881</b>	<b>1,831,720</b>	<b>2,096,681</b>	<b>264,961</b>
<b>Expenditures</b>				
<b>Current</b>				
General government	527,800	476,343	449,533	26,810
Judicial	70,180	106,206	97,139	9,067
Public safety				
Police	744,855	665,757	614,417	51,340
Fire	328,968	289,973	297,773	(7,800)
Public works	148,095	95,291	270,835	(175,544)
Culture and recreation	250	169	3,308	(3,139)
<b>Debt Service</b>				
Principal retirement	-	-	59,136	(59,136)
Interest and fiscal charges	-	-	3,740	(3,740)
<b>Total Expenditures</b>	<b>1,820,148</b>	<b>1,633,739</b>	<b>1,795,881</b>	<b>(162,142)</b>
<b>Excess of Revenues Over Expenditures</b>	<b>(61,267)</b>	<b>197,981</b>	<b>300,800</b>	<b>102,819</b>
<b>Other Financing Sources (Uses)</b>				
Sale of capital assets	-	2,650	2,650	-
Transfers in	-	-	13,117	13,117
Appropriation of fund balance	61,267	(200,631)	-	200,631
<b>Total Other Financing Sources (Uses)</b>	<b>61,267</b>	<b>(197,981)</b>	<b>15,767</b>	<b>213,748</b>
<b>Net Change in Fund Balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>316,567</b>	<b>\$ 316,567</b>
<b>Fund Balances Beginning of Year</b>			448,800	
<b>Prior Period Adjustment</b>			98,953	
<b>Fund Balances End of Year</b>			<b>\$ 864,320</b>	

See accompanying notes to the basic financial statements.

**CITY OF ELLIJAY, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2018**

1. Summary of Accounting Policies

The City of Ellijay, Georgia complies with Generally Accepted Accounting Principles (GAAP). The city's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. Government-wide and Fund Financial Statements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 34 which establishes new financial reporting requirements for state and local governments throughout the United States. Its implementation creates new information and restructures much of the information that governments have presented in the past. The GASB's intent is to make annual reports more comprehensive and easier to understand.

GASB 34 took effect for entities the size of the City of Ellijay during the fiscal year ending December 31, 2004. One of the changes required by GASB 34 is the presentation of current and accumulated depreciation by activity. Another important change is the requirement to present the original adopted budget as well as the final amended budget in the budgetary comparison statements.

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all 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 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 accountable.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect expenses to functions in the statement of activities.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The City's government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present a summary of governmental activities for the City.

These statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Accordingly, all the City's assets and liabilities, including capital assets, as well as current year infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in assets. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services to customers who directly benefit from goods, services or privileges provided by a given function, 2) operating grants and contributions that are restricted to meeting the operational needs requirements of a particular function and 3) capital grants and contributions that are restricted to meeting the capital needs requirements of a particular function.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated.

C. Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. Governmental Fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances

present increases (revenues and other financial sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Those revenues susceptible to accrual are property taxes, sales taxes, licenses, fines, interest revenue and charges for services. Sales taxes collected and held by the state at year end on behalf of the government also are recognized as revenue. A sixty (60) day availability period is used for revenue recognition for all governmental fund revenues.

The City reports the following major governmental funds:

*General Fund* – is the principal fund of the City and is used to account for all activities of the City not otherwise accounted for by a specified fund.

*Special Local Option Sales Tax (SPLOST) Fund* – to account for the collection and disbursement of the renewal of the 1% Special Local Option Sales Tax (SPLOST) needed to fund road projects and acquisition and construction of capital projects.

Additionally, the City reports the following fund types:

*Special Revenue Funds* account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. All nonmajor funds contained in the statements are special revenue funds.

*Capital Projects Funds* account for financial resources to be used for the acquisition of major capital projects which are not financed by the General Fund. The SPLOST fund is a capital projects fund.

D. The Reporting Entity

The financial statements of the City consist only of the funds of the City. In defining the reporting entity for financial reporting purposes and as required by accounting principles generally accepted in the United States of America, management has considered all potential component units. The criteria for including an organization within the City's reporting entity is financial accountability. Financial accountability is defined as appointment of a voting majority of the organization's board and either the ability to impose will by the primary government or the possibility that the organization will provide a financial benefit or impose a financial benefit on the primary government. As a result of applying these criteria, there are no component units included in the financial statements of the City as of December 31, 2018.

E. Budgets

The budgetary data reflected in the financial statements are established and adopted by the City Council and Mayor at the department level. Any change to the original budget for a department must be approved by the Council.

An annual budget is required to be adopted for the general fund and each special revenue fund according to Georgia law. A project-length budget is required for capital projects funds. Annual budgets were adopted for the General Fund, special revenue funds, and capital projects fund. Budgets are 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.

F. Receivables

Property taxes reflected in revenue consist of taxes levied in October 2018, plus collections of any prior year taxes. Those current and prior year property taxes which are collected within sixty days of the fiscal year end are susceptible to accrual and therefore are accrued and reflected in revenue. All other property taxes receivable is deferred in the governmental fund financial statements. An allowance is made for uncollectible taxes at December 31, 2018 in the amount of \$4,303.

Fines receivable consists of adjudicated cases with balances outstanding. No allowance is made for fines receivable since warrants are taken out on uncollected cases and probation cases are rarely written off.

G. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks and similar items), are reported in the applicable governmental activity column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of

\$5,000 or more and an estimated useful life in excess of two years. Infrastructure assets acquired prior to the implementation of GASB 34 have not been capitalized. All purchased capital 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 valued at their estimated fair market value on the date received. The City patched and resurfaced several roads during the current year that are considered general maintenance.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives.

	<u>Useful Life</u>
Building and Improvements	15 – 50 years
Equipment	5 – 20 years
Vehicles	5 – 12 years
Infrastructure	20 – 50 years

H. Employee Benefits

The City’s policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from government service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

Accumulated sick leave lapses when employees leave the employ of the government and, upon separation from service, no monetary obligation exists.

I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond issuance costs are reported as debt service expenditures in governmental funds.

J. 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 unnecessary to assure effective budgetary control or to facilitate effective cash planning and control.

K. Prepays

Payments made to vendors for services that will benefit periods beyond December 31, 2018, are recorded as prepaid items at both reporting levels using the purchases method. Utilizing this method, the City initially records costs as expenditures and reclassifies the prepaid portion of such costs at the end of the year. At the fund reporting level, an equal amount of fund balance offsets the prepaid items as nonspendable. This indicates they do not constitute “available, spendable financial resource even though they are a component of net current assets.

L. Cash

Amounts reported as cash by the City in the accompanying financial statements include cash on hand and on deposit with financial institutions.

M. Fund Balance Policy and Restricted and Unrestricted Resources

The fund balance of governmental funds can be classified into five different categories which are nonspendable, restricted, committed, assigned, and unassigned. Nonspendable fund balance are resources that are not in spendable form or are legally or contractually required to be maintained intact, such as inventory or prepaid assets. Some constraints on the use of resources are externally enforceable, imposed by law or enabling legislation and are classified as restricted. An example includes hotel/motel tax resources. Portions of fund balance can be committed if constraints are formally imposed by the government’s highest level of decision-making authority by no later than the end of the reporting period. The Mayor and Council are required to formally commit fund balance by resolution. Assigned fund balance is a resource earmarked for particular

purposes and can be designated by the Mayor or City Administrator with written authorization. The remaining fund balance not classified in any of the previous categories is labeled unassigned.

Net position on the government-wide statements represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets net of accumulated depreciation and debt, plus any outstanding balances of borrowings not yet expended, but restricted for the acquisition, construction or improvement of those assets. Net position is 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 regulation of other governments. All other net position balances are reported as unrestricted.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted first, then unrestricted resources as they are needed. When an expenditure is incurred for purposes for which amounts in committed, assigned, or unassigned fund balance could be used, it is the government's policy to first use committed and then assigned fund balance if available. Unassigned fund balance would be used for remaining expenditures from unrestricted fund balance.

N. Investments

The City generally limits their investments to certificates of deposit through local financial institutions. However, upon approval by Mayor and Council, any investment authorized by Georgia code would be acceptable. There are no investments held by the City at December 31, 2018.

O. Unearned Revenue and Deferred Outflows/Inflows of Resources

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. On governmental fund financial statements (i.e., on the modified accrual basis), receivables that will not be collected within the available period have been reported as unearned revenue (i.e., they are measurable but not available) rather than as revenue.

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources, if applicable. This element 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.

In addition to liabilities, the statement of net position also reports a separate section for deferred inflows of resources. This element 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. Property taxes, fines and other receivables not collected within sixty days of year-end have been recorded as deferred revenue at the fund reporting level. Imposed nonexchange tax revenue received in advance is also classified as a deferred inflow at the fund and government-wide reporting levels.

The City also has deferred inflows and outflows related to the recording of changes in its net pension liability. Certain changes in the net pension liability are recognized as pension expense over time instead of all being recognized in the year of occurrence. Experience gains or losses result from periodic studies by the City's actuary which adjust the net pension liability for actual experience for certain trend information that was previously assumed, for example the assumed dates of retirement of plan members. These experience gains or losses are recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining service lives of plan members. Changes in actuarial assumptions which adjust the net pension liability are also recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining service lives of plan members. The difference between projected investment return on pension investments and actual return on those investments is also deferred and amortized against pension expense over a five-year period. Additionally, any contributions made by the City to the pension plan before year end but subsequent to the measurement date of the City's net pension liability are reported as deferred outflows of resources.

P. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the City of Ellijay, (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefits are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Q. Use of Estimates

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

2. Cash on Deposit and Investment Risk

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be recovered. State statutes require all deposits to be collateralized by depository insurance, obligations of the United States or certain obligations guaranteed by the U.S. Government, obligations of the State of Georgia or bonds of public or development authorities, counties, or municipalities of the State of Georgia. It is the City's policy that any investment or deposit in excess of the Federal Deposit Insurance Corporation (FDIC) insured amount must be secured by 110% of an equivalent amount of State or U.S. Obligations. Deposits exceeding FDIC limits secured thru the local government investment pool, "Georgia Fund 1," created by O.C.G.A. 36-83-8 or a collateral pool are acceptable securities. The amount of the total bank balance is classified into three categories of credit risk: (1) FDIC insured or collateralized with securities held by the City or its agent in its name; (2) collateralized with securities held by the pledging institution's trust department in the City's name; (3) uncollateralized bank accounts including any bank balance that is collateralized with securities held by the pledging institution's trust department or agent but not in the City's name.

At December 31, 2018 the bank balance of all deposits was \$797,397 and the carrying amount was \$720,928. All deposits were covered by FDIC insurance with deposits exceeding FDIC limits secured thru the Georgia Secure Deposit Program according to Georgia law. Administered by the Georgia Bankers Association Services, Inc. (GBASI) and coordinated by the Office of State Treasurer, the Program came into existence during 2016. Through monthly reporting, GBASI ensures the banks participating in the pool meet Georgia state law regarding collateral levels of 110%. As of December 31, 2018, the amount covered by depository insurance was \$256,315 and the amount with securities held by United Community Bank or by its trust department or agent, but not in the City's name was \$541,082. The collateral to deposit ratio is 110%.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. It is currently the City's policy to not invest in instruments with a variable interest rate.

Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. It is the City's policy to invest in non-negotiable certificates of deposit and money market accounts that are covered by FDIC insurance or pledged collateral.

3. Restricted Assets and Restricted Net Position

Restricted cash is related to the following funds for the stated purposes below:

Bond Escrow Fund	\$ 6,019	Bonds held on behalf of others
Confiscated Assets Fund	806	For public safety expenditures
Technology Fee Fund	6,627	Technology for police department
SPLOST Fund	89,819	For referendum-approved capital projects
Hotel Motel Tax Fund	5,376	Tourism
Multiple Grant Fund	<u>38,114</u>	Unspent grant proceeds
Total restricted cash	<u>\$146,761</u>	

A related portion of net position is restricted in the government-wide Statement of Net Position for the following:

SPLOST Fund	\$156,065	For capital projects
Confiscated Asset Fund	806	For public safety expenditures
Technology Fee Fund	6,627	Technology for police department
Multiple Grant Fund	<u>38,114</u>	Unspent grant proceeds
	<u>\$201,612</u>	

4. Capital Assets – Governmental Activities

Changes in capital assets by major classes for 2018 are as follows:

	Beginning				Ending
	Balance	Restatements	Additions	Disposals	Balance
Land	\$ 415,068	\$ -	\$ -	\$ -	\$ 415,068
Construction in progress	51,092	(51,092)	-	-	-
Total capital assets not depreciated	466,160	(51,092)	-	-	415,068
Capital assets depreciated:					
Infrastructure	2,926,564	87	97,340	-	3,023,991
Buildings	2,550,141	-	-	-	2,550,141
Land improvements	370,467	-	-	-	370,467
Machinery and equipment	658,084	-	99,200	-	757,284
Vehicles	1,222,714	72,095	25,903	49,044	1,271,668
Total capital assets depreciated	7,727,970	72,182	222,443	49,044	7,973,551
Less accumulated depreciation for:					
Infrastructure	943,868	-	134,376	-	1,078,244
Buildings	652,716	-	51,893	-	704,609
Land improvements	205,271	-	10,217	-	215,488
Machinery and equipment	539,028	-	3,685	-	542,713
Vehicles	1,134,555	2,987	72,771	49,044	1,161,269
Total accumulated depreciation	3,475,438	2,987	272,942	49,044	3,702,323
Total capital assets depreciated, net	4,252,532	69,195	(50,499)	-	4,271,228
Governmental activities - capital assets, net	\$4,718,692	\$ 18,103	\$ (50,499)	\$ -	\$ 4,686,296

Depreciation expense for the year ended December 31, 2018, was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government	\$ 14,093
Public safety	111,793
Public works	145,044
Culture and recreation	<u>2,012</u>
Total expense – Governmental Activities	<u>\$272,942</u>

The following represents capital assets purchased with the capital leases in Note 5 and the related accumulated depreciation:

Governmental Activities:	Asset	Accumulated Depreciation	Net Book Value
Police vehicles	\$106,500	\$62,794	\$43,706
Police vehicles	<u>72,095</u>	<u>22,830</u>	<u>49,265</u>
	<u>\$178,595</u>	<u>\$85,624</u>	<u>\$92,971</u>

## 5. Long-term Debt

The City has obtained capital leases for governmental activities. The expense resulting from depreciation of assets recorded under capital leases is included with depreciation expense shown above. Capital leases are as follows:

PNC Equipment Finance, LLC, in the amount of \$106,500 for the purchase of police cruisers and related equipment. Lease matured in July 2018. Annual payment required was \$37,000 at an interest rate of 2.798%. There was no balance outstanding at December 31, 2018.

PNC Equipment Finance, LLC, in the amount of \$72,095 for the purchase of police cruisers and related equipment. Lease matures in June 2020. Annual payment required is \$25,876 at an interest rate of 3.79%. Balance outstanding at December 31, 2018 was \$48,951. The current portion due at year end is \$24,020.

The future principal and interest payments related to the capital leases for the next five years are as follows:

	<u>Principal</u>	<u>Interest</u>
2019	\$24,020	\$1,855
2020	<u>24,931</u>	<u>945</u>
Total	<u>\$48,951</u>	<u>\$2,800</u>

Changes in long-term Debt:

	Beginning Balance (restated)	Additions	Reductions	Ending Balance	Due within One Year
Governmental Activities:					
Capital lease	\$ 108,087	\$ -	\$ 59,136	\$ 48,951	\$ 24,020
Compensated absences	14,291	43,220	39,892	17,619	17,619
Total	<u>\$ 122,378</u>	<u>\$ 43,220</u>	<u>\$ 99,028</u>	<u>\$ 66,570</u>	<u>\$ 41,639</u>

Interest expense included in the Statement of Activities was \$4,746.

Compensated absences are liquidated by the general fund.

6. Operating Leases

The City entered into two leases for the use of multifunction copiers for both the public safety and general government departments in June 2015. The terms of the leases are 60 months, with payments of \$95 for general government and \$105 for public safety per month. Additional taxes and charges for usage over the contract limit apply. At the end of the lease term, the City has the option to purchase the equipment for fair value or return the equipment to Duplicating Product, Inc. Total rental expense for the year was \$2,400 for all departments. The remaining obligation throughout the term lease is as follows:

2019	\$2,400
2020	<u>1,200</u>
Total	<u>\$3,600</u>

7. Material Violation of Finance-Related Legal Provision

Budgetary controls are established by the Mayor and Council through the adoption of annual budgets, with the legal level of control being department level. During fiscal year 2018, an amendment was adopted as shown in the Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual in the basic statements. The following departments materially exceeded appropriations at December 31, 2018:

Public works	\$175,544
Culture and recreation	3,139
Debt service	62,876

Overall, the City collected \$264,961 more in revenues than projected, which mitigates the expenditures in excess of appropriations of \$162,142.

8. Deficit Fund Balance

The Bond Escrow Fund reports a negative fund balance at December 31, 2018 in the amount of \$(333).

9. Property Taxes

The City of Ellijay's property tax calendar for the 2018 levy was as follows:

Lien date	January 2018
Levy date	October 2018
Due date	January 2019
Delinquent date	April 2019

10. Pension Plan

Plan Description

The City has established a non-contributory defined benefit pension plan (The City of Ellijay Retirement Plan), covering all full-time employees who work a minimum of 40 hours per week. Elected officials are not eligible for participation. The City's pension plan is administered through the Georgia Municipal Employee Benefit System (GMEBS), an agent multiple-employer pension plan administered by the Georgia Municipal Association. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Contributions made by the City are commingled with contributions made by other members of GMEBS for investment purposes. The City makes no investments on behalf of the City of Ellijay Retirement Plan. Benefits are provided by the Plan whereby retirees receive a range of 1.00% to 1.75% multiplied by the average of the five highest years of regular earnings multiplied by the total credited years of service. The City established the plan effective August 1, 1972, and

has the governing authority to establish and amend from time to time, the benefits provided and the contribution rates of the City and its employees. Members may retire at 65 years of age with 5 years of service. Early retirement is possible at age 55 with 10 years of service. Employee benefits vest after 5 years of service. Employees do not contribute toward the plan.

The Georgia Municipal Association issues a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained at [www.gmanet.com](http://www.gmanet.com) or by writing to Georgia Municipal Association, Risk Management and Employee Benefit Services, 201 Pryor Street, NW, Atlanta, Georgia 30303 or by calling (404) 688-0472.

*Plan membership.* As of July 1, 2018, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	15
Inactive plan members entitled to but not receiving benefits	16
Active plan members	<u>21</u>
	<u>52</u>

*Contributions.* The Plan is subject to minimum funding standards of the Georgia Public Retirement Systems Standards law. The Board of Trustees of GMEBS has adopted a recommended actuarial funding policy for the plan which meets state minimum requirements and will accumulate sufficient funds to provide the benefits under the plan. The funding policy for the Plan, as adopted by the City, is to contribute an amount equal to or greater than the actuarially recommended contribution rate. This rate is based on the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City contributes an amount equal to the recommended contribution each year. For the year ended December 31, 2018, the City's contribution rate was 4.73% of annual payroll. City contributions to the Plan were \$35,056 for the year ended December 31, 2018.

#### Net Pension Liability of the City

Effective January 1, 2015, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which significantly changed the City's accounting for pension amounts. The information disclosed below is presented in accordance with this new standard.

The City's net pension asset was measured as of March 31, 2018. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2018 with update procedures performed by the actuary to roll forward to the total pension liability measured as of March 31, 2018.

*Actuarial assumptions.* The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	2.75%, plus service-based merit increases
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

Changes were made in assumptions since the last measurement date reported. Inflation decreased from 3.25% to 2.75%, as did salary increases. Investment rate of return decreased from 7.75% to 7.50%. The salary increase rates were reduced by 0.50% for all years of service, consistent with the reduction in the inflation assumption. These changes were based on an actuarial study in September 2017, and effective for the measurement period ending March 31, 2018.

Mortality rates for 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.

The actuarial assumptions used in the July 1, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 to June 30, 2014.

Cost of living adjustments were assumed to be 0%.

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 weighting 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 March 31, 2018 are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
Domestic equity	45%	6.71%
International equity	20%	7.71%
Real estate	10%	5.21%
Global fixed income	5%	3.36%
Domestic fixed income	20%	2.11%
Cash	—%	
Total	100%	

*Discount rate.* The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all of the projected benefit payments to determine the total pension liability.

The discount rate decreased from 7.75% to 7.50% for the measurement period ending March 31, 2018.

*Changes in the Net Pension Liability of the City.* The changes in the components of the net pension liability of the City for the year ended December 31, 2018, were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at March 31, 2017	\$ 724,005	\$ 768,714	\$ (44,709)
Changes for the year:			
Service cost	21,445	-	21,445
Interest	55,031	-	55,031
Difference between expected and actual experience	(22,989)	-	(22,989)
Assumption changes	-	-	-
Contributions - employer	-	35,635	(35,635)
Contributions - employee	-	-	-
Net investment income	-	95,457	(95,457)
Benefit payments, including refunds of employee contributions	(27,849)	(27,849)	-
Administrative expenses	-	(10,456)	10,456
Other changes	14,977	-	14,977
Net changes	40,615	92,787	(52,172)
Balances at March 31, 2018	\$ 764,620	\$ 861,501	\$ (96,881)

The required schedule of changes in the City's net pension liability and related ratios immediately following the notes to the financial statements presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the total pension liability.

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the City, calculated using the discount rate of 7.50 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's net pension liability (asset)	\$ 4,652	\$ (96,881)	\$ (181,630)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of March 31, 2018 and the current sharing pattern of costs between employer and employee.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2018, the City recognized pension expense of \$(12,849). At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (54,186)
Changes of assumptions	11,232	-
Net difference between projected and actual earnings on pension plan investments	20,474	(51,256)
City contributions subsequent measurement date	26,292	-
Total	<u>\$ 57,998</u>	<u>\$ (105,442)</u>

City contributions subsequent to the measurement date of \$26,292 are reported as deferred outflows of resources and will be recognized as an increase of the net pension asset in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:

2019	\$ (21,687)
2020	(19,232)
2021	(25,620)
2022	(7,197)
	<u>\$ (73,736)</u>

11. Commitments and Contingencies

In the opinion of the City Attorney, there are no suits pending on unasserted claims that would result in material liabilities of the City. The City has various agreements and contracts entered into in the normal course of business. Such agreements do not give rise to assets or liabilities considered material.

12. Risk Management

The City is exposed to various risks of losses related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Agency (GIRMA) for property and liability insurance and the Worker's Compensation Self-Insurance Fund (WCSIF), public entity risk pools currently operating as common risk management and insurance programs for member local governments. The Georgia Municipal Association (GMA) administers both risk pools.

As part of these risk pools, the City is obligated to pay all contributions and assessments as prescribed by the pools, to cooperate with the pools' agents and attorneys, to follow loss reduction procedures established by the funds, and to report as promptly as possible, and in accordance with any coverage being required to pay and claim of loss. The City is also to allow investigation, settlement discussions and all levels of litigation arising out of any claim made against the City within the scope of loss protection furnished by the funds.

The funds are to defend and protest the members of the funds against liability or loss as prescribed in the member governments' contracts and in accordance with the workers' compensation laws of Georgia. The funds are to pay all cost taxed against member in the member governments' contracts and in accordance with the workers' compensation laws of Georgia. The funds are to pay all cost taxed against members in any legal proceedings defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

13. Joint Venture

Under Georgia law, the City, in conjunction with other cities and counties in the Northwest Georgia area, is a member of the Northwest Georgia Regional Commission (NWGRC) and is required to pay annual dues thereto. During its year

ended December 31, 2018 the City paid \$1,719 in such dues. Membership in the NWGRC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the NWGRC. Membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of NWGRC. Separate financial statements may be obtained from Northwest Georgia Regional Commission, 1 Jackson Hill Drive, Rome Georgia 30162.

14. Related Organizations

The Housing Authority of the City of Ellijay, Georgia is considered a related organization based upon the criteria in GASB Statement 14. The Housing Authority is a legally separate entity having a board composed of members appointed originally by the City of Ellijay, Georgia. The City of Ellijay is not able to impose its will upon the Housing Authority and a financial benefit/burden relationship does not exist between them. Therefore, based upon the criteria above, the Housing Authority of the City of Ellijay, Georgia is a related organization.

15. Hotel/Motel Tax

The City of Ellijay levies a 5% Hotel/Motel tax in accordance with OCGA 48-13-51. Amounts levied in excess of 3% (40% of the taxes levied) are expended for the purpose of promoting tourism in accordance with OCGA 48-13-50 (a)(3).

Hotel Tax Collections of 5%	\$13,682
Collections in excess of 3%	5,376
Hotel Tax Expenditures	5,376
Percentage Expended	100%

16. Interfund Balances

Balances exist between the following funds in order to transfer cash to the appropriate fund from various transactions, including supplementing capital project costs, providing matching funds for projects, and correction of deposit errors. Repayment of internal balances will occur within one year of the date of the financials.

<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Amount</u>
General Fund	Bond Escrow Fund	\$ 967
General Fund	Hotel Motel Tax Fund	14,793
General Fund	Multiple Grant Fund	23,453
Multiple Grant Fund	General Fund	(9,222)
Technology Fee Fund	General Fund	(312)
SPLOST Fund	General Fund	(5,526)
Cemetery Fund	General Fund	<u>(5,250)</u>
		<u>\$ 18,903</u>
SPLOST Fund	Multiple Grant Fund	\$ 38,342
General Fund	SPLOST Fund	<u>5,526</u>
		<u>\$ 43,868</u>

Net amounts due to other funds from nonmajor funds is \$62,771.

Funds were transferred into General Fund from Technology Fee Fund in the amount of \$4,955 to supplement the purchase of equipment for the police department, as well as a transfer of \$3,833 from the Bond Escrow Fund to transfer excess funds held in the cash account from previous years not associated with bonds held for others. Funds in the amount of \$4,329 were transferred from Hotel/Motel Tax Fund to General Fund for payments to other agencies. Total transfers into the General Fund were \$13,117 for the year ending December 31, 2018.

17. Subsequent Events, Commitments and Contingencies

The City has evaluated subsequent events through June 11, 2019, the date which the financial statements were available to be issued, and found the following items that required disclosure. There were no items noted that required disclosure or modification to the financial statements.

The City routinely enters into agreements and commitments during the ordinary course of business. Such agreements do not give rise to assets or liabilities that are considered to be material at December 31, 2018.

18. Prior Period Restatement

The City has determined that restatements are required to properly reflect the financial activity of prior periods as follows:

	General Fund	SPLOST Fund	Non-major Funds
Fund balance, December 31, 2017	\$ 448,800	\$ (8,541)	\$ 86,968
Cash	18,899	-	108
Prepaid items	33,560	-	-
Accounts payable	(5,913)	4,986	583
Bonds held	40,888	-	10,302
Deferred revenue	20,787	-	-
Interfund balances	(3,548)	-	(31,008)
Segregate Technology Fee Fund	(5,720)	-	-
Net changes required	98,953	4,986	(20,015)
Restated fund balance, December 31, 2017	<u>\$ 547,753</u>	<u>\$ (3,555)</u>	<u>\$ 66,953</u>

	Governmental Activities
Net position, December 31, 2017	\$ 5,476,818
Changes required:	
Cash	19,007
Prepaid items	33,560
Capital assets	16,851
Accounts payable	(343)
Bonds held	51,190
Deferred revenue	20,787
Interfund balances	(34,556)
Net changes required	106,496
Restated net position, December 31, 2017	<u>\$ 5,583,314</u>

**CITY OF ELLIJAY, GEORGIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Ellijay, Georgia**  
**Required Supplementary Information**  
**Georgia Municipal Association Defined Benefit Plan**  
**Schedule of Changes in the Net Pension Liability and Related Ratios**  
**For the year ended December 31, 2018**

	2018	2017	2016	2015
<i>Total pension liability</i>				
Service cost	\$ 21,445	\$ 23,989	\$ 20,631	\$ 19,974
Interest	55,031	54,815	52,585	54,896
Difference between expected and actual experience	(22,989)	(48,746)	(19,247)	(70,900)
Changes of assumptions	14,977	-	-	(3,586)
Changes of benefit terms	-	-	-	-
Benefit payments, including refunds of employee contributions	(27,849)	(26,684)	(23,702)	(36,718)
Net change in total pension liability	40,615	3,374	30,267	(36,334)
Total pension liability- beginning	724,005	720,631	690,364	726,698
Total pension liability- ending (a)	<u>\$ 764,620</u>	<u>\$ 724,005</u>	<u>\$ 720,631</u>	<u>\$ 690,364</u>
<i>Plan fiduciary net position</i>				
Contributions- employer	\$ 35,635	\$ 30,830	\$ 27,638	\$ 27,830
Contributions- employee	-	-	-	-
Net investment income	95,457	86,478	2,162	61,602
Benefit payments- including refund of employee contributions	(27,849)	(26,684)	(23,702)	(36,718)
Administrative expense	(10,456)	(10,608)	(7,532)	(7,045)
Other	-	-	-	-
Net change in fiduciary net position	92,787	80,016	(1,434)	45,669
Plan fiduciary net position- beginning	768,714	688,698	690,132	644,463
Plan fiduciary net position- ending (b)	<u>\$ 861,501</u>	<u>\$ 768,714</u>	<u>\$ 688,698</u>	<u>\$ 690,132</u>
Net pension liability- ending (a-b)	<u>\$ (96,881)</u>	<u>\$ (44,709)</u>	<u>\$ 31,933</u>	<u>\$ 232</u>
Plans fiduciary net position as a percentage of the total pension liability	112.67%	106.18%	95.57%	99.97%
Covered employee payroll	\$ 674,157	\$ 729,126	\$ 821,999	\$ 617,354
Net pension liability as a percentage of covered employee payroll	-14.37%	-6.13%	3.88%	0.04%

**Notes to the Schedule:**

Historical information prior to implementation of GASB 67/68 is not required, but this schedule will present 10 years of information once accumulated.

Changes in assumptions in the valuation report dated July 1, 2018:

Amounts reported for the fiscal year ending in 2018 or later reflect the following assumption changes based on an actuarial study conducted in September 2017:

The investment return assumption was decreased from 7.75% to 7.50%.

The inflation assumption was decreased from 3.25% to 2.75%.

There were no changes in benefit provisions in the last two years.

**City of Ellijay, Georgia**  
**Required Supplementary Information**  
**Georgia Municipal Association Defined Benefit Plan**  
**Schedule of Contributions**  
**For the year ended December 31, 2018**

	2017	2016	2015
Actuarially determined contribution	\$ 35,828 *	\$ 38,223	\$ 29,164
Contributions in relation to the actuarially determined contribution	35,828 *	38,223	29,164
Contribution deficiency (excess)	\$ - *	\$ -	\$ -
Covered employee payroll	\$ 729,126 *	\$ 821,999	\$ 617,354
Contributions as a percentage of covered employee payroll	4.91% *	4.65%	4.72%

\*2018 information will be determined after fiscal year end and will be included in the 2019 valuation report.

**Notes to the Schedule:**

Historical information prior to implementation of GASB 67/68 is not required, but this schedule will present 10 years of information once accumulated.

Valuation date                      The actuarial determined contribution rate was determined as of July 1, 2017, with an interest adjustment to the fiscal year.

*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	N/A
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 the end of the year. The actuarial value is adjusted, if necessary, to be within 20% of market value.
Actuarial assumptions:	
Net investment rate of return	7.75%
Projected salary increase	3.25% plus service based merit increases
Cost of living adjustments	0.00%
Retirement age	Where normal retirement is only available on or after age 65 retirement age is assumed to be 60% at ages 65 to 69 and 100% at age 70
Mortality	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.

*The above information reflects assumptions and methods in use during the valuation dated July 1, 2017, for which the most recent information is reported above. See schedule of assumption changes on previous page that relate to the information as of the July 1, 2018 valuation date.*

**CITY OF ELLIJAY, GEORGIA**  
**SUPPLEMENTARY INFORMATION**

City of Ellijay, Georgia  
*Balance Sheet*  
 Nonmajor Governmental Funds  
 December 31, 2018

	Special Revenue Funds							Total Nonmajor Governmental Funds
	Better Hometown	Bond Escrow	Cemetery	Confiscated Assets	Hotel/Motel Tax	Multiple Grant	Technology Fee	
<b>Assets</b>								
Cash and cash equivalents	\$ 6,622	\$ 6,019	\$ 24,991	\$ 806	\$ 48,175	\$ 97,795	\$ 6,315	\$ 190,723
Receivables (net)								
Other taxes	-	-	-	-	1,087	-	-	1,087
Interfund	-	-	5,250	-	-	-	312	5,562
<b>Total Assets</b>	<b>\$ 6,622</b>	<b>\$ 6,019</b>	<b>\$ 30,241</b>	<b>\$ 806</b>	<b>\$ 49,262</b>	<b>\$ 97,795</b>	<b>\$ 6,627</b>	<b>\$ 197,372</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>								
<b>Liabilities</b>								
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 5,376	\$ -	\$ -	\$ 5,376
Bonds held on behalf of others	-	5,385	-	-	-	-	-	5,385
Interfund payable	-	967	-	-	14,793	52,573	-	68,333
<b>Total Liabilities</b>	<b>-</b>	<b>6,352</b>	<b>-</b>	<b>-</b>	<b>20,169</b>	<b>52,573</b>	<b>-</b>	<b>79,094</b>
<b>Fund Balances</b>								
Restricted								
Program purposes								
Public safety	-	-	-	806	-	-	6,627	7,433
Public works	-	-	-	-	-	38,114	-	38,114
Committed								
Public works			30,241					30,241
Assigned								
Economic development	6,622	-	-	-	29,093	-	-	35,715
Public works	-	-	-	-	-	7,108	-	7,108
Unassigned, reported in								
Special revenue funds	-	(333)	-	-	-	-	-	(333)
<b>Total Fund Balances</b>	<b>6,622</b>	<b>(333)</b>	<b>30,241</b>	<b>806</b>	<b>29,093</b>	<b>45,222</b>	<b>6,627</b>	<b>118,278</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 6,622</b>	<b>\$ 6,019</b>	<b>\$ 30,241</b>	<b>\$ 806</b>	<b>\$ 49,262</b>	<b>\$ 97,795</b>	<b>\$ 6,627</b>	<b>\$ 197,372</b>

City of Ellijay, Georgia  
Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Nonmajor Governmental Funds  
For the year ended December 31, 2018

	Special Revenue Funds							Total Nonmajor Governmental Funds
	Better Hometown	Bond Escrow	Cemetery	Confiscated Assets	Hotel/Motel Tax	Multiple Grant	Technology Fee	
<b>Revenues</b>								
Hotel/motel taxes	\$ -	\$ -	\$ -	\$ -	\$ 13,682	\$ -	\$ -	\$ 13,682
Intergovernmental	-	-	-	-	-	170,837	-	170,837
Charges for services	-	-	15,750	-	-	-	-	15,750
Fines and forfeitures	-	-	-	3,714	-	-	5,728	9,442
Contributions	-	-	-	-	-	22,000	-	22,000
Investment earnings	9	21	17	-	40	77	-	164
Miscellaneous	160	-	-	-	-	-	-	160
<b>Total Revenues</b>	<u>169</u>	<u>21</u>	<u>15,767</u>	<u>3,714</u>	<u>13,722</u>	<u>192,914</u>	<u>5,728</u>	<u>232,035</u>
<b>Expenditures</b>								
<b>Current</b>								
Judicial	-	59	-	-	-	-	-	59
Public safety	-	-	-	2,961	-	116,380	1,234	120,575
Public works	-	-	-	-	-	38,342	-	38,342
Housing and economic development	3,241	-	-	-	5,376	-	-	8,617
<b>Total Expenditures</b>	<u>3,241</u>	<u>59</u>	<u>-</u>	<u>2,961</u>	<u>5,376</u>	<u>154,722</u>	<u>1,234</u>	<u>167,593</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(3,072)</u>	<u>(38)</u>	<u>15,767</u>	<u>753</u>	<u>8,346</u>	<u>38,192</u>	<u>4,494</u>	<u>64,442</u>
<b>Other Financing Sources (Uses)</b>								
Transfers out	-	(3,833)	-	-	(4,329)	-	(4,955)	(13,117)
<b>Total Other Financing Sources</b>	<u>-</u>	<u>(3,833)</u>	<u>-</u>	<u>-</u>	<u>(4,329)</u>	<u>-</u>	<u>(4,955)</u>	<u>(13,117)</u>
<b>Net Change in Fund Balances</b>	<u>(3,072)</u>	<u>(3,871)</u>	<u>15,767</u>	<u>753</u>	<u>4,017</u>	<u>38,192</u>	<u>(461)</u>	<u>51,325</u>
<b>Fund Balances Beginning of Year</b>	9,111	(6,764)	17,366	53	22,076	45,126	-	86,968
<b>Prior Period Adjustment</b>	583	10,302	(2,892)	-	3,000	(38,096)	7,088	(20,015)
<b>Fund Balances (Deficits) End of Year</b>	<u>\$ 6,622</u>	<u>\$ (333)</u>	<u>\$ 30,241</u>	<u>\$ 806</u>	<u>\$ 29,093</u>	<u>\$ 45,222</u>	<u>\$ 6,627</u>	<u>\$ 118,278</u>

**City of Ellijay, Georgia**  
*Schedule for Projects Constructed with  
Special Purpose Local Option Sales Tax  
For the year ended December 31, 2018*

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<u>Project</u>	<u>Referendum Authorized Amount</u>	<u>Original Estimated Cost</u>	<u>Prior Years' Expenditures</u>	<u>Current Year Expenditures</u>	<u>Cumulative Total</u>	<u>Estimated Percentage of Completion</u>
<b>2014 SPLOST</b>						
Road, street and bridge purposes, which may include sidewalks, bicycle paths, parks, recreation equipment, and capital outlay.	<u>\$ 1,287,000</u>	<u>\$ 1,287,000</u>	<u>\$ 1,022,779</u>	<u>\$ 70,172</u>	<u>\$ 1,092,951</u>	85%

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

**CITY OF ELLIJAY, GEORGIA**  
**INTERNAL CONTROL AND COMPLIANCE SECTION**



## CERTIFIED PUBLIC ACCOUNTANTS

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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 Ellijay, 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, each major fund, and the aggregate remaining fund information of the City of Ellijay, Georgia, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of Ellijay, Georgia's basic financial statements and have issued our report thereon dated June 11, 2019.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Ellijay, 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 Ellijay, Georgia's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Ellijay, 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify 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 as items 2018-001 and 2018-002 to be material weaknesses.

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 deficiency described in the accompany schedule of findings and responses as item 2018-003 to be a significant deficiency.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Ellijay, 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 material instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City of Ellijay, Georgia's Response to Findings**

City of Ellijay, Georgia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Ellijay, 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  
East Ellijay, Georgia  
June 11, 2019

**CITY OF ELLIJAY, GEORGIA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**December 31, 2018**

**Material Weaknesses:**

2018-001 – Material Adjustments to Financial Statements

Criteria: The City is responsible for preparing annual financial statements in accordance with generally accepted accounting principles (GAAP).

Condition/Context: Material adjustments to all account classes were required to prevent the financial statements from being materially misstated. This resulted in inaccurate information from which management was operating and making financial decisions.

Cause: Activity in the subledgers were not regularly reconciled to the general ledger in order to correct errors or misstatements.

Effect: As a result of the misstatement, all account classes were misstated.

Recommendation: Activity in the subledgers and software modules should be reconciled to the general ledger monthly so that errors in financial information can be prevented or corrected in a timely manner.

Response: The City agrees with this finding and will continue their efforts for accurate financial reporting in the future.

2018-002 – Prior Period Restatement of Net Position and Fund Balance

Criteria: Audited financial statements should be presented in a manner in which amounts reported are fairly stated in all material respects for the financial activity of the year represented.

Condition/Context: Material error were noted in the beginning balances for assets, liabilities and fund equity for General Fund, SPLOST Fund, and most nonmajor funds. These account classes were not accurate based on supporting documentation for balances at December 31, 2017. Because these errors affected the reported balances on December 31, 2018, restatement of amounts reported for the prior period was required.

Cause: Balances for the year ended December 31, 2017 were materially incorrectly stated for General Fund, SPLOST Fund, and most nonmajor funds.

Effect: Fund balance for major funds and nonmajor funds was restated in the following amounts: General Fund, \$98,953; SPLOST Fund, \$4,986; nonmajor funds, \$20,015. Net position for governmental activities in the government-wide statements was restated in the amount of \$106,496.

Recommendation: Care should be taken to ensure that amounts reported in the financial statements are fairly stated in all material respects to the best of the City's knowledge.

Response: The City agrees with this finding and will continue their efforts for accurate financial reporting in the future.

**Significant Deficiencies:**

2018-003: 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 the segregation of duties involving cash receipts, cash disbursements, general ledger and bank reconciliation.

**CITY OF ELLIJAY, GEORGIA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**December 31, 2018**

Condition/Context: During the course of the audit, we noted many critical duties are combined and given to the available employees.

Cause: The limited number of employees working in the office and the resulting overlapping of duties causes segregation of duties to be difficult.

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 different employees performed the separate duties of processing cash receipts and cash disbursements and maintaining the general ledger. In situations where additional personnel are not available, an effort should be made to divide the duties of the available personnel in such a manner as to achieve the greatest possible segregation of duties. Increased Council involvement in the City's finances is also encouraged to strengthen internal controls. When these suggestions are implemented the City's system of internal control will be enhanced, so that the risk of employee misappropriation of assets is reduced.

Response: The lack of segregation of duties is a recurring item as the limited number of employees makes segregation of duties difficult to accomplish. Management plans to continue close involvement with the City's finances to aid in this matter.