

CITY OF CEDARTOWN, GEORGIA

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2015**

**Prepared by:
Finance Department**

**Submitted by:
Bill Fann
City Manager**

CITY OF CEDARTOWN, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2015

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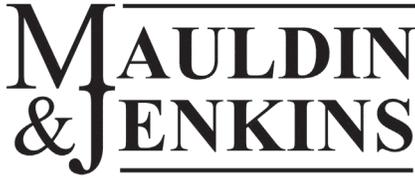
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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

**The Members of the City Commission
City of Cedartown, Georgia**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Cedartown, Georgia** (the "City"), as of and for the year ended December 31, 2015, 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 activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cedartown, Georgia as of December 31, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparison information for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 9, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, as well as Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, as of January 1, 2015. These standards significantly changed the accounting for the City's net pension liability and the related disclosures. Our opinions are not modified with respect to this matter.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the schedule of changes in the City's net pension liability and related ratios on page 49, the schedule of city contributions on page 50, and the schedule of funding progress on page 51 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 the 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 GASB 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 Cedartown, Georgia's basic financial statements. The combining and individual fund financial statements and schedules and the other supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules and the other supplementary information 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 combining and individual fund financial statements and schedules and the other supplementary information, as listed in the table of contents, 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 June 8, 2016 on our consideration of the City of Cedartown, 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's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Atlanta, Georgia
June 8, 2016

CITY OF CEDARTOWN, GEORGIA

**STATEMENT OF NET POSITION
DECEMBER 31, 2015**

| | Primary Government | | | Component Units | | |
|---|----------------------|----------------------|----------------------|------------------|------------------|------------------|
| | Governmental | Business-type | Total | Cedartown | Downtown | Downtown |
| | Activities | Activities | | Civic Arts | Cedartown | Development |
| | | | Commission | Association | Authority | |
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 1,338,216 | \$ 1,700,335 | \$ 3,038,551 | \$ 41,562 | \$ 11,869 | \$ 1,014 |
| Accounts receivable, net of allowances | 700,146 | 455,441 | 1,155,587 | - | 3,850 | 155,658 |
| Taxes receivable, net of allowances | 411,801 | - | 411,801 | - | - | - |
| Due from other governments | 249,119 | 310,000 | 559,119 | - | - | - |
| Investments | - | - | - | - | 25,075 | - |
| Internal balances | 1,448,199 | (1,448,199) | - | - | - | - |
| Inventory | - | 13,184 | 13,184 | - | 4,280 | - |
| Prepaid items | 304,408 | 53,071 | 357,479 | - | 149 | - |
| Restricted cash | 733,451 | 1,405,142 | 2,138,593 | - | - | - |
| Capital assets: | | | | | | |
| Nondepreciable | 8,482,698 | 1,365,005 | 9,847,703 | - | - | 4,846 |
| Depreciable, net of accumulated depreciation | 11,617,806 | 16,689,563 | 28,307,369 | - | 7,912 | 29,824 |
| Other assets | - | 4,960,000 | 4,960,000 | - | - | - |
| Total assets | 25,285,844 | 25,503,542 | 50,789,386 | 41,562 | 53,135 | 191,342 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | |
| Pension related items | 1,140,041 | 217,537 | 1,357,578 | - | - | - |
| LIABILITIES | | | | | | |
| Accounts payable | 86,661 | 78,397 | 165,058 | - | 2,587 | - |
| Accrued liabilities | 170,230 | 147,455 | 317,685 | - | - | - |
| Unearned revenue | 77,208 | - | 77,208 | - | - | - |
| Customer deposits | - | 165,558 | 165,558 | - | - | - |
| Compensated absences due within one year | 226,864 | 50,506 | 277,370 | - | - | - |
| Capital leases due within one year | 145,402 | 51,189 | 196,591 | - | - | - |
| Capital leases due in more than one year | 665,918 | 54,281 | 720,199 | - | - | - |
| Notes payable due within one year | - | 120,726 | 120,726 | - | - | 9,785 |
| Notes payable due in more than one year | - | 998,504 | 998,504 | - | - | 145,873 |
| Revenue bonds payable due within one year | 270,000 | 295,000 | 565,000 | - | - | - |
| Revenue bonds payable due in more than one year | 1,735,000 | 7,872,589 | 9,607,589 | - | - | - |
| Net pension liability due in more than one year | 4,319,933 | 824,308 | 5,144,241 | - | - | - |
| Net OPEB obligation due in more than one year | 763,460 | 145,420 | 908,880 | - | - | - |
| Total liabilities | 8,460,676 | 10,803,933 | 19,264,609 | - | 2,587 | 155,658 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Pension related items | 501,834 | 95,758 | 597,592 | - | - | - |
| NET POSITION | | | | | | |
| Net investment in capital assets | 17,284,184 | 8,662,279 | 25,946,463 | - | 7,912 | 34,670 |
| Restricted for One Door Polk | 481,268 | - | 481,268 | - | - | - |
| Restricted for law enforcement activities | 27,694 | - | 27,694 | - | - | - |
| Restricted for promotion of tourism | 80,327 | - | 80,327 | - | - | - |
| Restricted for debt service | 268,380 | 1,282,611 | 1,550,991 | - | - | - |
| Restricted for capital projects | 1,187,590 | - | 1,187,590 | - | - | - |
| Unrestricted | (1,866,068) | 4,876,498 | 3,010,430 | 41,562 | 42,636 | 1,014 |
| Total net position | \$ 17,463,375 | \$ 14,821,388 | \$ 32,284,763 | \$ 41,562 | \$ 50,548 | \$ 35,684 |

The accompanying notes are an integral part of these financial statements.

CITY OF CEDARTOWN, GEORGIA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | |
|---|----------------------|-----------------------------|---|---|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 1,611,263 | \$ 100,151 | \$ - | \$ 300,000 |
| Judicial | 60,587 | - | - | - |
| Public safety | 3,851,151 | 412,005 | - | 367,777 |
| Public works | 1,331,920 | 31,980 | - | 793,425 |
| Health and welfare | 71,012 | 1,338 | 48,362 | - |
| Culture and recreation | 697,356 | 18,367 | 57,022 | 491,778 |
| Housing and development | 161,865 | 42,982 | 518,911 | 3,360,899 |
| Interest on long-term debt | 97,391 | - | - | - |
| Total governmental activities | <u>7,882,545</u> | <u>606,823</u> | <u>624,295</u> | <u>5,313,879</u> |
| Business-type activities: | | | | |
| Water and sewer | 2,541,548 | 2,622,347 | - | - |
| Solid waste | 589,605 | 1,019,331 | - | - |
| Total business-type activities | <u>3,131,153</u> | <u>3,641,678</u> | <u>-</u> | <u>-</u> |
| Total primary government | <u>\$ 11,013,698</u> | <u>\$ 4,248,501</u> | <u>\$ 624,295</u> | <u>\$ 5,313,879</u> |
| Component Units: | | | | |
| Cedartown Civic Arts Commission | \$ 84,299 | \$ 36,554 | \$ 26,824 | \$ - |
| Downtown Cedartown Association | 19,852 | 14,324 | - | - |
| Downtown Development Authority | 5,461 | - | - | - |
| | <u>\$ 109,612</u> | <u>\$ 50,878</u> | <u>\$ 26,824</u> | <u>\$ -</u> |
| General revenues: | | | | |
| Property taxes | | | | |
| Sales taxes | | | | |
| Hotel / Motel taxes | | | | |
| Franchise taxes | | | | |
| Business taxes | | | | |
| Alcohol & excise taxes | | | | |
| Insurance premium taxes | | | | |
| Unrestricted investment earnings | | | | |
| Miscellaneous revenues | | | | |
| Transfers | | | | |
| Total general revenues and transfers | | | | |
| Change in net position | | | | |
| Net position, beginning of year, restated | | | | |
| Net position, end of year | | | | |

The accompanying notes are an integral part of these financial statements.

| Net (Expenses) Revenues and Changes in Net Position | | | | | | |
|--|-----------------------------|----------------------|---------------------------------------|--------------------------------------|--------------------------------------|--|
| Primary Government | | | Component Units | | | |
| Governmental Activities | Business-Type Activities | Total | Cedartown Civic Arts Commission | Downtown Cedartown Association | Downtown Development Authority | |
| \$ (1,211,112) | \$ - | \$ (1,211,112) | \$ - | \$ - | \$ - | |
| (60,587) | - | (60,587) | - | - | - | |
| (3,071,369) | - | (3,071,369) | - | - | - | |
| (506,515) | - | (506,515) | - | - | - | |
| (21,312) | - | (21,312) | - | - | - | |
| (130,189) | - | (130,189) | - | - | - | |
| 3,760,927 | - | 3,760,927 | - | - | - | |
| (97,391) | - | (97,391) | - | - | - | |
| <u>(1,337,548)</u> | <u>-</u> | <u>(1,337,548)</u> | <u>-</u> | <u>-</u> | <u>-</u> | |
| - | 80,799 | 80,799 | - | - | - | |
| - | 429,726 | 429,726 | - | - | - | |
| - | 510,525 | 510,525 | - | - | - | |
| <u>(1,337,548)</u> | <u>510,525</u> | <u>(827,023)</u> | <u>-</u> | <u>-</u> | <u>-</u> | |
| - | - | - | (20,921) | - | - | |
| - | - | - | - | (5,528) | - | |
| - | - | - | - | - | (5,461) | |
| - | - | - | <u>(20,921)</u> | <u>(5,528)</u> | <u>(5,461)</u> | |
| 2,362,625 | - | 2,362,625 | - | - | - | |
| 1,288,182 | - | 1,288,182 | - | - | - | |
| 52,789 | - | 52,789 | - | - | - | |
| 786,229 | - | 786,229 | - | - | - | |
| 11,228 | - | 11,228 | - | - | - | |
| 283,893 | - | 283,893 | - | - | - | |
| 561,684 | - | 561,684 | - | - | - | |
| 404 | 122 | 526 | 15 | - | 2,147 | |
| 247,531 | - | 247,531 | 13,155 | - | 2,250 | |
| 1,336,167 | (1,336,167) | - | - | - | - | |
| <u>6,930,732</u> | <u>(1,336,045)</u> | <u>5,594,687</u> | <u>13,170</u> | <u>-</u> | <u>4,397</u> | |
| 5,593,184 | (825,520) | 4,767,664 | (7,751) | (5,528) | (1,064) | |
| 11,870,191 | 15,646,908 | 27,517,099 | 49,313 | 56,076 | 36,748 | |
| <u>\$ 17,463,375</u> | <u>\$ 14,821,388</u> | <u>\$ 32,284,763</u> | <u>\$ 41,562</u> | <u>\$ 50,548</u> | <u>\$ 35,684</u> | |

CITY OF CEDARTOWN, GEORGIA

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

| ASSETS | General Fund | 2014 SPLOST Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|-------------------------|-----------------------------|--|---|
| Cash and cash equivalents | \$ 119,852 | \$ 329,213 | \$ 889,151 | \$ 1,338,216 |
| Accounts receivable, net of allowances | 700,146 | - | - | 700,146 |
| Taxes receivable, net of allowances | 404,621 | - | 7,180 | 411,801 |
| Intergovernmental receivable | 53,995 | 195,124 | - | 249,119 |
| Due from other funds | 1,448,199 | - | - | 1,448,199 |
| Prepaid items | 304,408 | - | - | 304,408 |
| Restricted assets: | | | | |
| Cash and cash equivalents | 733,451 | - | - | 733,451 |
| Total assets | \$ 3,764,672 | \$ 524,337 | \$ 896,331 | \$ 5,185,340 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 53,211 | \$ 33,450 | \$ - | \$ 86,661 |
| Accrued liabilities | 117,932 | - | - | 117,932 |
| Unearned revenue | 77,208 | - | - | 77,208 |
| Total liabilities | 248,351 | 33,450 | - | 281,801 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue - property taxes | 229,950 | - | - | 229,950 |
| Unavailable revenue - intergovernmental | 5,892 | - | - | 5,892 |
| Total deferred inflows of resources | 235,842 | - | - | 235,842 |
| FUND BALANCES | | | | |
| Nonspendable: | | | | |
| Prepaid items | 304,408 | - | - | 304,408 |
| Restricted: | | | | |
| One Door Polk | 481,268 | - | - | 481,268 |
| Law enforcement activities | - | - | 27,694 | 27,694 |
| Promotion of tourism | - | - | 80,327 | 80,327 |
| Debt service | - | - | 296,200 | 296,200 |
| Capital projects | 204,593 | 490,887 | 492,110 | 1,187,590 |
| Unassigned | 2,290,210 | - | - | 2,290,210 |
| Total fund balances | 3,280,479 | 490,887 | 896,331 | 4,667,697 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 3,764,672 | \$ 524,337 | \$ 896,331 | |

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 in the funds. | 20,100,504 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. | (3,858,942) |
| The deferred outflows of resources, deferred inflows of resources, and the net pension liability related to the City's pension plan are not expected to be liquidated with expendable available financial resources and, therefore, are not reported in the funds. | (3,681,726) |
| Some revenues are not available in the current period and, therefore, are not reported in the funds. | 235,842 |
| Net position of governmental activities | \$ 17,463,375 |

The accompanying notes are an integral part of these statements.

CITY OF CEDARTOWN, GEORGIA

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>General Fund</u> | <u>2014 SPLOST Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|-----------------------------|--|---|
| Revenues: | | | | |
| Property taxes | \$ 2,403,736 | \$ - | \$ - | \$ 2,403,736 |
| Sales taxes | 1,288,182 | - | - | 1,288,182 |
| Hotel / Motel taxes | - | - | 52,789 | 52,789 |
| Franchise taxes | 786,229 | - | - | 786,229 |
| Alcohol excise taxes | 283,893 | - | - | 283,893 |
| Business taxes | 11,228 | - | - | 11,228 |
| Insurance premium taxes | 561,684 | - | - | 561,684 |
| Licenses and permits | 127,927 | - | - | 127,927 |
| Intergovernmental | 415,288 | 1,103,332 | 89,493 | 1,608,113 |
| Charges for services | 243,079 | - | - | 243,079 |
| Fines and forfeitures | 228,828 | - | 6,989 | 235,817 |
| Contributions | 963,270 | - | - | 963,270 |
| Interest earned | 364 | - | 40 | 404 |
| Miscellaneous | 240,031 | - | 7,500 | 247,531 |
| Total revenues | <u>7,553,739</u> | <u>1,103,332</u> | <u>156,811</u> | <u>8,813,882</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 1,772,142 | 20,357 | 1,129 | 1,793,628 |
| Judicial | 60,587 | - | - | 60,587 |
| Public safety | 3,799,592 | 19,054 | 9,589 | 3,828,235 |
| Public works | 1,101,274 | 14,140 | - | 1,115,414 |
| Health and welfare | 70,875 | - | - | 70,875 |
| Culture and recreation | 823,852 | 15,405 | - | 839,257 |
| Housing and development | 164,184 | - | - | 164,184 |
| Capital outlay | - | 307,777 | - | 307,777 |
| Debt service: | | | | |
| Principal | - | 142,173 | 260,000 | 402,173 |
| Interest | - | 28,306 | 71,219 | 99,525 |
| Total expenditures | <u>7,792,506</u> | <u>547,212</u> | <u>341,937</u> | <u>8,681,655</u> |
| Excess (deficiency) of revenues over expenditures | (238,767) | 556,120 | (185,126) | 132,227 |
| Other financing sources (uses): | | | | |
| Proceeds from the sale of capital assets | 3,050 | - | - | 3,050 |
| Capital leases | - | 163,800 | - | 163,800 |
| Transfers in | 1,674,697 | - | 364,719 | 2,039,416 |
| Transfers out | - | (633,278) | (40,000) | (673,278) |
| Total other financing sources (uses) | <u>1,677,747</u> | <u>(469,478)</u> | <u>324,719</u> | <u>1,532,988</u> |
| Net change in fund balances | 1,438,980 | 86,642 | 139,593 | 1,665,215 |
| Fund balances, beginning of year | <u>1,841,499</u> | <u>404,245</u> | <u>756,738</u> | <u>3,002,482</u> |
| Fund balances, end of year | <u>\$ 3,280,479</u> | <u>\$ 490,887</u> | <u>\$ 896,331</u> | <u>\$ 4,667,697</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF CEDARTOWN, GEORGIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2015

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

| | |
|--|---------------------|
| Net change in fund balances - total governmental funds | \$ 1,665,215 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period. | 316,774 |
| The net effect of various miscellaneous transactions involving capital assets (i.e., donations and disposals) is to increase net position. | 3,356,617 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (35,219) |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt. | 238,373 |
| 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. | 81,395 |
| Internal service funds are used by management to charge the costs of employee insurance plans to individual funds. The net expense of the internal service funds is reported with governmental activities. | (29,971) |
| Change in net position - governmental activities | <u>\$ 5,593,184</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF CEDARTOWN, GEORGIA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | Budget | | Actual | Variance With Final Budget |
|----------------------------|------------------|------------------|------------------|-------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| Property taxes | \$ 2,304,800 | \$ 2,304,800 | \$ 2,403,736 | \$ 98,936 |
| Sales taxes | 1,360,000 | 1,360,000 | 1,288,182 | (71,818) |
| Franchise taxes | 716,000 | 716,000 | 786,229 | 70,229 |
| Alcohol excise taxes | 237,000 | 237,000 | 283,893 | 46,893 |
| Business taxes | 14,500 | 14,500 | 11,228 | (3,272) |
| Insurance premium taxes | 525,000 | 525,000 | 561,684 | 36,684 |
| Licenses and permits | 169,450 | 169,450 | 127,927 | (41,523) |
| Intergovernmental | 310,912 | 310,912 | 415,288 | 104,376 |
| Charges for services | 180,350 | 180,350 | 243,079 | 62,729 |
| Fines and forfeitures | 251,250 | 251,250 | 228,828 | (22,422) |
| Contributions | 113,250 | 113,250 | 963,270 | 850,020 |
| Interest earned | - | - | 364 | 364 |
| Miscellaneous | 607,195 | 607,195 | 240,031 | (367,164) |
| Total revenues | <u>6,789,707</u> | <u>6,789,707</u> | <u>7,553,739</u> | <u>764,032</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government: | | | | |
| City commission | 205,315 | 205,315 | 214,007 | (8,692) |
| City manager | 120,605 | 120,605 | 107,568 | 13,037 |
| General administration | 591,610 | 591,610 | 549,489 | 42,121 |
| Finance | 288,435 | 288,435 | 279,761 | 8,674 |
| Buildings and plant | 254,195 | 254,195 | 621,317 | (367,122) |
| Total general government | <u>1,460,160</u> | <u>1,460,160</u> | <u>1,772,142</u> | <u>(311,982)</u> |
| Judicial: | | | | |
| Municipal court | <u>37,900</u> | <u>37,900</u> | <u>60,587</u> | <u>(22,687)</u> |
| Public safety: | | | | |
| Police | 2,519,435 | 2,519,435 | 2,495,342 | 24,093 |
| Fire | 1,325,613 | 1,325,613 | 1,304,250 | 21,363 |
| Total public safety | <u>3,845,048</u> | <u>3,845,048</u> | <u>3,799,592</u> | <u>45,456</u> |
| Public works: | | | | |
| Highways and streets | 973,252 | 973,252 | 896,677 | 76,575 |
| Cemetery | 231,475 | 231,475 | 204,597 | 26,878 |
| Total public works | <u>1,204,727</u> | <u>1,204,727</u> | <u>1,101,274</u> | <u>103,453</u> |
| Health and welfare: | | | | |
| Transportation | <u>75,740</u> | <u>75,740</u> | <u>70,875</u> | <u>4,865</u> |

Continued

CITY OF CEDARTOWN, GEORGIA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | Budget | | Actual | Variance With Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Culture and recreation: | | | | |
| Parks and recreation | \$ 432,530 | \$ 432,530 | \$ 646,166 | \$ (213,636) |
| Library | 85,850 | 85,850 | 87,149 | (1,299) |
| Auditorium | 90,450 | 90,450 | 90,537 | (87) |
| Total culture and recreation | <u>608,830</u> | <u>608,830</u> | <u>823,852</u> | <u>(215,022)</u> |
| Housing and development: | | | | |
| Code enforcement | 79,060 | 79,060 | 74,736 | 4,324 |
| Downtown development | 87,581 | 87,581 | 89,448 | (1,867) |
| Total housing and development | <u>166,641</u> | <u>166,641</u> | <u>164,184</u> | <u>2,457</u> |
| Total expenditures | <u>7,399,046</u> | <u>7,399,046</u> | <u>7,792,506</u> | <u>(393,460)</u> |
| Deficiency of revenues over expenditures | (609,339) | (609,339) | (238,767) | 370,572 |
| Other financing sources: | | | | |
| Proceeds from the sale of capital assets | 8,000 | 8,000 | 3,050 | (4,950) |
| Transfers in | 816,000 | 816,000 | 1,674,697 | 858,697 |
| Total other financing sources | <u>824,000</u> | <u>824,000</u> | <u>1,677,747</u> | <u>853,747</u> |
| Net change in fund balance | 214,661 | 214,661 | 1,438,980 | 1,224,319 |
| Fund balance, beginning of year | <u>1,841,499</u> | <u>1,841,499</u> | <u>1,841,499</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 2,056,160</u> | <u>\$ 2,056,160</u> | <u>\$ 3,280,479</u> | <u>\$ 1,224,319</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF CEDARTOWN, GEORGIA

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015**

| ASSETS | Business-type Activities - Enterprise Funds | | | Governmental |
|---|---|----------------|----------------------|------------------|
| | Water and Sewer | Solid Waste | Total Enterprise | Activities |
| | Fund | Fund | Funds | Internal Service |
| | | | | Fund |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | \$ 1,700,335 | \$ - | \$ 1,700,335 | \$ - |
| Accounts receivable, net of allowances | 319,100 | 136,341 | 455,441 | - |
| Intergovernmental receivable, current portion | 310,000 | - | 310,000 | - |
| Inventory | 13,184 | - | 13,184 | - |
| Prepaid items | 53,071 | - | 53,071 | - |
| Restricted cash and cash equivalents | 1,405,142 | - | 1,405,142 | - |
| Total current assets | <u>3,800,832</u> | <u>136,341</u> | <u>3,937,173</u> | <u>-</u> |
| NONCURRENT ASSETS | | | | |
| Capital assets: | | | | |
| Nondepreciable capital assets | 1,365,005 | - | 1,365,005 | - |
| Depreciable capital assets, net of accumulated depreciation | 16,689,563 | - | 16,689,563 | - |
| Total capital assets, net of accumulated depreciation | <u>18,054,568</u> | <u>-</u> | <u>18,054,568</u> | <u>-</u> |
| Other assets: | | | | |
| Intergovernmental receivable, long-term portion | 4,960,000 | - | 4,960,000 | - |
| Total non-current assets | <u>23,014,568</u> | <u>-</u> | <u>23,014,568</u> | <u>-</u> |
| Total assets | <u>26,815,400</u> | <u>136,341</u> | <u>26,951,741</u> | <u>-</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Pension related items | 217,537 | - | 217,537 | - |
| LIABILITIES | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable | 27,955 | 50,442 | 78,397 | - |
| Accrued expenses | 24,924 | - | 24,924 | - |
| Accrued interest, payable from restricted assets | 122,531 | - | 122,531 | - |
| Due to other funds | 1,362,300 | 85,899 | 1,448,199 | - |
| Compensated absences | 50,506 | - | 50,506 | - |
| Customer deposits | 165,558 | - | 165,558 | - |
| Capital leases, due within one year | 51,189 | - | 51,189 | - |
| Notes payable, due within one year | 120,726 | - | 120,726 | - |
| Revenue bonds payable, due within one year | 295,000 | - | 295,000 | - |
| Total current liabilities | <u>2,220,689</u> | <u>136,341</u> | <u>2,357,030</u> | <u>-</u> |
| NON-CURRENT LIABILITIES | | | | |
| Capital leases, due in more than one year | 54,281 | - | 54,281 | - |
| Notes payable, due in more than one year | 998,504 | - | 998,504 | - |
| Revenue bonds payable, due in more than one year | 7,872,589 | - | 7,872,589 | - |
| Net pension liability | 824,308 | - | 824,308 | - |
| Net OPEB obligation | 145,420 | - | 145,420 | - |
| Total non-current liabilities | <u>9,895,102</u> | <u>-</u> | <u>9,895,102</u> | <u>-</u> |
| Total liabilities | <u>12,115,791</u> | <u>136,341</u> | <u>12,252,132</u> | <u>-</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Pension related items | 95,758 | - | 95,758 | - |
| NET POSITION | | | | |
| Net investment in capital assets | 8,662,279 | - | 8,662,279 | - |
| Restricted for debt service | 1,282,611 | - | 1,282,611 | - |
| Unrestricted | 4,876,498 | - | 4,876,498 | - |
| Total net position | <u>\$ 14,821,388</u> | <u>\$ -</u> | <u>\$ 14,821,388</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF CEDARTOWN, GEORGIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2015**

| | Business-type Activities - Enterprise Funds | | | Governmental |
|---|---|------------------|----------------------|------------------|
| | Water and Sewer | Solid Waste | Total Enterprise | Activities |
| | Fund | Fund | Funds | Internal Service |
| | | | | Fund |
| OPERATING REVENUE | | | | |
| Water charges | \$ 2,046,558 | \$ - | \$ 2,046,558 | \$ - |
| Sewer charges | 230,093 | - | 230,093 | - |
| Refuse collection charges | - | 790,319 | 790,319 | - |
| Landfill usage fees | - | 229,012 | 229,012 | - |
| Other | 345,696 | - | 345,696 | - |
| Total operating revenues | <u>2,622,347</u> | <u>1,019,331</u> | <u>3,641,678</u> | <u>-</u> |
| OPERATING EXPENSES | | | | |
| Personnel services | 956,192 | - | 956,192 | - |
| Materials and supplies | 608,124 | 589,605 | 1,197,729 | - |
| Depreciation | 645,533 | - | 645,533 | - |
| Total operating expenses | <u>2,209,849</u> | <u>589,605</u> | <u>2,799,454</u> | <u>-</u> |
| Operating income | 412,498 | 429,726 | 842,224 | - |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Interest earnings | 122 | - | 122 | - |
| Interest expense | (331,663) | - | (331,663) | - |
| Other nonoperating revenue (expense) | (36) | - | (36) | - |
| Total nonoperating revenues (expenses) | <u>(331,577)</u> | <u>-</u> | <u>(331,577)</u> | <u>-</u> |
| Income before transfers | 80,921 | 429,726 | 510,647 | - |
| Transfers in | 268,559 | - | 268,559 | - |
| Transfers out | <u>(1,175,000)</u> | <u>(429,726)</u> | <u>(1,604,726)</u> | <u>(29,971)</u> |
| Change in net position | (825,520) | - | (825,520) | (29,971) |
| Total net position, beginning of year, restated | <u>15,646,908</u> | <u>-</u> | <u>15,646,908</u> | <u>29,971</u> |
| Total net position, end of year | <u>\$ 14,821,388</u> | <u>\$ -</u> | <u>\$ 14,821,388</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF CEDARTOWN, GEORGIA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | Business-type Activities - Enterprise Funds | | | Governmental |
|--|---|-------------------|---------------------|------------------|
| | Water and Sewer | Solid Waste | Total Enterprise | Activities |
| | Fund | Fund | Funds | Internal Service |
| | | | | Fund |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers and users | \$ 2,648,267 | \$ 1,013,733 | \$ 3,662,000 | \$ - |
| Payments to suppliers | (623,542) | (586,356) | (1,209,898) | - |
| Payments to employees | (968,483) | - | (968,483) | - |
| Net cash provided by operating activities | <u>1,056,242</u> | <u>427,377</u> | <u>1,483,619</u> | <u>-</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Interest income received | 122 | - | 122 | - |
| Net cash provided by investing activities | <u>122</u> | <u>-</u> | <u>122</u> | <u>-</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Acquisition and construction of capital assets | (527,342) | - | (527,342) | - |
| Principal repayments on capital debt | (456,500) | - | (456,500) | - |
| Interest paid on capital debt | (330,234) | - | (330,234) | - |
| Transfers in from other funds for capital purchases | 268,559 | - | 268,559 | - |
| Intergovernmental receipts | 920,000 | - | 920,000 | - |
| Net cash used in capital and related financing activities | <u>(125,517)</u> | <u>-</u> | <u>(125,517)</u> | <u>-</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Transfers to other funds | (214,718) | (427,377) | (642,095) | (29,971) |
| Net cash used in noncapital financing activities | <u>(214,718)</u> | <u>(427,377)</u> | <u>(642,095)</u> | <u>(29,971)</u> |
| Net increase (decrease) in cash and cash equivalents | 716,129 | - | 716,129 | (29,971) |
| Cash and cash equivalents, beginning of year | <u>2,389,348</u> | <u>-</u> | <u>2,389,348</u> | <u>29,971</u> |
| Cash and cash equivalents, end of year | <u>\$ 3,105,477</u> | <u>\$ -</u> | <u>\$ 3,105,477</u> | <u>\$ -</u> |
| CLASSIFIED AS: | | | | |
| Cash and cash equivalents | \$ 1,700,335 | \$ - | \$ 1,700,335 | \$ - |
| Restricted cash and cash equivalents | 1,405,142 | - | 1,405,142 | - |
| Total | <u>\$ 3,105,477</u> | <u>\$ -</u> | <u>\$ 3,105,477</u> | <u>\$ -</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | | | |
| Operating income | \$ 412,498 | \$ 429,726 | \$ 842,224 | \$ - |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation | 645,533 | - | 645,533 | - |
| Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources: | | | | |
| (Increase) decrease in accounts receivable | 10,533 | (5,598) | 4,935 | - |
| Decrease in inventory | 1,709 | - | 1,709 | - |
| Increase in prepaid items | (226) | - | (226) | - |
| Increase in deferred outflows of resources (pension items) | (78,025) | - | (78,025) | - |
| Increase (decrease) in accounts payable | (16,901) | 3,249 | (13,652) | - |
| Increase in accrued expenses | 2,000 | - | 2,000 | - |
| Increase in compensated absences | 4,811 | - | 4,811 | - |
| Increase in customer deposits | 15,387 | - | 15,387 | - |
| Increase in net OPEB obligation | 15,914 | - | 15,914 | - |
| Decrease in net pension liability | (52,749) | - | (52,749) | - |
| Increase in deferred inflows of resources (pension items) | 95,758 | - | 95,758 | - |
| Net cash provided by operating activities | <u>\$ 1,056,242</u> | <u>\$ 427,377</u> | <u>\$ 1,483,619</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF CEDARTOWN, GEORGIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Cedartown, Georgia (the “City”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government 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. Reporting Entity

The City, which was incorporated in 1854, operates under a commission form of government. Policy-making and legislative authority are vested in the City Commission which consists of five members. The government provides such services as police and fire protection, cultural and recreational activities, community development, water and sewer services, and public works services including street and sanitation.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the City.

Blended Component Unit

The Cedartown Development Authority (the “CDA”) serves to encourage and develop the industrial base throughout the City. The seven (7) members of the CDA’s governing body are appointed by the City Commission. Although a legally separate entity, a financial benefit or burden exists in that the debt issued by the CDA is being repaid exclusively with resources from the City. Therefore, the debt of the CDA is reported as part of the City’s debt and all debt service activity is reported in the City’s SPLOST Fund. Financial information with regard to the CDA can be obtained from the City of Cedartown, 201 East Avenue, Cedartown, Georgia 30125. Separate financial statements for the CDA are not prepared.

Discretely Presented Component Units

The Cedartown Civic Arts Commission (the “CCAC”) has general charge, supervision, and control of the care and use of the Cedartown Civic Auditorium. The eleven (11) members of the CCAC’s governing body are appointed by the City Commission. Although a legally separate entity, the City is financially accountable for the activities of the CCAC as the City has assumed the obligation to provide financial support to the CCAC as needed on an annual basis. Financial information with regard to the CCAC can be obtained from the City of Cedartown, 201 East Avenue, Cedartown, Georgia 30125. Separate financial statements for the CCAC are not prepared.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

Discretely Presented Component Units (Continued)

The Downtown Cedartown Association (the "DCA") provides for the vitalization of the downtown area of the City. The eight (8) members of the DCA's governing body are appointed by the City Commission. Although a legally separate entity, the City is financially accountable for the activities of the DCA as the City has assumed the obligation to provide financial support to the DCA as needed on an annual basis. Financial information with regard to the DCA can be obtained from the City of Cedartown, 201 East Avenue, Cedartown, Georgia 30125. Separate financial statements for the DCA are not prepared.

The Downtown Development Authority (the "DDA") was created pursuant to the Official Code of Georgia Annotated (OCGA) §36-42-8.1(a) for the purpose of promoting the redevelopment of the downtown area of the City. The seven (7) members of the DDA's governing body are appointed by the City Commission. Although a legally separate entity, the City is financially accountable for the activities of the DDA as the City can impose its will by significantly influencing the programs, projects, and activities of the DDA. Financial information with regard to the DDA can be obtained from the City of Cedartown, 201 East Avenue, Cedartown, Georgia 30125. Separate financial statements for the DDA are not prepared.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. The primary government is reported separately from its discretely presented component units. The statement of net position includes non-current assets and non-current liabilities. In addition, the government-wide statement of activities reflects depreciation expense on the City's capital assets. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, any interfund services provided and used are not eliminated as this process would distort the direct costs and program revenues reported in the various functions.

The statement of activities demonstrates the degree to which the 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 those 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.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. 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 accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, intergovernmental grants, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

In accounting and reporting for its proprietary operations, the City applies all GASB pronouncements which includes GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the enterprise fund are charges to customers for services provided. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

In accordance with GASB Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions," the corresponding assets (receivables) in non-exchange transactions are recognized in the period in which the underlying exchange occurs, when an enforceable legal claim has arisen, when all eligibility requirements have been met, or when resources are received, depending on the revenue source.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

In accordance with GASB Statement No. 34, major individual governmental funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The **General Fund** 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.

The **2014 SPLOST (Special Purpose Local Option Sales Tax) Fund** is used to account for the proceeds of a sales tax levied in Polk County, Georgia, which will be used by the City for the exclusive purpose of the projects in the voter approved referendum.

The City reports the following major proprietary funds:

The **Water and Sewer Fund** is used to account for the user charges for water and sewer services and the expenses of maintaining and improving the infrastructure needed to deliver such services to the citizens of the City.

The **Solid Waste Fund** is used to account for the user charges for sanitation services and the expenses of providing such solid waste disposal services to the citizens of the City.

D. Budgets

Formal budgetary accounting is employed as a management control device for the general fund and special revenue funds of the City. The governmental funds budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual operating budgets are adopted for the General Fund and each special revenue fund each fiscal year through passage of an annual budget ordinance and amended as required. The City adopts project length budgets for the capital projects funds. During the year ended December 31, 2015, the original budget was amended through supplemental appropriations. These changes are reflected in the budgetary comparison schedules.

All unencumbered budget appropriations lapse at the end of each year.

For the year ended December 31, 2015, the City did not adopt a budget for the Confiscated Assets Fund.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City. The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements.

F. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

G. Interfund Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year as well as all other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2015, are recorded as prepaid items in both government-wide and fund financial statements. These items are accounted for using the consumption method in that they are recorded as expenditures/expenses when consumed by the City.

I. Inventories

Inventory items held by the City are reported at cost using the first-in/first-out (FIFO) method.

J. Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. The "revenue bond current debt service" account is used to segregate resources accumulated for debt service payments over the next twelve (12) months.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets

Capital assets, which include improvements, machinery and equipment, infrastructure assets, and intangibles are reported in the applicable governmental or business-type activities column in the government-wide financial statements. As allowed under GASB Statement No. 34, the City did not capitalize any infrastructure purchased or donated and placed into service prior to July 1, 1980. All capital assets are reported at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend the useful life of the asset is not capitalized.

Capital assets of the City are depreciated using the straight line method over the following useful lives:

| Category | Useful Life | Capitalization Threshold |
|--------------------------------|----------------|-----------------------------|
| Buildings and improvements | 10-50 years | \$ 2,000 |
| Distribution systems | 10-50 years | 20,000 |
| Bridges, culverts, & sidewalks | 30 years | 20,000 |
| Roads | 30 years | 50,000 |
| Vehicles | 5 years | 2,000 |
| Machinery & equipment | 3-10 years | 2,000 |
| Intangibles | 5 years | 2,000 |

L. Deferred Outflows of Resources and Deferred Inflows of Resources

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

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. These contributions will reduce the City's net pension liability in the next fiscal period.

M. Compensated Absences

City employees are entitled to certain compensated absences such as earned but unused vacation and sick pay benefits based on their length of employment. Compensated absences either vest or accumulate and are accrued when they are earned. The vesting method is used to compute earned vacation pay at year-end. No more than five days can be carried over to a subsequent year without approval. Sick leave is not accrued since no employee can be paid in lieu of sick leave. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Compensated absences are reported as a liability in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

N. Customer Deposits

The City collects deposits from new customers for water and sewer services. The deposits are held until the City discontinues services to the customer and therefore are reported as a liability in both the fund and government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. In the fund financial statements, governmental fund types recognize the face amount of the debt issued as other financing sources and the repayment of debt as debt service expenditures.

P. 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.”

Fund Balance – Generally, fund balance represents the difference between the assets and liabilities and deferred inflows of resources under the current financial resources measurement focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

Fund balances are classified as follows:

Nonspendable – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

Restricted – Fund balances are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Committed – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by a formal vote and passage of an ordinance of the City Council. Only the City Council may modify or rescind the commitment through passage of a subsequent ordinance.

Assigned – Fund balances are reported as assigned when amounts are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City Commission has not established a policy that delegates the authority to assign fund balance.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund Equity (Continued)

Fund balances are classified as follows (continued):

Unassigned – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the General Fund.

Flow Assumptions – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City’s policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City’s policy to use fund balance in the following order: (1) Committed, (2) Assigned, (3) Unassigned.

Net Position – Net Position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in reporting which utilizes the economic resources measurement focus. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the City has spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted using the same definition as used for restricted fund balance as described in the section above. All other net position is reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Q. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Cedartown Retirement Plan (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, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

R. 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 and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$3,858,942 difference are as follows:

| | |
|--|------------------------------|
| Revenue bonds | \$ (2,005,000) |
| Capital leases | (811,320) |
| Accrued interest payable | (52,298) |
| Compensated absences (i.e., vacation) | (226,864) |
| Net OPEB obligation | <u>(763,460)</u> |
| Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i> | <u><u>\$ (3,858,942)</u></u> |

Another element of that reconciliation explains that “the deferred outflows of resources, deferred inflows of resources, and the net pension liability related to the City’s pension plan are not expected to be liquidated with expendable available financial resources and, therefore, are not reported in the funds.” The details of this \$3,681,726 difference are as follows:

| | |
|--|------------------------------|
| Pension related deferred outflows of resources | \$ 1,140,041 |
| Pension related deferred inflows of resources | (501,834) |
| Net pension liability | <u>(4,319,933)</u> |
| Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i> | <u><u>\$ (3,681,726)</u></u> |

NOTES TO FINANCIAL STATEMENTS

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net change in fund balances – total governmental funds and change in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$316,774 difference are as follows:

| | |
|---|--------------------------|
| Capital outlay | \$ 1,051,148 |
| Depreciation expense | <u>(734,374)</u> |
| Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net position - governmental activities</i> | <u><u>\$ 316,774</u></u> |

Another element of the reconciliation states that “the net effect of various miscellaneous transactions involving capital assets (i.e. donations and disposals) is to increase net position.” The details of this \$3,356,617 difference are as follows:

| | |
|--|----------------------------|
| Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources. | \$ 3,360,899 |
| In the statement of activities, the loss on the disposal of capital assets is included with general government expenses. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets sold. | <u>(4,282)</u> |
| Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net position - governmental activities</i> | <u><u>\$ 3,356,617</u></u> |

NOTES TO FINANCIAL STATEMENTS

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Another element of that reconciliation explains that “The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.” The details of this \$238,373 difference are as follows:

| | |
|---|--------------------------|
| Capital leases | \$ (163,800) |
| Principal payments on revenue bonds | 260,000 |
| Principal payments on capital leases | <u>142,173</u> |
| | |
| Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net position - governmental activities</i> | <u><u>\$ 238,373</u></u> |

Another element of the reconciliation states that “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 details of this \$81,395 difference are as follows:

| | |
|---|-------------------------|
| Decrease in accrued interest payable | \$ 2,134 |
| Increase in compensated absences payable | (17,046) |
| Increase in net OPEB obligation | (87,200) |
| Decrease in net pension liability and related deferred outflows of resources and deferred inflows of resources | <u>183,507</u> |
| | |
| Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net position - governmental activities</i> | <u><u>\$ 81,395</u></u> |

NOTES TO FINANCIAL STATEMENTS

NOTE 3. LEGAL COMPLIANCE – BUDGETS

The budget is officially adopted by the governing body prior to the beginning of its fiscal year, or a resolution authorizing the continuation of necessary and essential expenditures to operate the City will be adopted. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level, within the fund.

Transfers of appropriations within a department budget or within a non-departmental expenditure category require only the approval of the City Manager. Increases in appropriations in a departmental budget or in a non-departmental expenditure category, require approval of the governing body in the form of amendments to the budget ordinance.

The following General Fund departments had excesses of actual expenditures over appropriations for the fiscal year ended December 31, 2015:

| | | |
|----------------------|----|---------|
| City commission | \$ | 8,692 |
| Buildings and plant | | 367,122 |
| Municipal court | | 22,687 |
| Parks and recreation | | 213,636 |
| Libraries | | 1,299 |
| Auditorium | | 87 |
| Downtown development | | 1,867 |

These over expenditures were funded by greater than anticipated revenues and available fund balance.

NOTE 4. DEPOSITS

Custodial Credit Risk – 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 December 31, 2015, all of the City's and component unit bank balances were insured and collateralized as defined by GASB and state statutes.

NOTES TO FINANCIAL STATEMENTS

NOTE 4. DEPOSITS (CONTINUED)

Investments – Downtown Cedartown Association: As of December 31, 2015, the Downtown Cedartown Association had \$25,075 of investments, all of which were held in certificates of deposit at a local financial institution as follows:

| <u>Description</u> | <u>Term</u> | <u>Maturity Date</u> | <u>Balance</u> |
|--|--------------|----------------------|------------------|
| Certificate of deposit | One (1) year | March 9, 2016 | \$ 10,052 |
| Certificate of deposit | One (1) year | March 9, 2016 | 10,052 |
| Certificate of deposit | One (1) year | March 9, 2016 | 4,971 |
| Total Investments - Downtown Cedartown Association | | | <u>\$ 25,075</u> |

NOTE 5. RECEIVABLES

Property taxes are levied on property values assessed as of January 1. The taxes are levied on or around September 15 based on the assessed value of property as listed on the previous January 1 and are due on December 1 of the same year, with a lien date of March 1 of the following year. Property taxes are recorded as receivables and deferred inflows of resources when assessed. Revenues are recognized when available.

Receivables at December 31, 2015, for the City’s individual major funds and nonmajor funds in the aggregate, including any applicable allowances for uncollectible accounts, are as follows:

| | <u>General</u> | <u>2014 SPLOST</u> | <u>Water and Sewer</u> | <u>Solid Waste</u> | <u>Nonmajor Funds</u> |
|-----------------------------------|---------------------|------------------------|----------------------------|------------------------|---------------------------|
| Receivables: | | | | | |
| Accounts | \$ 700,146 | \$ - | \$ 468,528 | \$ 164,915 | \$ - |
| Taxes | 533,394 | - | - | - | 7,180 |
| Intergovernmental | 53,995 | 195,124 | 5,270,000 | - | - |
| Total receivables | <u>1,287,535</u> | <u>195,124</u> | <u>5,738,528</u> | <u>164,915</u> | <u>7,180</u> |
| Less allowance for uncollectibles | (128,773) | - | (149,428) | (28,574) | - |
| Net total receivable | <u>\$ 1,158,762</u> | <u>\$ 195,124</u> | <u>\$ 5,589,100</u> | <u>\$ 136,341</u> | <u>\$ 7,180</u> |

The intergovernmental receivable reported in the Water & Sewer Fund is related to a Utility Services Agreement between the City and the Cedartown-Polk County Hospital Authority. To encourage the City to incur debt (Revenue Bonds, Series 2013 discussed in Note 7) to construct a sewer line to serve a new hospital location, the Hospital Authority agreed to pay to the City \$310,000 per year (commencing on January 1, 2014) for twenty (20) years for the purpose of providing assistance to the City to service the debt. As shown in the table above, this receivable has a balance of \$5,270,000 as of December 31, 2015.

NOTES TO FINANCIAL STATEMENTS

NOTE 6. CAPITAL ASSETS

Capital asset activity for the City for the year ended December 31, 2015 is as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|-------------------|---------------------------|
| Governmental activities: | | | | |
| Nondepreciable capital assets: | | | | |
| Land | \$ 6,867,761 | \$ 262,500 | \$ - | \$ 7,130,261 |
| Construction in progress | 644,286 | 708,151 | - | 1,352,437 |
| Total | <u>7,512,047</u> | <u>970,651</u> | <u>-</u> | <u>8,482,698</u> |
| Depreciable capital assets: | | | | |
| Buildings | 7,328,405 | 3,098,399 | - | 10,426,804 |
| Land improvements | 376,180 | - | - | 376,180 |
| Vehicles and equipment | 5,366,472 | 342,997 | (221,048) | 5,488,421 |
| Intangibles | 36,000 | - | - | 36,000 |
| Infrastructure | 4,403,865 | - | (13,383) | 4,390,482 |
| Total | <u>17,510,922</u> | <u>3,441,396</u> | <u>(234,431)</u> | <u>20,717,887</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (2,788,956) | (240,416) | - | (3,029,372) |
| Land improvements | (37,245) | (38,736) | - | (75,981) |
| Vehicles and equipment | (4,430,794) | (235,162) | 216,766 | (4,449,190) |
| Intangibles | (14,400) | (7,200) | - | (21,600) |
| Infrastructure | (1,324,461) | (212,860) | 13,383 | (1,523,938) |
| Total | <u>(8,595,856)</u> | <u>(734,374)</u> | <u>230,149</u> | <u>(9,100,081)</u> |
| Depreciable capital assets, net | <u>8,915,066</u> | <u>2,707,022</u> | <u>(4,282)</u> | <u>11,617,806</u> |
| Governmental activities capital assets, net | <u>\$ 16,427,113</u> | <u>\$ 3,677,673</u> | <u>\$ (4,282)</u> | <u>\$ 20,100,504</u> |

Depreciation expense was charged to the functions of the City's governmental activities as follows:

| | |
|--|-------------------|
| Governmental activities: | |
| General government | \$ 260,940 |
| Public safety | 119,043 |
| Public works | 236,550 |
| Health and welfare | 537 |
| Culture and recreation | <u>117,304</u> |
| Total depreciation expense - governmental activities | <u>\$ 734,374</u> |

NOTES TO FINANCIAL STATEMENTS

NOTE 6. CAPITAL ASSETS (CONTINUED)

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Transfers</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|------------------|--------------------|---------------------------|
| Business-type activities: | | | | | |
| Nondepreciable capital assets: | | | | | |
| Land | \$ 1,245,358 | \$ - | \$ - | \$ - | \$ 1,245,358 |
| Construction in progress | 1,257,619 | 64,373 | - | (1,202,345) | 119,647 |
| Total | <u>2,502,977</u> | <u>64,373</u> | <u>-</u> | <u>(1,202,345)</u> | <u>1,365,005</u> |
| Depreciable capital assets: | | | | | |
| Buildings | 122,155 | - | - | - | 122,155 |
| Distribution system | 25,599,490 | - | (12,777) | 1,202,345 | 26,789,058 |
| Machinery and equipment | 1,173,461 | 118,388 | (35,477) | - | 1,256,372 |
| Total | <u>26,895,106</u> | <u>118,388</u> | <u>(48,254)</u> | <u>1,202,345</u> | <u>28,167,585</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings | (49,047) | (20,104) | - | - | (69,151) |
| Distribution system | (9,948,776) | (525,637) | 12,777 | - | (10,461,636) |
| Machinery and equipment | (882,920) | (99,792) | 35,477 | - | (947,235) |
| Total | <u>(10,880,743)</u> | <u>(645,533)</u> | <u>48,254</u> | <u>-</u> | <u>(11,478,022)</u> |
| Depreciable capital assets, net | <u>16,014,363</u> | <u>(527,145)</u> | <u>-</u> | <u>-</u> | <u>16,689,563</u> |
| Business-type activities capital assets, net | <u>\$ 18,517,340</u> | <u>\$ (462,772)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 18,054,568</u> |

For the City's business-type activities, all depreciation expense is charged to the Water & Sewer Fund.

Cedartown Civic Arts Commission

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|-------------------|------------------|---------------------------|
| Depreciable capital assets: | | | | |
| Machinery & equipment | \$ 113,550 | \$ - | \$ (45,255) | \$ 68,295 |
| Buildings | 7,497 | - | (3,051) | 4,446 |
| Total | <u>121,047</u> | <u>-</u> | <u>(48,306)</u> | <u>72,741</u> |
| Less accumulated depreciation for: | | | | |
| Machinery & equipment | (113,550) | - | 45,255 | (68,295) |
| Buildings | (6,411) | (1,086) | 3,051 | (4,446) |
| Total | <u>(119,961)</u> | <u>(1,086)</u> | <u>48,306</u> | <u>(72,741)</u> |
| Cedartown Civic Arts Commission Capital assets, net | <u>\$ 1,086</u> | <u>\$ (1,086)</u> | <u>\$ -</u> | <u>\$ -</u> |

NOTES TO FINANCIAL STATEMENTS

NOTE 6. CAPITAL ASSETS (CONTINUED)

Downtown Cedartown Association

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|-------------------|------------------|---------------------------|
| Depreciable capital assets: | | | | |
| Machinery & equipment | \$ 18,603 | \$ - | \$ - | \$ 18,603 |
| Less accumulated depreciation for: | | | | |
| Machinery & equipment | (8,731) | (1,960) | - | (10,691) |
| Downtown Cedartown Association Capital assets, net | <u>\$ 9,872</u> | <u>\$ (1,960)</u> | <u>\$ -</u> | <u>\$ 7,912</u> |

Downtown Development Authority

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|-------------------|------------------|---------------------------|
| Nondepreciable capital assets: | | | | |
| Land | \$ 4,846 | \$ - | \$ - | \$ 4,846 |
| Depreciable capital assets: | | | | |
| Buildings | 31,394 | - | - | 31,394 |
| Total | 31,394 | - | - | 31,394 |
| Less accumulated depreciation for: | | | | |
| Buildings | (523) | (1,047) | - | (1,570) |
| Total | (523) | (1,047) | - | (1,570) |
| Depreciable capital assets, net | 30,871 | (1,047) | - | 29,824 |
| Downtown Development Authority Capital assets, net | <u>\$ 35,717</u> | <u>\$ (1,047)</u> | <u>\$ -</u> | <u>\$ 34,670</u> |

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NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT

Primary Government

The following is a summary of long-term debt activity of the City for the year ended December 31, 2015:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|----------------------|---------------------|-----------------------|----------------------|------------------------|
| Governmental activities | | | | | |
| Revenue bonds | \$ 2,265,000 | \$ - | \$ (260,000) | \$ 2,005,000 | \$ 270,000 |
| Capital leases | 789,693 | 163,800 | (142,173) | 811,320 | 145,402 |
| Compensated absences | 209,818 | 240,261 | (223,215) | 226,864 | 226,864 |
| Net pension liability | 4,596,370 | 1,856,570 | (2,133,007) | 4,319,933 | - |
| Net OPEB obligation | 676,260 | 147,385 | (60,185) | 763,460 | - |
| Total governmental activities long-term liabilities | <u>\$ 8,537,141</u> | <u>\$ 2,408,016</u> | <u>\$ (2,818,580)</u> | <u>\$ 8,126,577</u> | <u>\$ 642,266</u> |
| Business-type activities | | | | | |
| Revenue bonds | \$ 8,520,000 | \$ - | \$ (290,000) | \$ 8,230,000 | \$ 295,000 |
| Less original issue discount | (67,685) | - | 5,274 | (62,411) | - |
| Revenue bonds, net | 8,452,315 | - | (284,726) | 8,167,589 | 295,000 |
| Notes payable | 1,237,577 | - | (118,347) | 1,119,230 | 120,726 |
| Capital leases | 153,623 | - | (48,153) | 105,470 | 51,189 |
| Compensated absences | 46,695 | 65,063 | (61,252) | 50,506 | 50,506 |
| Net pension liability | 877,057 | 353,632 | (406,381) | 824,308 | - |
| Net OPEB obligation | 129,506 | 32,950 | (17,036) | 145,420 | - |
| Total business-type activities long-term liabilities | <u>\$ 10,896,773</u> | <u>\$ 451,645</u> | <u>\$ (935,895)</u> | <u>\$ 10,412,523</u> | <u>\$ 517,421</u> |

For governmental activities, compensated absences, the net pension liability, and the net OPEB obligation are generally liquidated by the General Fund.

The City has reported the entire balance of compensated absences payable as due within one year based on historical usage patterns.

Revenue Bonds – Governmental Activities. In December 2013, the Cedartown Development Authority, a blended component unit of the City, issued a \$2,540,000 Taxable Refunding Revenue Bond, Series 2013. The bond was issued for the purpose of retiring the previously outstanding Series 1997B and Series 2009 bonds, and to pay for the costs of issuing the bond. Semi-annual payments of interest at 3.33% are due on February 1 and August 1 and principal payments are due annually on February 1 until the bond matures on February 1, 2022.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

The City's debt service requirements to maturity on the bond are as follows:

| Year ending December 31, | Principal | Interest | Total |
|-------------------------------------|---------------------|-------------------|---------------------|
| 2016 | \$ 270,000 | \$ 62,271 | \$ 332,271 |
| 2017 | 280,000 | 53,114 | 333,114 |
| 2018 | 290,000 | 43,623 | 333,623 |
| 2019 | 295,000 | 33,883 | 328,883 |
| 2020 | 305,000 | 23,893 | 328,893 |
| 2021-2022 | 565,000 | 17,565 | 582,565 |
| Total | <u>\$ 2,005,000</u> | <u>\$ 234,349</u> | <u>\$ 2,239,349</u> |

Capital Leases – Governmental Activities. The City has acquired various types of vehicles, machinery, & equipment via capital lease. The agreements were entered into with the financing arm of the vendor from which the asset(s) were acquired. At the conclusion of each of these leases, ownership of the assets reverts to the City. The following is a summary of the leases outstanding as of December 31, 2015:

| Asset | Interest Rate | Payment Terms | Maturity |
|----------------------------|--------------------------|--------------------------|-----------------|
| Computer equipment | 4.450% | Monthly | 2016 |
| License recognition system | 5.564% | Annually on Feb. 15 | 2018 |
| Street sweeper | 2.650% | Annually on Feb. 1 | 2020 |
| Lighting system | 4.450% | Annually on Mar. 3 | 2021 |
| Fire truck | 2.890% | Annually on Feb. 10 | 2021 |

As of December 31, 2015, the City has \$1,191,924 of assets under capital lease and there has been \$189,210 of accumulated depreciation through year-end. Annual amortization of these assets is included with depreciation expense.

The City's future minimum lease payments on its capital leases for governmental activities are as follows:

| Year ending December 31, | Total Payment |
|--------------------------------------|----------------------|
| 2016 | \$ 173,860 |
| 2017 | 158,001 |
| 2018 | 158,001 |
| 2019 | 152,312 |
| 2020 | 152,312 |
| 2021 | 116,903 |
| Total Minimum Lease Payments | <u>911,389</u> |
| Less: Interest Payments | <u>(100,069)</u> |
| Present Value Minimum Lease Payments | <u>\$ 811,320</u> |

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

Revenue Bonds – Business-type Activities. In August 2013, the City issued \$8,775,000 Water & Sewerage Revenue Bonds, Series 2013. The bonds were issued for the purpose of retiring a previously outstanding note payable and capital leases, financing certain improvements to the City’s distribution system, and to pay for the costs of issuing the bond. Semi-annual payments of interest at rates ranging from 2.20% to 4.40% are due on February 1 and August 1 and principal payments are due annually on August 1 until the bond matures on August 1, 2033.

The City’s debt service requirements to maturity on these revenue bonds are as follows:

| <u>Year ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------------|---------------------|---------------------|----------------------|
| 2016 | \$ 295,000 | \$ 283,495 | \$ 578,495 |
| 2017 | 300,000 | 277,595 | 577,595 |
| 2018 | 305,000 | 271,595 | 576,595 |
| 2019 | 315,000 | 265,495 | 580,495 |
| 2020 | 320,000 | 259,668 | 579,668 |
| 2021-2025 | 1,880,000 | 1,167,515 | 3,047,515 |
| 2026-2030 | 2,830,000 | 772,320 | 3,602,320 |
| 2031-2033 | 1,985,000 | 174,828 | 2,159,828 |
| Total | <u>\$ 8,230,000</u> | <u>\$ 3,472,511</u> | <u>\$ 11,702,511</u> |

Notes Payable – Business-type Activities. In October 2004, the City entered into an agreement with the Georgia Environmental Finance Authority (GEFA) to finance certain distribution system improvements. The original amount of the loan was \$2,300,442 and bears interest at 2.00%, maturing July 1, 2024.

The City’s debt service requirements to maturity on the GEFA note payable are as follows:

| <u>Year ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------------|---------------------|------------------|---------------------|
| 2016 | \$ 120,726 | \$ 21,290 | \$ 142,016 |
| 2017 | 123,175 | 18,841 | 142,016 |
| 2018 | 125,656 | 16,360 | 142,016 |
| 2019 | 128,193 | 13,823 | 142,016 |
| 2020 | 130,775 | 11,241 | 142,016 |
| 2021-2024 | 490,705 | 18,205 | 508,910 |
| Total | <u>\$ 1,119,230</u> | <u>\$ 99,760</u> | <u>\$ 1,218,990</u> |

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

Capital Leases – Business-type Activities. In April 2014, the City entered into a capital lease agreement in the amount of \$249,998 to finance the acquisition of a sewer truck. Annual principal and interest payments are required until maturity on April 15, 2017 at an interest rate of 3.398%.

The City’s debt service requirements to maturity on its business-type activities capital leases are as follows:

| Year ending December 31, | Total Payment |
|--------------------------------------|---------------|
| 2016 | \$ 54,727 |
| 2017 | 54,727 |
| Total Minimum Lease Payments | 109,454 |
| Less: Interest Payments | (3,984) |
| Present Value Minimum Lease Payments | \$ 105,470 |

The original cost of assets under capital lease arrangements for business-type activities at December 31, 2015 is \$249,998 and there has been \$150,000 of accumulated depreciation as of year-end. Additionally, the annual amortization of these assets is included in depreciation expense.

Component Unit

The following is a summary of long-term debt activity of the Downtown Development Authority for the year ended December 31, 2015:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---------------|----------------------|-----------|------------|-------------------|------------------------|
| Notes payable | \$ 100,010 | \$ 62,000 | \$ (6,352) | \$ 155,658 | \$ 9,785 |

Notes Payable – Downtown Development Authority. The DDA has executed two (2) notes payable to the Georgia Department of Community Affairs through the Downtown Development Revolving Loan Fund (DD RLF) program. The funds are borrowed from the DD RLF by the DDA and subsequently loaned to a third party who is engaging in development activities in downtown Cedartown. As a result, the DDA reports the notes payable to the Georgia Department of Community Affairs and a receivable from the entities to whom the funds have been passed.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. LONG-TERM DEBT (CONTINUED)

Notes Payable – Downtown Development Authority (Continued).

The debt service requirements to maturity (and the corresponding receivable balance as of December 31, 2015) on the DDA's outstanding notes payable are as follows:

| <u>Year ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------------|-------------------|------------------|-------------------|
| 2016 | \$ 9,785 | \$ 3,033 | \$ 12,818 |
| 2017 | 9,982 | 2,836 | 12,818 |
| 2018 | 10,184 | 2,634 | 12,818 |
| 2019 | 10,389 | 2,429 | 12,818 |
| 2020 | 10,599 | 2,219 | 12,818 |
| 2021-2025 | 104,719 | 6,720 | 111,439 |
| Total | <u>\$ 155,658</u> | <u>\$ 19,871</u> | <u>\$ 175,529</u> |

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NOTES TO FINANCIAL STATEMENTS

NOTE 8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2015 is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|----------------------|---------------------|
| General Fund | Water and Sewer Fund | \$ 1,362,300 |
| General Fund | Solid Waste Fund | 85,899 |
| | | <u>\$ 1,448,199</u> |

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Interfund transfers:

| <u>Transfers In</u> | <u>Transfers Out</u> | <u>Amount</u> |
|---|-----------------------------|---------------------|
| General Fund | Water and Sewer Fund | \$ 1,175,000 |
| General Fund | Solid Waste Fund | 429,726 |
| General Fund | Nonmajor governmental funds | 40,000 |
| General Fund | Internal service fund | 29,971 |
| | | <u>\$ 1,674,697</u> |
| Water and Sewer fund | 2014 SPLOST Fund | <u>\$ 268,559</u> |
| SPLOST Fund (non-major governmental fund) | 2014 SPLOST Fund | <u>\$ 364,719</u> |

Transfers are used (1) to move unrestricted revenues collected in the Water and Sewer and Solid Waste funds to finance various programs of the City accounted for in the General Fund in accordance with budgetary authorizations; (2) to move hotel/motel taxes to the General Fund for expenditure towards the promotion of tourism in the City's downtown development department; (3) to use SPLOST dollars to fund capital asset purchases in the Water & Sewer Fund in accordance with the voter approved referendum; and (4) to transfer funds from the 2014 SPLOST Fund to the SPLOST Fund to finance debt service payments on the City's outstanding bonds, in accordance with the voter approved referendum.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. DEFINED BENEFIT PENSION PLAN

Plan Description

The City, as authorized by the City Commission, has established a non-contributory defined benefit pension plan (The City of Cedartown Retirement Plan), covering substantially all of the City's employees. 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. Benefits are provided by the Plan whereby retirees receive between 2% and 2.5% multiplied by the average of the five highest years of regular earnings multiplied by the total credited years of service. The City Commission, in its role as the Plan sponsor, 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. 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 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, 2015, the date of the most recent actuarial valuation, pension plan membership consisted of the following:

| | |
|---|------------|
| Inactive plan members or beneficiaries currently receiving benefits | 80 |
| Inactive plan members entitled to but not receiving benefits | 35 |
| Active plan members | <u>100</u> |
| | <u>215</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 Commission, 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 is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members, as determined by the City Commission. For the year ended December 31, 2015, the City's contribution rate was 21.56% of annual payroll. City contributions to the Plan were \$867,322 for the year ended December 31, 2015. Employees of the City of Cedartown do not contribute to the Plan.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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*, as well as Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* which significantly changed the City's accounting for pension amounts. The information disclosed below is presented in accordance with these new standards.

The City's net pension liability was measured as of March 31, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014 with update procedures performed by the actuary to roll forward to the total pension liability measured as of March 31, 2015.

Actuarial assumptions. The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | | |
|---------------------------|--|------------------------------------|
| Inflation | | 3.25% |
| Salary increases | | 3.75% - 8.25%, including inflation |
| Investment rate of return | 7.75%, net of pension plan investment expense, including inflation | |

Mortality rates for the July 1, 2014 valuation 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, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2010–June 30, 2014.

Cost of living adjustments were assumed to be 3.25% although the Plan allowance for annual cost of living adjustment is variable, as established by the City Commission, in an amount not to exceed 4%.

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, 2015 are summarized in table on the following page.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Net Pension Liability of the City (Continued)

| Asset class | Target allocation | Long-term expected real rate of return* |
|----------------------|-------------------|---|
| Domestic equity | 50% | 5.95% |
| International equity | 15% | 6.45 |
| Fixed income | 25% | 1.55 |
| Real estate | 10% | 3.75 |
| Cash | —% | |
| Total | <u>100%</u> | |

* Rates shown are net of the 3.25% assumed rate of inflation

Discount rate. The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member 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.

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, 2015 were as follows:

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
|---|--------------------------------|------------------------------------|------------------------------------|
| Balances at 12/31/2014 | \$ 15,154,940 | \$ 9,681,513 | \$ 5,473,427 |
| Changes for the year: | | | |
| Service cost | 222,833 | - | 222,833 |
| Interest | 1,137,462 | - | 1,137,462 |
| Differences between expected and actual experience | 831,889 | - | 831,889 |
| Assumption Changes | (585,575) | - | (585,575) |
| Contributions—employer | - | 1,004,310 | (1,004,310) |
| Net investment income | - | 949,503 | (949,503) |
| Benefit payments, including refunds of employee contributions | (956,023) | (956,023) | - |
| Administrative expense | - | (18,018) | 18,018 |
| Net changes | <u>650,586</u> | <u>979,772</u> | <u>(329,186)</u> |
| Balances at 12/31/2015 | <u>\$ 15,805,526</u> | <u>\$ 10,661,285</u> | <u>\$ 5,144,241</u> |

NOTES TO FINANCIAL STATEMENTS

NOTE 9. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Net Pension Liability of the City (Continued)

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 7.75 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 (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

| | <u>1% Decrease (6.75%)</u> | <u>Current Discount Rate (7.75%)</u> | <u>1% Increase (8.75%)</u> |
|------------------------------|--------------------------------|--|--------------------------------|
| City's net pension liability | \$ 6,967,080 | \$ 5,144,241 | \$ 3,616,572 |

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, 2015 and the current sharing pattern of costs between employer and employee.

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NOTES TO FINANCIAL STATEMENTS

NOTE 9. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

For the year ended December 31, 2015, the City recognized pension expense of \$648,802. At December 31, 2015, 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 | \$ 623,917 | \$ - |
| Changes in assumptions | - | 439,181 |
| Net difference between projected and actual earnings on pension plan investments | - | 158,411 |
| City contributions subsequent to the measurement date | 733,661 | - |
| Total | \$ 1,357,578 | \$ 597,592 |

City contributions subsequent to the measurement date of \$733,661 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. 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: | | |
|--------------------------|--|-----------|
| 2016 | | \$ 21,975 |
| 2017 | | 21,975 |
| 2018 | | 21,975 |
| 2019 | | (39,600) |
| Total | | \$ 26,325 |

NOTES TO FINANCIAL STATEMENTS

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The City of Cedartown Other Post-Employment Benefits Plan (the "OPEB Plan") is a defined benefit post-retirement health care, prescription drug, and life insurance plan. The OPEB Plan is administered through the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer OPEB Plan administered by the Georgia Municipal Association. The City Commission has the authority to establish and amend the OPEB Plan. The City has not elected to advance fund the OPEB Plan, but rather maintains the OPEB Plan on a "pay-as-you-go" basis, in the claims are paid as they arise, rather than establishing an irrevocable trust to accumulate restricted funds. 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 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.

Benefits

Eligible retirees are offered a health care and prescription drug insurance plan until he/she becomes eligible to enroll in Medicare. Life insurance benefits are also offered for life but with reductions as the retiree reaches certain age limits. The City pays 100% of the premiums for eligible retirees.

Eligibility

To be eligible for the health care and prescription drug portions of the OPEB Plan, an employee must be retired from the City with twenty (20) years of service and currently receiving a pension. To be eligible for life insurance benefits, an employee must only have twenty (20) years of service at retirement.

Plan Membership

As of July 1, 2014, the most recent actuarial valuation date, the OPEB Plan membership included the following categories of participants:

| | |
|--|------------|
| Retirees receiving health care, prescription drug, and life insurance benefits | 14 |
| Retirees receiving only life insurance benefits | 27 |
| Active plan members | 99 |
| | <u>140</u> |

NOTES TO FINANCIAL STATEMENTS

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

City Contributions

The City contribution is determined by the actuary as necessary to keep the OPEB Plan in compliance with the funding requirements of the State of Georgia; however, the City has elected to fund the plan on a pay-as-you-go basis.

The annual required contribution for the current year was determined as part of the July 1, 2014 actuarial valuation. The actuarial assumptions included:

| | |
|---------------------------------------|-----------------------|
| Cost Method | Projected unit credit |
| Actuarial Asset Valuation Method | Not applicable |
| Assumed Rate of Return on Investments | 4.0% |
| Healthcare Cost Trend Rate | 5.0% - 7.5% |
| Ultimate Healthcare Cost Trend Rate | 5.0% |
| Year of Ultimate Trend Rate | 2020 |
| Amortization Method | Level dollar |
| Remaining Amortization Period | 19 years (closed) |

The following is a schedule of funding progress using the projected unit credit actuarial cost method and the actuarial assumptions from the most recent valuation date (July 1, 2014):

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll (b-a/c) |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|--|
| 7/1/2014 | - | \$ 1,876,589 | \$ 1,876,589 | 0.0% | \$ 3,357,712 | 55.9% |

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

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 July 1, 2014. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the City and plan members in the future.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost

The City's actuarially determined contribution, OPEB cost, and the increase in the net OPEB obligation for the year ended December 31, 2015 is as follows:

| | |
|---|--------------------------|
| Annual required contribution | \$ 205,923 |
| Interest on net OPEB obligation | 32,426 |
| Adjustments to annual required contribution | <u>(58,014)</u> |
| Annual OPEB cost | 180,335 |
| Contributions made | <u>(77,221)</u> |
| Increase in net OPEB obligation | 103,114 |
| Net OPEB obligation, beginning of year | <u>805,766</u> |
| Net OPEB obligation, end of year | <u><u>\$ 908,880</u></u> |

The required contribution was determined as part of the July 1, 2014 actuarial valuation. The chart below shows the annual OPEB cost for the current year, along with the percentage actually contributed by the City:

Schedule of Employer Costs and Contributions

| <u>Year Ending</u> | <u>Annual OPEB Cost</u> | <u>Employer Contribution</u> | <u>Percentage of ARC Contributed</u> | <u>Net OPEB Obligation</u> |
|------------------------|-----------------------------|----------------------------------|--|--------------------------------|
| December 31, 2015 | \$ 180,335 | \$ 77,221 | 43% | \$ 908,880 |
| December 31, 2014 | 168,170 | 64,670 | 38% | 805,766 |
| December 31, 2013 | 258,485 | 65,263 | 25% | 702,266 |

NOTE 11. JOINT VENTURE

Under Georgia law, the City, in conjunction with other cities and counties in the area, is a member of the Northwest Georgia Regional Commission (NWGRC) and is required to pay annual dues thereto, which amounted to \$9,723 for the year ended December 31, 2015. Membership in the NWGRC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34, which provides for the organization structure of the NWGRC. NWGRC Board 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 the NWGRC. Separate financial statements may be obtained from the NWGRC, P.O. Box 1798, Rome, Georgia 30162-1798 or by calling (706) 295-6485.

NOTES TO FINANCIAL STATEMENTS

NOTE 12. HOTEL/MOTEL LODGING TAX

The City has levied an occupancy tax of 8% for the rent of a guest room at a hotel or motel in the City as authorized by the Official Code of Georgia Annotated (O.C.G.A.) §48-13-51(b)(5). Local governments imposing a tax under this code section are required to expend, in each fiscal year, an amount equal to not less than 50% of the total amount of taxes collected that exceed the amount of taxes that would have been collected at the rate of 5% for promoting tourism, conventions, and trade shows by the destination marketing organization designated by the municipality levying the tax (for the City, the Downtown Cedartown Association). The remaining amount of taxes collected that exceed the amount of taxes that would be collected at the rate of 5% which are not otherwise expended above shall be expended for tourism product development. For the year ended December 31, 2015, the City collected \$52,789 in hotel/motel tax revenues of which \$40,000 were transferred to the City' General Fund and used to pay the salary and benefits for the director of the Downtown Cedartown Association.

NOTE 13. RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft 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 Property and Liability Insurance Fund, a public entity risk pool currently operating as common risk management and insurance programs for member local governments.

As part of this risk pool, the City is obligated to pay all contributions and assessments as prescribed by the pools, to cooperate with the pool's 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 descriptions issued, all incidents which could result in the funds being required to pay any claim of loss. The City is also to allow the pool's agents and attorneys to represent the City in 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 protect the members of the funds against liability or loss as prescribed in the member government contract. The fund is to pay all cost taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

Settled claims have not exceeded the coverages in the last three years.

The City carries commercial insurance for other risks of losses. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage in the last three years.

NOTES TO FINANCIAL STATEMENTS

NOTE 14. COMMITMENTS AND CONTINGENCIES

Litigation:

The City is a defendant in certain legal actions in the nature of claims for alleged damages to persons and property and other similar types of actions rising in the course of City operations. Liability, if any, which might result from these proceedings, would not, in the opinion of management and legal counsel, have a material adverse effect on the financial position of the City.

Grant Contingencies:

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to the disallowance of certain expenditures previously reimbursed by those agencies. Based upon prior experience, management of the City believes such disallowances, if any, will not be significant.

Contractual Commitments:

The City has executed contracts with third parties for various projects throughout the City. As of December 31, 2015, the balance of those contracts representing commitments made by the City for work not yet completed is \$40,315.

NOTE 15. RESTATEMENT OF BEGINNING BALANCES

Governmental Activities:

As discussed in Note 9, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, effective January 1, 2015. These new standards significantly changed the City's accounting for pension amounts. As a result of this change in accounting principle, the City was required to restate beginning net position for governmental activities as shown below:

| | |
|--|-----------------------------|
| Net position, governmental activities, as previously reported | \$ 15,735,424 |
| City's net pension liability, beginning balance | (4,596,370) |
| Deferred outflows of resources, pension related items, beginning balance | 731,137 |
| Beginning net position, governmental activities, restated | <u><u>\$ 11,870,191</u></u> |

NOTES TO FINANCIAL STATEMENTS

NOTE 15. RESTATEMENT OF BEGINNING BALANCES (CONTINUED)

Water and Sewer Fund / Business-type Activities:

The City's Water and Sewer Fund contributes toward the liquidation of the net pension liability and thus was required to restate beginning net position as a result of the implementation of GASB Statements No. 68 and 71 as described above.

In addition, management of the City has determined that restatements to the beginning net position of the City's Water and Sewer Fund are necessary to correct certain errors and omissions from previous financial statements. The overall impact of these restatements on the City's Water and Sewer Fund and business-type activities are as follows:

| | |
|--|----------------------|
| Net position, Water and Sewer Fund, as previously reported | \$ 10,194,453 |
| Net pension liability, beginning balance | (877,057) |
| Deferred outflows of resources, pension related items, beginning balance | 139,512 |
| Recognition of long-term receivable arising from a Utility Services Agreement that was executed in prior years for which the City has performed all required services and thus the revenue should have been recognized | 5,890,000 |
| Recognition of intergovernmental revenues arising from a reimbursement based grant for which all eligibility requirements were met in prior periods | 300,000 |
| Beginning net position, Water & Sewer Fund, restated | <u>\$ 15,646,908</u> |

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CEDARTOWN, GEORGIA

REQUIRED SUPPLEMENTARY INFORMATION RETIREMENT PLAN SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS

| | 2015 |
|---|---------------|
| Total pension liability | |
| Service cost | \$ 222,833 |
| Interest on total pension liability | 1,137,462 |
| Differences between expected and actual experience | 831,889 |
| Changes of assumptions | (585,575) |
| Benefit payments, including refunds of employee contributions | (956,023) |
| Net change in total pension liability | 650,586 |
| | |
| Total pension liability - beginning | 15,154,940 |
| Total pension liability - ending (a) | \$ 15,805,526 |
| | |
| Plan fiduciary net position | |
| Contributions - employer | \$ 1,004,310 |
| Net investment income | 949,503 |
| Benefit payments, including refunds of member contributions | (956,023) |
| Administrative expenses | (18,018) |
| Net change in plan fiduciary net position | 979,772 |
| | |
| Plan fiduciary net position - beginning | 9,681,513 |
| Plan fiduciary net position - ending (b) | \$ 10,661,285 |
| | |
| City's net pension liability - ending (a) - (b) | \$ 5,144,241 |
| | |
| Plan fiduciary net position as a percentage of the total pension liability | 67.45% |
| | |
| Covered-employee payroll | \$ 4,052,521 |
| | |
| City's net pension liability as a percentage of covered-employee payroll | 126.94% |

Notes to the Schedule:

The schedule will present 10 years of information once it is accumulated.

CITY OF CEDARTOWN, GEORGIA

REQUIRED SUPPLEMENTARY INFORMATION RETIREMENT PLAN SCHEDULE OF CITY CONTRIBUTIONS

| | 2015 | 2014 |
|--|--------------|--------------|
| Actuarially determined contribution | \$ 867,322 | \$ 870,649 |
| Contributions in relation to the actuarially determined contribution | 867,322 | 870,649 |
| Contribution deficiency (excess) | \$ - | \$ - |
| Covered-employee payroll | \$ 4,022,373 | \$ 4,062,570 |
| Contributions as a percentage of covered-employee payroll | 21.56% | 21.43% |

Notes to the Schedule:

(1) Actuarial Assumptions:

| | |
|----------------|-----------------------|
| Valuation Date | July 1, 2014 |
| Cost Method | Projected Unit Credit |

Actuarial 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 amounts 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.

| | |
|---------------------------------------|---|
| Assumed Rate of Return on Investments | 7.75% |
| Projected Salary Increases | 3.75% - 8.25% (including 3.25% for inflation) |
| Cost-of-living Adjustment | 3.25% |
| Amortization Method | Closed level dollar for unfunded liability |
| Remaining Amortization Period | None remaining |

(2) The schedule will present 10 years of information once it is accumulated.

CITY OF CEDARTOWN, GEORGIA

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFIT PLAN**

| Measurement Date | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (b-a) Unfunded Actuarial Accrued Liability (UAAL) | (a/b) Funded Ratio | (c) Covered Payroll | [(b-a)/c] UAAL as a Percentage of Covered Payroll |
|-------------------------|--|--|--|-------------------------------|--------------------------------|--|
| July 1, 2014 | \$ - | \$ 1,876,589 | \$ 1,876,589 | 0.0% | \$ 3,357,712 | 55.9% |
| July 1, 2011 | - | 2,152,340 | 2,152,340 | 0.0% | 3,281,400 | 65.6% |

See assumptions used for this schedule in the notes to the financial statements.

CITY OF CEDARTOWN, GEORGIA

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are restricted or committed to expenditures for specified purposes.

Confiscated Assets Fund – This fund is used to account for the City's share of monies that have been confiscated or forfeited through the court system that are restricted for law enforcement purposes.

Hotel/Motel Tax Fund – This fund is used to account for hotel/motel taxes collected that are restricted for promotion of trade and tourism in the City.

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

SPLOST Fund – This fund is used to account for the expenditure of Special Purpose Local Option Sales Tax (SPLOST) proceeds that were collected during the previous voter approved referendum. Additionally, this fund is also used to account for the activity of the Cedartown Development Authority (CDA) which consists mainly of the on-going debt service payments resulting from the issuance of the CDA Revenue Bonds, Series 2013.

CITY OF CEDARTOWN, GEORGIA

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

| ASSETS | Special Revenue Funds | | Capital Projects | Total |
|-------------------------------------|-----------------------|-------------------|-------------------|-------------------|
| | Confiscated Assets | Hotel / Motel Tax | Fund | Nonmajor |
| | Fund | Fund | SPLOST | Governmental |
| | | | Fund | Funds |
| Cash and cash equivalents | \$ 27,694 | \$ 73,147 | \$ 788,310 | \$ 889,151 |
| Taxes receivable, net of allowances | - | 7,180 | - | 7,180 |
| Total assets | <u>\$ 27,694</u> | <u>\$ 80,327</u> | <u>\$ 788,310</u> | <u>\$ 896,331</u> |
| FUND BALANCES | | | | |
| Restricted: | | | | |
| Law enforcement activities | 27,694 | - | - | 27,694 |
| Promotion of tourism | - | 80,327 | - | 80,327 |
| Debt service | - | - | 296,200 | 296,200 |
| Capital projects | - | - | 492,110 | 492,110 |
| Total fund balances | <u>\$ 27,694</u> | <u>\$ 80,327</u> | <u>\$ 788,310</u> | <u>\$ 896,331</u> |

CITY OF CEDARTOWN, GEORGIA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | Special Revenue Funds | | Capital Projects | Total |
|--|-----------------------|-------------------|-------------------|-------------------|
| | Confiscated Assets | Hotel / Motel Tax | Fund | Nonmajor |
| | Fund | Fund | SPLOST | Governmental |
| | | | Fund | Funds |
| Revenues: | | | | |
| Taxes | \$ - | \$ 52,789 | \$ - | \$ 52,789 |
| Fines and forfeitures | 6,989 | - | - | 6,989 |
| Intergovernmental | - | - | 89,493 | 89,493 |
| Interest earned | - | - | 40 | 40 |
| Miscellaneous | - | - | 7,500 | 7,500 |
| Total revenues | <u>6,989</u> | <u>52,789</u> | <u>97,033</u> | <u>156,811</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | - | - | 1,129 | 1,129 |
| Public safety | 9,589 | - | - | 9,589 |
| Debt service: | | | | |
| Principal | - | - | 260,000 | 260,000 |
| Interest | - | - | 71,219 | 71,219 |
| Total expenditures | <u>9,589</u> | <u>-</u> | <u>332,348</u> | <u>341,937</u> |
| Excess (deficiency) of revenues over expenditures | (2,600) | 52,789 | (235,315) | (185,126) |
| Other financing sources (uses): | | | | |
| Transfers in | - | - | 364,719 | 364,719 |
| Transfers out | - | (40,000) | - | (40,000) |
| Total other financing sources (uses) | <u>-</u> | <u>(40,000)</u> | <u>364,719</u> | <u>324,719</u> |
| Net change in fund balances | (2,600) | 12,789 | 129,404 | 139,593 |
| Fund balances, beginning of year | <u>30,294</u> | <u>67,538</u> | <u>658,906</u> | <u>756,738</u> |
| Fund balances, end of year | <u>\$ 27,694</u> | <u>\$ 80,327</u> | <u>\$ 788,310</u> | <u>\$ 896,331</u> |

CITY OF CEDARTOWN, GEORGIA

**SCHEDULE OF PROJECTS CONSTRUCTED WITH
SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

| PROJECT | ORIGINAL ESTIMATED COST | REVISED ESTIMATED COST | PRIOR YEARS | CURRENT YEAR | TOTAL | ESTIMATED PERCENT COMPLETE |
|--|--|---------------------------------------|------------------------|-------------------------|---------------------|---|
| 2008 SPLOST: | | | | | | |
| Business Park | \$ 2,900,000 | \$ 2,900,000 | \$ 1,852,114 | \$ 71,219 | \$ 1,923,333 | 66.32 % |
| Water and Sewer Improvements and Equipment | 2,237,900 | 2,237,900 | 2,178,809 | - | 2,178,809 | 97.36 |
| Water Maintenance Equipment | 600,000 | 600,000 | 179,719 | - | 179,719 | 29.95 |
| Street, Sidewalks, and Storm Sewer Improvements and Equipment | 1,400,000 | 1,400,000 | 1,205,403 | - | 1,205,403 | 86.10 |
| Public Safety Equipment | 600,000 | 742,684 | 742,684 | - | 742,684 | 100.00 |
| Recreation and Park Improvements and Equipment | 350,000 | 350,000 | 123,375 | - | 123,375 | 35.25 |
| Public Land and Building Improvements | 854,500 | 711,816 | 239,281 | - | 239,281 | 33.62 |
| Total 2008 SPLOST | <u>\$ 8,942,400</u> | <u>\$ 8,942,400</u> | <u>\$ 6,521,385</u> | <u>71,219</u> | <u>\$ 6,592,604</u> | |
| Principal payments made on long-term debt used for construction of assets in prior years | | | | 260,000 | | |
| Expenditures funded by other revenue sources | | | | 1,129 | | |
| Total SPLOST Fund expenditures for year ended December 31, 2015 | | | | <u>\$ 332,348</u> | | |
| 2014 SPLOST: | | | | | | |
| Debt Service | \$ 3,488,583 | \$ 3,488,583 | \$ 144,653 | \$ 556,031 | \$ 700,684 | 20.09 % |
| Municipal infrastructure improvements | 2,050,000 | 2,050,000 | 150 | 125,475 | 125,625 | 6.13 |
| Municipal equipment and vehicles | 1,350,000 | 1,350,000 | 39,263 | 275,410 | 314,673 | 23.31 |
| Technology infrastructure and improvements | 50,000 | 50,000 | 3,582 | 240 | 3,822 | 7.64 |
| Recreation and park improvements | 250,000 | 250,000 | 538 | 35,742 | 36,280 | 14.51 |
| Public land, buildings, and facilities improvements | 1,781,417 | 1,781,417 | - | 45,419 | 45,419 | 2.55 |
| Total 2014 SPLOST | <u>\$ 8,970,000</u> | <u>\$ 8,970,000</u> | <u>\$ 188,186</u> | <u>1,038,317</u> | <u>\$ 1,226,503</u> | |
| Principal payments made on long-term debt used for construction of assets in prior years | | | | 142,173 | | |
| Total 2014 SPLOST Fund expenditures for year ended December 31, 2015 | | | | <u>\$ 1,180,490</u> | | |

OTHER SUPPLEMENTARY INFORMATION

CITY OF CEDARTOWN, GEORGIA

**BALANCE SHEET
COMPONENT UNIT - CEDARTOWN CIVIC ARTS COMMISSION
DECEMBER 31, 2015**

| ASSETS | |
|-----------------------------------|------------------|
| CURRENT ASSETS | |
| Cash | \$ 41,562 |
| Total assets | <u>\$ 41,562</u> |
| FUND BALANCE | |
| FUND BALANCE | |
| Assigned for Cedartown Auditorium | <u>41,562</u> |
| Total fund balance | <u>\$ 41,562</u> |

CITY OF CEDARTOWN, GEORGIA

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
COMPONENT UNIT - CEDARTOWN CIVIC ARTS COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | |
|--|-------------------------|
| REVENUES | |
| Charges for services | \$ 36,554 |
| Intergovernmental revenues | 26,824 |
| Interest | 15 |
| Miscellaneous | <u>13,155</u> |
| Total revenues | <u>76,548</u> |
| EXPENDITURES | |
| Current: | |
| Culture and recreation | <u>83,213</u> |
| Total expenditures | <u>83,213</u> |
| Net change in fund balance | (6,665) |
| FUND BALANCE, beginning of year | <u>48,227</u> |
| FUND BALANCE, end of year | <u><u>\$ 41,562</u></u> |

CITY OF CEDARTOWN, GEORGIA

BALANCE SHEET COMPONENT UNIT - DOWNTOWN CEDARTOWN ASSOCIATION DECEMBER 31, 2015

| ASSETS | |
|---|------------------|
| CURRENT ASSETS | |
| Cash | \$ 11,869 |
| Accounts receivable | 3,850 |
| Investments | 25,075 |
| Inventory | 4,280 |
| Prepaid items | <u>149</u> |
| Total assets | <u>\$ 45,223</u> |
| LIABILITIES AND FUND BALANCE | |
| LIABILITIES | |
| Accounts payable | <u>\$ 2,587</u> |
| FUND BALANCE | |
| Nonspendable: | |
| Inventory | 4,280 |
| Prepays | 149 |
| Assigned for downtown Cedartown | <u>38,207</u> |
| Total fund balance | <u>42,636</u> |
| Total liabilities and fund balance | <u>\$ 45,223</u> |

CITY OF CEDARTOWN, GEORGIA

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
COMPONENT UNIT - DOWNTOWN CEDARTOWN ASSOCIATION
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | |
|--|-------------------------|
| REVENUES | |
| Charges for services | \$ 14,324 |
| | <u>14,324</u> |
| Total revenues | <u>14,324</u> |
| EXPENDITURES | |
| Current: | |
| Culture and recreation | <u>17,892</u> |
| Total expenditures | <u>17,892</u> |
| Net change in fund balance | (3,568) |
| FUND BALANCE, beginning of year | <u>46,204</u> |
| FUND BALANCE, end of year | <u><u>\$ 42,636</u></u> |

CITY OF CEDARTOWN, GEORGIA

**BALANCE SHEET
COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY
DECEMBER 31, 2015**

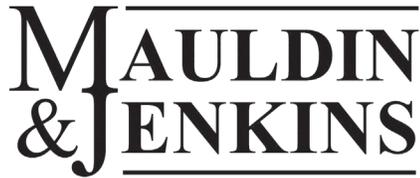
| ASSETS | |
|----------------------------|-------------------|
| CURRENT ASSETS | |
| Cash | \$ 1,014 |
| Accounts receivable | <u>155,658</u> |
| Total assets | <u>\$ 156,672</u> |
| FUND BALANCE | |
| FUND BALANCE | |
| Restricted for development | \$ 155,658 |
| Assigned for development | <u>1,014</u> |
| Total fund balance | <u>\$ 156,672</u> |

CITY OF CEDARTOWN, GEORGIA

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | |
|--|--------------------------|
| REVENUES | |
| Interest | \$ 2,147 |
| Other | <u>2,250</u> |
| Total revenues | <u>4,397</u> |
| EXPENDITURES | |
| Current: | |
| Housing and development | 2,267 |
| Debt service: | |
| Principal | 6,352 |
| Interest | <u>2,146</u> |
| Total expenditures | <u>10,765</u> |
| Deficiency of revenues over expenditures | (6,368) |
| OTHER FINANCING SOURCES | |
| Proceeds from note payable | <u>62,000</u> |
| Total other financing sources | <u>62,000</u> |
| Net change in fund balance | 55,632 |
| FUND BALANCE, beginning of year | <u>101,040</u> |
| FUND BALANCE, end of year | <u><u>\$ 156,672</u></u> |

COMPLIANCE SECTION



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

**The Members of the City Commission
City of Cedartown, Georgia**

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cedartown, Georgia (the “City”) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated June 8, 2016. Our report includes a reference to the change in accounting principle resulting from the implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’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’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Cedartown, Georgia’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2015-001 through 2015-003, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as item 2015-004.

City of Cedartown's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



Atlanta, Georgia
June 8, 2016

CITY OF CEDARTOWN, GEORGIA

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015**

**SECTION I
SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? yes no

Significant deficiencies identified? yes no

Noncompliance material to financial statements noted? yes no

Federal Awards

There was not an audit of major programs in the current year as expenditures of federal awards did not exceed the \$750,000 threshold.

CITY OF CEDARTOWN, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED DECEMBER 31, 2015

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

2015-001 Revenues and Related Balance Sheet Accounts and Restatements of Beginning Balances

Criteria: Internal controls should be in place to ensure that financial statements properly present the financial position and results of operations of the City in accordance with generally accepting accounting principles (GAAP).

Condition: Internal controls were not sufficient to timely detect material misstatements in the City's reporting of revenues and the related balance sheet accounts, some of which impacted the financial statements for the year ended December 31, 2014.

Context/Cause: During our audit for the year ended December 31, 2015, material misstatements were identified in the reporting of the City's revenues. Additionally, it was noted that two (2) of these misstatements pertained to revenues that should have been recognized in a prior period and thus caused the need to restate beginning net position of the City's Water and Sewer Fund. The nature and magnitude of these adjustments are as follows:

- The City executed a Utility Services Agreement in a prior year and performed all necessary services as of December 31, 2014 such that the revenue from the agreement should have been recognized and a receivable recorded. As a result, an audit adjustment of \$5,890,000 was required to properly report this transaction that the City was accounting for on the cash basis.
- During the year ended December 31, 2015, the City received payment for a grant it had been awarded in prior years. However, it was determined that the City met all eligibility requirements to earn the revenue as of December 31, 2014 and as a result, an audit adjustment of \$300,000 was required to properly report this transaction that the City was accounting for on the cash basis.
- In the General Fund, an audit adjustment of approximately \$17,000 was required to properly accrue revenue and deferred inflows of resources for unavailable revenue related to a grant for which the City had met all the eligibility requirements as of December 31, 2015.

Effects: As a result of the issues identified, total misstatements related to the City's reporting of revenues and related balance sheet accounts amounted to approximately \$6,207,000, of which \$6,190,000 applied to the beginning net position of the Water and Sewer Fund.

Recommendations: We recommend the City carefully review the financial statements and the applicable reporting requirements under generally accepted accounting principles (GAAP) to ensure that all information and financial data is being properly reported.

Auditee's Response: We concur with the finding. We will take the necessary steps in the future to ensure that items are properly reported in accordance with GAAP.

CITY OF CEDARTOWN, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED DECEMBER 31, 2015

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2015-002 Expenditures and Related Balance Sheet Accounts

Criteria: Internal controls should be in place to ensure that amounts reported as expenditures and the related balance sheet accounts are appropriate and properly valued in accordance with generally accepted accounting principles (GAAP).

Condition: Internal controls were not sufficient to detect a material misstatement in the reporting of the City's expenditures and accounts payable balances as of December 31, 2015.

Context/Cause: During our audit for the year ended December 31, 2015, a material misstatement was identified in the 2014 SPLOST Fund. While performing a search for unrecorded liabilities, we identified goods and services that were received by the City prior to December 31, 2015 for which the expenditures were not recorded in the proper period.

Effects: As a result of the omission, an audit adjustment of \$33,450 was required to record the expenditures and accrue accounts payable as of December 31, 2015.

Recommendations: We recommend the City carefully review all transactions occurring shortly after year-end to ensure proper cutoff and completeness of the City's accounts payable balances so that expenditures are properly reported in accordance with GAAP.

Auditee's Response: We concur with the finding. We will take the necessary steps in the future to ensure that items are properly reported in accordance with GAAP.

CITY OF CEDARTOWN, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED DECEMBER 31, 2015

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2015-003 Segregation of Duties

Criteria: Internal controls should be in place which provide reasonable assurance that an individual cannot misappropriate funds, whether intentionally or unintentionally, without such actions being detected during the normal course of business and the financial information is accurately reported.

Condition: The City does not have adequate controls to properly segregate all responsibilities related to the following:

- The chief financial officer (CFO) has the ability to perform all functions relating to cash receipts and accounts receivable and is also responsible for preparing the monthly bank reconciliations;
- Although not routinely performed, the CFO has the ability to perform all functions related to payroll (reviewing and authorizing electronic payroll disbursements, resolving employee payroll inquiries, and editing the payroll master file);
- Currently, there is not a policy requiring the review and approval of all journal entries by someone other than the individual posting the entry. During our audit, we noted that the vast majority of journal entries are prepared and posted by the CFO.

Context/Cause: During our review of internal controls, we noted the City lacked a proper segregation of duties related to cash and banking activities, payroll activities, and the posting of manual journal entries. There are not sufficient compensating controls to mitigate the lack of segregation in these areas and therefore the risk for errors is increased.

Effects: Failure to properly segregate duties may allow for errors or irregularities to occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions.

Recommendation: We recommend the City properly segregate duties relative to the transaction cycles noted above or implement adequate compensating controls.

Auditee's Response: We concur with the finding. The City will take the necessary steps to address the segregation of duties deficiency noted above with compensating controls.

CITY OF CEDARTOWN, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED DECEMBER 31, 2015

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2015-004 Governmental Fund Budgets

Criteria: State of Georgia Law (O.C.G.A. §36-81-3) states:

- a) Each unit of local government shall adopt and operate under either an annual or project-length balanced budget for the general fund, each special revenue fund, each debt service fund, and each capital project fund in use by the local government. These balanced budgets shall be adopted by ordinance or resolution and administered in accordance with this article;
- b) A budget ordinance or resolution is balanced when the sum of estimated revenues and appropriated fund balances is equal to appropriations.

Condition: State law requires local governments to adopt balanced budgets for all governmental funds. Management did not adopt a budget for the Confiscated Assets Fund, which is reported as a special revenue fund, for the year ended December 31, 2015.

Context/Cause: Due to an oversight by management, the City failed to adopt a budget for the Confiscated Assets Fund for the year ended December 31, 2015.

Effects: Because the City did not adopt a budget, the Confiscated Assets Fund was operating in violation of State of Georgia Law O.C.G.A. §36-81-3 for the year ended December 31, 2015.

Recommendation: We recommend management of the City carefully review all funds and their respective budgets prior to formal adoption by the City to ensure compliance with State Law.

Auditee's Response: We concur with the finding. We will take necessary steps to ensure all budgets comply with the requirements of State of Georgia Law O.C.G.A. §36-81-3 in future periods.

CITY OF CEDARTOWN, GEORGIA

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015**

**SECTION III
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

Not Applicable.