

CITY OF TOCCOA, GEORGIA

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
JUNE 30, 2012**

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ANNUAL FINANCIAL REPORT
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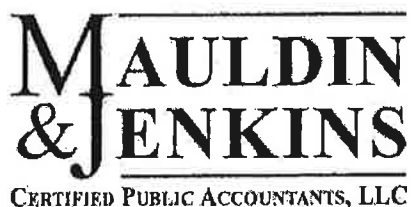
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INDEPENDENT AUDITOR'S REPORT

**Honorable Mayor and Members of the
City Commission of the City of Toccoa, Georgia
Toccoa, Georgia**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Toccoa, Georgia** (the City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Toccoa, Georgia as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2012, on our consideration of the City of Toccoa, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress on pages 3—11 and 48 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Toccoa, Georgia's basic financial statements. The combining and individual fund financial statements and schedules and the schedule of expenditures of special purpose local option sales tax proceeds (as required by the Official Code of Georgia Annotated 48-8-21), 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Mauldin & Jenkins, LLC

Atlanta, Georgia
November 19, 2012

**CITY OF TOCCOA, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

As management of the City of Toccoa (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2012. This narrative is intended to assist the reader in understanding significant issues and provide an overview of financial activities and identify changes in financial position. We encourage readers to consider this information presented herein, in conjunction with the additional information furnished in the financial statements, and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at June 30, 2012 by \$53,978,755 (net assets). Of this amount, \$4,017,558 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. The government's total net assets decreased by \$1,072,837 during the fiscal year ended June 30, 2012; with a decrease from business-type activities (\$196,057) and a decrease in governmental activities (876,780).
- As of June 30, 2012, the City's governmental funds reported combined ending fund balances of \$8,109,439 an increase of \$977,247 in comparison with the prior year. This increase is attributable mainly to a \$1,153,590 increase in fund balance of the SPLOST V Fund offset by a decrease in the fund balance of the SPLOST IV Fund. The increase in SPLOST V was due to the City spending very little money on these SPLOST projects during the year ended June 30, 2012.

Overview of the Financial Statements

The annual financial statements consist of a series of financial statements. This narrative is intended to serve as an introduction to the basic financial statements. The City's basic financial statements comprise three components:

- Government Wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements

This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Government Wide Financial Statements: The government-wide financial statements are designed to provide readers with a broad overview of the City's finances. They are prepared using the accrual basis of accounting, which is the accounting method used in most private-sector companies. There are two government-wide statements, the statement of net assets and the statement of activities, which are described below.

- 1) The "statement of net assets" presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as an indicator of whether the financial position of the City is improving or deteriorating.
- 2) The "statement of activities" presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

CITY OF TOCCOA, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

Both of the government-wide financial statements distinguish between functions that are principally supported by taxes and intergovernmental revenues (governmental activities) and other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Governmental activities of the City include general government, public safety, public works, culture and recreation, and economic and community development. Business-type activities include water and sewer, solid waste, natural gas services, and the golf course.

The government-wide financial statements can be found on pages 12 and 13 of this report.

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements focus on the most significant funds, reporting on the City's operations in greater detail than the government-wide statements. All of the City's funds can be divided into two categories: governmental and proprietary.

Governmental Funds: Most of the basic services provided by the City are financed through governmental funds and are essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. These statements assist the reader in determining whether there are adequate financial resources available to meet the current needs of the City.

Because the focus of governmental funds is short-term and the focus of the government-wide financial statements is both short-term and long-term, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 7 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the three funds which are considered to be major funds. The remaining fund are aggregated and presented as non-major governmental funds, however a combining schedule for the non-major governmental funds is presented as supplementary information to these financial statements.

The City adopts an annual appropriated budget for the General Fund and all special revenue funds. Project length budgets are adopted for all capital project funds. A budgetary comparison statement is provided for the General Fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

Proprietary Funds: The City maintains one type of proprietary funds - enterprise funds. Enterprise funds charge a fee for services to outside customers. The City uses individual enterprise funds to account for its water and sewer, solid waste, natural gas, and golf course activities – each of which is considered to be a major fund. The City's enterprise fund statements are the same as the business-type activities reported in the government-wide financial statements, but provide more detail.

The basic proprietary fund financial statements can be found on pages 18-20 of this report.

**CITY OF TOCCOA, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Notes to the Financial Statements: The notes to the financial statements provide additional information that is essential for the reader in order to obtain a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 21-47 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligations to provide pension benefits to its employees.

The required supplementary information can be found on page 48 of this report.

The "combining statements" referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

Combining and individual fund statements and schedules can be found on pages 49-54 of this report.

**CITY OF TOCCOA, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$53,978,755 and \$55,051,592 at June 30, 2012 and 2011, respectively. The following is a condensed version of the government-wide statement of net assets.

City of Toccoa – Net Assets (\$000)

	Governmental Activities		Business-Type		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	\$ 9,270	\$ 7,967	\$ 2,215	\$ 4,035	\$ 11,485	\$ 12,002
Capital assets	20,288	22,153	51,877	53,206	72,165	75,359
Total assets	<u>29,558</u>	<u>30,120</u>	<u>54,092</u>	<u>57,241</u>	<u>83,650</u>	<u>87,361</u>
Liabilities:						
Long-term liabilities						
outstanding	2,311	2,438	23,087	28,042	25,398	30,480
Other liabilities	1,162	720	3,112	1,110	4,274	1,830
Total liabilities	<u>3,473</u>	<u>3,158</u>	<u>26,199</u>	<u>29,152</u>	<u>29,672</u>	<u>32,310</u>
Net assets:						
Invested in capital assets,						
net of related debt	19,293	21,268	26,507	24,982	45,800	46,250
Restricted	4,161	5,067	-	198	4,161	5,265
Unrestricted	2,631	627	1,386	2,909	4,017	3,536
Total net assets	<u>\$ 26,085</u>	<u>\$ 26,962</u>	<u>\$ 27,893</u>	<u>\$ 28,089</u>	<u>\$ 53,978</u>	<u>\$ 55,051</u>

The largest portion of the City's net assets (85%) reflects its investment in capital assets such as land, buildings, plant, utility system, equipment, and infrastructure (roads, bridges, and other immovable assets), less any related outstanding debt used to acquire those assets. These capital assets are used by the City to provide services to citizens. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted net assets of \$4,160,940 are restricted by contracts or agreements with outside parties, by law, or by enabling legislation to be used for specific purposes such as capital projects or debt service.

The remaining balance of unrestricted net assets \$4,017,558 may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City was able to report positive balances in each category of net assets for governmental activities and for business-type activities. The same situation held true for the prior fiscal year.

CITY OF TOCCOA, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

Governmental activities: Governmental activities decreased the City's net assets by \$876,780 and business-type activities decreased the City's net assets by \$196,057. Much of the decrease in governmental activities net assets came from decreases in various revenues, notably other taxes, intergovernmental revenue, and property taxes. The decrease in business-type activities net assets came predominately from decreased revenues in Natural Gas sales due to a very mild winter.

The following condensed financial information was derived from the government-wide statement of activities and summarizes changes in net assets for the year ended June 30, 2012 and 2011.

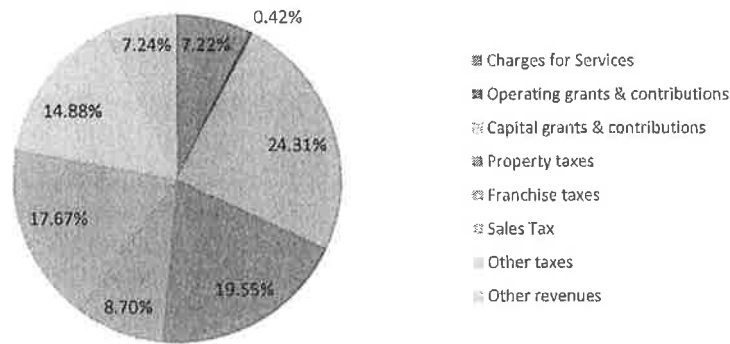
City of Toccoa – Changes in Net Assets (\$000)

	Governmental Activities		Business-Type		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services	\$ 476	\$ 513	\$ 17,295	\$ 19,092	\$ 17,771	\$ 19,605
Operating grants and contributions	27	30	-	-	27	30
Capital grants and contributions	1,601	1,895	-	-	1,601	1,895
General revenues:						
Property taxes	1,287	1,304	-	-	1,287	1,304
Franchise taxes	573	553	-	-	573	553
Sales tax	1,163	1,140	-	-	1,163	1,140
Other taxes	980	1,163	-	-	980	1,163
Other	476	536	2	12	479	548
Total revenues	<u>6,584</u>	<u>7,134</u>	<u>17,298</u>	<u>19,104</u>	<u>23,882</u>	<u>26,238</u>
Expenses						
General government	1,921	1,902	-	-	1,921	1,902
Public safety	3,712	4,072	-	-	3,712	4,072
Public works	3,018	3,050	-	-	3,018	3,050
Culture & recreation	26	43	-	-	26	43
Economic & community development	785	1,033	-	-	785	1,033
Interest on long term debt	8	44	-	-	8	44
Water and sewer	-	-	4,762	4,763	4,762	4,763
Solid waste	-	-	801	745	801	745
Natural gas	-	-	9,901	10,317	9,901	10,317
Golf course	-	-	20	13	20	13
Total expenses	<u>9,470</u>	<u>10,144</u>	<u>15,484</u>	<u>15,838</u>	<u>24,955</u>	<u>25,982</u>
Transfers	<u>2,010</u>	<u>1,944</u>	<u>(2,010)</u>	<u>(1,944)</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>(877)</u>	<u>(1,066)</u>	<u>(196)</u>	<u>1,322</u>	<u>(1,073)</u>	<u>256</u>
Net assets-July 1	<u>26,962</u>	<u>28,028</u>	<u>28,089</u>	<u>26,767</u>	<u>55,051</u>	<u>54,795</u>
Net assets-June 30	<u>\$ 26,085</u>	<u>\$ 26,962</u>	<u>\$ 27,893</u>	<u>\$ 28,089</u>	<u>\$ 53,978</u>	<u>\$ 55,051</u>

**CITY OF TOCCOA, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

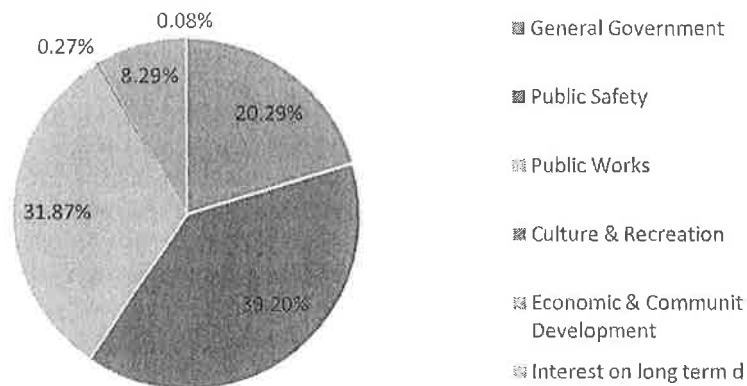
The following chart illustrates revenues of the governmental activities for the fiscal year:

Revenues by Source-Governmental Activities



The following chart illustrates the expenses of the governmental activities for the fiscal year:

Expenses-Governmental Activities



Governmental activities revenues totaled \$6,583,927 for fiscal year 2012. Capital grants and contributions, which include the proceeds from Stephens County for the City's portion of the Special Purpose Local Option Sales Tax (SPLOST), make up a large portion on these revenues accounting for 18% of total revenues. Property taxes and Local Option Sales Taxes (LOST) are also large revenue sources accounting for 20% and 18%, respectively, of governmental revenues for the year.

CITY OF TOCCOA, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

Governmental activities expenses totaled \$9,470,463 for fiscal year 2012. Of the expenses, 39% is related to public safety. In addition, public works accounted for 32% of total governmental expenses for the year. Overall expenses decreased at the City as a result of fewer grant expenses and a conservative capital budget.

Business-type activities: Business-type activities decreased the City's net assets by \$196,057, due primarily to decreases in Natural Gas sales as a result of a mild winter.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to insure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: As previously mentioned, the focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current year, the City's governmental funds reported combined ending fund balances of \$8,109,439 an increase of \$977,247 or 14% in comparison with the prior year. Approximately 5% of the fund balance or \$437,555 is classified as nonspendable and includes amounts for inventory and long term advances. Restricted fund balance of \$5,442,807 or 67% is for spending on capital projects, grants, and tourism, and the GMA lease pool. The remaining balance \$2,229,077 is considered unassigned.

The General Fund is the chief operating fund of the City, at the end of the current fiscal year, the fund balance of the City's General Fund increased by \$491,863 during the current fiscal year. This resulted primarily from transfers in from the enterprise funds.

Proprietary Funds: The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about the funds.

At the fiscal year end, the Water and Sewer Fund has unrestricted net assets of \$775,912. Overall, net assets of this fund increased by \$402,074, due to revenues exceeding expenses and transfers out. Operating income was \$1,848,176 an increase of \$449,853 from the prior year.

The Solid Waste Fund has unrestricted net assets of \$142,844 and total net assets decreased by \$32,181 from the prior year due to expenses and transfers exceeding revenues. Operating income was \$342,891 a decline of \$70,914 from the prior year.

The Natural Gas Fund had unrestricted net assets of \$467,334. Total net assets decreased by \$566,708 from the prior year primarily due to expenses and transfers out exceeding revenues. Operating income was \$673,990 a decline of \$2,008,660 from the prior year.

**CITY OF TOCCOA, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

General Fund Budgetary Highlights

During the year several budget amendments were adopted by the City Commission, increasing budgeted revenues and expenditures, but having no significant impact on the budgeted bottom line. The adjustments are included in the final budget column totals in the budgetary statement.

During the year, General Fund revenues were less than budgetary projections while expenditures were more than budgetary estimates, however transfers in were more than budgeted amounts and transfers out were less than budgeted. Overall the City was able to add \$491,863 to fund balance through the sale of capital assets and transfers in from other funds.

Capital Assets and Debt Administration

Capital assets: The City's investment in capital assets for its governmental activities as of June 30, 2012, amounted to \$20,288,205, net of accumulated depreciation. The investment in capital assets includes land, plant and buildings, machinery, equipment and fixtures, and streets and drainage. The balance represents a \$1,864,993 decrease from the prior year, caused by depreciation expense for the year and the net effect of acquisitions and disposals. The business-type activities had net capital assets of \$51,876,718 at June 30, 2012, representing a decrease of \$1,329,667 also caused mainly by depreciation and disposals.

Capital assets held by the City at the end of the fiscal year are summarized as follows:

**City of Toccoa – Capital Assets (net of accumulated depreciation) (\$000)
Fiscal Year 2012 and 2011**

	Governmental Activities		Business-Type		Total	
	2012	2011	2012	2011	2012	2011
Land and improvements	\$ 630	\$ 615	\$ 295	\$ 295	\$ 925	\$ 910
Buildings	6,234	6,234	3,657	3,482	9,891	9,716
Urban Renewal parks	78	78	-	-	78	78
Machinery and equipment	4,422	4,233	6,127	5,378	10,549	9,611
Infrastructure	41,596	41,596	-	-	41,596	41,596
Utility systems	-	-	88,118	87,660	88,118	87,660
Construction in progress	-	-	-	327	-	327
Total	52,960	52,756	98,197	97,142	151,157	149,898
Accumulated depreciation	32,672	30,603	46,320	43,936	78,992	74,539
Net Capital Assets	\$ 20,288	\$ 22,153	\$ 51,877	\$ 53,206	\$ 72,165	\$ 75,359

Additional information on the City's capital assets can be found in Note 6 of these financial statements.

**CITY OF TOCCOA, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Long-term debt: At June 30, 2012, the City had \$18,275,343 in Natural Gas bonded debt. Overall these are \$1,226,316 lower than the prior year due to repayment of bonds at scheduled maturity. The City's Water and Sewer fund also had \$6,678,887 in GEFA notes payable at the end of the fiscal year.

The City's governmental activities had certificates of participation of \$2,277,000 at June 30, 2012 and 2011, which relate to the GMA Lease Pool program in which the City participates. The certificates are due in a balloon payment in 2028.

Additional information on the City's long-term debt can be found in Note 8 of this report.

Economic Factors and Next Year's Budget and Rates

Although, we are hopeful for signs of improvement in the economy, the City's budget for FY 2013 remains very conservative. Capital Outlay budgeted for the year is at a minimum and operating costs are expected to be at or near what was required for FY 2012.

Request for information

This financial report is designed to provide a general overview of the City of Toccoa's finances for our citizens, taxpayers, customers, investors, creditors, and other interested parties. Questions concerning any of the information should be addressed to the City's Finance Department, 92 N. Alexander Street, Toccoa, Georgia 30577 or by phone at (706) 886-8451.

BASIC FINANCIAL STATEMENTS

CITY OF TOCCOA, GEORGIA

STATEMENT OF NET ASSETS JUNE 30, 2012

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 6,099,755	\$ 471,765	\$ 6,571,520
Taxes receivable, net	352,060	-	352,060
Accounts receivable, net	45,380	1,467,335	1,512,715
Due from other governments	234,653	-	234,653
Internal balances	384,741	(384,741)	-
Inventory	52,814	408,056	460,870
Investments	1,281,867	-	1,281,867
Deferred charges	-	253,242	253,242
Other assets	818,890	-	818,890
Capital assets, non-depreciable	630,276	295,276	925,552
Capital assets, depreciable, net of accumulated depreciation	19,657,929	51,581,442	71,239,371
Total assets	29,558,365	54,092,375	83,650,740
LIABILITIES			
Accounts and retainage payable	132,183	529,956	662,139
Accrued liabilities	74,023	163,244	237,267
Unearned revenue	818,890	-	818,890
Customer deposits payable	-	417,641	417,641
Compensated absences, due within one year	136,674	62,048	198,722
Compensated absences, due in more than one year	34,168	41,366	75,534
Bonds payable, due within one year	-	1,265,000	1,265,000
Bonds payable, due in more than one year	-	17,010,343	17,010,343
Certificates of participation, due in more than one year	2,277,000	-	2,277,000
Capital leases payable, due within one year	-	10,332	10,332
Capital leases payable, due in more than one year	-	20,230	20,230
Notes payable, due within one year	-	663,361	663,361
Notes payable, due in more than one year	-	6,015,526	6,015,526
Total liabilities	3,472,938	26,199,047	29,671,985
NET ASSETS			
Invested in capital assets, net of related debt	19,293,072	26,507,185	45,800,257
Restricted for:			
Capital projects	4,042,824	-	4,042,824
Grant programs	96,460	-	96,460
Tourism	21,656	-	21,656
Unrestricted	2,631,415	1,386,143	4,017,558
Total net assets	\$ 26,085,427	\$ 27,893,328	\$ 53,978,755

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

CITY OF TOCCOA, GEORGIA

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 1,921,139	\$ 71,829	\$ 27,360	\$ -	(1,821,950)	\$ -	(1,821,950)
Public safety	3,712,350	344,836	-	109,841	(3,257,673)	-	(3,257,673)
Public works	3,018,001	29,285	-	1,339,600	(1,649,116)	-	(1,649,116)
Culture and recreation	25,532	29,687	-	-	4,155	-	4,155
Economic and community development	785,151	-	-	151,404	(633,747)	-	(633,747)
Interest on long-term debt	8,290	-	-	-	(8,290)	-	(8,290)
Total governmental activities	9,470,463	475,637	27,360	1,600,845	(7,366,621)	-	(7,366,621)
Business-type activities:							
Water and sewer	4,761,629	6,303,149	-	-	-	1,541,520	1,541,520
Solid waste	801,431	1,144,322	-	-	-	342,891	342,891
Natural gas	9,901,191	9,827,295	-	-	-	(73,896)	(73,896)
Golf course	19,808	20,566	-	-	-	758	758
Total business-type activities	15,484,059	17,295,332	-	-	-	1,811,273	1,811,273
Total primary government	\$ 24,954,522	\$ 17,770,969	\$ 27,360	\$ 1,600,845	(7,366,621)	1,811,273	(5,555,348)
General revenues:							
Property taxes					1,287,348	-	1,287,348
Sales taxes					1,163,411	-	1,163,411
Franchise taxes					572,892	-	572,892
Insurance premium tax					398,264	-	398,264
Hotel/Motel occupancy tax					29,865	-	29,865
Business taxes					235,088	-	235,088
Other taxes					316,756	-	316,756
Unrestricted investment earnings					41,697	2,426	44,123
Gain on sale of assets					32,195	-	32,195
Other revenue					402,569	-	402,569
Transfers					2,009,756	(2,009,756)	-
Total general revenues and transfers					6,489,841	(2,007,330)	4,482,511
Change in net assets					(876,780)	(196,057)	(1,072,837)
Net assets, beginning of year					26,962,207	26,089,385	55,051,592
Net assets, end of year					\$ 26,085,427	\$ 27,893,328	\$ 53,978,755

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

CITY OF TOCCOA, GEORGIA

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2012

	Major Governmental Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General	SPLOST IV Fund	SPLOST V Fund		
ASSETS					
Cash and cash equivalents	\$ 2,172,726	\$ 583,828	\$ 3,017,808	\$ 325,393	\$ 6,099,755
Taxes receivable, net	350,244	-	-	1,816	352,060
Accounts receivable	45,380	-	-	-	45,380
Intergovernmental receivable	-	-	196,295	38,358	234,653
Investments	1,281,867	-	-	-	1,281,867
Advances to other funds	384,741	-	-	-	384,741
Inventory	52,814	-	-	-	52,814
Total assets	<u>\$ 4,287,772</u>	<u>\$ 583,828</u>	<u>\$ 3,214,103</u>	<u>\$ 365,567</u>	<u>\$ 8,451,270</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 130,918	\$ 1,265	\$ -	\$ -	\$ 132,183
Accrued salaries	63,717	-	-	1,293	65,010
Deferred revenue	144,638	-	-	-	144,638
Total liabilities	<u>339,273</u>	<u>1,265</u>	<u>-</u>	<u>1,293</u>	<u>341,831</u>
FUND BALANCES					
Fund balances					
Nonspendable:					
Inventory	52,814	-	-	-	52,814
Advances to other funds	384,741	-	-	-	384,741
Restricted:					
Capital construction	-	582,563	3,214,103	246,158	4,042,824
GMA Lease Pool participation	1,281,867	-	-	-	1,281,867
Tourism	-	-	-	21,656	21,656
Grant programs	-	-	-	96,460	96,460
Unassigned	2,229,077	-	-	-	2,229,077
Total fund balances	<u>3,948,499</u>	<u>582,563</u>	<u>3,214,103</u>	<u>364,274</u>	<u>8,109,439</u>
Total liabilities and fund balances	<u>\$ 4,287,772</u>	<u>\$ 583,828</u>	<u>\$ 3,214,103</u>	<u>\$ 365,567</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	20,288,205
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	144,638
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(2,456,855)</u>
Net assets of governmental activities	<u>\$ 26,085,427</u>

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

CITY OF TOCCOA, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2012

	Major Governmental Funds			Nonmajor	Total
	General	SPLOST IV Fund	SPLOST V Fund	Governmental Funds	Governmental Funds
Revenues					
Taxes:					
Property taxes	\$ 1,266,866	\$ -	\$ -	\$ -	\$ 1,266,866
Sales taxes	1,163,411	-	-	-	1,163,411
Hotel/Motel occupancy taxes	-	-	-	29,865	29,865
Franchise taxes	572,892	-	-	-	572,892
Insurance premium tax	398,264	-	-	-	398,264
Business taxes	235,088	-	-	-	235,088
Other taxes	316,756	-	-	-	316,756
Licenses and permits	81,573	-	-	-	81,573
Intergovernmental	27,360	-	1,166,019	417,447	1,610,826
Fines and forfeitures	210,038	-	-	-	210,038
Charges for services	184,026	-	-	-	184,026
Investment earnings	49,944	1,955	6,519	658	59,076
Other revenues	402,569	-	-	-	402,569
Total revenues	4,908,787	1,955	1,172,538	447,970	6,531,250
Expenditures					
Current:					
General government	1,776,600	-	-	38,354	1,814,954
Judicial	132,168	-	-	-	132,168
Police	1,748,533	-	-	93,399	1,841,932
Fire	1,450,219	-	-	-	1,450,219
Streets and sanitation	385,910	-	-	39,813	425,723
Cemetery	41,399	-	-	-	41,399
Public building and grounds	677,442	-	-	-	677,442
Parks and recreation	19,151	-	-	-	19,151
Animal Control	119,717	-	-	-	119,717
Planning, building inspection, and development	446,035	-	-	338,095	784,130
Capital outlay	210,259	51,622	18,948	-	280,829
Debt service:					
Interest	8,290	-	-	-	8,290
Total expenditures	7,015,723	51,622	18,948	509,661	7,595,954
Excess (deficiency) of revenues over (under) expenditures	(2,106,936)	(49,667)	1,153,590	(61,691)	(1,064,704)
Other financing sources (uses):					
Proceeds from sale of capital assets	32,195	-	-	-	32,195
Transfers in	2,743,152	-	-	3,050	2,746,202
Transfers out	(176,548)	(543,898)	-	(16,000)	(736,446)
Total other financing sources (uses)	2,598,799	(543,898)	-	(12,950)	2,041,951
Net change in fund balances	491,863	(593,565)	1,153,590	(74,641)	977,247
Fund balances, beginning of year	3,456,636	1,176,128	2,060,513	438,915	7,132,192
Fund balances, end of year	\$ 3,948,499	\$ 582,563	\$ 3,214,103	\$ 364,274	\$ 8,109,439

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

CITY OF TOCCOA, 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 JUNE 30, 2012

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

Net change in fund balances - total governmental funds	\$	977,247
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 depreciation exceeded capital outlays in the current period.		(1,864,993)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		20,482
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.		<u>(9,516)</u>
Change in net assets - governmental activities	\$	<u>(876,780)</u>

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

CITY OF TOCCOA, GEORGIA

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS) FOR THE YEAR ENDED JUNE 30, 2012

	Budget		Actual	Variance With Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 1,405,780	\$ 1,405,780	\$ 1,266,866	\$ (138,914)
Sales taxes	1,200,000	1,200,000	1,163,411	(36,589)
Franchise taxes	547,000	547,000	572,892	25,892
Insurance premium taxes	500,000	500,000	398,264	(101,736)
Business taxes	240,000	240,000	235,088	(4,912)
Other taxes	349,000	349,000	316,756	(32,244)
Licenses and permits	64,000	64,000	81,573	17,573
Intergovernmental	29,000	29,000	27,360	(1,640)
Fines and forfeitures	274,000	274,000	210,038	(63,962)
Charges for services	187,014	187,014	184,026	(2,988)
Investment earnings	35,000	35,000	49,944	14,944
Other revenues	346,000	346,000	402,569	56,569
Total revenues	5,176,794	5,176,794	4,908,787	(268,007)
Expenditures:				
Current:				
General government	1,798,382	1,789,652	1,986,859	(197,207)
Judicial	126,375	134,375	132,168	2,207
Police	1,877,341	1,800,841	1,748,533	52,308
Fire	1,450,983	1,439,733	1,450,219	(10,486)
Streets and sanitation	406,535	402,935	385,910	17,025
Cemetery	41,261	38,891	41,399	(2,508)
Public building and grounds	610,208	673,208	677,442	(4,234)
Parks and recreation	23,784	19,634	19,151	483
Animal control	133,318	119,718	119,717	1
Planning, building inspection, and development	484,779	496,179	446,035	50,144
Debt service:				
Principal	27,000	27,000	-	27,000
Interest	36,000	44,300	8,290	36,010
Total expenditures	7,015,966	6,986,466	7,015,723	(29,257)
Deficiency of revenues under expenditures	(1,839,172)	(1,809,672)	(2,106,936)	(297,264)
Other financing sources (uses):				
Proceeds from sale of capital assets	5,000	5,000	32,195	27,195
Transfers in	2,372,077	2,372,077	2,743,152	371,075
Transfers out	(537,905)	(567,405)	(176,548)	390,857
Total other financing sources (uses)	1,839,172	1,809,672	2,598,799	789,127
Net change in fund balances	-	-	491,863	491,863
Fund balances, beginning of year	3,456,636	3,456,636	3,456,636	-
Fund balances, end of year	\$ 3,456,636	\$ 3,456,636	\$ 3,948,499	\$ 491,863

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

CITY OF TOCCOA, GEORGIA

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012**

ASSETS	Business-type Activities - Enterprise Funds				Totals
	Water and Sewer Fund	Solid Waste Fund	Natural Gas Fund	Golf Course Fund	
CURRENT ASSETS					
Cash and cash equivalents	\$ 146,459	\$ 13,301	\$ 311,952	\$ 53	\$ 471,765
Accounts receivable, net	758,408	143,572	585,355	-	1,467,335
Inventory	204,905	-	203,151	-	408,056
Total current assets	1,109,772	156,873	1,080,458	53	2,347,156
NONCURRENT ASSETS					
Deferred charges	-	-	253,242	-	253,242
Capital assets:					
Nondepreciable	168,921	-	54,800	71,555	295,276
Depreciable assets, net of accumulated depreciation	27,949,870	589,562	22,899,479	142,531	51,581,442
Total noncurrent assets	28,118,791	589,562	23,207,521	214,086	52,129,960
Total assets	29,228,563	746,435	24,287,979	214,139	54,477,116
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	44,357	545	485,054	-	529,956
Accrued salaries	23,299	3,470	17,901	-	44,670
Accrued interest	59,056	-	59,518	-	118,574
Compensated absences payable, current	32,792	6,008	23,248	-	62,048
Customer deposits payable	152,495	-	265,146	-	417,641
Notes payable, current	663,361	-	-	-	663,361
Capital leases payable, current	-	-	-	10,332	10,332
Bonds payable, current	-	-	1,265,000	-	1,265,000
Total current liabilities	975,360	10,023	2,115,867	10,332	3,111,582
NONCURRENT LIABILITIES					
Compensated absences payable	21,861	4,006	15,499	-	41,366
Advances from other funds	48,028	305,410	31,303	-	384,741
Notes payable	6,015,526	-	-	-	6,015,526
Capital leases payable	-	-	-	20,230	20,230
Bonds payable	-	-	17,010,343	-	17,010,343
Total noncurrent liabilities	6,085,415	309,416	17,057,145	20,230	23,472,206
Total liabilities	7,060,775	319,439	19,173,012	30,562	26,583,788
NET ASSETS					
Invested in capital assets, net of related debt	21,391,876	284,152	4,647,633	183,524	26,507,185
Unrestricted	775,912	142,844	467,334	53	1,386,143
Total net assets	\$ 22,167,788	\$ 426,996	\$ 5,114,967	\$ 183,577	\$ 27,893,328

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

CITY OF TOCCOA, GEORGIA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds				Totals
	Water and Sewer Fund	Solid Waste Fund	Natural Gas Fund	Golf Course Fund	
OPERATING REVENUES					
Charges for services	\$ 6,283,045	\$ 1,144,322	\$ 9,827,295	\$ 20,566	\$ 17,255,228
Miscellaneous revenue	40,104	-	-	-	40,104
Total operating revenues	6,303,149	1,144,322	9,827,295	20,566	17,295,332
OPERATING EXPENSES					
Personal services and benefits	1,535,025	227,725	1,208,427	-	2,971,177
Purchased and contracted services	397,405	406,646	504,510	-	1,308,561
Supplies and equipment	1,091,402	94,601	6,279,263	-	7,465,266
Depreciation & amortization	1,431,086	72,459	1,097,521	16,831	2,617,897
Miscellaneous	55	-	63,584	-	63,639
Total operating expenses	4,454,973	801,431	9,153,305	16,831	14,426,540
Operating income	1,848,176	342,891	673,990	3,735	2,868,792
NON-OPERATING REVENUES (EXPENSES)					
Investment earnings	2,426	-	-	-	2,426
Interest and fiscal agent fees	(306,656)	-	(747,886)	(2,977)	(1,057,519)
Total non-operating revenues (expenses)	(304,230)	-	(747,886)	(2,977)	(1,055,093)
Income (loss) before transfers	1,543,946	342,891	(73,896)	758	1,813,699
Transfers in	717,396	8,003	8,003	-	733,402
Transfers out	(1,859,268)	(383,075)	(500,815)	-	(2,743,158)
	(1,141,872)	(375,072)	(492,812)	-	(2,009,756)
Change in net assets	402,074	(32,181)	(566,708)	758	(196,057)
NET ASSETS, beginning of year	21,765,714	459,177	5,681,675	182,819	28,089,385
NET ASSETS, end of year	\$ 22,167,788	\$ 426,996	\$ 5,114,967	\$ 183,577	\$ 27,893,328

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

CITY OF TOCCOA, GEORGIA

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds				Total
	Water and Sewer Fund	Solid Waste Fund	Natural Gas Fund	Golf Course Fund	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 6,262,419	\$ 1,124,543	\$ 9,893,618	\$ 20,566	\$ 17,301,146
Payments to vendors	(1,532,529)	(504,569)	(6,750,469)	-	(8,787,567)
Payments to or on behalf of employees	(1,528,572)	(223,788)	(1,203,195)	-	(2,955,555)
Net cash provided by operating activities	3,201,318	396,186	1,939,954	20,566	5,558,024
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Transfers from other funds	717,396	8,003	8,003	-	733,402
Transfers to other funds	(1,859,268)	(363,075)	(500,815)	-	(2,743,158)
Net cash used in non-capital financing activities	(1,141,872)	(375,072)	(492,812)	-	(2,009,756)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal payments on notes payable	(1,390,750)	-	-	-	(1,390,750)
Principal payments on bonds payable	(330,000)	-	(1,230,000)	-	(1,560,000)
Principal payments on capital leases payable	-	-	-	(9,863)	(9,863)
Interest paid	(322,956)	-	(750,849)	(2,977)	(1,076,782)
Received advance from other fund	(37,830)	-	-	-	(37,830)
Paid advance to other fund	-	109,033	31,303	-	140,336
Purchases of capital assets	(543,897)	(148,768)	(528,321)	(7,725)	(1,228,711)
Net cash used in capital and related financing activities	(2,625,433)	(39,735)	(2,477,867)	(20,565)	(5,163,600)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale of investments	439,833	-	-	-	439,833
Interest received	2,426	-	-	-	2,426
Net cash provided by investing activities	442,259	-	-	-	442,259
Net increase (decrease) in cash and cash equivalents	(123,728)	(18,621)	(1,030,725)	1	(1,173,073)
Cash and cash equivalents, beginning of year	270,187	31,922	1,342,677	52	1,644,838
Cash and cash equivalents, end of year	\$ 146,459	\$ 13,301	\$ 311,952	\$ 53	\$ 471,765
Reconciliation of operating income to net cash provided by operating activities:					
Operating Income	\$ 1,848,178	\$ 342,891	\$ 673,990	\$ 3,735	\$ 2,868,792
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	1,431,086	72,459	1,097,521	16,831	2,617,897
Change in assets and liabilities:					
Accounts receivables	(40,730)	(19,779)	66,323	-	5,814
Inventory	(5,010)	-	47,318	-	42,308
Accounts payable	(46,356)	(3,322)	(35,994)	-	(85,672)
Accrued salaries	6,333	1,267	5,287	-	12,887
Compensated absences	120	2,670	(55)	-	2,735
Customer deposits payable	7,699	-	85,564	-	93,263
Net cash provided by operating activities	\$ 3,201,318	\$ 396,186	\$ 1,939,954	\$ 20,566	\$ 5,558,024

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

CITY OF TOCCOA, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Toccoa, Georgia (the "City") was incorporated, under the laws of the State of Georgia, in 1874 and operates under an elected Mayor-Commission form of government. The five commissioners each year elect the mayor from the elected commissioners. The City provides such services as police protection, fire services, parks and recreation amenities, planning and building inspection, municipal court services, public works, water and sewer services, natural gas services, solid waste services, and general and administrative services.

The financial statements of the City have been prepared in conformity with the accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City (the primary government) and its component units, an entity for which the government is considered to be financially accountable. Based on these criteria, the Toccoa Downtown Development Authority is a component unit of the City, however has no assets, liabilities or financial transactions as of and for the year ended June 30, 2012.

The Toccoa Housing Authority administers Federal funding and/or other financing for improvement of housing conditions in the City. The five citizens who serve as the governing board of the Authority are appointed by the City Commission, however the City has no significant influence over the management, budget or policies of the Authority. As a result, the Authority is not a component unit of the City, but is considered a related organization and reports independently.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and business-type activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The statement of net assets 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.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise 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 is used to account for resources traditionally associated with the City, which are not required legally or by sound financial management to be accounted for in a different fund.

The **SPLOST IV Fund** accounts for the acquisition and construction of capital expenditures which are financed by the special purpose local option sales tax program IV of the City, in an agreement with Stephens County.

The **SPLOST V Fund** accounts for the acquisition and construction of capital expenditures which are financed by the special purpose local option sales tax program V of the City, in an agreement with Stephens County.

The City aggregates other nonmajor governmental funds in a single column in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The City reports the following major enterprise funds:

The **Water and Sewer Fund** accounts for the operation of the water and sewerage system including all revenues from sources applicable to the system's operations and all expenses of the operation.

The **Solid Waste Fund** accounts for the activities associated with the collection of residential and commercial garbage. Activity is rendered on a user charge basis.

The **Natural Gas Fund** accounts for the activities associated with distributing natural gas to customers, both inside and outside the City. Activity is rendered on a user charge basis.

The **Golf Course Fund** accounts for the activities associated with the leasing of the City's golf course to a private company for operation.

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 related cash flows. Property taxes are recognized in the year for which they are levied. Other taxes are recognized predominately when the underlying transaction occurs. 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 government considers revenues to be available if they are collected within sixty days of the end of the current 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 are recorded only when payment is due.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

Property taxes, sales taxes, franchise taxes, hotel/motel occupancy taxes, business taxes, intergovernmental revenue, and interest associated with the current year are all considered to be susceptible to accrual and so have been recognized as revenues of the current year if recognition criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the City.

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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets

Annual appropriated budgets are adopted for all funds. The budgets for the proprietary funds are for management control purposes and are not required to be reported. Budgets are adopted on a modified accrual basis, which is consistent with generally accepted accounting principles for governmental funds, except the capital projects funds, which adopt project-length budgets. All appropriations lapse at year end. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is not employed by the City.

E. Deposits and Investments

Georgia statutes authorize the City to invest in the following: (1) obligations of Georgia or any other state; (2) obligations of the United States; (3) obligations fully insured or guaranteed by the United States government or one of its agencies; (4) obligations of any corporation of the United States government; (5) prime bankers' acceptances; (6) the State of Georgia local government investment pool; (7) repurchase agreements; and (8) obligations of any other political subdivisions of the State of Georgia. Any investment or deposit in excess of the federal depository insured amounts must be collateralized by an equivalent amount of state or U.S. obligations. For purposes of the statement of cash flows, all highly liquid investments with an original maturity of less than 90 days are considered to be cash equivalents. Investments are reported at fair value based on quoted market prices.

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposit with original maturities of three months or less from the date of acquisition.

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. Estimated unbilled revenues from the enterprise funds are recognized at the end of each fiscal year based on the amount of service provided prior to year end.

G. Interfund Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). 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."

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

H. Inventory

Inventories are valued at lower of cost or market using the first-in, first-out method. The cost of governmental fund type inventory is recorded as an expenditure when consumed rather than when purchased.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings	20-40
Machinery and equipment	5-20
Utility plant and system	20-40
Infrastructure and urban parks	15-100

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

J. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused paid time off benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when the employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

K. Long-term Obligations

In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. Fund Equity and Net Assets

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

Fund Balance – Generally, fund balance represents the difference between the assets and liabilities 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 purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

L. Fund Equity and Net Assets (Continued)

- **Restricted** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- **Committed** – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Commission through the adoption of a resolution including the verbiage "committed for the purpose of". Only the City Commission may modify or rescind the commitment through a subsequent resolution.
- **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. Through resolution, the City Commission has authorized the City Manager to assign fund balances through a written memorandum, in addition to the City Commission being able to assign fund balance through a motion at a public meeting.
- **Unassigned** – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the General Fund. Negative unassigned fund balances may be reported in all funds.

Flow Assumptions – When both restricted and unrestricted amounts of fund 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:

- Committed
- Assigned
- Unassigned

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

L. Fund Equity and Net Assets (Continued)

Minimum Fund Balance Policy - The City Commission adopted a policy to maintain a reserve account of not less than \$2,000,000. This reserve account shall be in addition to any and all regular operating Fund Balances maintained in the General, Special Revenue and Enterprise Funds of the City. This account is to be set up as a separate bank account and maintained in the General Fund. This reserve account shall obtain its funding from the transfer of the employee health insurance payroll deductions, the sale of surplus and obsolete equipment, one-time general fund/enterprise revenues, allocations of annual budget transfers, unexpected revenues received and/or unexpected budget savings designated to be deposited into the account. This account is to be used solely for purposes approved by the City Commission. These uses are to be approved in a publicly held meeting and must be voted on by the City Commission.

Net Assets - Net assets represent the difference between assets and liabilities in reporting which utilizes the economic resources measurement focus. Net assets invested in capital assets, net of related debt, 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 capital assets. Net assets are reported as restricted using the same definition as used for restricted fund balance as described in the section above. All other net assets are reported as unrestricted. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

M. Management 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures/expenses during the period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

Note 2. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. 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 \$2,456,885 difference are as follows:

Certificates of participation (COPs) payable	\$ (2,277,000)
Fair value of interest swap agreement on COPs	818,890
Unearned revenue for effective hedge swap agreement	(818,890)
Accrued interest payable	(9,013)
Compensated absences	<u>(170,842)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ (2,456,855)</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *change in net assets 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 \$1,864,993 difference are as follows:

Capital outlay	\$ 225,259
Depreciation expense	<u>(2,090,252)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	<u>\$ (1,864,993)</u>

NOTES TO FINANCIAL STATEMENTS

Note 2. Reconciliation of Government-wide and Fund Financial Statements (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities (Continued)

Another element of that 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 \$9,516 difference are as follows:

Compensated absences	\$ 9,516
Net adjustment to increase <i>net changes in fund balances - total governmental funds to arrive at change in net assets of governmental activities</i>	\$ 9,516

Note 3. Stewardship, Compliance, and Accountability

A. Budgetary Information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to July 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted at City Hall to obtain taxpayer comments.
- Prior to July 1, the Commission approves the budget.
- The City Manager is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any department must be approved by the City Commission.

Expenditures may not legally exceed budgeted appropriations at the departmental level in the General Fund. The enterprise funds adopt a budget at the fund level for management purposes. During the year, the supplementary budgetary appropriations made were not material.

B. Budgetary Excesses

The General Fund had an excess of actual expenditures over budget in the amount of \$197,207 for the general government functional area, \$10,486 for the fire functional area, \$2,508 for the cemetery functional area, and \$4,234 for the public building and grounds functional area, which resulted from higher than expected costs.

NOTES TO FINANCIAL STATEMENTS

Note 4. Deposits and Investments

As of June 30, 2012, the City had a guaranteed investment contract. The amounts classified as investments at June 30, 2012 were:

<u>Investment</u>	<u>Fair Value</u>	<u>Interest Rate Risk</u>
Guaranteed Investment Contract	\$ 1,281,867	Maturity Date June 1, 2028
Total	<u>\$ 1,281,867</u>	

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. The City has not formally adopted an investment policy to address interest risk.

Credit Risk – Georgia law and the City's Investment Policy allow investments in obligations of the State of Georgia or other states; obligations issued by the U.S. Government; obligations fully insured or guaranteed by the U.S. Government or by a government agency of the United States; obligations of any corporation of the U.S. Government; prime banker's acceptances; the local government investment pool established by state law; repurchase agreements; and obligations of other political subdivisions of the State of Georgia.

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. The State of Georgia requires financial institutions to pledge securities at 110% of a local government's deposits. At June 30, 2012, all of the deposits of the City were fully collateralized in accordance with the state statutes.

NOTES TO FINANCIAL STATEMENTS

Note 5. Receivables

The City receives property tax assessments from Stephens County, Georgia. Property taxes are levied on property values assessed as of January 1. Tax bills were levied on all real and personal property and mailed to taxpayers in September. The due date for these taxes was in December, and after that date, both penalty and interest are accrued until the taxes are collected. Property taxes are recorded as receivables and deferred revenues when assessed. Accordingly, the January 1, 2011 Property Tax Digest was recognized as revenues for fiscal year 2012, if available (i.e. collected within sixty days subsequent to year-end).

Receivables as of year end for the City's individual major funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>SPLOST V</u>	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Natural Gas</u>	<u>Nonmajor Governmental</u>
Receivables:						
Taxes	\$ 350,244	\$ -	\$ -	\$ -	\$ -	\$ 1,816
Accounts	45,380	-	821,775	164,779	631,528	-
Intergovernmental	-	196,295	-	-	-	38,358
Less allowance for uncollectibles	-	-	(63,367)	(21,206)	(66,173)	-
Net total receivables	<u>\$ 395,624</u>	<u>\$ 196,295</u>	<u>\$ 758,408</u>	<u>\$ 143,573</u>	<u>\$ 565,355</u>	<u>\$ 40,174</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Transfers/ Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and improvements	\$ 615,276	\$ 15,000	\$ -	\$ 630,276
Total assets, not being depreciated	<u>615,276</u>	<u>15,000</u>	<u>-</u>	<u>630,276</u>
Capital assets, being depreciated:				
Buildings	6,233,992	-	-	6,233,992
Urban renewal parks	77,835	-	-	77,835
Machinery and equipment	4,233,029	210,259	(21,289)	4,421,999
Infrastructure	41,596,214	-	-	41,596,214
Total assets, being depreciated	<u>52,141,070</u>	<u>210,259</u>	<u>(21,289)</u>	<u>52,330,040</u>
Less accumulated depreciation for:				
Buildings	(2,419,077)	(156,208)	-	(2,575,285)
Urban renewal parks	(38,812)	(1,346)	-	(40,158)
Machinery and equipment	(3,215,091)	(140,413)	21,289	(3,334,215)
Infrastructure	(24,930,168)	(1,792,285)	-	(26,722,453)
Total accumulated depreciation	<u>(30,603,148)</u>	<u>(2,090,252)</u>	<u>21,289</u>	<u>(32,672,111)</u>
Total assets, being depreciated, net	<u>21,537,922</u>	<u>(1,879,993)</u>	<u>-</u>	<u>19,657,929</u>
Governmental activities capital assets, net	<u>\$ 22,153,198</u>	<u>\$ (1,864,993)</u>	<u>\$ -</u>	<u>\$ 20,288,205</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 295,276	\$ -	\$ -	\$ 295,276
Construction in progress	326,587	870,047	(1,196,634)	-
Total assets, not being depreciated	<u>621,863</u>	<u>870,047</u>	<u>(1,196,634)</u>	<u>295,276</u>
Capital assets, being depreciated:				
Buildings	3,482,474	-	174,074	3,656,548
Utility systems	87,660,270	-	457,728	88,117,998
Machinery and equipment	5,377,913	358,666	390,375	6,126,954
Total assets, being depreciated	<u>96,520,657</u>	<u>358,666</u>	<u>1,022,177</u>	<u>97,901,500</u>
Less accumulated depreciation for:				
Buildings	(1,953,241)	(83,514)	-	(2,036,755)
Utility systems	(38,663,309)	(2,237,743)	20,933	(40,880,119)
Machinery and equipment	(3,319,585)	(237,123)	153,524	(3,403,184)
Total accumulated depreciation	<u>(43,936,135)</u>	<u>(2,558,380)</u>	<u>174,457</u>	<u>(46,320,058)</u>
Total assets, being depreciated, net	<u>52,584,522</u>	<u>(2,199,714)</u>	<u>1,196,634</u>	<u>51,581,442</u>
Business-type activities capital assets, net	<u>\$ 53,206,385</u>	<u>\$ (1,329,667)</u>	<u>\$ -</u>	<u>\$ 51,876,718</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 98,435
Public safety	134,513
Public works	1,850,948
Culture and recreation	<u>6,356</u>
Total depreciation expense - governmental activities	<u><u>\$ 2,090,252</u></u>
Business-type activities:	
Water and sewer	\$ 1,413,085
Solid waste	72,459
Natural gas	1,056,005
Golf course	<u>16,831</u>
Total depreciation expense - business-type activities	<u><u>\$ 2,558,380</u></u>

Note 7. Inter-fund Receivables, Payables, and Transfers

The composition of inter-fund balances as of June 30, 2012, is as follows:

Advances from/to other funds:

Receivable Fund	Payable Fund	Amount
General	Water and Sewer	\$ 48,028
General	Natural Gas	31,303
General	Solid Waste	<u>305,410</u>
Total		<u><u>\$ 384,741</u></u>

The outstanding balances of advances between funds result from financing of equipment by the enterprise funds through the GMA lease pool for which the related assets and ultimate repayment are accounted for in the General Fund. See further discussion in Note 8.

NOTES TO FINANCIAL STATEMENTS

Note 7. Inter-fund Receivables, Payables, and Transfers (Continued)

Inter-fund transfers for the year ended June 30, 2012:

Transfers in	Transfers Out						Total
	General Fund	Non-major Hotel Motel Fund	SPLOST V Fund	Water & Sewer Fund	Solid Waste Fund	Natural Gas Fund	
General Fund	\$ -	\$ 16,000	\$ -	\$ 1,843,262	\$ 383,075	\$ 500,815	\$ 2,743,152
Grant Fund - Nonmajor	3,050	-	-	-	-	-	3,050
Water & Sewer Fund	173,498	-	543,898	-	-	-	717,396
Solid Waste Fund	-	-	-	8,003	-	-	8,003
Natural Gas Fund	-	-	-	8,003	-	-	8,003
Total	\$ 176,548	\$ 16,000	\$ 543,898	\$ 1,859,268	\$ 383,075	\$ 500,815	\$ 3,479,604

Transfers are used to 1) make subsidies to the General Fund from the enterprise funds and 2) move unrestricted General Fund revenues to finance certain programs. Transfers from the SPLOST IV and V Fund to the Water & Sewer Fund are for the reimbursement of purchases of SPLOST assets in the Water & Sewer Fund.

Note 8. Long-term Debt

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Certificates of Participation	\$ 2,277,000	\$ -	\$ -	\$ 2,277,000	\$ -
Compensated absences	161,326	179,905	(170,389)	170,842	136,674
Governmental activity Long-term liabilities	<u>\$ 2,438,326</u>	<u>\$ 179,905</u>	<u>\$ (170,389)</u>	<u>\$ 2,447,842</u>	<u>\$ 136,674</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Revenue bonds:					
Natural Gas bonds	\$ 19,530,000	\$ -	\$ (1,230,000)	\$ 18,300,000	\$ 1,265,000
Add: Premium	393,853	-	(51,192)	342,661	-
Add: Deferred Loss on Refunding	(422,194)	-	54,876	(367,318)	-
Net Natural Gas	19,501,659	-	(1,226,316)	18,275,343	1,265,000
Water & Sewer bonds	330,000	-	(330,000)	-	-
Notes payable	8,069,637	-	(1,390,750)	6,678,887	663,361
Capital lease obligation	40,425	-	(9,863)	30,562	10,332
Compensated absences	100,679	129,258	(126,523)	103,414	62,048
Business-type activity Long-term liabilities	<u>\$ 28,042,400</u>	<u>\$ 129,258</u>	<u>\$ (3,083,452)</u>	<u>\$ 25,088,206</u>	<u>\$ 2,000,741</u>

For governmental activities, compensated absences are predominately liquidated by the General Fund. For business-type activities, compensated absences are liquidated by the fund which funds the related personnel costs.

Governmental Activities

Certificates of Participation

In June 1998, the City entered into a lease pool agreement with the Georgia Municipal Association (the "Association"). The funding of the lease pool was provided by the issuance of \$150,126,000 Certificates of Participation by the Association. The Association passed the net proceeds through to the participating municipalities with the City's participation totaling \$2,277,000. The lease pool agreement with the Association provides that the City owns their portion of the assets invested by the pool and is responsible for the payment of their portion of the principal and interest of the Certificates of Participation. The principal is due in a lump sum payment on June 1, 2028. Interest is payable at a rate of 4.75% each year. The City draws from the investment to lease equipment from the Association. The lease pool agreement requires the City to make lease payments back into its investment account to fund the principal and interest requirements of the 1998 GMA Certificates of Participation.

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-term Debt (Continued)

Governmental Activities (Continued)

Certificates of Participation (Continued)

As part of the issuance of the certificates of participation, the City entered into an interest rate swap agreement. Under the Swap Agreement, the City is required to pay (1) a semiannual (and beginning July 1, 2003, a monthly) floating rate of interest based on the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index (plus a 31 basis points spread) to, or on behalf of, the Swap Counterparty (the "Swap Payment"); and the Swap Counterparty will pay to, or on behalf of, the City a semi-annual payment based on a rate equal to the fixed rate on the certificates of participation (4.75%) times a notional amount specified in the Swap Agreement, but generally equal to the outstanding unpaid principal portion of such Contract, less the amount originally deposited in the Reserve Fund relating to the Contract, and (ii) a one-time Swap Premium to be paid on the effective date of the Swap Agreement. The semiannual payments from the Swap Counterparty with respect to the City are structured, and expected, to be sufficient to make all interest payments due under the Contract, and related distributions of interest on the Certificates. Monthly interest payments between the City, the holders of the Certificates of Participation, and the Swap Counterparty can be made in net settlement form as part of this agreement. Under the Swap Agreement, the City's obligation to pay floating payments to the Swap Counterparty in any calendar year may not exceed an amount equal to the SIFMA Municipal Swap Index plus 5% to be determined on the first business day of December in the preceding year. This agreement matures on June 1, 2028, at the same time of the certificates of participation. This derivative qualifies as a fair market hedge.

In the unlikely event that the Swap Counterparty becomes insolvent, or fails to make payments as specified in the Swap Agreement, the City would be exposed to credit risk in the amount of the Swap's fair value. To minimize this risk, the City executed this agreement with counterparties of appropriate credit strength, with the counterparty being rated Aa1 by Moody's. At June 30, 2012, the floating rate being paid by the City is 0.40% and the market value of this agreement is \$818,890, an increase of \$419,381 from the market value at the end of the previous fiscal year. The market value of the hedge was determined using settlement prices at the end of the day on June 30, 2012 based on the derivative contract. This market value is reported as another asset in the statement of net assets. As this derivative is an effective hedge, qualifying for hedge accounting, the inflow from the hedge (any change in fair value from inception until fiscal year end) is deferred and reported as deferred revenue in the statement of net assets.

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-term Debt (Continued)

Governmental Activities (Continued)

Certificates of Participation (Continued)

Annual debt service requirements to maturity for the certificates of participation are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -	\$ 108,158	\$ 108,158
2014	-	108,158	108,158
2015	-	108,158	108,158
2016	-	108,158	108,158
2017	-	108,158	108,158
2018-2022	-	540,788	540,788
2023-2027	-	540,788	540,788
2028	2,277,000	108,158	2,385,158
Total	<u>\$ 2,277,000</u>	<u>\$ 1,730,524</u>	<u>\$ 4,007,524</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-term Debt (Continued)

Business-type Activities

Revenue Bonds Payable – Natural Gas Fund

On March 1, 1999, the City entered into an agreement with the Municipal Gas Authority of Georgia whereby revenue bonds were issued, in two phases, through the Municipal Gas Authority of Georgia, for the City to construct a gas line from Toccoa, Georgia to Franklin, North Carolina. The two phases of bonds issued were Series 1999 in the amount of \$23,975,000 and Series 2000 in the amount of \$2,925,000. The revenues of the City's Natural Gas Fund were pledged as collateral for these bonds. The City has also agreed to levy a tax on the properties in the City, if necessary, to meet this obligation. Interest rates on these bonds range from 3.75% to 5% with annual maturities through fiscal year 2024. The Series 1999 and 2000 bonds were refunded in fiscal year 2011 with the Series 2011 bonds as discussed below.

On March 31, 2011, the City entered into an agreement with the Municipal Gas Authority of Georgia whereby revenue bonds were issued, through the Municipal Gas Authority of Georgia, to refund all of the \$20,625,000 outstanding Series 1999 and 2000 bonds. The Series 2011 Bonds were issued in the amount of \$20,630,000. Interest rates on the bonds range from 3.00% to 5.00% with annual maturities through fiscal year 2024. The net proceeds from the Series 2011 Bonds were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on the refunded bonds. The result of this transaction is a decrease in future debt service payments of \$1,644,885 and a present value savings, or economic gain, of \$1,290,747. The refunded bonds are considered defeased and thus the assets in the trust fund along with the \$18,405,000 in outstanding refunded bonds at June 30, 2012 are not reported in the City's financial statements.

Annual debt service requirements, as of June 30, 2012, for the Series 2011 Bonds, are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 1,265,000	\$ 714,219	\$ 1,979,219
2014	1,315,000	676,269	1,991,269
2015	1,365,000	623,669	1,988,669
2016	1,420,000	569,069	1,989,069
2017	1,480,000	512,269	1,992,269
2018-2022	8,255,000	1,736,169	9,991,169
2023-2024	3,200,000	196,075	3,396,075
Total	\$ 18,300,000	\$ 5,027,739	\$ 23,327,739

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-term Debt (Continued)

Business-type Activities (Continued)

Revenue Bonds Payable – Water and Sewer Fund

In fiscal year 2004, the City issued Water and Sewer Revenue Bonds, Series 2004, in the original amount of \$2,385,000 in order to refinance certain previously issued Water and Sewer revenue bonds of the City. The revenues of the City's Water and Sewer Fund were pledged as collateral for these bonds. The interest rate on these bonds is 3.2% with annual maturities through fiscal year 2012. The bonds were paid in full as of June 30, 2012.

Notes Payable

The City's Water and Sewer Fund has several Georgia Environmental Finance Authority (GEFA) loans for the construction of various water and sewer system projects. Notes payable outstanding as of June 30, 2012 are as follows:

Loan	Interest Rate %	Maturity Dates	Beginning Balance	Additions	Reductions	Ending Balance
94-035-WS	5.12%	7/1/2016	\$ 578,900	\$ -	\$ (578,900)	\$ -
96-031-WS	5.21%	4/1/2018	298,763	-	(37,378)	261,385
2000-L60-WS	5.35%	6/1/2016	73,260	-	(73,260)	-
98-L32-WQ	4.76%	2/1/2020	457,928	-	(43,227)	414,701
CW98-009	3.75%	4/1/2021	6,561,236	-	(558,435)	6,002,801
2006-L32-WQ	4.28%	4/1/2027	99,550	-	(99,550)	-
Total GEFA Notes Payable			<u>\$ 8,069,637</u>	<u>\$ -</u>	<u>\$ (1,390,750)</u>	<u>\$ 6,678,887</u>

Remaining annual debt service requirements, as of June 30, 2012 are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 663,361	248,916	\$ 912,277
2014	689,641	222,636	912,277
2015	716,974	195,303	912,277
2016	745,404	166,874	912,278
2017	774,973	137,304	912,277
2018-2021	3,088,534	242,505	3,331,039
Total	<u>\$ 6,678,887</u>	<u>\$ 1,213,538</u>	<u>\$ 7,892,425</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-term Debt (Continued)

Business-type Activities (Continued)

Capital Lease Obligation

The City leased 20 golf carts from Yamaha Motor Corporation on March 31, 2011 in the amount of \$42,025. This lease agreement qualifies as a capital lease for accounting purposes and has been recorded at the net present value of its future minimum lease payments as of the date of its inception. This lease is for a period of 48 months and carries an interest rate of 4.792%.

The assets acquired under this capital lease are as follows:

Golf Carts	\$ 42,025
Less accumulated depreciation	<u>(14,980)</u>
Total	<u>\$ 27,045</u>

The future annual requirements to amortize the capital lease obligation as of June 30, 2012 are as follows.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 10,332	\$ 2,509	\$ 12,841
2014	10,821	2,019	12,840
2015	9,409	1,292	10,701
Total	<u>\$ 30,562</u>	<u>\$ 5,820</u>	<u>\$ 36,382</u>

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension Plan

Plan Description

The City, as authorized by the City Commission, has established a non-contributory defined benefit pension plan (The City of Toccoa 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. The City Commission has the governing authority to establish and amend from time to time, the contribution rates of the employer and its plan members. 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 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.

As of January 1, 2012, the date of the most recent actuarial valuation, there were 312 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	77
Terminated vested participants not yet receiving benefits	85
Active employees	150
Total	<u>312</u>

Funding Policy

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 is to contribute an amount equal to or greater than the recommended contribution described below. For fiscal year 2012, the actuarially determined contribution rate was 9.62% of covered payroll. For fiscal year 2013, based on the January 1, 2012 actuarial valuation, the recommended contribution rate will be 9.62%.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension Plan (Continued)

Actuarial Information

For 2012, the City's actual contribution, which equaled the required contribution, was \$438,000. The recommended contribution was determined as part of the January 1, 2012 actuarial valuation using the projected unit credit actuarial cost method. Actuarial assumptions include a 7.75% rate of return on investments and projected salary increases of between 4 to 11%, including 3.5% due to inflation. A cost of living adjustment of 3.5% is also included. The period, and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years from 1982 and current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provision and 30 years for actuarial assumptions and cost methods as a level dollar amount. These amortization periods are closed for this plan year. The actuarial value of the plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period.

The information presented below is based on the annual actuarial valuation as of January 1, 2012.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2012	\$ 13,886,337	\$ 13,989,552	\$ 103,215	99.26 %	\$ 4,776,990	2.16 %

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 net 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 January 1, 2012.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension Plan (Continued)

Annual Pension Cost

The chart below shows the annual pension cost for the current year and prior two years along with the percentage actually contributed by the City.

<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Pension Contribution</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
2012	\$ 438,000	\$ 438,000	100.0 %	\$ -
2011	462,513	462,513	100.0	-
2010	606,229	606,229	100.0	-

Note 10. Joint Venture

Under Georgia law, the City, in conjunction with other cities and counties in the northeast Georgia area, is a member of the Georgia Mountains Regional Development Center (RDC) and is required to pay annual dues thereto. During the year ended June 30, 2012, the City paid \$9,972 in such dues. Membership in a RDC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34, which provides for the organization structure of a RDC. RDC 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 RDC. Separate financial statements may be obtained from the Georgia Mountains Regional Development Center, P.O. Box 1720, Gainesville, Georgia 30503.

NOTES TO FINANCIAL STATEMENTS

Note 11. Risk Management

The City is exposed to various risks of losses related to: torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Agency Property and Liability Insurance Fund and the Georgia Municipal Association Group Self-Insurance Workers Compensation Fund, public entity risk pools currently operating as common risk management and insurance programs for member local governments.

A part of these risk pools, 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 and in accordance with the worker's compensation law of Georgia. The funds are 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 in the past three (3) years have not exceeded insurance coverage.

Note 12. Contingent Liabilities

Litigation:

The City is involved in pending lawsuits in the normal course of the City's business. 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 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.

NOTES TO FINANCIAL STATEMENTS

Note 13. Economic Dependency/Commitment

The City has entered into a contract for the purchase of wholesale natural gas supplies and related services with the Municipal Gas Authority of Georgia (MGAG) that requires the City to purchase all of its natural gas from MGAG. The gas supply contract with MGAG authorizes MGAG to establish rates and charges so as to produce revenues sufficient to cover its operating costs and retire its bonds issued to acquire long-term gas supplies for sale to its members, including the City. In the event that revenues are insufficient to cover all costs and retire bonds issued by MGAG, the City is obligated to pay its obligation share of the costs of the gas supply and related services MGAG provides to the City, which costs include amounts equal to principal and interest on MGAG's bonds. These obligations, which extend through the year 2014, and may be extended through 2026, are general obligations of the City to which the City's full faith, credit and taxing powers are pledged. The City's obligation to MGAG for gas supply costs are based on MGAG's costs to provide such supply, including bonds issued to purchase long-term rights to bulk supply. Payments to MGAG are made monthly based on actual usage. The total payments under these contracts amounted to \$5,613,035 in 2012.

Note 14. Hotel/Motel Occupancy Tax

The City imposes a hotel/motel tax on lodging facilities within the City. The tax is assessed at 5% and, in accordance with O.C.G.A. 48-13-51, the City is required to spend at least 40% of this for promoting tourism, conventions, and trade shows. Revenues were \$29,865 for the year ended June 30, 2012. Of this amount 41% was used to promote tourism.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TOCCOA, GEORGIA
REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT PLAN
SCHEDULE OF FUNDING PROGRESS

Schedule of Funding Progress - Pension

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)
1/1/2012	\$ 13,886,337	13,989,552	\$ 103,215	99.26 %	\$ 4,776,990	2.16 %
1/1/2011	13,579,875	13,620,583	40,708	99.70	4,475,372	0.91
1/1/2010	12,962,064	13,316,668	354,604	97.34	4,725,832	7.50

Note: See assumptions used for the Schedule of Funding Progress in Note 9 to the financial statements.

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Hotel/Motel Fund – This fund is used to account for the occupancy tax collected by the City from area hotels and motels, and distributed based upon state statute including a requirement for a portion to be spent on tourism.

Flood Grant Fund – This fund is used to account for the funds received from the federal and state governments as they relate to grants awarded to the City for the floods occurring during fiscal year 2010.

Grant Fund -- This fund is used to account for the funds received from external sources as they relate to and restricted by grants awarded to the City, not reported in other funds. Matching funds, which are the City's responsibility, are also recorded within this fund.

Capital Projects Funds

Capital projects funds are used to account for amounts set aside for capital outlay.

SPLOST II Fund – accounts for the acquisition and construction of capital expenditures which are financed by the special purpose local option sales tax program II of the City, in an agreement with Stephens County.

CITY OF TOCCOA, GEORGIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

ASSETS	Special Revenue Funds			Capital Projects	Total Nonmajor
	Hotel/ Motel	Flood Grant	Grant Fund	SPLOST II Fund	Governmental Funds
Cash and cash equivalents	\$ 19,840	\$ 55,914	\$ 3,481	\$ 246,158	\$ 325,393
Taxes receivable	1,816	-	-	-	1,816
Intergovernmental receivable	-	-	38,358	-	38,358
Total assets	<u>\$ 21,656</u>	<u>\$ 55,914</u>	<u>\$ 41,839</u>	<u>\$ 246,158</u>	<u>\$ 365,567</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accrued salaries	\$ -	\$ -	\$ 1,293	\$ -	\$ 1,293
Total liabilities	-	-	1,293	-	1,293
FUND BALANCES					
Restricted:					
Capital construction	-	-	-	246,158	246,158
Tourism	21,656	-	-	-	21,656
Grant programs	-	55,914	40,546	-	96,460
Total fund balances	<u>21,656</u>	<u>55,914</u>	<u>40,546</u>	<u>246,158</u>	<u>364,274</u>
Total liabilities and fund balances	<u>\$ 21,656</u>	<u>\$ 55,914</u>	<u>\$ 41,839</u>	<u>\$ 246,158</u>	<u>\$ 365,567</u>

CITY OF TOCCOA, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2012

	Special Revenue Funds			Capital Projects	Total Nonmajor Governmental Funds
	Hotel/ Motel	Flood Grant	Grant Fund	SPLOST II Fund	
Revenues:					
Hotel/Motel taxes	\$ 29,865	\$ -	\$ -	\$ -	\$ 29,865
Intergovernmental	-	-	417,447	-	417,447
Investment earnings	-	-	-	658	658
Total revenues	<u>29,865</u>	<u>-</u>	<u>417,447</u>	<u>658</u>	<u>447,970</u>
Expenditures:					
Current:					
General government	-	-	38,354	-	38,354
Streets and sanitation	-	21,652	18,161	-	39,813
Police	-	1,508	91,891	-	93,399
Development	-	-	324,095	-	324,095
Economic and community development	14,000	-	-	-	14,000
Total expenditures	<u>14,000</u>	<u>23,160</u>	<u>472,501</u>	<u>-</u>	<u>509,661</u>
Excess (deficiency) of revenues over (under) expenditures	<u>15,865</u>	<u>(23,160)</u>	<u>(55,054)</u>	<u>658</u>	<u>(61,691)</u>
Other financing sources (uses):					
Transfers in	-	-	3,050	-	3,050
Transfers out	(16,000)	-	-	-	(16,000)
Total other financing sources (uses)	<u>(16,000)</u>	<u>-</u>	<u>3,050</u>	<u>-</u>	<u>(12,950)</u>
Net change in fund balances	(135)	(23,160)	(52,004)	658	(74,641)
Fund balances, beginning of year	<u>21,791</u>	<u>79,074</u>	<u>92,550</u>	<u>245,500</u>	<u>438,915</u>
Fund balances, end of year	<u>\$ 21,656</u>	<u>\$ 55,914</u>	<u>\$ 40,546</u>	<u>\$ 246,158</u>	<u>\$ 364,274</u>

**CITY OF TOCCOA, GEORGIA
HOTEL/MOTEL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012**

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Hotel/Motel taxes	\$ 30,000	\$ 30,000	\$ 29,865	\$ (135)
Total revenues	30,000	30,000	29,865	(135)
Expenditures:				
Current:				
Development	14,000	14,000	14,000	-
Total expenditures	14,000	14,000	14,000	-
Other financing uses:				
Transfers out	(16,000)	(16,000)	(16,000)	-
Total other financing uses	(16,000)	(16,000)	(16,000)	-
Net changes in fund balances	-	-	(135)	(135)
Fund balances, beginning of year	21,791	21,791	21,791	-
Fund balances, end of year	<u>\$ 21,791</u>	<u>\$ 21,791</u>	<u>\$ 21,656</u>	<u>\$ (135)</u>

**CITY OF TOCCOA, GEORGIA
FLOOD GRANT FUND**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures:				
Current:				
Streets and sanitation	-	-	21,652	(21,652)
Police	-	-	1,508	(1,508)
Total expenditures	-	-	23,160	(23,160)
Net changes in fund balances	-	-	(23,160)	(23,160)
Fund balances, beginning of year	79,074	79,074	79,074	-
Fund balances, end of year	\$ 79,074	\$ 79,074	\$ 55,914	\$ (23,160)

**CITY OF TOCCOA, GEORGIA
GRANT FUND**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012**

	Budget		Actual	Variance With Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ 738,259	\$ 738,259	\$ 417,447	\$ (320,812)
Total revenues	<u>738,259</u>	<u>738,259</u>	<u>417,447</u>	<u>(320,812)</u>
Expenditures:				
Current:				
General government	177,000	183,500	38,354	145,146
Streets and sanitation	20,000	20,000	18,161	1,839
Police	96,000	96,000	91,891	4,109
Development	592,259	441,259	324,095	117,164
Total expenditures	<u>885,259</u>	<u>740,759</u>	<u>472,501</u>	<u>268,258</u>
Deficiency of revenues under expenditures	<u>(147,000)</u>	<u>(2,500)</u>	<u>(55,054)</u>	<u>(52,554)</u>
Other financing sources (uses):				
Transfers in	147,000	2,500	3,050	550
Total other financing sources (uses)	<u>147,000</u>	<u>2,500</u>	<u>3,050</u>	<u>550</u>
Net changes in fund balances	-	-	(52,004)	(52,004)
Fund balances, beginning of year	<u>92,550</u>	<u>92,550</u>	<u>92,550</u>	<u>-</u>
Fund balances, end of year	<u>\$ 92,550</u>	<u>\$ 92,550</u>	<u>\$ 40,546</u>	<u>\$ (52,004)</u>

CITY OF TOCCOA, GEORGIA

SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS FOR THE YEAR ENDED JUNE 30, 2012

	Original Estimated Cost	Current Estimated Cost	Prior Years Cumulative Expenditures	Current Year Expenditures	Total Cumulative Expenditures
SPLOST V					
Highway 17 Sewer	\$ 1,000,000	\$ 1,000,000	\$ 912,429	\$ -	\$ 912,429
Meadow Lift Station	250,000	250,000	-	-	-
Eastanollee WWTP	500,000	500,000	4,343	-	4,343
Fire Equipment	750,000	750,000	619,415	-	619,415
Roads	2,260,000	2,260,000	169,066	15,702	184,768
Historical Society Building	270,000	270,000	270,000	-	270,000
Recreation	400,000	400,000	41,400	3,246	44,646
Water System Improvements	2,330,000	2,330,000	352,000	-	352,000
Inflow & Infiltration	1,300,000	1,300,000	-	-	-
Total SPLOST V	<u>\$ 9,060,000</u>	<u>\$ 9,060,000</u>	<u>\$ 2,368,653</u>	<u>\$ 18,948</u>	<u>\$ 2,387,601</u>
SPLOST IV					
Water Improvements	\$ 2,000,000	\$ 2,000,000	\$ 1,406,852	\$ 591,927	\$ 1,998,779
Sewer Improvements	945,000	945,000	534,584	3,593	538,177
Roads & Bridges	240,000	240,000	508,704	-	508,704
Total SPLOST IV	<u>\$ 3,185,000</u>	<u>\$ 3,185,000</u>	<u>\$ 2,450,140</u>	<u>\$ 595,520</u>	<u>\$ 3,045,660</u>
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance					
				Total Expenditures	\$ 51,622
				Transfers Out	543,898 (1)
					<u>\$ 595,520</u>
SPLOST II					
Sewer Improvements	\$ 396,474	\$ 396,474	\$ 153,994	\$ -	\$ 153,994
Total SPLOST II	<u>\$ 396,474</u>	<u>\$ 396,474</u>	<u>\$ 153,994</u>	<u>\$ -</u>	<u>\$ 153,994</u>
Total SPLOST	<u>\$ 12,641,474</u>	<u>\$ 12,641,474</u>	<u>\$ 4,972,787</u>	<u>\$ 614,468</u>	<u>\$ 5,587,255</u>

(1) Transfers out were recorded in order to properly transfer assets to the Water and Sewer fund purchased by the applicable SPLOST Fund. Amounts are allowable under the SPLOST referendum.

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**

**Honorable Mayor and Members of the
City Commission of the City of Toccoa, Georgia
Toccoa, Georgia**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Toccoa, Georgia (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 19, 2012. 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.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses, as items 2012-1 through 2012-3, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Toccoa, Georgia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2012-4.

We noted certain matters that we reported to management of the City of Toccoa, Georgia in a separate letter dated November 19, 2012.

The City of Toccoa, Georgia's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City of Toccoa, Georgia's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Mayor and City Commission, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Atlanta, Georgia
November 19, 2012

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2012

Financial Statements

Unqualified

Material weaknesses identified?

 X yes no

 yes X none reported

 X yes no

There was not an audit of major federal award programs as of June 30, 2012 due to the total amount of federal awards expended being less than \$500,000.

CITY OF TOCCOA, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

Section II – Financial Statement Findings

Finding 2012-1 – Fiscal Year-End Financial Close and Reporting Controls

Criteria: Internal controls should be in place to ensure that all amounts reported within the financial statements are accurate in accordance with generally accepted accounting principles and have been reconciled to subsidiary ledgers and underlying accounting records.

Condition: Due to ineffective controls surrounding the fiscal year-end financial close procedures, two audit adjustments were necessary at June 30, 2012.

Context/Cause: During our testing, audit adjustments were required as follows:

- To properly reduce cash and the related payable for a bank draft of \$8,333 which was not reflected in the City's treasury account bank reconciliation or general ledger.
- To remove capital assets recorded in the General Fund in accordance with the modified accrual basis of accounting for \$15,000.

Effect: Audit adjustments of \$23,333 were required as detailed above.

Recommendation: We recommend the City's finance department implement and/or strengthen internal controls surrounding the fiscal year-end financial close out procedures.

Response: The City agrees with the recommendation and will make efforts to implement and strengthen internal controls surrounding the fiscal year-end financial close out procedures.

Finding 2012-2 – Accounting for Capital Assets

Criteria: Generally accepted accounting principles require that an asset whose useful life exceeds a reporting period, be accounted for as a capital asset and, if applicable, depreciated on a systematic basis over its useful life.

Condition: Internal controls did not detect misstatements in the reporting of the City's capital assets.

CITY OF TOCCOA, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

Finding 2012-2 – Accounting for Capital Assets (continued)

Context/Cause: During fiscal year 2012, the City did not routinely maintain and reconcile its capital asset listing. Audit adjustments were required as follows:

- Assets were disposed of by the City but not properly reflected in the City's capital asset listing. Audit adjustments were required to reduce capital assets and accumulated depreciation by \$21,289 in the government wide financial statements, \$7,199 in the Water and Sewer fund, and \$146,325 in the Solid Waste fund.
- Assets were added during the year which were not recorded in the City's general ledger. Audit adjusting entries totaling \$143,971 were required to properly record capital asset additions for the Water and Sewer fund and \$7,725 to properly record capital asset additions in the City's Golf Course fund.
- Various assets were depreciated beyond their historical cost. Audit adjustments of \$14,263 were required to adjust depreciation expense and accumulated depreciation.

Effect: Audit adjustments of \$340,772 were needed as detailed above.

Recommendation: We recommend that the City devote the resources necessary to ensure that the capital assets are properly recorded in the capital asset sub-ledger on an on-going and timely basis and that the sub-ledger be periodically reconciled to the general ledger, as appropriate.

Response: The City agrees with the recommendation and has implemented a process for reviewing capital asset activity on a monthly basis.

Finding 2012-3 – Segregation of Duties

Criteria: Segregation of employee's duties is a common practice in an effective internal control structure. Segregation of duties is when specific employee functions related to important accounting areas (such as cash receipting or cash disbursements) are separated among different individuals to significantly reduce the risk that any one individual could intentionally or unintentionally misappropriate assets. Policies should be in place requiring the segregation of certain duties.

Condition/Context: During the course of our testwork, we noted several areas in which the segregation of duties could be improved. The following are controls or practices which should be in place to ensure adequate segregation of duties, but aren't at the City.

CITY OF TOCCOA, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

Finding 2012-3 – Segregation of Duties (continued)

Condition/Context: (continued)

- Mail is opened and a list of daily receipts is prepared by two or more people independent of the cashier and accounts receivable bookkeeping.
- Individuals opening the mail prepare prenumbered cash receipts and attach remittance data to the cash receipts prior to forwarding the documentation to accounting.
- The list of daily cash receipts or lockbox listing from the bank is compared to postings to customer accounts, contribution records, and deposits and to a validated deposit slip by a person independent of the cash receipts and accounts receivable functions.
- All individuals with the ability to receive payments on customer accounts are independent of those who have the ability to post adjustments to those accounts.
- A cash "over" and "short" list is prepared for each cashier, and an appropriate person investigates both overages and shortages.
- Purchasing is separated from requisitioning, shipping, and receiving functions.
- There are defined payable cutoff procedures that are continually monitored by the appropriate level of management or another appropriate person.
- Check signing (including control of mechanical check signers and signature plates) is independent of the initiator of purchases, approver of purchases, receiving, shipping, preparer of checks, cash receipts, accounts payable, and cash bookkeeping.
- Checks are not returned to the preparer after signing.
- Persons preparing payroll are independent of other payroll and personnel duties (for example, timekeeping, distribution of checks, and hiring employees) and restricted from access to other payroll data or cash.
- Bank statements are received directly by the appropriate level of management or another appropriate person (such as a governing body member) and reviewed prior to routing to accounting for reconciliation.
- Journal entries to the City's general ledger are reviewed and approved by someone other than the preparer.

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

CITY OF TOCCOA, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

Finding 2012-3 – Segregation of Duties (continued)

Cause: The limited number of employees involved in the various offices and the resulting overlapping of duties causes segregation of duties to be difficult.

Recommendation: We recommend that the City review its processes and determine where it can cost-effectively segregate some of the duties in higher risk areas to alleviate the segregation of duties issues.

Response: The City agrees with this recommendation. Due to reduced work force, segregation of duties will continue to be an issue, however the City will continue to look at possibilities to reduce the City's risks according to the controls and practices suggested by Mauldin & Jenkins.

Finding 2012-4 – Budgeting of Flood Grant Fund

Criteria: State of Georgia law (OCGA 36-81-3) states: a) Each unit of local government shall adopt and operate under an annual balanced budget for the general fund, each special revenue fund, and each debt service fund in use by the local government. The annual balanced budget shall be adopted by ordinance or resolution and administered in accordance with this article; and b) a budget ordinance or resolution is balanced when the sum of estimated revenues and appropriated fund balances is equal to appropriations.

Condition: For the fiscal year ended June 30, 2012, an annual budget was not adopted or amended for the Flood Grant Special Revenue Fund.

Context/Cause: See the above condition. The City did not adopt or amend an annual budget for the Flood Grant Special Revenue Fund.

Effect: Lack of an annual balanced budget for the Flood Grant Fund results in the City being out of compliance with State law.

Recommendation: We recommend that the City adopt an annual budget for the General Fund and all special revenue funds in accordance with State Law.

Response: The City agrees with this recommendation and will adopt a budget for the general fund and all special revenue funds.