

CITY OF TOCCOA, GEORGIA

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
JUNE 30, 2014**

**CITY OF TOCCOA, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-13
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Revenues, Expenditures, and Changes in Fund Balances –Budget and Actual (GAAP Basis) - General Fund	19
Statement of Net Position – Proprietary Funds	20
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds.....	21
Statement of Cash Flows - Proprietary Funds	22
Notes to Financial Statements	23-50
Required Supplementary Information:	
Schedule of Funding Progress	51
Supplementary Information:	
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds	52
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	53

**CITY OF TOCCOA, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014**

TABLE OF CONTENTS

	<u>Page</u>
Supplementary Information:	
Combining and Individual Fund Statements and Schedules: (Continued)	
Hotel/Motel Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual.....	54
Flood Grant Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual.....	55
Grant Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual.....	56
Schedule of Expenditures of Special Purpose Local Option Sales Tax Proceeds	57
 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 <i>Government Auditing Standards</i>	58 and 59
Independent Auditor’s Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133.....	60-62
Schedule of Expenditures of Federal Awards.....	63
Notes to the Schedule of Expenditures of Federal Awards.....	64
Schedule of Findings and Questioned Costs	65-71



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2014, and related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Toccoa, Georgia as of June 30, 2014, 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 accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Funding Progress on pages 4-13 and 51, respectively, 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.

Other Information

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 statements and schedules, including 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. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual fund statements and schedules, the Schedules of Expenditures of Special Purpose Local Option Sales Tax Proceeds, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules, the Schedules of Expenditures of Special Purpose Local Option Sales Tax Proceeds, and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014 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* in considering the City of Toccoa, Georgia's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Atlanta, Georgia
December 15, 2014

CITY OF TOCCOA, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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, 2014. 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 and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at June 30, 2014 by \$54,045,143 (net position). Of this amount, \$5,339,879 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors. The City's total net position increased by \$667,362 during the fiscal year ended June 30, 2014; with an increase from business-type activities of \$1,847,972 and a decrease in governmental activities of (\$1,180,610).
- As of June 30, 2014, the City's governmental funds reported combined ending fund balances of \$8,148,682 a decrease of \$485,942 in comparison with the prior year. This decrease is attributable mainly to a \$426,530 decrease in fund balance of the General Fund and a \$109,461 decrease in fund balance of the SPLOST V Fund. The decrease in the General Fund is due to the construction of the new city pool and the SPLOST V decrease is due to the SPLOST V program falling short of anticipated revenues and the City not collecting a full year's revenue as a result.

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 position and the statement of activities, which are described below.

- 1) The "statement of net position" presents information on all of the City's assets, liabilities, deferred outflows of resources, and deferred inflows of resources, with the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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, 2014

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 14 and 15 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 City'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 16-19 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 20-22 of this report.

**CITY OF TOCCOA, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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 23-50 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 51 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 52-57 of this report.

CITY OF TOCCOA, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$54,045,143 and \$53,377,781 at June 30, 2014 and 2013, respectively. The following is a condensed version of the government-wide statement of net position.

City of Toccoa – Net Position (\$000)

	Governmental Activities		Business-Type		Total	
	2014	2013	2014	2013	2014	2013
Assets and deferred outflows:						
Current and other assets and deferred outflows	\$ 9,517	\$ 9,555	\$ 4,691	\$ 3,365	\$ 14,208	\$ 12,920
Capital assets	17,698	18,360	48,696	50,073	66,394	68,433
Total assets and deferred outflows	27,215	27,915	53,387	53,438	80,602	81,353
Liabilities and deferred inflows:						
Long-term liabilities outstanding	2,312	2,311	19,274	21,429	21,586	23,740
Other liabilities and deferred inflows	1,383	904	3,587	3,332	4,971	4,235
Total liabilities and deferred inflows	3,695	3,215	22,861	24,761	26,557	27,975
Net position:						
Net investment in capital assets	16,555	17,352	27,579	26,906	44,134	44,258
Restricted	4,572	4,631	-	-	4,572	4,631
Unrestricted	2,393	2,717	2,946	1,771	5,339	4,488
Total net position	\$ 23,520	\$ 24,700	\$ 30,525	\$ 28,677	\$ 54,045	\$ 53,377

CITY OF TOCCOA, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

The largest portion of the City's net position (82%) reflects its net 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 net 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 position of \$4,571,251 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.

The remaining balance of unrestricted net position \$5,339,879 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 position for governmental activities and for business-type activities. The same situation held true for the prior fiscal year.

Governmental activities: Governmental activities decreased the City's net position by \$1,180,610 and business-type activities increased the City's net position by \$1,847,972. Much of the decrease in governmental activities net position came from depreciation of capital assets. The increase in business-type activities net position came predominately from increased revenues in Natural Gas as a result of the extremely cold winter during the fiscal year and the resulting increase in natural gas use by citizens. The Water and Sewer Fund also so a significant increase in sales due to increased base rates.

The following condensed financial information was derived from the government-wide statement of activities and summarizes changes in net position for the year ended June 30, 2014 and 2013.

CITY OF TOCCOA, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

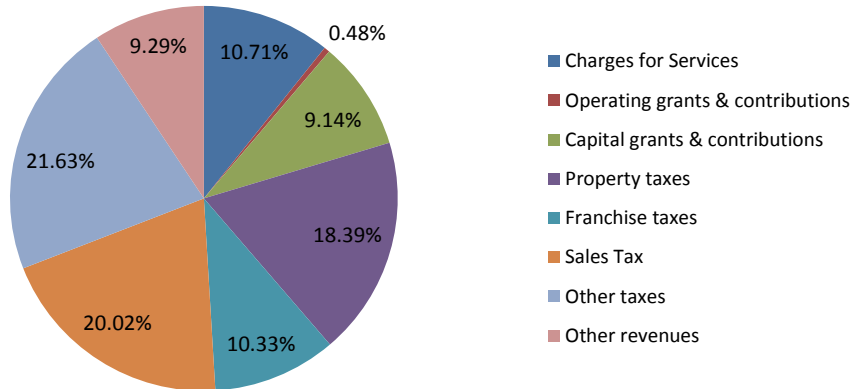
City of Toccoa – Changes in Net Position (\$000)

	Governmental Activities		Business-Type		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	\$ 589	\$ 496	\$ 21,561	\$ 18,895	\$ 22,150	\$ 19,391
Operating grants and contributions	27	125	-	-	27	125
Capital grants and contributions	502	1,566	684	134	1,186	1,700
General revenues:						
Property taxes	1,010	1,059	-	-	1,010	1,059
Franchise taxes	568	583	-	-	568	583
Sales tax	1,100	1,153	-	-	1,100	1,153
Other taxes	1,188	1,042	-	-	1,188	1,042
Other	511	499	-	-	511	499
Total revenues	<u>5,495</u>	<u>6,523</u>	<u>22,245</u>	<u>19,029</u>	<u>27,740</u>	<u>25,552</u>
Expenses						
General government	2,158	2,181	-	-	2,158	2,181
Public safety	3,751	3,894	-	-	3,751	3,894
Public works	3,013	3,087	-	-	3,013	3,087
Culture & recreation	269	229	-	-	269	229
Economic & community development	815	1,055	-	-	815	1,055
Interest on long term debt	8	5	-	-	8	5
Water and sewer	-	-	4,654	4,783	4,654	4,783
Solid waste	-	-	865	842	865	842
Natural gas	-	-	11,516	9,803	11,516	9,803
Golf course	-	-	23	21	23	21
Total expenses	<u>10,014</u>	<u>10,451</u>	<u>17,058</u>	<u>15,449</u>	<u>27,072</u>	<u>25,900</u>
Transfers	<u>3,339</u>	<u>2,543</u>	<u>(3,339)</u>	<u>(2,543)</u>	<u>-</u>	<u>-</u>
Change in net position	<u>(1,180)</u>	<u>(1,385)</u>	<u>1,848</u>	<u>1,037</u>	<u>668</u>	<u>(348)</u>
Net position-July 1	<u>24,700</u>	<u>26,085</u>	<u>28,677</u>	<u>27,640</u>	<u>53,377</u>	<u>53,725</u>
Net position-June 30	<u>\$ 23,520</u>	<u>\$ 24,700</u>	<u>\$ 30,525</u>	<u>\$ 28,677</u>	<u>\$ 54,045</u>	<u>\$ 53,377</u>

**CITY OF TOCCOA, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

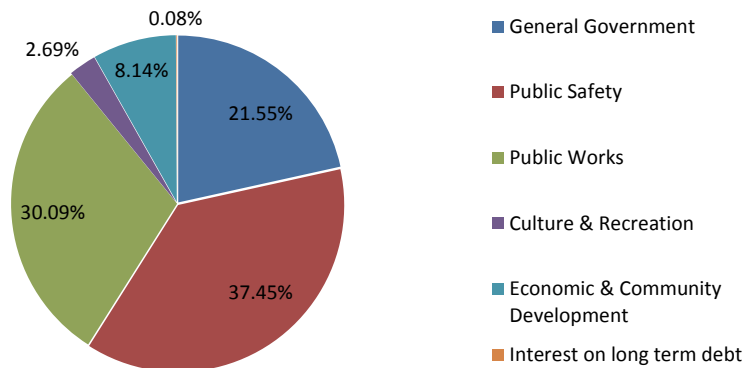
The following chart illustrates revenues of the governmental activities for the fiscal year:

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 \$5,494,308 for fiscal year 2014. Other taxes, which include insurance premium taxes, business taxes, and motor vehicle taxes, make up the largest portion of these revenues accounting for 21.6% of total revenues. Sales taxes, which include the proceeds from Stephens County for the City's portion of the Special Purpose Local Option Sales Tax (SPLOST), are also a large revenue source accounting for 20.02% of total revenues. Property taxes accounted for 18.39% of total revenues.

CITY OF TOCCOA, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

Governmental activities expenses totaled \$10,013,908 for fiscal year 2014. Of the expenses, 37% is related to public safety. In addition, public works accounted for 30% of total governmental expenses for the year. Overall expenses decreased at the City as a result of fewer grant expenses.

Business-type activities: Business-type activities increased the City's net position by \$1,847,972, due primarily to increases in Natural Gas sales as a result of the cold winter during the fiscal year as well as an increase in base water and sewer rates.

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 \$8,148,682 a decrease of \$485,942 or 6% in comparison with the prior year. Approximately 2% of the fund balance or \$201,635 is classified as nonspendable and includes amounts for inventory and long term advances. Restricted fund balance of \$5,946,381 or 73% is for spending on capital projects, grants, and tourism, and the GMA lease pool. The remaining balance \$2,000,666 is considered unassigned.

The General Fund is the chief operating fund of the City. For the current fiscal year, the fund balance of the City's General Fund decreased by \$426,530. This resulted primarily from the construction of the City pool.

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 position of \$1,073,730. Overall, net position of this fund decreased by \$367,338 due to expenses and transfers out exceeding revenues. Operating income was \$1,944,455, an increase of \$329,227 from the prior year.

The Solid Waste Fund has unrestricted net position of \$19,075 and total net position increased by \$1,491 from the prior year due to revenues exceeding expenses. Operating income was \$254,079 a decline of \$22,777 from the prior year.

The Natural Gas Fund had unrestricted net position of \$1,839,887. Total net position increased by \$2,207,511 from the prior year primarily due to increase gas sales as a result of the cold winter in the fiscal year. Operating income was \$3,074,809 an increase of \$358,658 from the prior year.

CITY OF TOCCOA, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

General Fund Budgetary Highlights

During the year several budget amendments were adopted by the City Commission, increasing budgeted revenues and transfers in 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 and expenditures were less than budgetary projections by \$3,806 and \$2,931 respectively. Proceeds from a line of credit funding the new City pool were budgeted, but as the line of credit is short-term debt, it was accrued as a liability rather than being an inflow of resources.

Capital Assets and Debt Administration

Capital assets: The City's investment in capital assets for its governmental activities as of June 30, 2014, amounted to \$17,698,241, 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 \$661,291 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 \$48,696,117 at June 30, 2014, representing a decrease of \$1,337,150 also caused mainly by depreciation exceeding acquisitions.

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 2014 and 2013

	Governmental Activities		Business-Type		Total	
	2014	2013	2014	2013	2014	2013
Land and improvements	\$ 672	\$ 630	\$ 296	\$ 295	\$ 968	\$ 925
Buildings	6,373	6,273	3,656	3,657	10,029	9,930
Urban Renewal parks	135	135	-	-	135	135
Machinery and equipment	4,706	4,442	6,121	6,211	10,827	10,653
Infrastructure	41,596	41,596	-	-	41,596	41,596
Utility systems	-	-	88,560	88,334	88,560	88,334
Construction in progress	1,001	-	1,341	432	2,342	432
Total	54,483	53,076	99,974	98,929	154,457	152,005
Accumulated depreciation	36,785	34,716	51,278	48,856	88,063	83,572
Net Capital Assets	<u>\$ 17,698</u>	<u>\$ 18,360</u>	<u>\$ 48,696</u>	<u>\$ 50,073</u>	<u>\$ 66,394</u>	<u>\$ 68,433</u>

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, 2014

Long-term debt: At June 30, 2014, the City had \$15,967,894 in Natural Gas bonded debt. Overall this is \$1,361,090 lower than the prior year due to repayment of bonds at scheduled maturity. The City's Water and Sewer fund also had \$5,365,000 in revenue bonds payable, which were issued in fiscal year 2013 to refund the City's notes payable with the Georgia Environmental Finance Authority, at the end of the fiscal year

The City's governmental activities had certificates of participation of \$2,277,000 at June 30, 2014 and 2013, 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

The economy is slowly showing signs of improvement in our area but the City's FY 2015 budget continues to be on the conservative side with no increases to utility rates.

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 POSITION JUNE 30, 2014

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 7,078,293	\$ 2,306,834	\$ 9,385,127
Taxes receivable, net	246,375	-	246,375
Accounts receivable, net	77,683	1,758,578	1,836,261
Due from other governments	3,000	-	3,000
Internal balances	120,247	(120,247)	-
Inventory	81,388	480,029	561,417
Investments	1,375,130	-	1,375,130
Other assets	534,737	-	534,737
Capital assets, non-depreciable	1,673,522	1,636,915	3,310,437
Capital assets, depreciable, net of accumulated depreciation	16,024,719	47,059,202	63,083,921
Total assets	27,215,094	53,121,311	80,336,405
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	-	265,731	265,731
Total deferred outflows of resources	-	265,731	265,731
LIABILITIES			
Accounts payable	354,617	728,478	1,083,095
Accrued liabilities	112,940	135,111	248,051
Line of credit payable	241,220	-	241,220
Customer deposits payable	-	510,122	510,122
Compensated absences, due within one year	139,879	62,960	202,839
Compensated absences, due in more than one year	34,969	41,974	76,943
Bonds payable, due within one year	-	2,138,000	2,138,000
Bonds payable, due in more than one year	-	19,194,894	19,194,894
Certificates of participation, due in more than one year	2,277,000	-	2,277,000
Capital leases payable, due within one year	-	12,620	12,620
Capital leases payable, due in more than one year	-	37,472	37,472
Total liabilities	3,160,625	22,861,631	26,022,256
DEFERRED INFLOWS OF RESOURCES			
Cumulative change in fair value of effective hedge	534,737	-	534,737
Total deferred inflows of resources	534,737	-	534,737
NET POSITION			
Net investment in capital assets	16,555,151	27,578,862	44,134,013
Restricted for:			
Capital projects	4,378,041	-	4,378,041
Grant programs	185,233	-	185,233
Tourism	7,977	-	7,977
Unrestricted	2,393,330	2,946,549	5,339,879
Total net position	\$ 23,519,732	\$ 30,525,411	\$ 54,045,143

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

CITY OF TOCCOA, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating		Governmental Activities	Business-type Activities	Total
			Grants and Contributions	Capital Grants and Contributions			
Primary government:							
Governmental activities:							
General government	\$ 2,157,741	\$ 65,518	\$ 26,581	\$ -	\$ (2,065,642)	\$ -	\$ (2,065,642)
Public safety	3,750,569	402,099	-	63,630	(3,284,840)	-	(3,284,840)
Public works	3,013,083	24,090	-	234,367	(2,754,626)	-	(2,754,626)
Culture and recreation	269,308	96,831	-	186,291	13,814	-	13,814
Economic and community development	815,556	-	-	17,886	(797,670)	-	(797,670)
Interest on long-term debt	7,650	-	-	-	(7,650)	-	(7,650)
Total governmental activities	10,013,908	588,538	26,581	502,174	(8,896,615)	-	(8,896,615)
Business-type activities:							
Water and sewer	4,654,404	6,509,398	-	-	-	1,854,994	1,854,994
Solid waste	864,856	1,118,935	-	-	-	254,079	254,079
Natural gas	11,516,281	13,917,759	-	683,603	-	3,085,081	3,085,081
Golf course	22,619	15,427	-	-	-	(7,192)	(7,192)
Total business-type activities	17,058,160	21,561,519	-	683,603	-	5,186,962	5,186,962
Total primary government	\$ 27,072,068	\$ 22,150,057	\$ 26,581	\$ 1,185,777	(8,896,615)	5,186,962	(3,709,653)
General revenues:							
Property taxes					1,010,388	-	1,010,388
Sales taxes					1,099,911	-	1,099,911
Franchise taxes					567,656	-	567,656
Insurance premium tax					438,000	-	438,000
Hotel/Motel occupancy tax					37,367	-	37,367
Business taxes					242,768	-	242,768
Other taxes					470,286	-	470,286
Unrestricted investment earnings					47,940	-	47,940
Gain on sale of assets					5,165	-	5,165
Other revenue					457,534	-	457,534
Transfers					3,338,990	(3,338,990)	-
Total general revenues and transfers					7,716,005	(3,338,990)	4,377,015
Change in net position					(1,180,610)	1,847,972	667,362
Net position, beginning of year					24,700,342	28,677,439	53,377,781
Net position, end of year					\$ 23,519,732	\$ 30,525,411	\$ 54,045,143

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

CITY OF TOCCOA, GEORGIA

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2014

	Major Governmental Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General	SPLOST IV Fund	SPLOST V Fund		
ASSETS					
Cash and cash equivalents	\$ 2,499,516	\$ 470,497	\$ 3,701,167	\$ 407,113	\$ 7,078,293
Taxes receivable, net	238,492	-	-	7,883	246,375
Accounts receivable	77,683	-	-	-	77,683
Intergovernmental receivable	-	-	-	3,000	3,000
Investments	1,375,130	-	-	-	1,375,130
Advances to other funds	120,247	-	-	-	120,247
Inventory	81,388	-	-	-	81,388
Total assets	<u>\$ 4,392,456</u>	<u>\$ 470,497</u>	<u>\$ 3,701,167</u>	<u>\$ 417,996</u>	<u>\$ 8,982,116</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 336,208	\$ -	\$ 8,590	\$ 9,819	\$ 354,617
Accrued salaries	103,927	-	-	-	103,927
Line of credit payable	241,220	-	-	-	241,220
Total liabilities	<u>681,355</u>	<u>-</u>	<u>8,590</u>	<u>9,819</u>	<u>699,764</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	<u>133,670</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>133,670</u>
Total deferred inflows of resources	<u>133,670</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>133,670</u>
FUND BALANCES					
Fund balances					
Nonspendable:					
Inventory	81,388	-	-	-	81,388
Advances to other funds	120,247	-	-	-	120,247
Restricted:					
Capital construction	-	470,497	3,692,577	214,967	4,378,041
GMA Lease Pool participation	1,375,130	-	-	-	1,375,130
Tourism	-	-	-	7,977	7,977
Grant programs	-	-	-	185,233	185,233
Unassigned	<u>2,000,666</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,666</u>
Total fund balances	<u>3,577,431</u>	<u>470,497</u>	<u>3,692,577</u>	<u>408,177</u>	<u>8,148,682</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,392,456</u>	<u>\$ 470,497</u>	<u>\$ 3,701,167</u>	<u>\$ 417,996</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	17,698,241
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred inflows of resources in the funds.	133,670
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(2,460,861)</u>
Net position of governmental activities	<u>\$ 23,519,732</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, 2014

	Major Governmental Funds			Nonmajor	Total
	General	SPLOST IV Fund	SPLOST V Fund	Governmental Funds	Governmental Funds
Revenues					
Taxes:					
Property taxes	\$ 1,038,609	\$ -	\$ -	\$ -	\$ 1,038,609
Sales taxes	1,099,911	-	-	-	1,099,911
Hotel/Motel occupancy taxes	-	-	-	37,367	37,367
Franchise taxes	567,656	-	-	-	567,656
Insurance premium tax	438,000	-	-	-	438,000
Business taxes	242,768	-	-	-	242,768
Other taxes	470,286	-	-	-	470,286
Licenses and permits	81,239	-	-	-	81,239
Intergovernmental	26,581	-	114,883	195,544	337,008
Fines and forfeitures	315,317	-	-	-	315,317
Charges for services	120,469	-	-	-	120,469
Investment earnings	47,940	709	5,415	323	54,387
Other revenues	529,047	-	-	-	529,047
Total revenues	<u>4,977,823</u>	<u>709</u>	<u>120,298</u>	<u>233,234</u>	<u>5,332,064</u>
Expenditures					
Current:					
General government	2,004,812	-	-	58,262	2,063,074
Judicial	160,196	-	-	-	160,196
Police	1,789,621	-	-	61,698	1,851,319
Fire	1,549,053	-	-	-	1,549,053
Streets and sanitation	432,616	-	-	27,214	459,830
Cemetery	52,341	-	-	-	52,341
Public building and grounds	790,650	-	-	-	790,650
Parks and recreation	888,844	-	-	2,064	890,908
Animal Control	152,410	-	-	-	152,410
Planning, building inspection, and development	784,050	-	-	31,028	815,078
Capital outlay	267,345	9,464	92,843	-	369,652
Debt service:					
Interest	7,650	-	-	-	7,650
Total expenditures	<u>8,879,588</u>	<u>9,464</u>	<u>92,843</u>	<u>180,266</u>	<u>9,162,161</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,901,765)</u>	<u>(8,755)</u>	<u>27,455</u>	<u>52,968</u>	<u>(3,830,097)</u>
Other financing sources (uses):					
Proceeds from sale of capital assets	5,165	-	-	-	5,165
Transfers in	3,516,643	-	-	46,573	3,563,216
Transfers out	(46,573)	(8,506)	(136,916)	(32,231)	(224,226)
Total other financing sources (uses)	<u>3,475,235</u>	<u>(8,506)</u>	<u>(136,916)</u>	<u>14,342</u>	<u>3,344,155</u>
Net change in fund balances	(426,530)	(17,261)	(109,461)	67,310	(485,942)
Fund balances, beginning of year	<u>4,003,961</u>	<u>487,758</u>	<u>3,802,038</u>	<u>340,867</u>	<u>8,634,624</u>
Fund balances, end of year	<u>\$ 3,577,431</u>	<u>\$ 470,497</u>	<u>\$ 3,692,577</u>	<u>\$ 408,177</u>	<u>\$ 8,148,682</u>

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, 2014

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

Net change in fund balances - total governmental funds	\$ (485,942)
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.	(846,591)
The effect of donated capital assets is to increase net position	185,300
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(28,221)
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>(5,156)</u>
Change in net position - governmental activities	<u>\$ (1,180,610)</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, 2014

	Budget		Actual	Variance With Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 1,098,155	\$ 1,033,955	\$ 1,038,609	\$ 4,654
Sales taxes	1,250,000	1,104,633	1,099,911	(4,722)
Franchise taxes	543,500	567,500	567,656	156
Insurance premium taxes	423,000	438,100	438,000	(100)
Business taxes	250,000	245,085	242,768	(2,317)
Other taxes	319,700	469,871	470,286	415
Licenses and permits	55,000	81,190	81,239	49
Intergovernmental	27,360	26,610	26,581	(29)
Fines and forfeitures	259,500	315,500	315,317	(183)
Charges for services	130,010	120,970	120,469	(501)
Investment earnings	33,000	48,000	47,940	(60)
Other revenues	413,765	530,215	529,047	(1,168)
Total revenues	4,802,990	4,981,629	4,977,823	(3,806)
Expenditures:				
Current:				
General government	2,286,241	2,284,641	2,272,157	12,484
Judicial	117,098	160,298	160,196	102
Police	1,906,146	1,755,046	1,789,621	(34,575)
Fire	1,548,065	1,550,065	1,549,053	1,012
Streets and sanitation	431,505	425,405	432,616	(7,211)
Cemetery	50,659	51,994	52,341	(347)
Public building and grounds	748,806	790,806	790,650	156
Parks and recreation	29,125	888,905	888,844	61
Animal control	99,084	152,669	152,410	259
Planning, building inspection, and development	901,650	783,150	784,050	(900)
Debt service:				
Principal	28,139	28,139	-	28,139
Interest	11,801	11,401	7,650	3,751
Total expenditures	8,158,319	8,882,519	8,879,588	2,931
Deficiency of revenues under expenditures	(3,355,329)	(3,900,890)	(3,901,765)	(875)
Other financing sources (uses):				
Proceeds from sale of capital assets	5,000	5,165	5,165	-
Proceeds from line of credit	194,417	241,219	-	(241,219)
Transfers in	3,606,912	3,515,051	3,516,643	1,592
Transfers out	(451,000)	(46,600)	(46,573)	27
Total other financing sources	3,355,329	3,714,835	3,475,235	(239,600)
Net change in fund balances	-	(186,055)	(426,530)	(240,475)
Fund balances, beginning of year	4,003,961	4,003,961	4,003,961	-
Fund balances, end of year	\$ 4,003,961	\$ 3,817,906	\$ 3,577,431	\$ (240,475)

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

CITY OF TOCCOA, GEORGIA

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014**

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	\$ 540,884	\$ 86,018	\$ 1,665,770	\$ 14,162	\$ 2,306,834
Accounts receivable, net	654,773	115,337	988,468	-	1,758,578
Inventory	218,525	-	261,504	-	480,029
Total current assets	1,414,182	201,355	2,915,742	14,162	4,545,441
NONCURRENT ASSETS					
Advances to other funds	-	-	49,384	-	49,384
Capital assets:					
Nondepreciable	476,535	-	1,088,825	71,555	1,636,915
Depreciable assets, net of accumulated depreciation	25,252,872	436,620	21,221,696	148,014	47,059,202
Total noncurrent assets	25,729,407	436,620	22,359,905	219,569	48,745,501
Total assets	27,143,589	637,975	25,275,647	233,731	53,290,942
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charges on refunding	-	-	265,731	-	265,731
Total deferred outflows of resources	-	-	265,731	-	265,731
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	45,622	3,258	679,598	-	728,478
Accrued salaries	31,789	5,272	25,215	-	62,276
Accrued interest	20,558	-	51,972	305	72,835
Compensated absences payable, current	33,106	4,390	25,464	-	62,960
Customer deposits payable	184,108	-	326,014	-	510,122
Capital leases payable, current	-	-	-	12,620	12,620
Bonds payable, current	773,000	-	1,365,000	-	2,138,000
Total current liabilities	1,088,183	12,920	2,473,263	12,925	3,587,291
NONCURRENT LIABILITIES					
Compensated absences payable	22,071	2,927	16,976	-	41,974
Advances from other funds	3,198	166,433	-	-	169,631
Capital leases payable	-	-	-	37,472	37,472
Bonds payable	4,592,000	-	14,602,894	-	19,194,894
Total noncurrent liabilities	4,617,269	169,360	14,619,870	37,472	19,443,971
Total liabilities	5,705,452	182,280	17,093,133	50,397	23,031,262
NET POSITION					
Net investment in capital assets	20,364,407	436,620	6,608,358	169,477	27,578,862
Unrestricted	1,073,730	19,075	1,839,887	13,857	2,946,549
Total net position	\$ 21,438,137	\$ 455,695	\$ 8,448,245	\$ 183,334	\$ 30,525,411

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

CITY OF TOCCOA, GEORGIA

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Business-type Activities - Enterprise Funds				Totals
	Water and Sewer Fund	Solid Waste Fund	Natural Gas Fund	Golf Course Fund	
OPERATING REVENUES					
Charges for services	\$ 6,444,197	\$ 1,118,935	\$ 13,917,759	\$ 15,427	\$ 21,496,318
Intergovernmental revenue	65,201	-	-	-	65,201
Total operating revenues	6,509,398	1,118,935	13,917,759	15,427	21,561,519
OPERATING EXPENSES					
Personal services and benefits	1,688,581	287,734	1,430,967	-	3,407,282
Purchased and contracted services	410,127	399,620	461,824	1,122	1,272,693
Supplies and equipment	998,249	85,282	7,786,601	-	8,870,132
Depreciation and amortization	1,412,882	76,471	1,054,590	16,944	2,560,887
Miscellaneous	55,104	15,749	108,968	-	179,821
Total operating expenses	4,564,943	864,856	10,842,950	18,066	16,290,815
Operating income (loss)	1,944,455	254,079	3,074,809	(2,639)	5,270,704
NON-OPERATING EXPENSES					
Interest and fiscal agent fees	(89,461)	-	(673,331)	(2,804)	(765,596)
Loss on capital lease disposal	-	-	-	(1,749)	(1,749)
Total non-operating expenses	(89,461)	-	(673,331)	(4,553)	(767,345)
Income (loss) before contributions and transfers	1,854,994	254,079	2,401,478	(7,192)	4,503,359
Capital contributions	-	-	683,603	-	683,603
Transfers in	158,653	31,613	31,613	13,500	235,379
Transfers out	(2,380,985)	(284,201)	(909,183)	-	(3,574,369)
	(2,222,332)	(252,588)	(193,967)	13,500	(2,655,387)
Change in net position	(367,338)	1,491	2,207,511	6,308	1,847,972
NET POSITION, beginning of year	21,805,475	454,204	6,240,734	177,026	28,677,439
NET POSITION, end of year	\$ 21,438,137	\$ 455,695	\$ 8,448,245	\$ 183,334	\$ 30,525,411

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, 2014**

	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	\$ 6,568,939	\$ 1,136,157	\$ 14,007,846	\$ 15,427	\$ 21,728,369
Payments to vendors	(1,439,162)	(498,562)	(8,224,142)	(1,122)	(10,162,988)
Payments to or on behalf of employees	(1,678,446)	(289,327)	(1,418,658)	-	(3,386,431)
Net cash provided by operating activities	3,451,331	348,268	4,365,046	14,305	8,178,950
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Transfers from other funds	8,506	31,613	31,613	13,500	85,232
Transfers to other funds	(2,380,985)	(284,201)	(909,183)	-	(3,574,369)
Net cash provided by (used) in non-capital financing activities	(2,372,479)	(252,588)	(877,570)	13,500	(3,489,137)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal payments on bonds payable	(768,000)	-	(1,315,000)	-	(2,083,000)
Principal payments on capital leases payable	-	-	-	(11,145)	(11,145)
Interest paid	(71,596)	-	(675,836)	(2,500)	(749,932)
Capital contributions	-	-	683,603	-	683,603
Transfers from other funds specifically for capital purposes	150,147	-	-	-	150,147
Paid advance to other fund	(20,817)	(69,488)	(40,344)	-	(130,649)
Purchases of capital assets	(188,466)	-	(952,696)	-	(1,141,162)
Net cash used in capital and related financing activities	(898,732)	(69,488)	(2,300,273)	(13,645)	(3,282,138)
Net increase in cash and cash equivalents	180,120	26,192	1,187,203	14,160	1,407,675
Cash and cash equivalents, beginning of year	360,764	59,826	478,567	2	899,159
Cash and cash equivalents, end of year	\$ 540,884	\$ 86,018	\$ 1,665,770	\$ 14,162	\$ 2,306,834
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ 1,944,455	\$ 254,079	\$ 3,074,809	\$ (2,639)	\$ 5,270,704
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	1,412,882	76,471	1,054,590	16,944	2,560,887
Change in assets and liabilities					
Accounts receivables	59,541	17,222	90,087	-	166,850
Inventory	(2,689)	-	(786)	-	(3,475)
Accounts payable	11,012	2,089	62,177	-	75,278
Accrued salaries	7,956	1,395	7,263	-	16,614
Compensated absences	2,179	(2,988)	5,046	-	4,237
Customer deposits payable	15,995	-	71,860	-	87,855
Net cash provided by operating activities	\$ 3,451,331	\$ 348,268	\$ 4,365,046	\$ 14,305	\$ 8,178,950

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

CITY OF TOCCOA, GEORGIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014.

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 position 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 position includes non-current assets and non-current liabilities. In addition, the government-wide statement of activities reflects depreciation expense on the City's capital assets.

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.

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 position. Bond premiums and discounts 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 expensed in the year of issue.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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 expenditures in the year of issue.

L. Fund Equity and Net Position

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

Fund Balance – Generally, fund balance represents the difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources under the current financial resources measurement focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific 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 Position (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 Position (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 Position - Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in reporting which utilizes the economic resources measurement focus. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the City has spent) for the acquisition, construction or improvement of those capital assets. Net position is reported as restricted using the same definition as used for restricted fund balance as described in the section above. All other net position is reported as unrestricted. 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. Deferred Outflows of Resources / Deferred Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the business type activities on the statement of net position as well as statement of net position for major proprietary funds. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

M. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of deferred inflows of resources, one of which arises only under the modified accrual basis of accounting and one of which arises only in under the accrual basis of accounting – both of which are only found in the governmental activities and funds. For the governmental funds, under the modified accrual basis of accounting, the City reports unavailable revenues from property taxes and other sources as a deferred inflow of resources, as these amounts will not be recognized as an inflow of resources until the period that the amounts become available. Additionally, the governmental activities, in the government-wide financial statements, report a deferred inflow of resources for the cumulative changes in fair value related to the hedging derivative financial instrument which was determined to be an effective hedge as described in more detail in Note 8.

N. 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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 position

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$2,460,861 difference are as follows:

Certificates of participation (COPs) payable	\$ (2,277,000)
Fair value of interest swap agreement on COPs	534,737
Deferred inflow of resources for effective hedge swap agreement	(534,737)
Accrued interest payable	(9,013)
Compensated absences	<u>(174,848)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u>\$ (2,460,861)</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 position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$846,591 difference are as follows:

Capital outlay	\$ 1,264,961
Depreciation expense	<u>(2,111,552)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>change in net position of governmental activities</i>	<u>\$ (846,591)</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 \$5,156 difference are as follows:

Compensated absences	\$ (5,156)
Net adjustment to decrease <i>net changes in fund balances - total governmental funds to arrive at change in net position of governmental activities</i>	<u>\$ (5,156)</u>

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.

B. Budgetary Excesses

The General Fund had an excess of actual expenditures over budget in the police, streets & sanitation, cemetery, and planning functional areas by \$34,575, \$7,211, \$347, and \$900 respectively. These excess expenditures over budget resulted from higher than expected costs.

NOTES TO FINANCIAL STATEMENTS

Note 4. Deposits and Investments

As of June 30, 2014, the City had a guaranteed investment contract. The amounts classified as investments at June 30, 2014 were:

<u>Investment</u>	<u>Fair Value</u>	<u>Interest Rate Risk</u>
Guaranteed Investment Contract	\$ 1,375,130	Maturity Date June 1, 2028
Total	\$ 1,375,130	

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, 2014, 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 inflows of resources when assessed. Accordingly, the January 1, 2013 Property Tax Digest was recognized as revenues for fiscal year 2014, 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>Water and Sewer</u>	<u>Solid Waste</u>	<u>Natural Gas</u>	<u>Nonmajor Governmental</u>
Receivables:					
Taxes	\$ 238,492	\$ -	\$ -	\$ -	\$ 7,883
Accounts	77,683	742,531	150,230	1,083,538	-
Intergovernmental	-	-	-	-	3,000
Less allowance for uncollectibles	-	(87,758)	(34,893)	(95,070)	-
Net total receivables	<u>\$ 316,175</u>	<u>\$ 654,773</u>	<u>\$ 115,337</u>	<u>\$ 988,468</u>	<u>\$ 10,883</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Transfers/ Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and improvements	\$ 629,928	\$ 42,100	\$ -	\$ 672,028
Construction in progress	-	1,001,494	-	1,001,494
Total assets, not being depreciated	629,928	1,043,594	-	1,673,522
Capital assets, being depreciated:				
Buildings	6,272,792	143,200	(43,085)	6,372,907
Urban renewal parks	134,731	-	-	134,731
Machinery and equipment	4,442,351	263,467	-	4,705,818
Infrastructure	41,596,214	-	-	41,596,214
Total assets, being depreciated	52,446,088	406,667	(43,085)	52,809,670
Less accumulated depreciation for:				
Buildings	(2,734,080)	(162,374)	43,085	(2,853,369)
Urban renewal parks	(33,259)	(3,517)	-	(36,776)
Machinery and equipment	(3,434,406)	(165,405)	-	(3,599,811)
Infrastructure	(28,514,739)	(1,780,256)	-	(30,294,995)
Total accumulated depreciation	(34,716,484)	(2,111,552)	43,085	(36,784,951)
Total assets, being depreciated, net	17,729,604	(1,704,885)	-	16,024,719
Governmental activities capital assets, net	<u>\$ 18,359,532</u>	<u>\$ (661,291)</u>	<u>\$ -</u>	<u>\$ 17,698,241</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 295,276	\$ 485	\$ -	\$ 295,761
Construction in progress	431,644	1,000,657	(91,147)	1,341,154
Total assets, not being depreciated	726,920	1,001,142	(91,147)	1,636,915
Capital assets, being depreciated:				
Buildings	3,656,548	-	-	3,656,548
Utility systems	88,334,518	140,021	85,620	88,560,159
Machinery and equipment	6,210,861	53,168	(143,440)	6,120,589
Total assets, being depreciated	98,201,927	193,189	(57,820)	98,337,296
Less accumulated depreciation for:				
Buildings	(2,121,128)	(84,373)	-	(2,205,501)
Utility systems	(43,101,631)	(2,244,888)	5,527	(45,340,992)
Machinery and equipment	(3,632,821)	(228,310)	129,530	(3,731,601)
Total accumulated depreciation	(48,855,580)	(2,557,571)	135,057	(51,278,094)
Total assets, being depreciated, net	49,346,347	(2,364,382)	77,237	47,059,202
Business-type activities capital assets, net	<u>\$ 50,073,267</u>	<u>\$ (1,363,240)</u>	<u>\$ (13,910)</u>	<u>\$ 48,696,117</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	\$ 102,573
Public safety	150,691
Public works	1,841,676
Culture and recreation	<u>16,612</u>
Total depreciation expense - governmental activities	<u><u>\$ 2,111,552</u></u>

Business-type activities:

Water and sewer	\$ 1,412,882
Solid waste	76,471
Natural gas	1,051,274
Golf course	<u>16,944</u>
Total depreciation expense - business-type activities	<u><u>\$ 2,557,571</u></u>

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

The composition of inter-fund balances as of June 30, 2014, is as follows:

Advances from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Solid Waste	\$ 120,247
Natural Gas	Solid Waste	46,186
Natural Gas	Water and Sewer	<u>3,198</u>
Total		<u><u>\$ 169,631</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, 2014:

Transfers in	Transfers Out				Water & Sewer Fund	Solid Waste Fund	Natural Gas Fund	Total
	General Fund	SPLOST IV Fund	SPLOST V Fund	Non-Major Gov't				
General Fund	\$ -	\$ -	\$ -	\$ 19,000	\$ 2,304,259	\$ 284,201	\$ 909,183	\$ 3,516,643
Non-Major Gov't	46,573	-	-	-	-	-	-	46,573
Water & Sewer Fund	-	8,506	136,916	13,231	-	-	-	158,653
Solid Waste Fund	-	-	-	-	31,613	-	-	31,613
Natural Gas Fund	-	-	-	-	31,613	-	-	31,613
Golf Fund	-	-	-	-	13,500	-	-	13,500
Total	\$ 46,573	\$ 8,506	\$ 136,916	\$ 32,231	\$ 2,380,985	\$ 284,201	\$ 909,183	\$ 3,798,595

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, 2014, 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	169,692	199,414	(194,258)	174,848	139,879
Governmental activity					
Long-term liabilities	<u>\$ 2,446,692</u>	<u>\$ 199,414</u>	<u>\$ (194,258)</u>	<u>\$ 2,451,848</u>	<u>\$ 139,879</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	\$ 17,035,000	\$ -	\$ (1,315,000)	\$ 15,720,000	\$ 1,365,000
Add: Premium	293,984	-	(46,090)	247,894	-
Net Natural Gas	17,328,984	-	(1,361,090)	15,967,894	1,365,000
Water & Sewer bonds	6,133,000	-	(768,000)	5,365,000	773,000
Capital lease obligation	20,231	53,168	(23,307)	50,092	12,620
Compensated absences	100,697	124,111	(119,874)	104,934	62,960
Business-type activity					
Long-term liabilities	<u>\$ 23,582,912</u>	<u>\$ 177,279</u>	<u>\$ (2,272,271)</u>	<u>\$ 21,487,920</u>	<u>\$ 2,213,580</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, 2014, the floating rate being paid by the City is 0.40% and the market value of this agreement is \$534,737, an increase of \$1,473 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, 2014 based on the derivative contract. This market value is reported as a other asset in the statement of net position. 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 a deferred inflow of resources in the statement of net position.

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>
2015	\$ -	\$ 108,158	\$ 108,158
2016	-	108,158	108,158
2017	-	108,158	108,158
2018	-	108,158	108,158
2019	-	108,158	108,158
2020-2024	-	540,788	540,788
2025-2028	2,277,000	432,630	2,709,630
Total	<u>\$ 2,277,000</u>	<u>\$ 1,514,208</u>	<u>\$ 3,791,208</u>

Government Short-term Debt

The City acquired a line of credit from First Citizens Bank and Trust on April 30, 2014 for the constuction of a City pool. The line of credit is for up to \$750,000 and carries an interest rate of .86% and has a maturity date of December 31, 2014. All outstanding principal and accrued interest is due on the maturity date. As a short-term obligation, this amount is accrued in the General Fund.

Activity on line of credit for the year ended June 30, 2014 is as follows:

<u>Beginning Balance</u>	<u>Draws</u>	<u>Payments</u>	<u>Ending Balance</u>
<u>\$ -</u>	<u>\$ 241,220</u>	<u>\$ -</u>	<u>\$ 241,220</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 \$15,970,000 in outstanding refunded bonds at June 30, 2014 are not reported in the City's financial statements.

Annual debt service requirements, as of June 30, 2014, for the Series 2011 Bonds, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,540,000	453,069	1,993,069
2019	1,590,000	406,869	1,996,869
2020-2024	<u>8,325,000</u>	<u>1,072,306</u>	<u>9,397,306</u>
Total	<u>\$ 15,720,000</u>	<u>\$ 3,637,251</u>	<u>\$ 19,357,251</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-term Debt (Continued)

Business-type Activities (Continued)

Revenue Bonds Payable – Water and Sewer Fund

On May 22, 2013, the City issued the Series 2013 revenue bonds in the amount of \$6,133,000 which mature April 1, 2021, with an interest rate of 1.55%. The Series 2013 bonds were issued to refund the City's five (5) outstanding loans with the Georgia Environmental Finance Authority.

Remaining annual debt service requirements, as of June 30, 2014 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 773,000	\$ 78,671	\$ 851,671
2016	785,000	66,620	851,620
2017	797,000	54,382	851,382
2018	810,000	41,947	851,947
2019	770,000	29,636	799,636
2020-2021	1,430,000	23,427	1,453,427
Total	<u>\$ 5,365,000</u>	<u>\$ 294,683</u>	<u>\$ 5,659,683</u>

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%. This lease was terminated in fiscal year 2014 and a new lease was entered into as discussed below.

The City leased 20 golf carts from Yamaha Motor Corporation on April 1, 2014 in the amount of \$53,168. 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 4.2%.

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-term Debt (Continued)

Business-type Activities (Continued)

Capital Lease Obligation (Continued)

The assets acquired under this capital lease are as follows:

Golf Carts	\$ 53,168
Less accumulated depreciation	<u>(3,323)</u>
Total	<u><u>\$ 49,845</u></u>

Annual depreciation of these assets is included in depreciation expense.

The future annual requirements to amortize the capital lease obligation as of June 30, 2014 are as follows.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 12,620	\$ 3,430	\$ 16,050
2016	13,144	2,906	16,050
2017	13,689	2,361	16,050
2018	10,639	1,399	12,038
Total	<u><u>\$ 50,092</u></u>	<u><u>\$ 10,096</u></u>	<u><u>\$ 60,188</u></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 benefits provided and 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, 2014, the date of the most recent actuarial valuation, there were 327 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	81
Terminated vested participants not yet receiving benefits	90
Active employees	156
Total	<u>327</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 2014, the actuarially determined contribution rate was 8.10% of covered payroll. For fiscal year 2015, based on the January 1, 2014 actuarial valuation, the recommended contribution rate will be 7.88%.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension Plan (Continued)

Actuarial Information

For 2014, the City's actual contribution, which equaled the required contribution, was \$382,383. The recommended contribution was determined as part of the January 1, 2013 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 3.5%, including age and service based merit increases. 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, 2014.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
1/1/2014	\$ 15,240,642	\$ 15,183,605	\$ (57,037)	100.38 %	\$ 5,104,710	(1.12) %

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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of January 1, 2014.

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>
2014	\$ 382,383	\$ 382,383	100.0 %	\$ -
2013	467,519	467,519	100.0	-
2012	438,000	438,000	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, 2014, the City paid \$9,263 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.

As part of these risk pools, the City is obligated to pay all contributions and assessments as prescribed by the pools, to cooperate with the 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/Commitments

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 \$7,246,849 in 2014.

At June 31, 2014, construction commitments on uncompleted contracts were \$244,233. These commitments relate to the construction of the City pool which is scheduled to be completed in fiscal year 2015.

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 \$37,367 for the year ended June 30, 2014. Of this amount 56% 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)
1/1/2014	\$ 15,240,642	15,183,605	\$ (57,037)	100.38 %	\$ 5,104,710	(1.12) %
1/1/2013	14,500,215	14,513,445	13,230	99.91	4,642,865	0.28
1/1/2012	13,886,337	13,989,552	103,215	99.26	4,776,990	2.16

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 or committed 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, 2014

	Special Revenue Funds			Capital Projects	Total Nonmajor
	Hotel/ Motel	Flood Grant	Grant Fund	SPLOST II Fund	Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 94	\$ -	\$ 182,323	\$ 224,696	\$ 407,113
Taxes receivable	7,883	-	-	-	7,883
Intergovernmental receivable	-	-	3,000	-	3,000
Total assets	<u>\$ 7,977</u>	<u>\$ -</u>	<u>\$ 185,323</u>	<u>\$ 224,696</u>	<u>\$ 417,996</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ 90	\$ 9,729	\$ 9,819
Total liabilities	<u>-</u>	<u>-</u>	<u>90</u>	<u>9,729</u>	<u>9,819</u>
FUND BALANCES					
Restricted:					
Capital construction	-	-	-	214,967	214,967
Tourism	7,977	-	-	-	7,977
Grant programs	-	-	185,233	-	185,233
Total fund balances	<u>7,977</u>	<u>-</u>	<u>185,233</u>	<u>214,967</u>	<u>408,177</u>
Total liabilities and fund balances	<u>\$ 7,977</u>	<u>\$ -</u>	<u>\$ 185,323</u>	<u>\$ 224,696</u>	<u>\$ 417,996</u>

CITY OF TOCCOA, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2014

	Special Revenue Funds			Capital Projects	Total Nonmajor Governmental Funds
	Hotel/ Motel	Flood Grant	Grant Fund	SPLOST II Fund	
Revenues:					
Hotel/Motel taxes	\$ 37,367	\$ -	\$ -	\$ -	\$ 37,367
Intergovernmental	-	-	195,544	-	195,544
Investment earnings	-	-	-	323	323
Total revenues	<u>37,367</u>	<u>-</u>	<u>195,544</u>	<u>323</u>	<u>233,234</u>
Expenditures:					
Current:					
General government	-	-	58,262	-	58,262
Streets and sanitation	-	2,483	20,910	3,821	27,214
Parks and recreation	-	331	1,733	-	2,064
Police	-	-	61,698	-	61,698
Development	-	-	10,227	-	10,227
Economic and community development	20,801	-	-	-	20,801
Total expenditures	<u>20,801</u>	<u>2,814</u>	<u>152,830</u>	<u>3,821</u>	<u>180,266</u>
Excess (deficiency) of revenues over (under) expenditures	<u>16,566</u>	<u>(2,814)</u>	<u>42,714</u>	<u>(3,498)</u>	<u>52,968</u>
Other financing sources (uses):					
Transfers in	-	-	46,573	-	46,573
Transfers out	(19,000)	-	-	(13,231)	(32,231)
Total other financing sources (uses)	<u>(19,000)</u>	<u>-</u>	<u>46,573</u>	<u>(13,231)</u>	<u>14,342</u>
Net change in fund balances	(2,434)	(2,814)	89,287	(16,729)	67,310
Fund balances, beginning of year	<u>10,411</u>	<u>2,814</u>	<u>95,946</u>	<u>231,696</u>	<u>340,867</u>
Fund balances, end of year	<u>\$ 7,977</u>	<u>\$ -</u>	<u>\$ 185,233</u>	<u>\$ 214,967</u>	<u>\$ 408,177</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, 2014**

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Hotel/Motel taxes	\$ 45,000	\$ 39,800	\$ 37,367	\$ (2,433)
Total revenues	45,000	39,800	37,367	(2,433)
Expenditures:				
Current:				
Development	20,000	20,800	20,801	(1)
Total expenditures	20,000	20,800	20,801	(1)
Excess (deficiency) of revenues over (under) expenditures	25,000	19,000	16,566	(2,434)
Other financing uses:				
Transfers out	(25,000)	(19,000)	(19,000)	-
Total other financing uses	(25,000)	(19,000)	(19,000)	-
Net changes in fund balances	-	-	(2,434)	(2,434)
Fund balances, beginning of year	10,411	10,411	10,411	-
Fund balances, end of year	<u>\$ 10,411</u>	<u>\$ 10,411</u>	<u>\$ 7,977</u>	<u>\$ (2,434)</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, 2014**

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Intergovernmental	\$ -	\$ 2,814	\$ -	\$ (2,814)
Total revenues	-	2,814	-	(2,814)
Expenditures:				
Current:				
Streets and sanitation	-	2,482	2,483	(1)
Parks and recreation	-	332	331	1
Total expenditures	-	2,814	2,814	-
Net changes in fund balances	-	-	(2,814)	(2,814)
Fund balances, beginning of year	2,814	2,814	2,814	-
Fund balances, end of year	<u>\$ 2,814</u>	<u>\$ 2,814</u>	<u>\$ -</u>	<u>\$ (2,814)</u>

**CITY OF TOCCOA, GEORGIA
GRANT FUND**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014**

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Intergovernmental	\$ 698,650	\$ 698,650	\$ 195,544	\$ (503,106)
Total revenues	<u>698,650</u>	<u>698,650</u>	<u>195,544</u>	<u>(503,106)</u>
Expenditures:				
Current:				
General government	72,000	72,000	58,262	13,738
Streets and sanitation	468,000	468,000	20,910	447,090
Parks and recreation	-	1,733	1,733	-
Police	91,650	89,917	61,698	28,219
Development	158,000	158,000	10,227	147,773
Total expenditures	<u>789,650</u>	<u>789,650</u>	<u>152,830</u>	<u>636,820</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(91,000)</u>	<u>(91,000)</u>	<u>42,714</u>	<u>133,714</u>
Other financing sources (uses):				
Transfers in	91,000	91,000	46,573	(44,427)
Total other financing sources (uses)	<u>91,000</u>	<u>91,000</u>	<u>46,573</u>	<u>(44,427)</u>
Net changes in fund balances	-	-	89,287	89,287
Fund balances, beginning of year	<u>95,946</u>	<u>95,946</u>	<u>95,946</u>	<u>-</u>
Fund balances, end of year	<u>\$ 95,946</u>	<u>\$ 95,946</u>	<u>\$ 185,233</u>	<u>\$ 89,287</u>

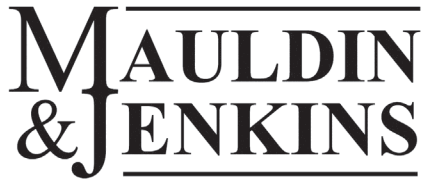
CITY OF TOCCOA, GEORGIA

SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS FOR THE YEAR ENDED JUNE 30, 2014

	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	\$ 16,712	\$ 60,184	\$ 76,896
Meadow Lift Station	250,000	250,000	-	-	-
Eastanollee WWTP	500,000	500,000	4,343	-	4,343
Fire Equipment	750,000	750,000	644,427	80,544	724,971
Roads	2,260,000	2,260,000	463,224	-	463,224
Historical Society Building	270,000	270,000	270,000	-	270,000
Recreation	400,000	400,000	109,787	9,520	119,307
Water System Improvements	2,330,000	2,330,000	1,458,266	13,701	1,471,967
Inflow & Infiltration	1,300,000	1,300,000	-	65,810	65,810
Total SPLOST V	\$ 9,060,000	\$ 9,060,000	\$ 2,966,759	\$ 229,759	\$ 3,196,518
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance				Total Expenditures	\$ 92,843
				Transfers Out	136,916 (1)
					<u>\$ 229,759</u>
SPLOST IV					
Water Improvements	\$ 2,000,000	\$ 2,000,000	\$ 2,094,662	\$ 17,970	\$ 2,112,632
Sewer Improvements	945,000	945,000	538,177	-	538,177
Roads & Bridges	240,000	240,000	508,704	-	508,704
Total SPLOST IV	\$ 3,185,000	\$ 3,185,000	\$ 3,141,543	\$ 17,970	\$ 3,159,513
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance				Total Expenditures	\$ 9,464
				Transfers Out	8,506 (1)
					<u>\$ 17,970</u>
SPLOST II					
Sewer Improvements	\$ 396,474	\$ 396,474	\$ 168,945	\$ 17,052	\$ 185,997
Total SPLOST II	\$ 396,474	\$ 396,474	\$ 168,945	\$ 17,052	\$ 185,997
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance				Total Expenditures	\$ 3,821
				Transfers Out	13,231 (1)
					<u>\$ 17,052</u>
Total SPLOST	\$ 12,641,474	\$ 12,641,474	\$ 6,277,247	\$ 264,781	\$ 6,542,028

(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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Toccoa, Georgia (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 15, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items 2014-001 through 2014-003, to be material weaknesses.

Compliance and Other Matters

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

The City's Response to Findings

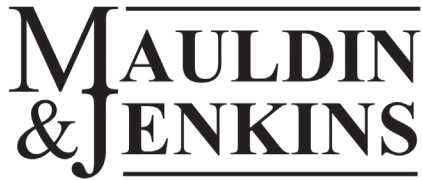
The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

A handwritten signature in black ink that reads "Mauldin & Jenkins, LLC". The signature is written in a cursive, flowing style.

Atlanta, Georgia
December 15, 2014



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the **City of Toccoa Georgia's** (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinion on the Highway Planning and Construction Program

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding procurement, suspension, and debarment that are applicable to its Highway Planning and Construction Program (CFDA 20.205), as described in item 2014-004. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion on the Highway Planning and Construction Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Highway Planning and Construction Program for the year ended June 30, 2014.

Other Matters

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-004 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-005 to be a significant deficiency.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Atlanta, Georgia
December 15, 2014

CITY OF TOCCOA, GEORGIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass- through Grantor Number	Total Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through State of Georgia Department of Community Affairs Community Development Block Grant	14.218	09b-X-127-2-5143	\$ 2,886
Total U.S. Department of Housing and Urban Development			2,886
U.S. DEPARTMENT OF AGRICULTURE			
Rural Business Enterprise Grants	10.769		991
Total U.S. Department of Agriculture			991
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through Georgia Department of Transportation			
Highway Planning and Construction	20.205	EDS00-0545-00 (020)	185,703
Highway Planning and Construction	20.205	EDS00-0545-00 (037)	497,790
Total Highway Planning and Construction Cluster			683,493
Total U.S. Department of Transportation			683,493
U.S. DEPARTMENT OF JUSTICE			
COPS Grant	16.710	2010-UM-WX-0089	53,700
Bulletproof Vest Partnership Program	16.607		1,932
Total U.S. Department of Justice			55,632
Total Expenditures of Federal Awards			\$ 743,002

See note to schedule of expenditures of federal awards.

CITY OF TOCCOA, GEORGIA

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

(1) Summary of Significant Accounting Policies

Basis of Presentation and Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recognized when the related fund liability is incurred.

Federal grant programs which are administered through State agencies (pass-through awards) have been included in this report. These programs are operated according to Federal regulations promulgated by the Federal agency providing the funding.

CITY OF TOCCOA, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
Material weaknesses identified? ☒ yes ☐ no

Significant deficiencies identified not considered
to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal Control over major programs:
Material weaknesses identified? ☒ yes ☐ no

Significant deficiencies identified not considered
to be material weaknesses? ☒ yes ☐ none reported

Type of auditor's report issued on compliance for
major programs Qualified for Highway Planning & Construction

Any audit findings disclosed that are required to
be reported in accordance with OMB Circular
A-133, Section 510(a)? ☒ yes ☐ no

Identification of major program:

CFDA Number
20.205

Name of Federal Program or Cluster
Highway Planning & Construction

Dollar threshold used to distinguish between
Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

CITY OF TOCCOA, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Section II – Financial Statement Findings

Finding 2014-001 – Expense/Expenditure Recognition

Criteria: Generally accepted accounting principles call for liabilities to be reported when goods or services have been received, regardless of the timing of cash payments.

Condition: Internal controls did not detect various misstatements in the reporting of certain of the City's liability and expenditure/expense accounts.

Context/Cause: During our testing of liabilities and expenses/expenditures, audit adjustments were required as follows:

- To properly record accrued payroll totaling \$121,472 across the following funds: General Fund (\$74,498), Water & Sewer Fund (\$23,612), Natural Gas Fund (\$19,862), and Solid Waste Fund (\$3,500).
- To record account payable and related expenditures in the amount of \$115,300 in the General Fund for goods and services received in fiscal year 2014 but were not paid until fiscal year 2015. The entry also required, for these costs, a recording of capital assets on the government wide statement of net position which had not been recorded.

Effect: Audit adjustments of \$236,772 were required as detailed above.

Recommendation: We recommend the City's finance department implement and/or strengthen internal controls surrounding the fiscal year-end accrual 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 related to accrued liabilities and payables.

Finding 2014-002 – Revenue Recognition

Criteria: Generally accepted accounting principles call for receivables to be reported when goods or services for exchange transactions have been provided by the City.

Condition: Internal controls did not detect a misstatement in the reporting of the City's revenue and related receivables.

CITY OF TOCCOA, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Finding 2014-002 – Revenue Recognition (continued)

Context/Cause: During our testing of receivables and revenue, an adjustment of \$34,339 to the Natural Gas Fund was required to increase and properly record revenue and related receivables.

Effect: An audit adjustment of \$34,339 was needed as detailed above.

Recommendation: We recommend the City's finance department implement and/or strengthen internal controls surrounding the fiscal year-end accrual 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 related to revenue and receivables.

Finding 2014-003 – 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.

CITY OF TOCCOA, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Finding 2014-003 – Segregation of Duties (continued)

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.

- 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.
- 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 QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Finding 2014-003 – 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.

Section III – Federal Award Findings and Questioned Costs

Finding 2014-004 – Procurement, Suspension and Debarment

Program: CFDA No. 20.205

CFDA Program Title: Highway Planning and Construction

Criteria: 49 CFR Part 18.36 requires grant recipients to follow the procurement standards established by their state and their own policies as long as those standards meet federal requirements. The City's procurement standards meet Federal and State requirements. Also, in compliance with the guidance set forth in the grant agreements and with the OMB A-102 Common Rule (which applies to grants and cooperative agreements) Attachment 1 (d), all recipients are required, during the procurement process, to ensure vendors are not cited as suspended or debarred or otherwise excluded from participation in federally funded contracts. This can be accomplished by checking the www.sam.gov maintained by the General Services Administration, collecting a certification from the entity, or adding a clause or condition to the contract with the vendor.

Condition: During our testing of the Highway Planning and Construction program, it was discovered that the City did not follow its procurement standards related to certain purchases made under this grant program as well as one contract amendment related to the grant project. Additionally, the City did not verify whether the contractors were noted as excluded on the Federal government's suspension and debarred lists and did not include the appropriate language in the contracts with those contractors.

Effects or Possible Effects: The City was not in compliance with its procurement policy. Also, the City could unintentionally enter into a noncompliant contract and be forced to reimburse the Federal government for all expenditures made with the debarred or suspended contractor. Based on a review of the excluded parties listing, none of the contractors in this case were included as suspended or debarred.

CITY OF TOCCOA, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Finding 2014-004 – Procurement, Suspension and Debarment (continued)

Questioned Costs: \$275,454 payments made to contractors with the compliant procurement procedures.

Context: Of the three contractors used with Highway Planning and Construction funds, the contracts with two of them did not follow the City's procurement policy which required City Commission approval of the contract. Additionally, the contract with the third contractor required an amendment which increased the value of the contract and this amendment did not receive City Commission approval as required by City policy. Also, for all three contractors, all of which were reviewed as part of our audit, none were noted as having the proper suspension and debarment certification in their contracts or documentation of City review of the excluded party listing.

Cause: The City did not follow the procurement policy for the two contractors because these are both contractors that the City's Gas department routinely uses for the purchases of gas pipes and the contractors had been previously approved by the City Commission. The City did not obtain suspension and debarment certifications from the contractors.

Recommendation: We recommend the City follow its procurement policies for all contracts over the established limit or establish a policy of how contractors who supply routine goods or services (such as gas pipes) are approved but at minimum this approval should be performed annually. Additionally, the City should establish procedures to properly include all suspension and debarment clauses in the contracts involving grant or cooperative agreement funds.

Auditee's Response: The City agrees with the recommendation above and has established a formal process to ensure that all grant related information is included in the contracts in the future and that procurement policies are followed.

Finding 2014-005 – Cash Management

Program: CFDA No. 20.205

CFDA Program Title: Highway Planning and Construction

Criteria: The grant agreements for this program require the City to request cash drawdowns on a reimbursement basis. Federal requirements also require that Federal grant recipients establish an effective internal control structure which would ensure compliance with direct and material compliance requirements of Federal programs.

CITY OF TOCCOA, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Finding 2014-005 – Cash Management (continued)

Condition: During our testing of the Highway Planning and Construction program, the City's internal controls over the cash management process were not consistently being followed. The process calls for preparation of the drawdown request by one individual and review and approval of the drawdown by a separate individual. Of the twelve drawdowns prepared by the City for this grant during the fiscal year, we noted that four of the drawdowns were prepared, approved, and submitted by the same individual without review by a separate individual. We also noted one drawdown request in which a mathematical error caused the drawdown request to be lower than it could have been.

Effects or Possible Effects: For all drawdowns requested, the City was in compliance with Federal requirements so no funds were drawn down which should not have been; however, if internal controls over compliance are not routinely followed, the risk of noncompliance is increased.

Questioned Costs: None.

Context: Of the twelve drawdowns prepared by the City for this grant during the fiscal year, we noted that four of the drawdowns were prepared, approved, and submitted by the same individual without review by a separate individual.

Cause: The City did not follow its internal control policies.

Recommendation: We recommend the City follow its review and approval policies for all grant drawdown requests to ensure compliance with requirements.

Auditee's Response: The City agrees with the recommendation above and has established a formal process to ensure that all drawdowns for grant follow the established revenue procedures.