

CITY OF SKY VALLEY, GEORGIA

**ANNUAL FINANCIAL REPORT
(WITH INDEPENDENT AUDITORS' REPORT)**

Year Ended December 31, 2013

CITY OF SKY VALLEY, GEORGIA

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December 31, 2013**

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INDEPENDENT AUDITORS' REPORT

June 26, 2014

City Council
CITY OF SKY VALLEY, GEORGIA
Sky Valley, 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 SKY VALLEY, GEORGIA as of, and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the government'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.

Auditors' 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, and each major fund CITY OF SKY VALLEY, GEORGIA, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof 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 Budgetary Comparison Schedule-General Fund listed in the table of contents 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.

The CITY OF SKY VALLEY, GEORGIA has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CITY OF SKY VALLEY, GEORGIA's basic financial statements. The Supplemental Schedule of Revenues and Expenditures-Water and Garbage Fund which is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information identified above is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including

comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information identified above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2014 on our consideration of the CITY OF SKY VALLEY, 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 CITY OF SKY VALLEY, GEORGIA's internal control over financial reporting and compliance.

Baker, Carter & Co., LLP

CITY OF SKY VALLEY, GEORGIA
STATEMENT OF NET POSITION
December 31, 2013

.....PRIMARY GOVERNMENT.....

	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
ASSETS			
Cash	\$ 1,380,175	\$ 706,007	\$ 2,086,182
Receivables (net of allowance for uncollectibles)	100,580	36,954	137,534
Prepaid items	250	3,115	3,365
Restricted assets:			
Non-current assets:			
Capital assets:			
Capital assets not being depreciated	157,739	2,222	159,961
Capital assets being depreciated	613,004	5,314,854	5,927,858
Less: accumulated depreciation	<u>(397,916)</u>	<u>(1,565,518)</u>	<u>(1,963,434)</u>
Capital assets, net of depreciation	<u>372,827</u>	<u>3,751,558</u>	<u>4,124,385</u>
TOTAL ASSETS	<u>1,853,832</u>	<u>4,497,634</u>	<u>6,351,466</u>
LIABILITIES			
Accounts payable	17,902	-	17,902
Other accrued items	11,753	3,727	15,480
Unearned revenue	873,891	-	873,891
Customer deposits	-	1,215	1,215
Noncurrent liabilities:			
Due within one year			
Compensated absences payable	3,897	3,933	7,830
Notes payable	-	96,620	96,620
Due in more than one year			
Compensated absences payable	7,237	-	7,237
Notes payable	-	<u>1,878,113</u>	<u>1,878,113</u>
TOTAL LIABILITIES	<u>914,680</u>	<u>1,983,608</u>	<u>2,898,288</u>
NET POSITION			
Net investment in capital assets	372,827	1,776,825	2,149,652
Restricted for:			
Housing and development	457	-	457
Unrestricted	<u>565,868</u>	<u>737,201</u>	<u>1,303,069</u>
TOTAL NET POSITION	<u>\$ 939,152</u>	<u>\$ 2,514,026</u>	<u>\$ 3,453,178</u>

The accompanying notes are an integral part of this statement.

CITY OF SKY VALLEY, GEORGIA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013

.....NET (EXPENSE) AND CHANGES IN NET POSITION....
.....PRIMARY GOVERNMENT.....

FUNCTIONS/PROGRAMSPROGRAM REVENUES.....						
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
PRIMARY GOVERNMENT							
GOVERNMENTAL ACTIVITIES							
General government	\$ 258,322	\$ 9,529	\$ 69,414	\$ -	\$ (179,379)	\$ -	\$ (179,379)
Judicial	4,679	1,165	-	-	(3,514)	-	(3,514)
Public safety	401,499	250	-	-	(401,249)	-	(401,249)
Public works	437,271	530	-	-	(436,741)	-	(436,741)
Housing and development	22,383	11,416	-	-	(10,967)	-	(10,967)
Total Governmental Activities	<u>1,124,154</u>	<u>22,890</u>	<u>69,414</u>	<u>-</u>	<u>(1,031,850)</u>	<u>-</u>	<u>(1,031,850)</u>
BUSINESS-TYPE ACTIVITIES							
Water and Garbage	520,131	451,390	-	-	-	(68,741)	(68,741)
Total Business-Type Activities	<u>520,131</u>	<u>451,390</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(68,741)</u>	<u>(68,741)</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 1,644,285</u>	<u>\$ 474,280</u>	<u>\$ 69,414</u>	<u>\$ -</u>	<u>(1,031,850)</u>	<u>(68,741)</u>	<u>(1,100,591)</u>
GENERAL REVENUES							
Property taxes					848,423	-	848,423
Real estate taxes					8,774	-	8,774
Insurance premium taxes					14,031	-	14,031
Other taxes					7,645	-	7,645
Franchise taxes					48,434	-	48,434
Total taxes					<u>927,307</u>	<u>-</u>	<u>927,307</u>
Unrestricted investment earnings					3,848	1,512	5,360
Gain on sale of capital assets					35,917	-	35,917
TRANSFERS					<u>19,047</u>	<u>(19,047)</u>	<u>-</u>
TOTAL GENERAL REVENUES AND TRANSFERS					<u>986,119</u>	<u>(17,535)</u>	<u>968,584</u>
CHANGES IN NET POSITION					<u>(45,731)</u>	<u>(86,276)</u>	<u>(132,007)</u>
NET POSITION, Beginning					907,686	2,702,206	3,609,892
PRIOR PERIOD ADJUSTMENT					77,197	(101,904)	(24,707)
NET POSITION, Beginning as restated					<u>984,883</u>	<u>2,600,302</u>	<u>3,585,185</u>
NET POSITION, Ending					<u>\$ 939,152</u>	<u>\$ 2,514,026</u>	<u>\$ 3,453,178</u>

The accompanying notes are an integral part of this statement.

**CITY OF SKY VALLEY, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2013**

	GENERAL	NONMAJOR GOVERNMENTAL FUND HOTEL/MOTEL TAX	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash	\$ 1,379,718	\$ 457	\$ 1,380,175
Receivables (net of allowance for uncollectibles)	100,580	-	100,580
Prepaid items	250	-	250
TOTAL ASSETS	\$ 1,480,548	\$ 457	\$ 1,481,005
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 17,902	\$ -	\$ 17,902
Other accrued items	11,755	-	11,755
Unearned revenue	873,891	-	873,891
TOTAL LIABILITIES	903,548	-	903,548
FUND BALANCES			
Nonspendable:			
Prepaid expenditure	250	-	250
Restricted:			
Housing and Development	-	457	457
Unassigned:	576,750	-	576,750
TOTAL FUND BALANCES	577,000	457	577,457
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,480,548	\$ 457	\$ 1,481,005

The accompanying notes are an integral part of this statement.

CITY OF SKY VALLEY, GEORGIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
For the Year Ended December 31, 2013

Total Fund Balances for Governmental Funds (page 3)	\$	577,457
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds.		372,827
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(11,134)	(11,134)
Rounding		2
Total net position of governmental activities (page 1)	\$	939,152

The accompanying notes are an integral part of this statement.

CITY OF SKY VALLEY, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

	<u>GENERAL</u>	<u>NONMAJOR GOVERNMENTAL FUND HOTEL/MOTEL TAX</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES			
Property Taxes	\$ 848,423	\$ -	\$ 848,423
Real estate taxes	8,774	-	8,774
Insurance premium tax	14,031	-	14,031
Other taxesx	1,793	5,853	7,646
Franchise taxes	48,434	-	48,434
Licenses and permits	14,111	-	14,111
Intergovernmental	69,414	-	69,414
Charges for services	1,304	-	1,304
Fines and forfeitures	1,415	-	1,415
Interest income	3,846	-	3,846
Miscellaneous	6,060	-	6,060
TOTAL REVENUES	<u>1,017,605</u>	<u>5,853</u>	<u>1,023,458</u>
EXPENDITURES			
Current Expenditures			
General government	245,085	-	245,085
Judicial	4,593	-	4,593
Public safety	394,142	-	394,142
Public works	412,771	-	412,771
Housing and development	20,042	2,341	22,383
Capital outlay	46,999	-	46,999
TOTAL EXPENDITURES	<u>1,123,632</u>	<u>2,341</u>	<u>1,125,973</u>
EXCESS (DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	<u>(106,027)</u>	<u>3,512</u>	<u>(102,515)</u>
OTHER FINANCING SOURCES (USES)			
Sale of city property	35,917	-	35,917
Transfers in	22,559	-	22,559
Transfers out	-	(3,512)	(3,512)
TOTAL OTHER FINANCING SOURCES (USES)	<u>58,476</u>	<u>(3,512)</u>	<u>54,964</u>
NET CHANGE IN FUND BALANCES	<u>(47,551)</u>	<u>-</u>	<u>(47,551)</u>
FUND BALANCES, Beginning of year	547,354	457	547,811
PRIOR PERIOD ADJUSTMENT	77,197	-	77,197
FUND BALANCES, Beginning, as restated	<u>624,551</u>	<u>457</u>	<u>625,008</u>
FUND BALANCES, End of year	<u>\$ 577,000</u>	<u>\$ 457</u>	<u>\$ 577,457</u>

The accompanying notes are an integral part of this statement.

CITY OF SKY VALLEY, GEORGIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013

Net change in fund balances (page 5)		\$ (47,551)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital outlay	46,999	
Depreciation expense	<u>(34,047)</u>	12,952
<p>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.</p>		
Compensated absences, current year	<u>(11,134)</u>	(11,134)
Changes in net position of governmental activities (page 2)		<u><u>\$ (45,731)</u></u>

The accompanying notes are an integral part of this statement.

CITY OF SKY VALLEY, GEORGIA
STATEMENT OF NET POSITION
PROPRIETARY FUND
December 31, 2013

	BUSINESS-TYPE ACTIVITIES- ENTERPRISE FUND WATER AND GARBAGE FUND
ASSETS	
Current Assets	
Cash	\$ 706,007
Receivables (net of allowance for uncollectibles)	36,954
Prepaid items	3,115
TOTAL CURRENT ASSETS	746,076
Noncurrent Assets	
Capital assets	
Capital assets not being depreciated	2,222
Capital assets being depreciated	5,314,854
Less: accumulated depreciation	(1,565,518)
TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	3,751,558
TOTAL NONCURRENT ASSETS	3,751,558
TOTAL ASSETS	4,497,634
LIABILITIES	
Current Liabilities	
Other accrued items	3,727
Customer deposits	1,215
Compensated absences payable	3,933
Notes payable	96,620
TOTAL CURRENT LIABILITIES	105,495
Noncurrent Liabilities	
Notes payable	1,878,113
TOTAL NONCURRENT LIABILITIES	1,878,113
TOTAL LIABILITIES	1,983,608
NET POSITION	
Net investment in capital assets	1,776,825
Unrestricted	737,201
TOTAL NET POSITION	\$ 2,514,026

The accompanying notes are an integral part of this statement.

CITY OF SKY VALLEY, GEORGIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUND
For the Year Ended December 31, 2013

	BUSINESS-TYPE ACTIVITIES- ENTERPRISE FUND
OPERATING REVENUES	WATER AND GARBAGE FUND
Charges for sales and services	\$ 446,249
Other	5,141
Total Operating Revenues	451,390
Salaries and benefits	196,703
Supplies	100,006
Depreciation	179,022
Professional fees	2,800
Repairs and maintenance	32,983
Total Operating Expenses	511,514
OPERATING INCOME (LOSS)	(60,124)
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	1,512
Interest expense	(24,873)
Gain (loss) on sale of capital assets	16,256
Total Nonoperating Revenues (Expenses)	(7,105)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(67,229)
Transfer out	(19,047)
CHANGE IN NET POSITION	(86,276)
TOTAL NET POSITION, Beginning of year	2,702,206
PRIOR PERIOD ADJUSTMENT	(101,904)
TOTAL NET POSITION, Beginning as restated	2,600,302
TOTAL NET POSITION, End of year	\$ 2,514,026

The accompanying notes are an integral part of this statement.

CITY OF SKY VALLEY, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended December 31, 2013

	BUSINESS-TYPE ACTIVITIES- ENTERPRISE FUND
	WATER AND GARBAGE FUND
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customer	\$ 452,209
Payments to suppliers	(119,716)
Payments to employees	(188,981)
	143,512
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(12,500)
Proceeds from sale of capital assets	19,289
Transfers out	(19,047)
Principal payments on debt	(93,123)
Interest paid	(24,873)
	(130,254)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	1,512
	1,512
Net increase (decrease) in cash and cash equivalents	14,770
CASH, Beginning of year	691,237
CASH, End of year	\$ 706,007
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (60,124)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	179,022
(Increase) decrease in:	
Accounts receivable	1,362
Prepaid expenses	(3,115)
Due from other funds	19,188
Increase (decrease) in:	
Compensated absences	3,993
Customer deposits	(542)
Other accrued items	3,728
	143,512
Net cash provided by (used in) operating activities	\$ 143,512

The accompanying notes are an integral part of this statement.

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the CITY OF SKY VALLEY, GEORGIA have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

REPORTING ENTITY

The reporting entity consists of the following:

The primary government;

Organizations for which the primary government is financially accountable;

Other organizations that, because of the nature and significance of their relationship with the primary government, may not be excluded from the financial reporting entity.

For financial reporting purposes, management has considered all potential component units. The decision whether to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. There are no component units.

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 nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to 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.

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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 timing of related cash flows. 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenues susceptible to accrual are considered available if they are collected within 60 days of the end of the current fiscal period for which they are imposed. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales tax, franchise taxes, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the city's primary operating fund. It accounts for all financial resources, except those accounted for in another fund.

The government reports the following major proprietary fund:

The *Water and Garbage Fund* accounts for revenues and expenses related to operating and maintaining a water utility system and garbage collection system.

Private-sector standards of accounting and financial reporting issued prior to November 30 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The government has elected not to follow subsequent private-sector guidance.

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues for the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS, AND NET POSITION OR FUND BALANCE

Deposits and Investments

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

State statutes authorize the government to invest in obligations of the U.S. Treasury and its agencies and instrumentalities; bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; and certificates of deposits of banks insured by FDIC.

Investments are recorded at fair value based on quoted market prices as of the balance sheet date. Increases or decreases in fair value during the year are recognized as part of interest income.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (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 "interfund receivables/payables." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and tax receivables are shown net of an allowance of uncollectibles.

Taxes are normally levied by November for the next year. The taxes are payable January 2014. Interest and penalties are assessed on taxes not paid by this date. Property taxes attach as an enforceable lien on property as of May 2014. The City's property taxes were levied on the assessed values of all real property with utilities including mobile homes located in the City limits

Inventories and Prepaid Items

Inventories, consisting of expendable supplies, not held for resale are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, culverts, 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 City as assets with an initial, individual cost of \$5,000 and an estimated useful life in excess of two years.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Streets, bridges and culverts acquired prior to January 1, 2003 have not been reported.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the assets constructed. No interest was capitalized during 2013.

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings	40
Machinery and equipment	5-20
Vehicles	3-10
Infrastructure	30

Deferred outflows/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 and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position 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 and so will not be recognized as an inflow of resources (revenue) until that time.

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. In accordance with the provisions of Statement of Governmental Accounting Standards No. 16, "Accounting for Compensated Absences," no liability is reported for unpaid accumulated sick leave because the benefits are paid only upon illness of an employee, and the amount of such payments cannot be reasonably estimated. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, or proprietary fund type statement of net position.

Fund Equity

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

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

Generally, *fund balance* represents the difference between the current assets and current liabilities. 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:

Fund balances are reported as *nonspendable* when the 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 like inventories and prepaid items) or (b) legally or contractually required to be maintained intact.

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.

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 Council through the adoption of a resolution prior to the end of the fiscal year. In order to modify or rescind the commitment, the City Council must adopt another resolution.

Fund balances are reported as *assigned* when amounts are constrained by the County's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City's finance director to assign fund balances.

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 other governmental funds.

Net position represents the difference between assets, liabilities and deferred outflows/inflows of resources. Net position net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt used for the acquisition, construction, or improvement of those assets. In determining the outstanding balance of any borrowing, proceeds of that debt which has not been spent is deducted. Accounts payable for costs related to acquisition, construction, or improvement of those capital assets is considered debt for this calculation. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then committed, assigned, and unassigned (or unrestricted) resources as they are needed.

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

Management Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETARY INFORMATION

Prior to January 1, the department heads submit to the City Council a proposed operating budget for each department for the fiscal year commencing January 1. The operating budget includes proposed expenditures and the means of financing them. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

The City Council holds a public hearing on the budget.

The budget is then revised and adopted or amended by the City Council at a public meeting.

The budget may be amended during the year only by formal action of the City Council at a regular meeting.

The budget is adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund. Budget amounts are as originally adopted, or as amended by the Council. Project length budgets are adopted for the capital projects funds. Annual operating budgets are prepared for each enterprise fund for planning, control and evaluation purposes. Budgetary amounts are not formally integrated into proprietary fund general ledgers.

The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the department level.

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 3 - DEPOSITS AND INVESTMENTS

Custodial Credit Risk - Deposits

In case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned. The City's policy permits the City to exceed the FDIC insured limit in making deposits in commercial banks and savings and loans institutions if the funds are otherwise adequately secured. As of December 31, 2013, all deposits of the City were adequately insured or collateralized. At year end, the City's carrying amount of deposits was \$2,086,182 and the bank balance was \$2,161,541.

NOTE 4 - RECEIVABLES

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

	<u>General Fund</u>	<u>Water and Garbage Fund</u>
Receivables:		
Taxes	\$ 100,580	\$ -
Other	-	36,954
Total Gross Receivables	<u>100,580</u>	<u>36,954</u>
Less: Allowance for Uncollectibles	-	-
Total Net Receivables	<u>\$ 100,580</u>	<u>\$ 36,954</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments and Transfers</u>	<u>Ending Balance</u>
Governmental Activities:					
Non-Depreciable Assets:					
Land and improvements	\$ 157,739	\$ -	\$ -	\$ -	\$ 157,739
Total non-depreciable capital assets	<u>157,739</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>157,739</u>
Depreciable Assets:					
Buildings and improvements	173,590	-	-	22,042	195,632
Machinery and equipment	495,269	-	(47,307)	(189,709)	258,253
Vehicles	-	46,999	-	112,120	159,119
Total depreciable capital assets	<u>668,859</u>	<u>46,999</u>	<u>(47,307)</u>	<u>(55,547)</u>	<u>613,004</u>
Less Accumulated Depreciation for:					
Buildings and improvements	59,970	8,044	-	8,428	76,442
Machinery and equipment	406,753	19,513	(47,307)	(168,471)	210,488
Vehicles	-	6,490	-	104,496	110,986
Total accumulated depreciation	<u>466,723</u>	<u>34,047</u>	<u>(47,307)</u>	<u>(55,547)</u>	<u>397,916</u>
Total depreciable capital assets, net	<u>202,136</u>	<u>12,952</u>	<u>-</u>	<u>-</u>	<u>215,088</u>
Governmental activities capital assets, net	<u>\$ 359,875</u>	<u>\$ 12,952</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 372,827</u>

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

Additions to governmental activities capital assets for fiscal year ending December 31, 2013 consist of the following:

Capital Outlay		\$	46,999
Total		\$	<u>46,999</u>
Non-depreciable capital assets additions		\$	-
Depreciable capital assets additions			46,999
Total		\$	<u>46,999</u>

	Beginning Balance	Adjusted Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Business-type Activities:						
Non-Depreciable Assets:						
Land and improvements	\$ 2,222	\$ 2,222	-	-	-	\$ 2,222
Total non-depreciable capital assets	<u>2,222</u>	<u>2,222</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,222</u>
Depreciable Assets:						
Buildings and improvements	17,500	17,500	-	-	-	17,500
Machinery and equipment	216,929	216,929	-	(11,303)	(75,325)	130,301
Vehicles	-	-	12,500	(28,700)	56,271	40,071
Infrastructure	5,141,498	5,141,498	-	-	(14,516)	5,126,982
Total depreciable capital assets	<u>5,375,927</u>	<u>5,375,927</u>	<u>12,500</u>	<u>(40,003)</u>	<u>(33,570)</u>	<u>5,314,854</u>
Less Accumulated Depreciation for:						
Buildings and improvements	14,000	14,000	583	-	-	14,583
Machinery and equipment	211,191	211,191	-	(11,302)	(69,588)	130,301
Vehicles	-	-	5,200	(27,743)	50,531	27,988
Infrastructure	1,231,785	1,231,785	173,239	-	(12,378)	1,392,646
Total accumulated depreciation	<u>1,456,976</u>	<u>1,456,976</u>	<u>179,022</u>	<u>(39,045)</u>	<u>(31,435)</u>	<u>1,565,518</u>
Total depreciable capital assets, net	<u>3,918,951</u>	<u>3,918,951</u>	<u>(166,522)</u>	<u>(958)</u>	<u>(2,135)</u>	<u>3,749,336</u>
Business-type activities capital assets, net	<u>\$ 3,921,173</u>	<u>\$ 3,921,173</u>	<u>\$ (166,522)</u>	<u>\$ (958)</u>	<u>\$ (2,135)</u>	<u>\$ 3,751,558</u>

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

Governmental Activities:	
General Government	\$ 8,044
Public Safety	3,690
Public Works	<u>22,313</u>
Total depreciation expense-governmental activities	<u>\$ 34,047</u>
Business-type Activities:	
Water	\$ 174,239
Garbage	<u>4,783</u>
Total depreciation expense-business-type activities	<u>\$ 179,022</u>

CITY OF SKY VALLEY, GEORGIA
STATISTICAL INFORMATION
December 31, 2013

NOTE 6 - LONG-TERM DEBT

Long-term liability activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due After One Year
Governmental Activities:						
Compensated absences	-	11,134	-	11,134	3,897	7,237
Governmental activities long-term liabilities	<u>\$ -</u>	<u>\$ 11,134</u>	<u>\$ -</u>	<u>\$ 11,134</u>	<u>\$ 3,897</u>	<u>\$ 7,237</u>
Business-type Activities:						
Notes payable	\$ 2,067,856	\$ -	\$ (93,123)	\$ 1,974,733	\$ 96,620	\$ 1,878,113
Compensated absences	-	3,933	-	3,933	3,933	-
Business-type activities long-term liabilities	<u>\$ 2,067,856</u>	<u>\$ 3,933</u>	<u>\$ (93,123)</u>	<u>\$ 1,978,666</u>	<u>\$ 100,553</u>	<u>\$ 1,878,113</u>

NOTES PAYABLE

On December 1, 2011, the City entered into a contract with Georgia Environmental Facilities Authority (GEFA), to borrow funds to improve and renovate portions of the water system. The original amount of Note DW09024 was \$1,292,480 and is due in monthly installments of \$5,385. The note bears no interest and will mature on December 1, 2031. The amount outstanding as of December 31, 2013 is \$1,163,232.

On January 1, 2013, the City entered into a contract with Georgia Environmental Facilities Authority (GEFA), to borrow funds to improve and renovate portions of the water system. The original amount of Note DW 10018 was \$840,000 with an interest rate 3.00%. The loan will mature on January 1, 2033. The amount outstanding as of December 31, 2013 is \$811,501.

The annual requirements to amortize notes payable outstanding as of December 31, 2013 are as follows:

<u>Year ending</u> <u>December 31,</u>	Principal	Interest	Total
2014	\$ 96,620	\$ 23,907	\$ 120,527
2015	97,593	22,934	120,527
2016	98,596	21,931	120,527
2017	99,629	20,898	120,527
2018	100,694	19,833	120,527
2019-2023	520,609	82,028	602,637
2024-2028	552,527	50,110	602,637
2029-2033	408,465	13,680	422,145
Total	<u>\$ 1,974,733</u>	<u>\$ 255,321</u>	<u>\$ 2,230,054</u>

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 7 - CONTINGENT LIABILITIES / RISK MANAGEMENT

The City receives grants from various granting agencies, which are subject to audit and adjustment by these agencies. The City is not aware of any adjustments or expenditures, which may be disallowed and restitution, if any, is not determinable at this time.

Pursuant to Title 34, Chapter 9, Article 5 of the Official Code of Georgia Annotated, the City of Hoschtton became a member of the Georgia Municipal Association Workers' Compensation Self Insurance Fund. As part of this risk pool, the City is obligated to pay all contributions and assessments; to cooperate with the pool's agents and attorneys; to follow loss reduction procedures established by the fund, and to report as promptly as possible, in accordance with any coverage descriptions issued, all incidents that could require the fund to pay any type of loss. The City is also to allow all the pool's agents and attorneys to represent the City in investigations settlement discussions and all level of litigation arising out of any claim made against the City.

The fund is 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 workers' compensation law of Georgia. The fund is to pay all cost taxed against the members in any legal proceedings defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

The City is a member of the Georgia Interlocal Risk Management Agency which allows the City to share liability, crime, motor vehicle and property damage risks. Chapter 85, Title 36, of the Official Code of Georgia Annotated authorizes Georgia municipalities to form interlocal risk management agencies. The Georgia Interlocal Risk Management Agency (GIRMA) is a municipal interlocal risk management agency to function as an unincorporated nonprofit instrumentality of its member municipalities- GIRMA establishes and administers one or more group self insurance funds and a risk management service to prevent or lessen the incidence and severity of causality and property losses occurring in the operation of municipal government. GIRMA is to defend and protect in accordance with the member government contract and related coverage descriptions and any member of GIRMA against liability or loss.

As part of this risk pool, the City is obligated to pay all contributions and assessments; to cooperate with the pool's agents and attorneys; to follow loss reduction procedures established by the fund, and to report as promptly as possible, in accordance with any coverage descriptions issued, all incidents that could require the fund to pay any type of loss. The City is also to allow all the pool's agents and attorneys to represent the City in investigations settlement discussions and all level of litigation arising out of any claim made against the City. The City must participate at all times in at least one fund which is established by GIRMA.

The City retains the first \$1,000 of each risk of loss in the form of a deductible. The City files all claims with GIRMA. GIRMA bills the City for any risk of loss up to the \$1,000 deductible. The basis for estimating the liabilities for unpaid claim is "IBNR" established by an actuary.

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

During the year ended December 31, 2013, the City did not incur claims. The City has not compiled a record of the claims paid up to the \$1,000 deductible for the prior years. The City is not aware of any claims which the City is liable for (up to the \$1,000) which were outstanding and unpaid at December 31, 2013. No provisions have been made in the financial statements for the year ended December 31, 2013 for any estimate of potential unpaid claims.

The City is exposed to various risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

City management feels the above coverage is adequate. There has not been any significant reduction in coverage from the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 8 - TRANSFERS OUT

Transfers to/from other funds at December 31, 2013, consists of the following:

\$ 19,047	From Water and Garbage Fund to General fund for capital asset reimbursement.
<u>3,512</u>	From Hotel/Motel Tax Fund to General fund for local portion of taxes paid.
<u>\$ 22,559</u>	Total

NOTE 9 - DEFINED BENEFIT PENSION PLAN

PLAN DESCRIPTION

The City's defined benefit pension plan, City of Sky Valley Retirement Plan (CRP), provides retirement and death benefits to plan members and beneficiaries. CRP is affiliated with the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer public employee retirement system administered by the Georgia Municipal Association (GMA). GMEBS acts as a common investment and administrative agent for participating cities in Georgia. The Georgia Constitution enables the governing authority of the City, the City Council, to establish, and amend from time-to-time, the contribution rates for the City and its plan participants. The Plan issues a stand-alone report. This report may be obtained from: Georgia Municipal Association, 201 Pryor Street, SW, Atlanta, Georgia 30303.

The GMA, in its role as Plan Sponsor, has the sole authority to amend the provisions of the GMEBS Plan. The City has the authority to amend the adoption agreement, which defines the specific benefit provisions of The Plan. The City's covered payroll for employees participating in the Plan as of July 1, 2012, (the most recent actuarial valuation date) was \$475,066 (based on covered earnings of preceding year).

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

FUNDING POLICY

The City is required to contribute at an actuarially determined rate. Section 47-20 of the Georgia Code set forth minimum funding standards for state and local governmental pension plans. Administrative expenses are based on total covered compensation of active plan participants and are added to the state-required annual funding requirement. City employees are not required to contribute to the Plan. The City contributes the entire cost of the Plan, using the actuarial basis described in the annual valuation report.

Contributions totaling \$33,522 (\$33,522 employer and \$0 employee) were made in accordance with actuarially determined contribution requirements determined by an actuarial valuation performed as of July 1, 2013. Employer contributions attributable to the 2013 Plan Year were made in 2013. The employer contribution represents 16.18% of covered payroll (using the prior year's earnings as a base).

ANNUAL PENSION COST

The City's contributions to the Plan for the years ended December 31, 2013, 2012, and 2011 were \$33,522, \$30,352, and \$28,199, respectively, and were equal to the required contribution for each year.

The Schedule of Pension Funding Progress included in the required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. The data for the most current year are as follows:

Actuarial Date of <u>January 1</u>	Actuarial Value of <u>Assets</u> (a)	Actuarial Accrued Liability (AAL) - <u>Projected Unit Credit</u> (b)	Unfunded AAL <u>(UAAL)</u> (b-a)	Funded <u>Ratio</u> (a/b)	Covered <u>Payroll</u> (c)	UAAL as a Percent of <u>Covered Payroll</u> [(b-a)/c]
2013	<u>\$388,722</u>	<u>\$465,568</u>	<u>\$76,846</u>	<u>83.49%</u>	<u>\$475,066</u>	<u>16.18%</u>

The annual required contribution and percentage contributed for the current year and preceding two years are as follows:

<u>Fiscal Year</u> <u>December 31</u>	<u>Annual</u> <u>Pension Cost</u>	<u>Actual City</u> <u>Contribution</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2013	\$ 33,522	\$ 33,522	100.0 %	\$ -
2012	\$ 30,352	\$ 30,352	100.0 %	\$ -
2011	\$ 28,199	\$ 28,199	100.0 %	\$ -

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

The information was determined as part of the actuarial valuation as of July 1, 2012. Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2012
Actuarial Cost method	Projected Unit Credit
Amortization method (see below)	Level dollar (Closed)
Remaining amortization period (The estimated amortization period for all unfunded liabilities combined into one amount.)	average 10 years
Asset valuation method	Market Value, smoothed
Actuarial assumptions:	
Investment rate return*	7.75%
Projected salary increases*	3.5%
*Includes inflation at	3.0%
Cost-of-living adjustments	0.0%
Post-retirement benefit increases	N/A

The City's annual pension cost and net pension obligation for the pension plan for the current year were determined as follows:

Derivation of annual pension cost:	<u>2013</u>	<u>2012</u>
Annual required contribution	\$ 33,522	\$ 30,352
Interest on net pension obligation	-	-
Amortization of net pension obligation	-	-
Annual pension cost	<u>33,522</u>	<u>30,352</u>
Contributions made with interest	<u>(33,522)</u>	<u>(30,352)</u>
Increase (decrease) in net pension obligation	-	-
Net pension obligation, beginning of year	-	-
Net pension obligation, end of year	<u>\$ -</u>	<u>\$ -</u>

NOTE 10 - GEORGIA MOUNTAIN REGIONAL COMMISSION

Under Georgia law, the City in conjunction with other cities and counties in the area are members of the Georgia Mountain Regional Commission (GMRC) and is required to pay annual dues there to. Membership in the GMRC is required by the official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the GMRC in Georgia. The GMRC 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 an GMRC. Separate financial statements may be obtained from:

Georgia Mountain Regional Commission
Post Office Box 1720
Gainesville, Georgia 30503

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 11 - HOTEL/MOTEL TAX

During the year ended December 31, 2013, the City collected \$5,853 in Hotel/Motel taxes of which \$2,341 was required to be spent to promote tourism, conventions, and trade shows. For the year ended December 31, 2013, 40% of tax receipts were expended for these purposes under OCGA-48-13-51. The City complied with the requirements of this law.

NOTE 12 - PRIOR PERIOD ADJUSTMENTS

As of January 1, 2013, this City restated its financial statements for the fiscal year ended December 31, 2012. The restatement resulted in a net increase in Governmental Activities net position in the amount of \$77,197 and a net decrease in net position in Business-Type Activities in the amount of \$101,904. The restatement was a result of correcting reimbursements between the General Fund and Water and Garbage Fund that occurred in fiscal year 2012.

CITY OF SKY VALLEY, GEORGIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION FUNDING PROGRESS
For the Year Ended December 31, 2013
"Unaudited"

Actuarial Valuation Date (7/1)	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Funded Ratio (1) / (2)	(4) Unfunded AAL (UAAL) (2) - (1)	(5) Annual Covered Payroll (prior year)	(6) UAAL as a Percentage of Covered Payroll (4) / (5)
2012	388,722	\$ 465,568	83.5 %	76,846 \$	475,066 \$	16.2 %
2011	362,841	\$ 429,470	84.5 %	66,629 \$	482,711 \$	13.8 %
2010	325,513	\$ 396,239	82.2 %	70,726 \$	451,874 \$	15.7 %
2009	289,565	\$ 382,426	75.7 %	92,861 \$	406,920 \$	22.8 %
2008	290,560	\$ 368,943	78.8 %	78,383 \$	473,922 \$	16.5 %

Analysis of the dollar amounts of actuarial value of assets available for benefits, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets available for benefits as a percentage of the actuarial accrued liability provides one indication of funding status on a going concern basis. Analysis of this percentage over time indicates whether the system is becoming financial stronger or weaker. Generally, the greater this percentage, the stronger the Plan.

Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Plan's progress in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan.

CITY OF SKY VALLEY, GEORGIA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2013
(Required Supplementary Information)

	BUDGET AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE
	ORIGINAL	FINAL	ACTUAL	(NEGATIVE)
FUND BALANCE, Beginning of year	\$ 624,551	\$ 624,551	\$ 624,551	\$ -
RESOURCES (INFLOWS)				
Property taxes	856,510	856,510	848,423	(8,087)
Real estate taxes	5,500	8,900	8,774	(126)
Insurance premium taxes	12,000	15,000	14,031	(969)
Other taxes	3,900	3,900	1,793	(2,107)
Franchise taxes	50,000	50,000	48,434	(1,566)
Licenses and permits	11,100	14,100	14,111	11
Intergovernmental	92,500	92,500	69,414	(23,086)
Charges for services	700	700	1,304	604
Fines and forfeitures	250	250	1,415	1,165
Interest income	3,200	3,200	3,846	646
Miscellaneous	14,640	17,640	6,060	(11,580)
Sale of county property	36,700	36,700	35,917	(783)
Transfers in	26,468	26,468	22,559	(3,909)
Total Resources (Inflows)	<u>1,113,468</u>	<u>1,125,868</u>	<u>1,076,081</u>	<u>(49,787)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	<u>1,738,019</u>	<u>1,750,419</u>	<u>1,700,632</u>	<u>(49,787)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Current Expenditures				
General Government				
Legislative	9,600	9,600	9,598	2
Executive	1,400	1,400	1,395	5
Elections	1,600	1,600	1,539	61
Administration	225,511	232,611	232,553	58
Total General Government	<u>238,111</u>	<u>245,211</u>	<u>245,085</u>	<u>126</u>
Judicial				
Municipal court	4,405	4,605	4,593	12
Total Judicial	<u>4,405</u>	<u>4,605</u>	<u>4,593</u>	<u>12</u>
Public Safety				
Police	355,252	360,352	360,326	26
Fire	60,000	60,000	59,816	184
Total Public Safety	<u>415,252</u>	<u>420,352</u>	<u>420,142</u>	<u>210</u>
Public Works				
Highways and streets	435,200	435,200	433,770	1,430
Total Public Works	<u>435,200</u>	<u>435,200</u>	<u>433,770</u>	<u>1,430</u>
Housing and development				
Planning and development	20,500	20,500	20,042	458
Total Housing and Development	<u>20,500</u>	<u>20,500</u>	<u>20,042</u>	<u>458</u>
TOTAL CHARGES TO APPROPRIATIONS	<u>1,113,468</u>	<u>1,125,868</u>	<u>1,123,632</u>	<u>2,236</u>
CHANGE IN FUND BALANCE	<u>-</u>	<u>-</u>	<u>(47,551)</u>	<u>(47,551)</u>
FUND BALANCE, End of year	<u>\$ 624,551</u>	<u>\$ 624,551</u>	<u>\$ 577,000</u>	<u>\$ (47,551)</u>

NOTES TO THE BUDGETARY COMPARISON SCHEDULE

1. The budgetary basis of accounting used in this schedule is the same as GAAP.

CITY OF SKY VALLEY, GEORGIA
SUPPLEMENTAL SCHEDULE OF REVENUES AND EXPENSES
WATER AND GARBAGE FUND
For the Year Ended December 31, 2013

BUSINESS-TYPE ACTIVITIES-ENTERPRISE FUNDS

	WATER	GARBAGE	TOTAL
OPERATING REVENUES			
Charges for sales and services	\$ 335,497	\$ 110,752	\$ 446,249
Other	5,141	-	5,141
Total Operating Revenues	<u>340,638</u>	<u>110,752</u>	<u>451,390</u>
OPERATING EXPENSES			
Salaries and benefits	133,202	63,501	196,703
Other services and charges	76,017	23,989	100,006
Depreciation	174,239	4,783	179,022
Professional fees	-	2,800	2,800
Repairs and maintenance	16,691	16,292	32,983
Total Operating Expenses	<u>400,149</u>	<u>111,365</u>	<u>511,514</u>
OPERATING INCOME (LOSS)	<u>(59,511)</u>	<u>(613)</u>	<u>(60,124)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	1,512	-	1,512
Interest expense	(24,873)	-	(24,873)
Gain (loss) on sale of capital assets	-	16,256	16,256
Total Nonoperating Revenues (Expenses)	<u>(23,361)</u>	<u>16,256</u>	<u>(7,105)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(82,872)	15,643	(67,229)
Transfer out	-	(19,047)	(19,047)
CHANGE IN NET POSITION	<u>\$ (82,872)</u>	<u>\$ (3,404)</u>	<u>\$ (86,276)</u>



**INDEPENDENT AUDITORS' 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***

June 26, 2014

City Council
 CITY OF SKY VALLEY, GEORGIA
 SKY VALLEY, GEORGIA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the CITY OF SKY VALLEY, GEORGIA, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the CITY OF SKY VALLEY, GEORGIA's basic financial statements and have issued our report thereon dated June 26, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify significant deficiencies in internal control listed below.

Finance

13-01

Statement of Condition:

During the audit we noted that checks were backdated in the General Fund.

Criteria:

To ensure reliable accounting records and proper cut-off, checks should be recorded into the accounting software using the date of issuance.

Effect of Condition:

Cash and Accounts Payable are understated at year end.

Cause of Condition:

Unknown.

Recommendation:

We recommend that the computer software be codified to prevent the ability of backdating checks as well as creating a policy against backdating checks.

Response:

The City will check to see if Quickbooks can be codified to prevent backdating of checks. If so, we will make that change. The City will create a policy prohibiting the backdating of checks. We have now been advised on a better way to handle accounts payable at year end.

13-02

Statement of Condition:

Appropriate segregation of duties does not exist among custody, receipting, recording, distribution, reconciliation of cash accounts and other operational functions in the Finance Department.

Criteria:

Internal controls should be in place which provide reasonable assurance that an individual cannot misappropriate funds without such actions being detected during the normal course of business.

Effect of Condition:

Failure to properly segregate duties among custody, receipting, recording, distribution, and reconciliation of accounts can lead to misappropriation of funds that is not detected in a timely manner by employees in the normal course of performing their assigned functions.

Cause of Condition:

This is caused by the limited number of employees in each office to perform all of the duties.

Recommendation:

We recommend the City segregate duties relative to the custody, receipting, recording, distribution, and reconciliation of accounts. Moving forward, it is recommended that the City Manager open all bank statements received and review prior to the City Clerk preparing the bank reconciliation. Additionally, the City

Manager should review and approve the finalized bank reconciliation. The City Manager and Mayor/Council Member(s) should be the only check signers.

Response:

The City Manager will open all bank statements and review prior to the City Clerk reconciling. The City Manager will approve the finalized bank reconciliation. We will remove the City Clerk from being an authorized check signer.

COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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

Bates, Cant: Co, LLP