

CITY OF SKY VALLEY, GEORGIA

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

Year Ended December 31, 2014

CITY OF SKY VALLEY, GEORGIA

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December 31, 2014**

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INDEPENDENT AUDITORS' REPORT

June 29, 2015

Mayor and 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 remaining fund information of the CITY OF SKY VALLEY, GEORGIA as of, and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, each major fund, and the remaining fund information of the CITY OF SKY VALLEY, GEORGIA, as of December 31, 2014, 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 Schedule of Pension Funding Progress and 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 accounting principles generally accepted in the United States of America require to be present to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CITY OF SKY VALLEY, GEORGIA's basic financial statements.

The Supplemental Budgetary Comparison Schedule - Hotel/Motel Special Revenue Fund and Supplemental Schedule of Revenues and Expenditures - Water and Garbage Fund which is presented for purposes of additional analysis as required, and is also not a required part of the basic financial statements.

The Supplemental Budgetary Comparison Schedule - Hotel/Motel Special Revenue Fund and Supplemental Schedule of Revenues and Expenditures - Water and Garbage Fund 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 nonmajor fund financial statements are fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2015, 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.

Bates, Carter & Co., LLP

CITY OF SKY VALLEY, GEORGIA
STATEMENT OF NET POSITION
December 31, 2014

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

| | <u>GOVERNMENTAL</u> <u>ACTIVITIES</u> | <u>BUSINESS-</u> <u>TYPE</u> <u>ACTIVITIES</u> | <u>TOTAL</u> |
|--|--|--|----------------------------|
| ASSETS | | | |
| Cash | \$ 1,338,596 | \$ 686,891 | \$ 2,025,487 |
| Receivables (net of allowance for uncollectibles) | 615,745 | 37,203 | 652,948 |
| Internal balances | 46,680 | (46,680) | - |
| Prepaid items | 7,364 | 5,492 | 12,856 |
| Restricted assets: | | | |
| Non-current assets: | | | |
| Capital assets: | | | |
| Capital assets not being depreciated | 251,739 | 2,222 | 253,961 |
| Capital assets being depreciated | 680,257 | 5,250,945 | 5,931,202 |
| Less: accumulated depreciation | <u>(361,388)</u> | <u>(1,677,257)</u> | <u>(2,038,645)</u> |
| Capital assets, net of depreciation | <u>570,608</u> | <u>3,575,910</u> | <u>4,146,518</u> |
| TOTAL ASSETS | <u>2,578,993</u> | <u>4,258,816</u> | <u>6,837,809</u> |
| LIABILITIES | | | |
| Accounts payable | 5,595 | - | 5,595 |
| Other accrued items | 11,449 | 2,554 | 14,003 |
| Customer deposits | - | 2,845 | 2,845 |
| Noncurrent liabilities: | | | |
| Due within one year | | | |
| Compensated absences payable | 6,014 | 2,905 | 8,919 |
| Notes payable | - | 97,593 | 97,593 |
| Due in more than one year | | | |
| Compensated absences payable | 11,169 | - | 11,169 |
| Notes payable | <u>-</u> | <u>1,780,520</u> | <u>1,780,520</u> |
| TOTAL LIABILITIES | <u>34,227</u> | <u>1,886,417</u> | <u>1,920,644</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Property taxes for next fiscal year | <u>953,344</u> | <u>-</u> | <u>953,344</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>953,344</u> | <u>-</u> | <u>953,344</u> |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | <u>987,571</u> | <u>-</u> | <u>2,873,988</u> |
| NET POSITION | | | |
| Net investment in capital assets | 570,608 | 1,697,797 | 2,268,405 |
| Restricted for: | | | |
| Capital outlay projects | 352,096 | - | 352,096 |
| Housing and development | 461 | - | 461 |
| Public works programs | 76,446 | - | 76,446 |
| Unrestricted | <u>591,811</u> | <u>674,602</u> | <u>1,266,413</u> |
| TOTAL NET POSITION | <u>\$ 1,591,422</u> | <u>\$ 2,372,399</u> | <u>\$ 3,963,821</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, 2014

| |PROGRAM REVENUES..... | | | |NET (EXPENSE) AND CHANGES IN NET POSITION.... | | |
|--------------------------------------|----------------------------|-------------------------|--|--|---|---------------------------------|---------------------|
| | | | | |PRIMARY GOVERNMENT..... | | |
| | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | GOVERNMENTAL ACTIVITIES | BUSINESS- TYPE ACTIVITIES | TOTAL |
| FUNCTIONS/PROGRAMS | | | | | | | |
| PRIMARY GOVERNMENT | | | | | | | |
| GOVERNMENTAL ACTIVITIES | | | | | | | |
| General government | \$ 263,220 | \$ 17,963 | \$ 8,258 | \$ - | \$ (236,999) | \$ - | \$ (236,999) |
| Judicial | 4,412 | 1,232 | - | - | (3,180) | - | (3,180) |
| Public safety | 396,913 | 860 | - | - | (396,053) | - | (396,053) |
| Public works | 218,914 | 175 | 44,750 | 2,092 | (171,897) | - | (171,897) |
| Housing and development | 54,970 | 11,456 | - | - | (43,514) | - | (43,514) |
| Total Governmental Activities | 938,429 | 31,686 | 53,008 | 2,092 | (851,643) | - | (851,643) |
| BUSINESS-TYPE ACTIVITIES | | | | | | | |
| Water and Garbage | 487,382 | 469,265 | - | - | - | (18,117) | (18,117) |
| Total Business-Type Activities | 487,382 | 469,265 | - | - | - | (18,117) | (18,117) |
| TOTAL PRIMARY GOVERNMENT | \$ 1,425,811 | \$ 500,951 | \$ 53,008 | \$ 2,092 | (851,643) | (18,117) | (869,760) |
| GENERAL REVENUES | | | | | | | |
| Property taxes | | | | | 888,641 | - | 888,641 |
| Real estate taxes | | | | | 5,699 | - | 5,699 |
| Sales tax | | | | | 350,000 | - | 350,000 |
| Insurance premium taxes | | | | | 14,670 | - | 14,670 |
| Other taxes | | | | | 13,337 | - | 13,337 |
| Franchise taxes | | | | | 48,419 | - | 48,419 |
| Total taxes | | | | | 1,320,766 | - | 1,320,766 |
| Unrestricted investment earnings | | | | | 4,268 | 1,490 | 5,758 |
| Gain on sale of capital assets | | | | | 11,203 | - | 11,203 |
| TRANSFERS | | | | | 125,000 | (125,000) | - |
| TOTAL GENERAL REVENUES AND TRANSFERS | | | | | 1,461,237 | (123,510) | 1,337,727 |
| CHANGES IN NET POSITION | | | | | 609,594 | (141,627) | 467,967 |
| NET POSITION, Beginning | | | | | 939,152 | 2,514,026 | 3,453,178 |
| PRIOR PERIOD ADJUSTMENT | | | | | 42,676 | - | 42,676 |
| NET POSITION, Beginning as restated | | | | | 981,828 | 2,514,026 | 3,495,854 |
| NET POSITION, Ending | | | | | \$ 1,591,422 | \$ 2,372,399 | \$ 3,963,821 |

The accompanying notes are an integral part of this statement.

**CITY OF SKY VALLEY, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2014**

| ASSETS | GENERAL | SPLOST | NONMAJOR GOVERNMENTAL FUND HOTEL/MOTEL TAX SPECIAL REVENUE FUND | TOTAL GOVERNMENTAL FUNDS |
|--|----------------------------|--------------------------|--|--------------------------------|
| Cash | \$ 986,268 | \$ 351,867 | \$ 461 | \$ 1,338,596 |
| Receivables (net of allowance for uncollectibles) | 615,745 | - | - | 615,745 |
| Interfund receivables | 46,823 | 225 | - | 47,048 |
| Prepaid items | 7,364 | - | - | 7,364 |
| TOTAL ASSETS | <u>\$ 1,656,200</u> | <u>\$ 352,092</u> | <u>\$ 461</u> | <u>\$ 2,008,753</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 5,595 | \$ - | \$ - | \$ 5,595 |
| Other accrued items | 11,448 | - | - | 11,448 |
| Interfund payables | 368 | - | - | 368 |
| TOTAL LIABILITIES | <u>17,411</u> | <u>-</u> | <u>-</u> | <u>17,411</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue - property taxes | 953,344 | - | - | 953,344 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>953,344</u> | <u>-</u> | <u>-</u> | <u>953,344</u> |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | <u>970,755</u> | <u>-</u> | <u>-</u> | <u>970,755</u> |
| FUND BALANCES | | | | |
| Nonspendable: | | | | |
| Prepaid expenditure | 7,364 | - | - | 7,364 |
| Restricted: | | | | |
| Capital outlay projects | - | 352,092 | - | 352,092 |
| Housing and Development | - | - | 461 | 461 |
| Public works programs | 76,446 | - | - | 76,446 |
| Committed: | | | | |
| General government programs | 10,000 | - | - | 10,000 |
| Public works programs | 31,600 | - | - | 31,600 |
| Assigned: | | | | |
| General government programs | 49,962 | - | - | 49,962 |
| Public works programs | 19,900 | - | - | 19,900 |
| Unassigned: | 490,173 | - | - | 490,173 |
| TOTAL FUND BALANCES | <u>685,445</u> | <u>352,092</u> | <u>461</u> | <u>1,037,998</u> |
| TOTAL LIABILITIES , DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | <u>\$ 1,656,200</u> | <u>\$ 352,092</u> | <u>\$ 461</u> | <u>\$ 2,008,753</u> |

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, 2014

| | | |
|---|----------|---------------------|
| Total Fund Balances for Governmental Funds (page 3) | | \$ 1,037,998 |
| 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. | | 570,608 |
| Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | | |
| Compensated absences | (17,183) | (17,183) |
| Rounding | | (1) |
| Total net position of governmental activities (page 1) | | \$ 1,591,422 |

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, 2014

| REVENUES | GENERAL | SPLOST | NONMAJOR GOVERNMENTAL FUND HOTEL/MOTEL TAX SPECIAL REVENUE FUND | TOTAL GOVERNMENTAL FUNDS |
|---|-------------------|-------------------|--|--------------------------------|
| Property Taxes | \$ 888,641 | \$ 350,000 | \$ - | \$ 1,238,641 |
| Real estate taxes | 5,699 | - | - | 5,699 |
| Insurance premium tax | 14,670 | - | - | 14,670 |
| Other taxes | 1,890 | - | 11,447 | 13,337 |
| Franchise taxes | 48,419 | - | - | 48,419 |
| Licenses and permits | 12,163 | - | - | 12,163 |
| Intergovernmental | 45,583 | - | - | 45,583 |
| Charges for services | 1,057 | - | - | 1,057 |
| Fines and forfeitures | 2,092 | - | - | 2,092 |
| Interest income | 4,264 | 2,092 | 4 | 6,360 |
| Contributions and donations | 7,425 | - | - | 7,425 |
| Miscellaneous | 16,375 | - | - | 16,375 |
| TOTAL REVENUES | 1,048,278 | 352,092 | 11,451 | 1,411,821 |
| EXPENDITURES | | | | |
| Current Expenditures | | | | |
| General government | 244,514 | - | - | 244,514 |
| Judicial | 4,498 | - | - | 4,498 |
| Public safety | 390,327 | - | - | 390,327 |
| Public works | 199,308 | - | - | 199,308 |
| Housing and development | 50,233 | - | 4,579 | 54,812 |
| Capital outlay | 240,000 | - | - | 240,000 |
| TOTAL EXPENDITURES | 1,128,880 | - | 4,579 | 1,133,459 |
| EXCESS (DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES | (80,602) | 352,092 | 6,872 | 278,362 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of city property | 14,503 | - | - | 14,503 |
| Transfers in | 131,868 | - | - | 131,868 |
| Transfers out | - | - | (6,868) | (6,868) |
| TOTAL OTHER FINANCING SOURCES (USES) | 146,371 | - | (6,868) | 139,503 |
| NET CHANGE IN FUND BALANCES | 65,769 | 352,092 | 4 | 417,865 |
| FUND BALANCES, Beginning of year | 577,000 | - | 457 | 577,457 |
| PRIOR PERIOD ADJUSTMENT | 42,676 | - | - | 42,676 |
| FUND BALANCES, Beginning, as restated | 619,676 | - | 457 | 620,133 |
| FUND BALANCES, End of year | \$ 685,445 | \$ 352,092 | \$ 461 | \$ 1,037,998 |

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, 2014

Net change in fund balances (page 5) \$ 417,865

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

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.

| | | |
|----------------------|-----------------|---------|
| Capital outlay | 240,000 | |
| Depreciation expense | <u>(38,920)</u> | |
| | | 201,080 |

In the statement of activities, only the gain/loss on the sale of various capital assets are reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the capital assets sold.

| | | |
|---------------------------------------|----------------|---------|
| Net book value of capital assets sold | <u>(3,300)</u> | (3,300) |
|---------------------------------------|----------------|---------|

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.

| | | |
|------------------------------------|---------------|---------|
| Compensated absences, current year | (17,183) | |
| Compensated absences, prior year | <u>11,134</u> | |
| | | (6,049) |

Changes in net position of governmental activities (page 2) \$ 609,594

The accompanying notes are an integral part of this statement.

CITY OF SKY VALLEY, GEORGIA
STATEMENT OF NET POSITION
PROPRIETARY FUND
December 31, 2014

| | BUSINESS-TYPE ACTIVITIES- ENTERPRISE FUND |
|---|--|
| | WATER AND GARBAGE FUND |
| ASSETS | |
| Current Assets | |
| Cash | \$ 686,891 |
| Receivables (net of allowance for uncollectibles) | 37,203 |
| Interfund receivable | 143 |
| Prepaid items | 5,492 |
| TOTAL CURRENT ASSETS | 729,729 |
| Noncurrent Assets | |
| Capital assets | |
| Capital assets not being depreciated | 2,222 |
| Capital assets being depreciated | 5,250,945 |
| Less: accumulated depreciation | (1,677,257) |
| TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION) | 3,575,910 |
| TOTAL NONCURRENT ASSETS | 3,575,910 |
| TOTAL ASSETS | 4,305,639 |
| LIABILITIES | |
| Current Liabilities | |
| Other accrued items | 2,554 |
| Interfund payable | 46,823 |
| Customer deposits | 2,845 |
| Compensated absences payable | 2,905 |
| Notes payable | 97,593 |
| TOTAL CURRENT LIABILITIES | 152,720 |
| Noncurrent Liabilities | |
| Notes payable | 1,780,520 |
| TOTAL NONCURRENT LIABILITIES | 1,780,520 |
| TOTAL LIABILITIES | 1,933,240 |
| NET POSITION | |
| Net investment in capital assets | 1,697,797 |
| Unrestricted | 674,602 |
| TOTAL NET POSITION | \$ 2,372,399 |

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, 2014

| | BUSINESS-TYPE ACTIVITIES- ENTERPRISE FUND |
|--|--|
| | WATER AND GARBAGE FUND |
| OPERATING REVENUES | |
| Charges for sales and services | \$ 456,926 |
| Other | 12,339 |
| Total Operating Revenues | <u>469,265</u> |
| OPERATING EXPENSES | |
| Salaries and benefits | 146,492 |
| Supplies | 85,631 |
| Depreciation | 175,648 |
| Professional fees | 3,158 |
| Repairs and maintenance | 65,511 |
| Total Operating Expenses | <u>476,440</u> |
| OPERATING INCOME (LOSS) | <u>(7,175)</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Investment earnings | 1,490 |
| Interest expense | (23,907) |
| Gain (loss) on sale of capital assets | 12,965 |
| Total Nonoperating Revenues (Expenses) | <u>(9,452)</u> |
| INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS | (16,627) |
| Transfer out | <u>(125,000)</u> |
| CHANGE IN NET POSITION | <u>(141,627)</u> |
| TOTAL NET POSITION, Beginning of year | 2,514,026 |
| TOTAL NET POSITION, End of year | <u>\$ 2,372,399</u> |

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, 2014

| | BUSINESS-TYPE ACTIVITIES- ENTERPRISE FUND |
|---|--|
| | WATER AND GARBAGE FUND |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customer | \$ 470,646 |
| Payments to suppliers | (109,997) |
| Payments to employees | (148,692) |
| | 211,957 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Proceeds from sale of capital assets | 12,965 |
| Transfers out | (125,000) |
| Principal payments on debt | (96,620) |
| Interest paid | (23,908) |
| | (232,563) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Investment earnings | 1,490 |
| | 1,490 |
| Net increase (decrease) in cash and cash equivalents | (19,116) |
| CASH, Beginning of year | 706,007 |
| CASH, End of year | \$ 686,891 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | |
| Operating income (loss) | \$ (7,175) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | |
| Depreciation | 175,648 |
| (Increase) decrease in: | |
| Accounts receivable | (249) |
| Prepaid expenses | (2,377) |
| Increase (decrease) in: | |
| Compensated absences | (1,028) |
| Customer deposits | 1,630 |
| Other accrued items | (1,172) |
| Due to other funds | 46,680 |
| | 211,957 |
| Net cash provided by (used in) operating activities | \$ 211,957 |

The accompanying notes are an integral part of this statement.

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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 City'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, 2014

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 City.

The City 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 City 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 City has elected not to follow subsequent private-sector guidance.

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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 City'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 City'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 City 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, 2014

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 2015. Interest and penalties are assessed on taxes not paid by this date. Property taxes attach as an enforceable lien on property as of May 2015. 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 2014.

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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 City'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, 2014

Fund Balance - 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:

Nonspendable - 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.

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 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.

Assigned - 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.

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 other governmental funds.

Net position - 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 City'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, 2014

Net Investment in Capital Assets

The "net investment in capital assets" reported on the government-wide statement of net position as of December 31, 2014, are as follows:

| | Governmental Activities | Business-type Activities |
|----------------------------------|----------------------------|-----------------------------|
| Net investment in capital assets | | |
| Cost of capital assets | \$ 931,996 | \$ 5,253,167 |
| Less accumulated depreciation | (361,388) | (1,677,257) |
| Book value | 570,608 | 3,575,910 |
| Plus construction proceeds | - | - |
| Less capital related debt | - | (1,878,113) |
| Net investment in capital assets | \$ 570,608 | \$ 1,697,797 |

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.

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

The budget is adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund and special revenue funds. 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 City'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.

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 City'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, 2014, all deposits of the City were adequately insured or collateralized. At year end, the City's carrying amount of deposits was \$2,025,487 and the bank balance was \$2,067,596.

State statutes require collateral pledged in the amount of 110% of deposits. Depositories may secure deposits of public funds using the dedicated method or the pooled method as described below.

Under the dedicated method, a depository shall secure the deposits of each of its public depositors separately.

Under the pooled method, a depository shall secure deposits of public bodies which have deposits with it through a pool of collateral established by the depository with a custodian for the benefit of public bodies having deposits with such depository as set forth in code Section 45-8-13.1.

The City utilized both methods to secure deposits of public funds.

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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 | \$ 615,745 | \$ - |
| Other | - | 37,203 |
| Total Gross Receivables | <u>615,745</u> | <u>37,203</u> |
| Less: Allowance for Uncollectibles | - | - |
| Total Net Receivables | <u><u>\$ 615,745</u></u> | <u><u>\$ 37,203</u></u> |

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 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 | \$ 94,000 | \$ - | \$ - | \$ 251,739 |
| Total non-depreciable capital assets | <u>157,739</u> | <u>94,000</u> | <u>-</u> | <u>-</u> | <u>251,739</u> |
| Depreciable Assets: | | | | | |
| Buildings and improvements | 195,632 | 106,000 | - | - | 301,632 |
| Machinery and equipment | 258,253 | 40,000 | (10,100) | - | 288,153 |
| Vehicles | 159,119 | - | (68,647) | - | 90,472 |
| Total depreciable capital assets | <u>613,004</u> | <u>146,000</u> | <u>(78,747)</u> | <u>-</u> | <u>680,257</u> |
| Less Accumulated Depreciation for: | | | | | |
| Buildings and improvements | 76,442 | 15,110 | - | - | 91,552 |
| Machinery and equipment | 210,488 | 12,909 | (10,100) | - | 213,297 |
| Vehicles | 110,986 | 10,900 | (65,347) | - | 56,539 |
| Total accumulated depreciation | <u>397,916</u> | <u>38,919</u> | <u>(75,447)</u> | <u>-</u> | <u>361,388</u> |
| Total depreciable capital assets, net | <u>215,088</u> | <u>107,081</u> | <u>(3,300)</u> | <u>-</u> | <u>318,869</u> |
| Governmental activities capital assets, net | <u><u>\$ 372,827</u></u> | <u><u>\$ 201,081</u></u> | <u><u>\$ (3,300)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 570,608</u></u> |

Additions to governmental activities capital assets for fiscal year ending December 31, 2014 consist of the following:

| | |
|--|--------------------------|
| Capital Outlay | \$ 240,000 |
| Total | <u><u>\$ 240,000</u></u> |
| Non-depreciable capital assets additions | \$ 94,000 |
| Depreciable capital assets additions | 146,000 |
| Total | <u><u>\$ 240,000</u></u> |

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

| | Beginning Balance | Additions | Retirements | Transfers | Ending Balance |
|--|----------------------|---------------------|-----------------|-------------|---------------------|
| Business-type Activities: | | | | | |
| Non-Depreciable Assets: | | | | | |
| Land and improvements | \$ 2,222 | \$ - | \$ - | \$ - | \$ 2,222 |
| Total non-depreciable capital assets | <u>2,222</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,222</u> |
| Depreciable Assets: | | | | | |
| Buildings and improvements | 17,500 | - | - | - | 17,500 |
| Machinery and equipment | 130,301 | - | (63,909) | - | 66,392 |
| Vehicles | 40,071 | - | - | - | 40,071 |
| Infrastructure | 5,126,982 | - | - | - | 5,126,982 |
| Total depreciable capital assets | <u>5,314,854</u> | <u>-</u> | <u>(63,909)</u> | <u>-</u> | <u>5,250,945</u> |
| Less Accumulated Depreciation for: | | | | | |
| Buildings and improvements | 14,583 | 584 | - | - | 15,167 |
| Machinery and equipment | 130,301 | - | (63,909) | - | 66,392 |
| Vehicles | 27,988 | 2,500 | - | - | 30,488 |
| Infrastructure | 1,392,646 | 172,564 | - | - | 1,565,210 |
| Total accumulated depreciation | <u>1,565,518</u> | <u>175,648</u> | <u>(63,909)</u> | <u>-</u> | <u>1,677,257</u> |
| Total depreciable capital assets, net | <u>3,749,336</u> | <u>(175,648)</u> | <u>-</u> | <u>-</u> | <u>3,573,688</u> |
| Business-type activities capital assets, net | <u>\$ 3,751,558</u> | <u>\$ (175,648)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,575,910</u> |

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

Governmental Activities:

| | |
|--|------------------|
| General Government | \$ 15,110 |
| Public Safety | 6,700 |
| Public Works | 17,109 |
| Total depreciation expense-governmental activities | <u>\$ 38,919</u> |

Business-type Activities:

| | |
|---|-------------------|
| Water | \$ 175,648 |
| Total depreciation expense-business-type activities | <u>\$ 175,648</u> |

NOTE 6 - LONG-TERM DEBT

Long-term liability activity for the year ended December 31, 2014 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year | Due After One Year |
|--|----------------------|------------------|---------------------|---------------------|------------------------|-----------------------|
| Governmental Activities: | | | | | | |
| Compensated absences | \$ 11,134 | \$ 17,183 | \$ (11,134) | \$ 17,183 | \$ 6,014 | \$ 11,169 |
| Governmental activities long-term liabilities | <u>\$ 11,134</u> | <u>\$ 17,183</u> | <u>\$ (11,134)</u> | <u>\$ 17,183</u> | <u>\$ 6,014</u> | <u>\$ 11,169</u> |
| Business-type Activities: | | | | | | |
| Notes payable | \$ 1,974,733 | \$ - | \$ (96,620) | \$ 1,878,113 | \$ 97,593 | \$ 1,780,520 |
| Compensated absences | 3,933 | 2,905 | (3,933) | 2,905 | 2,905 | - |
| Business-type activities long-term liabilities | <u>\$ 1,978,666</u> | <u>\$ 2,905</u> | <u>\$ (100,553)</u> | <u>\$ 1,881,018</u> | <u>\$ 100,498</u> | <u>\$ 1,780,520</u> |

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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, 2014 is \$1,098,608.

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, 2014 is \$779,505.

The annual requirements to amortize notes payable outstanding as of December 31, 2014 are as follows:

| <u>Year ending</u> <u>December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---|---------------------|-------------------|---------------------|
| 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 | 101,791 | 18,736 | 120,527 |
| 2020-2024 | 526,616 | 76,021 | 602,637 |
| 2025-2029 | 559,504 | 43,133 | 602,637 |
| 2030-2033 | 293,690 | 7,928 | 301,618 |
| Total | <u>\$ 1,878,113</u> | <u>\$ 231,414</u> | <u>\$ 2,109,527</u> |

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 Sky Valley 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.

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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.

During the year ended December 31, 2014, 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, 2014. No provisions have been made in the financial statements for the year ended December 31, 2014 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.

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 8 - INTERFUND BALANCES AND ACTIVITY

Balances due to/from other funds at December 31, 2014, consist of the following:

| | |
|------------------|---|
| \$ 46,823 | Due to the General Fund from Water and Garbage Fund for year-end accruals. |
| 225 | Due to SPLOST Fund from General Fund to correctly state new SPLOST expenditures. |
| 143 | Due to the Water and Garbage Fund from General Fund to correct year-end activity. |
| <u>\$ 47,191</u> | Total |

Transfers to/from other funds at December 31, 2014, consists of the following:

| | |
|-------------------|--|
| \$ 125,000 | From Water and Garbage Fund to General fund for capital asset reimbursement. |
| <u>6,868</u> | From Hotel/Motel Tax Fund to General fund for local portion of taxes paid. |
| <u>\$ 131,868</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, 2013, (the most recent actuarial valuation date) was \$433,549 (based on covered earnings of preceding year).

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.

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

Contributions totaling \$31,025 (\$31,025 employer and \$0 employee) were made in accordance with actuarially determined contribution requirements determined by an actuarial valuation performed as of July 1, 2014. Employer contributions attributable to the 2014 Plan Year were made in 2014. The employer contribution represents 18.91% 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, 2014, 2013, and 2012 were \$31,025, \$33,522, and \$30,352, 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>July 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>\$429,256</u> | <u>\$511,248</u> | <u>\$81,992</u> | <u>83.96%</u> | <u>\$433,549</u> | <u>18.91%</u> |

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

| Fiscal Year <u>December 31</u> | Annual <u>Pension Cost</u> | Actual City <u>Contribution</u> | Percentage of <u>APC Contributed</u> | Net Pension <u>Obligation</u> |
|-----------------------------------|-------------------------------|------------------------------------|---|----------------------------------|
| 2014 | \$ 31,025 | \$ 31,025 | 100.0 % | \$ - |
| 2013 | \$ 33,522 | \$ 33,522 | 100.0 % | \$ - |
| 2012 | \$ 30,352 | \$ 30,352 | 100.0 % | \$ - |

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

The information was determined as part of the actuarial valuation as of July 1, 2013. Additional information as of the latest actuarial valuation follows:

| | |
|---|------------------------|
| Valuation date | July 1, 2013 |
| 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>2014</u> | <u>2013</u> |
| Annual required contribution | \$ 31,025 | \$ 33,522 |
| Interest on net pension obligation | - | - |
| Amortization of net pension obligation | - | - |
| Annual pension cost | <u>31,025</u> | <u>33,522</u> |
| Contributions made with interest | <u>(31,025)</u> | <u>(33,522)</u> |
| Increase (decrease) in net pension obligation | - | - |
| Net pension obligation, beginning of year | - | - |
| Net pension obligation, end of year | <u><u>\$ -</u></u> | <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, 2014

NOTE 11 - HOTEL/MOTEL TAX

During the year ended December 31, 2014, the City collected \$- in Hotel/Motel taxes of which \$- was required to be spent to promote tourism, conventions, and trade shows. For the year ended December 31, 2014, DIV/0% 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, 2014, this City restated its financial statements for the fiscal year ended December 31, 2013. The restatement resulted in a net increase in Governmental Activities net position in the amount of \$42,676. The restatement was a result of correcting the 2013 due from enterprise funds ending balance.

CITY OF SKY VALLEY, GEORGIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION FUNDING PROGRESS
For the Year Ended December 31, 2014
"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) |
|---|--|---|-------------------------------------|--|--|---|
| 2013 | 429,256 | \$ 511,248 | 84.0 % | 81,992 | \$ 433,549 | 18.9 % |
| 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 % |

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, 2014
(Required Supplementary Information)

| | BUDGET AMOUNTS | | ACTUAL | VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE) |
|---|-------------------|-------------------|-------------------|---|
| | ORIGINAL | FINAL | | |
| FUND BALANCE, Beginning of year | \$ 619,676 | \$ 619,676 | \$ 619,676 | \$ - |
| RESOURCES (INFLOWS) | | | | |
| Property taxes | 845,750 | 845,750 | 888,641 | 42,891 |
| Real estate taxes | 5,750 | 5,750 | 5,699 | (51) |
| Insurance premium taxes | 14,600 | 14,600 | 14,670 | 70 |
| Other taxes | 4,800 | 4,800 | 1,890 | (2,910) |
| Franchise taxes | 50,000 | 50,000 | 48,419 | (1,581) |
| Licenses and permits | 10,600 | 10,600 | 12,163 | 1,563 |
| Intergovernmental | 73,250 | 73,250 | 45,583 | (27,667) |
| Charges for services | 800 | 800 | 1,057 | 257 |
| Fines and forfeitures | 4,000 | 4,000 | 2,092 | (1,908) |
| Interest income | 3,000 | 3,000 | 4,264 | 1,264 |
| Contributions and donations | 8,300 | 8,300 | 7,425 | (875) |
| Miscellaneous | 4,050 | 4,050 | 16,375 | 12,325 |
| Sale of county property | 14,500 | 14,500 | 14,503 | 3 |
| Transfers in | 132,200 | 132,200 | 131,868 | (332) |
| Total Resources (Inflows) | <u>1,171,600</u> | <u>1,171,600</u> | <u>1,194,649</u> | <u>23,049</u> |
| AMOUNTS AVAILABLE FOR APPROPRIATION | <u>1,791,276</u> | <u>1,791,276</u> | <u>1,814,325</u> | <u>23,049</u> |
| CHARGES TO APPROPRIATIONS (OUTFLOWS) | | | | |
| Current Expenditures | | | | |
| General Government | | | | |
| Legislative | 11,500 | 8,500 | 5,972 | 2,528 |
| Executive | 3,200 | 3,100 | 2,564 | 536 |
| Elections | 4,900 | 4,900 | 341 | 4,559 |
| Administration | 432,760 | 435,760 | 435,637 | 123 |
| Total General Government | <u>452,360</u> | <u>452,260</u> | <u>444,514</u> | <u>7,746</u> |
| Judicial | | | | |
| Municipal court | 4,440 | 4,540 | 4,498 | 42 |
| Total Judicial | <u>4,440</u> | <u>4,540</u> | <u>4,498</u> | <u>42</u> |
| Public Safety | | | | |
| Police | 338,500 | 338,500 | 332,327 | 6,173 |
| Fire | 58,000 | 58,000 | 58,000 | - |
| Total Public Safety | <u>396,500</u> | <u>396,500</u> | <u>390,327</u> | <u>6,173</u> |
| Public Works | | | | |
| Highways and streets | 264,400 | 249,400 | 239,308 | 10,092 |
| Total Public Works | <u>264,400</u> | <u>249,400</u> | <u>239,308</u> | <u>10,092</u> |
| Housing and development | | | | |
| Planning and development | 35,900 | 50,900 | 50,233 | 667 |
| Total Housing and Development | <u>35,900</u> | <u>50,900</u> | <u>50,233</u> | <u>667</u> |
| TOTAL CHARGES TO APPROPRIATIONS | <u>1,153,600</u> | <u>1,153,600</u> | <u>1,128,880</u> | <u>24,720</u> |
| CHANGE IN FUND BALANCE | <u>18,000</u> | <u>18,000</u> | <u>65,769</u> | <u>47,769</u> |
| FUND BALANCE, End of year | <u>\$ 637,676</u> | <u>\$ 637,676</u> | <u>\$ 685,445</u> | <u>\$ 47,769</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 BUDGETARY COMPARISON SCHEDULE
HOTEL/MOTEL TAX SPECIAL REVENUE FUND
For the Year Ended December 31, 2014

| | BUDGET AMOUNTS | | ACTUAL | VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE) |
|--------------------------------------|----------------|---------------|---------------|---|
| | ORIGINAL | FINAL | | |
| FUND BALANCE, Beginning of year | \$ 457 | \$ 457 | \$ 457 | \$ - |
| RESOURCES (INFLOWS) | | | | |
| Taxes | - | 11,500 | 11,447 | (53) |
| Investment income | - | - | 4 | 4 |
| Total Resources (Inflows) | <u>-</u> | <u>11,500</u> | <u>11,451</u> | <u>(49)</u> |
| AMOUNTS AVAILABLE FOR APPROPRIATION | <u>457</u> | <u>11,957</u> | <u>11,908</u> | <u>(49)</u> |
| CHARGES TO APPROPRIATIONS (OUTFLOWS) | | | | |
| Current Expenditures | | | | |
| Housing and development | - | 4,600 | 4,579 | 21 |
| Transfers out | - | 6,900 | 6,868 | 32 |
| TOTAL CHARGES TO APPROPRIATIONS | <u>-</u> | <u>11,500</u> | <u>11,447</u> | <u>53</u> |
| CHANGE IN FUND BALANCE | <u>-</u> | <u>-</u> | <u>4</u> | <u>4</u> |
| FUND BALANCE, End of year | <u>\$ 457</u> | <u>\$ 457</u> | <u>\$ 461</u> | <u>\$ 4</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, 2014

BUSINESS-TYPE ACTIVITIES-ENTERPRISE FUNDS

| | WATER | GARBAGE | TOTAL |
|--|---------------------|-----------------|---------------------|
| OPERATING REVENUES | | | |
| Charges for sales and services | \$ 346,014 | \$ 110,912 | \$ 456,926 |
| Other | 12,339 | - | 12,339 |
| Total Operating Revenues | <u>358,353</u> | <u>110,912</u> | <u>469,265</u> |
| OPERATING EXPENSES | | | |
| Salaries and benefits | 92,638 | 53,854 | 146,492 |
| Other services and charges | 69,623 | 16,008 | 85,631 |
| Depreciation | 175,648 | - | 175,648 |
| Professional fees | - | 3,158 | 3,158 |
| Repairs and maintenance | 23,434 | 42,077 | 65,511 |
| Total Operating Expenses | <u>361,343</u> | <u>115,097</u> | <u>476,440</u> |
| OPERATING INCOME (LOSS) | <u>(2,990)</u> | <u>(4,185)</u> | <u>(7,175)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Investment earnings | 1,490 | - | 1,490 |
| Interest expense | (23,907) | - | (23,907) |
| Gain (loss) on sale of capital assets | 5,601 | 7,364 | 12,965 |
| Total Nonoperating Revenues (Expenses) | <u>(16,816)</u> | <u>7,364</u> | <u>(9,452)</u> |
| INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS | (19,806) | 3,179 | (16,627) |
| Transfer out | (125,000) | - | (125,000) |
| CHANGE IN NET POSITION | <u>\$ (144,806)</u> | <u>\$ 3,179</u> | <u>\$ (141,627)</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 29, 2015

Mayor and 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, 2014, 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 29, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the 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 the 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 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.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the 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, Carter & Co., LLP