
CITY OF SKY VALLEY, GEORGIA
ANNUAL FINANCIAL REPORT
For the Year Ended December 31, 2016

**CITY OF SKY VALLEY, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2016**

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Independent Auditors' Report

Honorable Mayor, Members of the
City Council and City Manager
Of the City of 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 (the "City") as of and for the year ended December 31, 2016, 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

The City's 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.

CERTIFIED PUBLIC ACCOUNTANTS

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

MEMBER OF THE GEORGIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 13, the City made a prior period adjustment which restated its beginning net assets for its governmental activities and the beginning balance of its general fund balance. The restatement of the beginning net assets was significant due to capital expenditures made in 2015 that were not capitalized. Our opinions are not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in the City's Net Pension Liability and Related Ratios on page 34, the Schedule of City Contributions on page 35, and the notes to the required supplementary information on pages 36-37, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has chosen to omit Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Sky Valley, Georgia's basic financial statements. The Schedule of Expenditures of Special Purpose Local Option Sales Tax Proceeds (as required by the Official Code of Georgia Annotated 48-8-121), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Special Purpose Local Option Sales Tax Proceeds 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

Schedule of Expenditures of Special Purpose Local Option Sales Tax Proceeds 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 30, 2017 on our consideration of 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 the City's internal control over financial reporting and compliance.

Mixon & Associates, CPAs

Mixon & Associates, CPAs
Clarkesville, Georgia
June 30, 2017

BASIC FINANCIAL STATEMENTS

CITY OF SKY VALLEY, GEORGIA
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Assets			
Cash and Cash Equivalents	\$ 1,921,201	\$ 773,513	\$ 2,694,714
Receivables, net			
Accounts	-	53,709	53,709
Interest	-	-	-
Taxes	101,813	-	101,813
Internal Balances	(61,614)	61,614	-
Prepaid Expenses	1,722	515	2,237
Investments	-	-	-
Capital Assets:			
Land, Improvements, and Construction in Progress	251,739	2,222	253,961
Other Capital Assets, net of Depreciation	847,621	3,317,071	4,164,692
Total Assets	<u>3,062,482</u>	<u>4,208,644</u>	<u>7,271,126</u>
Deferred Outflows of Resources			
Pension Related Items	39,004	11,651	50,655
Total Assets and Deferred Outflows of Resources	<u>3,101,486</u>	<u>4,220,295</u>	<u>7,321,781</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Liabilities			
Accounts Payable	17,574	6,538	24,112
Accrued Liabilities	8,714	-	8,714
Unearned Property Tax Revenue	940,776	-	940,776
Customer Deposits Payable	-	9,208	9,208
Compensated Absences:			
Due Within One Year	9,145	486	9,631
Due Beyond One Year	10,830	-	10,830
Capital Leases:			
Due Within One Year	-	-	-
Due Beyond One Year	-	-	-
Notes Payable:			
Due Within One Year	-	99,629	99,629
Due Beyond One Year	-	1,582,295	1,582,295
Net Pension Liability, Due Beyond One Year	144,490	43,159	187,649
Total Liabilities	<u>1,131,529</u>	<u>1,741,315</u>	<u>2,872,844</u>
Deferred Inflows of Resources			
Pension Related Items	5,488	1,640	7,128
Total Liabilities and Deferred Inflows of Resources	<u>1,137,017</u>	<u>1,742,955</u>	<u>2,879,972</u>
NET POSITION			
Net Invested in Capital Assets	1,099,360	1,637,369	2,736,729
Restricted for:			
Capital Projects	3,445	-	3,445
Unrestricted Net Position	861,664	839,971	1,701,635
Total Net Position	<u>\$ 1,964,469</u>	<u>\$ 2,477,340</u>	<u>\$ 4,441,809</u>

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

**CITY OF SKY VALLEY, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities							
General Government	\$ 269,956	\$ 4,843	\$ 24,105	\$ 3	\$ (241,005)	\$ -	\$ (241,005)
Public Safety:							
Fire	58,000	-	-	-	(58,000)	-	(58,000)
Police and Courts	302,962	21,659	-	-	(281,303)	-	(281,303)
Public Works/Streets	236,098	50	-	-	(236,048)	-	(236,048)
Community Development:							
Promotions & Tourism	37,156	16,325	-	-	(20,831)	-	(20,831)
Economic Development	56,639	-	-	-	(56,639)	-	(56,639)
Housing & Development	18,592	14,778	-	-	(3,814)	-	(3,814)
Interest on Long-Term Debt	-	-	-	-	-	-	-
Total Governmental Activities	979,403	57,655	24,105	3	(897,640)	-	(897,640)
Business-Type Activities							
Water	414,654	426,279	-	-	-	11,625	11,625
Sanitation	128,992	192,279	-	-	-	63,287	63,287
Total Business-Type Activities	543,646	618,558	-	-	-	74,912	74,912
Total Primary Government	\$ 1,523,049	\$ 676,213	\$ 24,105	\$ 3	(897,640)	74,912	(822,728)
General Revenues							
Taxes:							
Property					995,615	-	995,615
Intangible and Transfer					10,561	-	10,561
Franchise					54,514	-	54,514
Beer and Wine					1,174	-	1,174
Insurance Premium					16,852	-	16,852
Business Taxes					2,758	-	2,758
Hotel/Motel Taxes					15,465	-	15,465
Unrestricted Investment Earnings					1,275	952	2,227
Miscellaneous					18,571	-	18,571
Gain on Sale of Assets					10,764	-	10,764
Transfers					-	-	-
Total General Revenues and Transfers					1,127,549	952	1,113,036
Change in Net Position					229,909	75,864	305,773
Net Position - Beginning, Restated					1,734,560	2,401,476	4,136,036
Net Position - Ending					\$ 1,964,469	\$ 2,477,340	\$ 4,441,809

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

**CITY OF SKY VALLEY, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	<u>Major Governmental Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>SPLOST Capital Projects Fund</u>	<u>Nonmajor Governmental Fund</u>	
ASSETS				
Cash and Cash Equivalents	\$ 1,917,701	\$ 3,445	\$ 55	\$ 1,921,201
Receivables, net	101,813	-	-	101,813
Due From Other Funds	-	-	-	-
Investments	-	-	-	-
Prepaid Items	1,722	-	-	1,722
TOTAL ASSETS	<u>\$ 2,021,236</u>	<u>\$ 3,445</u>	<u>\$ 55</u>	<u>\$ 2,024,736</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 17,574	\$ -	\$ -	\$ 17,574
Accrued Liabilities	8,714	-	-	8,714
Due to Other Funds	61,614	-	-	61,614
Unearned Property Tax Revenue	940,776	-	-	940,776
TOTAL LIABILITIES	<u>1,028,678</u>	<u>-</u>	<u>-</u>	<u>1,028,678</u>
FUND BALANCES				
Non-Spendable	1,722	-	-	1,722
Restricted for Capital Projects	-	3,445	-	3,445
Assigned to:				
Hotel/Motel	-	-	55	55
Unassigned Reported in:				
General Fund	990,836	-	-	990,836
TOTAL FUND BALANCES	<u>992,558</u>	<u>3,445</u>	<u>55</u>	<u>996,058</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,021,236</u>	<u>\$ 3,445</u>	<u>\$ 55</u>	

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

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.	1,099,360
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds:	
Compensated Absences	(19,975)
Net Pension Liability	(144,490)
The deferred outflows of resources and deferred inflows of resources related to the City's pension plan are not expected to be liquidated with expendable available financial resources and, therefore, are not reported in the funds:	
Deferred Outflows of Resources	39,004
Deferred Inflows of Resources	(5,488)
Net Position of Governmental Activities	<u>\$ 1,964,469</u>

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

CITY OF SKY VALLEY, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Major Governmental Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>SPLOST Capital Projects Fund</u>	<u>Nonmajor Governmental Fund</u>	
REVENUES				
Taxes:				
Property	\$ 995,615	\$ -	\$ -	\$ 995,615
Intangible and Transfer	10,561	-	-	10,561
Franchise	54,514	-	-	54,514
Beer and Wine	1,174	-	-	1,174
Insurance Premiums	16,852	-	-	16,852
Business Taxes	2,758	-	-	2,758
Hotel/Motel Taxes	-	-	15,465	15,465
Licenses and Permits	17,715	-	-	17,715
Intergovernmental	24,105	-	-	24,105
Charges for Services	18,236	-	-	18,236
Fines and Forfeitures	21,659	-	-	21,659
Investment Earnings	1,269	3	6	1,278
Miscellaneous	18,616	-	-	18,616
TOTAL REVENUES	<u>1,183,074</u>	<u>3</u>	<u>15,471</u>	<u>1,198,548</u>
EXPENDITURES				
Current:				
General Government	270,786	-	-	270,786
Police and Courts	372,999	-	-	372,999
Fire	58,000	-	-	58,000
Public Works/Streets	253,563	-	-	253,563
Promotions & Tourism	30,916	-	-	30,916
Economic Development	56,639	-	6,241	62,880
Housing & Development	15,058	-	-	15,058
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
TOTAL EXPENDITURES	<u>1,057,961</u>	<u>-</u>	<u>6,241</u>	<u>1,064,202</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>125,113</u>	<u>3</u>	<u>9,230</u>	<u>134,346</u>
OTHER FINANCING SOURCES AND USES				
Proceeds From Sale of Assets	10,764	-	-	10,764
Transfers In	9,175	-	-	9,175
Transfers Out	-	-	(9,175)	(9,175)
TOTAL OTHER FINANCING SOURCES AND USES	<u>19,939</u>	<u>-</u>	<u>(9,175)</u>	<u>10,764</u>
NET CHANGES IN FUND BALANCES	145,052	3	55	145,110
FUND BALANCES - BEGINNING, Restated	<u>845,784</u>	<u>3,442</u>	<u>-</u>	<u>849,226</u>
FUND BALANCES - ENDING	<u>\$ 990,836</u>	<u>\$ 3,445</u>	<u>\$ 55</u>	<u>\$ 994,336</u>

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

**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, 2016**

Net Change in Fund Balances - Total Governmental Funds	\$	145,110
 Amounts reported for governmental activities in the Statement of Activities are different because:		
 Government 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 (\$158,437) exceeded depreciation (\$63,307) in the current period.		
		95,130
 The net effect of other miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position. This is the amount of net book value of assets sold and/or traded in during the current period.		
		(9,967)
 In the Statement of Activities, operating expenses are measured by the amounts incurred during the year. However, compensated absences are included in the governmental funds only to the extent that they require the expenditure of current financial resources		
		1,655
 Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned, net of employee contributions is reported as pension expense. This is the amount by which cost of benefits earned, net of employee contributions (\$24,402) exceeded pension contributions (\$22,383)		
		<u>(2,019)</u>
 Change in Net Position of Governmental Activities	 \$	 <u><u>229,909</u></u>

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

CITY OF SKY VALLEY, GEORGIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Property	\$ 956,935	\$ 995,175	\$ 995,615	\$ 440
Intangible and Transfer	5,200	10,150	10,561	411
Franchise	52,000	54,400	54,514	114
Beer and Wine	900	1,100	1,174	74
Insurance Premium	14,000	16,850	16,852	2
Business Taxes	1,600	3,000	2,758	(242)
Licenses and Permits	12,700	17,155	17,715	560
Intergovernmental	25,080	3,000	24,105	21,105
Charges for Services	12,600	18,130	18,236	106
Fines and Forfeitures	1,000	10,500	21,659	11,159
Investment Earnings	1,500	1,100	1,269	169
Other Revenues	35,500	39,215	18,616	(20,599)
TOTAL REVENUES	<u>1,119,015</u>	<u>1,169,775</u>	<u>1,183,074</u>	<u>13,299</u>
EXPENDITURES				
Current:				
General Government	387,390	326,595	270,786	55,809
Police and Courts	289,515	381,947	372,999	8,948
Fire	58,000	58,000	58,000	-
Public Works/Streets	382,125	391,025	253,563	137,462
Promotions & Tourism	30,000	33,266	30,916	2,350
Economic Development	41,500	68,693	56,639	12,054
Housing & Development	25,485	19,160	15,058	4,102
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
TOTAL EXPENDITURES	<u>1,214,015</u>	<u>1,278,686</u>	<u>1,057,961</u>	<u>220,725</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(95,000)</u>	<u>(108,911)</u>	<u>125,113</u>	<u>234,024</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from Sale of Assets	-	10,750	10,764	14
Transfers In	95,000	98,161	9,175	(88,986)
Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>95,000</u>	<u>108,911</u>	<u>19,939</u>	<u>(88,972)</u>
NET CHANGE IN FUND BALANCES	-	-	145,052	145,052
FUND BALANCES - BEGINNING, Restated	<u>744,305</u>	<u>745,905</u>	<u>845,784</u>	<u>99,879</u>
FUND BALANCES - ENDING	<u>\$ 744,305</u>	<u>\$ 745,905</u>	<u>\$ 990,836</u>	<u>\$ 244,931</u>

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

**CITY OF SKY VALLEY, GEORGIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016**

		<u>Business-Type Activities - Enterprise Funds</u> <u>Water, Sewer, & Sanitation</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$	773,513
Accounts Receivable, net		53,709
Due from Other Funds		61,614
Prepaid Expenses		515
Investments		-
TOTAL CURRENT ASSETS		<u>889,351</u>
NONCURRENT ASSETS		
Capital Assets:		
Land and Improvement		2,222
Depreciable Assets, net of Accumulated Depreciation		<u>3,317,071</u>
TOTAL NONCURRENT ASSETS		<u>3,319,293</u>
TOTAL ASSETS		<u>4,208,644</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Items		<u>11,651</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES		<u>11,651</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable		6,538
Accrued Liabilities		486
Due to Other Funds		-
Customer Deposits Payable		9,208
Construction Loan		-
Capital Leases Payable		-
Notes Payable		99,629
TOTAL CURRENT LIABILITIES		<u>115,861</u>
NONCURRENT LIABILITIES		
Capital Leases		-
Notes Payable		1,582,295
Net Pension Liability		<u>43,159</u>
TOTAL NONCURRENT LIABILITIES		<u>1,625,454</u>
TOTAL LIABILITIES		<u>1,741,315</u>
DEFERRED INFLOWS OF RESOURCES		
Pension Related Items		<u>1,640</u>
TOTAL DEFERRED INFLOWS OF RESOURCES		<u>1,640</u>
NET POSITION		
Net Invested in Capital Assets		1,637,369
Restricted for Capital Projects		-
Unrestricted		<u>839,971</u>
TOTAL NET POSITION	\$	<u><u>2,477,340</u></u>

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

**CITY OF SKY VALLEY, GEORGIA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Business-Type Activities - Enterprise Funds	
	Water, Sewer, & Sanitation	
OPERATING REVENUES		
Water Fees	\$	426,279
Sanitation Fees		192,279
TOTAL OPERATING REVENUES		618,558
 OPERATING EXPENSES		
Water		217,431
Sanitation		117,395
Depreciation		186,889
TOTAL OPERATING EXPENSES		521,715
 OPERATING INCOME (LOSS)		96,843
 NON-OPERATING REVENUES (EXPENSES)		
Intergovernmental Revenue		-
Interest and Investment Revenue		952
Miscellaneous Revenue (Expenses)		-
Interest Expense		(21,931)
TOTAL NON-OPERATING REVENUES (EXPENSES)		(20,979)
 INCOME (LOSS) BEFORE TRANSFERS		75,864
Transfers In		-
Transfers Out		-
CHANGE IN NET POSITION		75,864
 NET POSITION - BEGINNING		2,401,476
 NET POSITION - ENDING	\$	2,477,340

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

**CITY OF SKY VALLEY, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Business-Type Activities - Enterprise Funds
	Water and Sanitation Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 589,873
Payments to Suppliers	(159,761)
Payments to or on Behalf of Employees	(143,539)
NET CASH PROVIDED FOR OPERATING ACTIVITIES	286,573
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers From Other Funds	-
Transfers to Other Funds	-
Loans to Other Funds	(221,484)
Loans from Other Funds	-
NET CASH PROVIDED FOR NON-CAPITAL FINANCING ACTIVITIES	(221,484)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfers In From Other Funds	-
Proceeds from Notes Payable	-
Principal Payments on Note Payables	(98,596)
Purchases of Capital Assets	-
Interest Paid	(21,931)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(120,527)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investments Redeemed	-
Interest Earned	952
NET CASH USED FOR INVESTING ACTIVITIES	952
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(54,486)
CASH AND CASH EQUIVALENTS - BEGINNING	827,999
CASH AND CASH EQUIVALENTS - ENDING	\$ 773,513
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 96,843
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation Expense	186,889
Changes in Assets and Liabilities:	
Receivables, net	(7,830)
Prepaid Expenses	(515)
Deferred Outflows for Pension Items	(5,908)
Accounts Payables	6,538
Accrued Liabilities	(4,174)
Customer Deposit Payables	7,708
Net Pension Liability	9,238
Deferred Inflows for Pension Items	(2,216)
Net Cash Provided by Operating Activities	\$ 286,573

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

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Sky Valley, Georgia (the "City") was incorporated, under the laws of the State of Georgia, in 1986 and operates under an elected Mayor-Council form of government. The City provides such services as police protection, fire services, economic development services, parks and recreation amenities, planning and building inspection, municipal court services, public works, water and sewer services, sanitation services, and general and administrative services.

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

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City (the primary government) organizations for which the primary government is considered to be financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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 generally accepted accounting principles (GAAP). The City has no component units.

GASB 14 defines the foundation of a primary government as its separately elected governing body; one that is elected by the citizens in a general population election. The primary government consists of all of the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are, for financial reporting purposes, part of the primary government. The primary government is also financially accountable for legally separate organizations if its officials appoint a voting majority of the organizations governing body and either imposes its will on the organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government.

The City has no relationships with legally separate organizations that are required to be included in the reporting entity for financial statement purposes. However, fire protection services are

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

provided by an independently organized volunteer group. The City supports this group paying a quarterly fee for their services.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It is used to account for resources traditionally associated with the City, which are not required legally or by sound financial management to be accounted for in a different fund.

The **SPLOST Capital Projects Fund** accounts for the acquisition and construction of capital expenditures which are financed by the special purpose local option sales tax (SPLOST) proceeds from Rabun County.

The City reports its nonmajor governmental fund in a single column in the fund financial statements.

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

The City reports the following major enterprise funds:

The ***Water and Sanitation Fund*** accounts for the operation of the water utility system and the activities associated with the collection of residential and commercial garbage. Activity is rendered on a user charge basis and the fund includes all revenues from sources applicable to the system's operations and all expenses of the operation.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis* of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Other taxes are recognized predominately when the underlying transaction occurs. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgements are recorded only when payments are due.

Property taxes, franchise taxes, business taxes, charges for services, and interest associated with the current year are all considered to be susceptible to accrual and so have been recognized as revenues in the current year. All other revenue items are considered to be measurable and available only when cash is received by the City.

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

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

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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.

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

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

D. BUDGETS

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

E. DEPOSITS AND INVESTMENTS

Georgia statutes authorize the City to invest in the following: (1) obligations of Georgia or any other state; (2) obligations of the United States; (3) obligations fully insured or guaranteed by the United States government or one of its agencies; (4) obligations of any corporation of the United States government; (5) prime bankers' acceptances; (6) the State of Georgia local government investment pool; (7) repurchase agreements; and (8) obligations of any other political subdivisions of the State of Georgia. Any investment or deposit in excess of the federal depository insured

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

amounts must be collateralized by an equivalent amount of state or U.S. obligations. For purposes of the statement of cash flows, all highly liquid investments with an original maturity of 3 months or less are considered to be cash equivalents. Investments are reported at fair value based on quoted market prices.

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposit with original maturities of 3 months or less from the date of acquisition.

F. RECEIVABLES

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the enterprise funds are recognized at the end of each fiscal year based on the amount of service provided prior to year end.

G. INTERFUND RECEIVABLES AND PAYABLES

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

H. INVENTORY

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.

I. PREPAID ITEMS

Prepaid items consist of certain payments to vendors in which the costs are applicable to future accounting periods. These items are recognized as expenditures during the benefitting period in both the government-wide and fund financial statements.

J. 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.

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

GASB Statement No. 34 required the City to report and depreciate new infrastructure assets effective with the year ended December 31, 2003. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are among the largest asset classes of the City. The City reported general infrastructure assets placed into service after January 1, 2003.

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. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized, but charged to operations when incurred. Upon sale or retirement of capital assets, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operation.

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 2016.

K. COMPENSATED ABSENCES

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

L. LONG-TERM OBLIGATIONS

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

Proprietary fund type loans payable are reported as liabilities at their outstanding value. Loan issuance costs are reported as expenses when incurred.

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

M. DEFERRED OUTFLOWS OF RESOURCES/DEFERRED INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category. The deferred outflow of resources relates to pensions. These amounts are described more fully below.

In addition to liabilities, the statement of net 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(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one type of deferred inflows of resources which arise under the accrual basis of accounting that relates to pensions and is described below.

The City has deferred outflows and inflows of resources related to the recording of changes in its net pension liability. Certain changes in the net position liability are recognized as pension expense over time instead of being recognized in the year of occurrence. Experience gains or losses result from periodic studies by the City's actuary which adjust the net pension liability for actual experience for certain trend information that was previously assumed, for example the assumed dates of retirement of plan members. These experience gains or losses are recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining lives of plan members. Changes in actuarial assumption which adjust the net pension liability are also recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining service lives of plan members. The difference between projected investment return on pension investments and actual returns on those investments is also deferred and amortized against pension expense over a five year period. Additionally, any contributions made by the City to the pension plan before year end but subsequent to the measurement date of the City's net pension liability are reported as deferred outflows of resources.

N. FUND EQUITY AND NET POSITION

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

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Fund Balance

In accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

Non-spendable – includes amounts that cannot be spent because they are either (a) not spendable in form (i.e., items that are not expected to be converted to cash like inventories and prepaid items) or are (b) legally or contractually required to be maintained intact. The City has not reported any amounts that are legally or contractually required to be maintained intact.

Restricted – includes amounts 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, laws of other governments, or by constitutional provision or enabling legislation.

Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to resolutions passed by the City Council, the City's highest level of decision making authority, which include the language "committed for the purpose of". Commitments may be modified or rescinded only through adoption of a subsequent resolution, which shall refer to the original resolution by its number. A resolution committing amounts must be adopted prior to the end of the fiscal year; however, the amount to be committed may be determined within 120 days of fiscal year end.

Assigned – includes amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Amounts may be assigned by the City Manager, under the authorization of the City Council, through a written memorandum. Amounts appropriated to eliminate a projected deficit in the subsequent fiscal year's budget shall constitute assignments and are documented by adoption of the City's annual operating budget. Equity amounts reported in special revenue funds or capital project funds not otherwise classified as non-spendable, restricted, or committed shall constitute assignments of fund balance.

Unassigned – includes amounts that do not fall into one of the above four categories. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The General Fund is the only fund that should report this category of fund balance.

For the purposes of fund balance classification, the City considers restricted amounts spent first when an expenditure is incurred for which both restricted and unrestricted fund balance is available. Additionally, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance can be used, then committed amounts are spent first, followed by assigned amounts, and then unassigned amounts.

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in reporting which utilizes the economic resources measurement focus. Net position reported as net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on the use of assets either through enabling legislation adopted by the City Council or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other amounts reported under net position are reported as unrestricted. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

O. MANAGEMENT ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

1. 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.
2. Public hearings are conducted at City Hall to obtain taxpayer comments.
3. Prior to December 31, the City Council approves the budget.
4. The City Manager is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any department must be approved by the City Council.

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

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 3 – DEPOSITS

Credit Risk – The City’s policy is to adhere to the State statutes as it relates to credit risk for investments. State statutes authorize the City to invest in obligations of the State of Georgia or other states; obligations issued by the U.S. Government; obligations fully insured or guaranteed by the U.S. Government or by a government agency of the United States; obligations of any corporation of the U.S. Government; prime banker’s acceptances; the local government investment pool established by state law; repurchase agreements; and obligations of other political subdivisions of the State of Georgia.

Custodial Credit Risk – Deposits – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal and state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. The State of Georgia requires financial institutions to pledge securities at 110% of a local government’s deposits. At December 31, 2016, all of the deposits of the City were fully collateralized in accordance with state statutes.

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

NOTE 4 – RECEIVABLES

The City receives property tax assessments from Rabun County, Georgia. Property taxes are levied on property values assessed as of January 1. Tax bills were levied on all real and personal property and mailed to taxpayers in October, and were due and payable on or before January 2017. After that date, both penalty and interest are accrued until the taxes are collected. Property taxes attach an enforceable lien on property as of May 2017. Property taxes are recorded as receivables and deferred revenues when assessed.

Receivables as of December 31, 2016 for the City’s individual major funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General	Water & Sanitation
Receivables:		
Taxes	\$ -	\$ -
Accounts	101,813	78,697
Less allowance for Uncollectible	-	(24,988)
Net Total Receivables	\$ 101,813	\$ 53,709

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

During normal operations, the City will occasionally pay for goods and services or transfer monies between the general and enterprise fund (water and sanitation). All interfund balances are the result of a time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. As of December 31, 2016, the general fund owed the water and sanitation fund \$ 61,614.

Interfund transfers are used to 1) move revenues from the fund that statute or budget requires them to the fund that statute or budget requires to expend them, and 2) use restricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers are eliminated in the government wide financial statements if the interfund transfer is within the governmental fund group or business-type group.

The interfund transfers for the year ended December 31, 2016 were as follows:

	(Transfers Out)	
Transfers In	General Fund	Hotel/Motel Tax Fund
General Fund	\$ 9,175	\$ (9,175)
	\$ 9,175	\$ (9,175)

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land and Improvements	\$ 251,739	\$ -	\$ -	\$ 251,739
Total assets, not being depreciated	<u>251,739</u>	<u>-</u>	<u>-</u>	<u>251,739</u>
Capital assets, being depreciated:				
Buildings	301,632	34,670	-	336,302
Infrastructure	468,223	-	-	468,223
Machinery & Equipment	288,153	32,125	-	320,278
Vehicles	102,972	91,642	(46,206)	148,408
Total assets, being depreciated	<u>1,160,980</u>	<u>158,437</u>	<u>(46,206)</u>	<u>1,273,211</u>
Less accumulated depreciation for:				
Buildings	(103,132)	(13,311)	-	(116,443)
Infrastructure	(3,252)	(15,191)	-	(18,443)
Machinery & Equipment	(226,199)	(17,229)	-	(243,428)
Vehicles	(65,939)	(17,576)	36,239	(47,276)
Total accumulated depreciation	<u>(398,522)</u>	<u>(63,307)</u>	<u>36,239</u>	<u>(425,590)</u>
Total assets, being depreciated, net	<u>762,458</u>	<u>95,130</u>	<u>(9,967)</u>	<u>847,621</u>
Governmental Activities				
Capital Assets, net	<u>\$ 1,014,197</u>	<u>\$ 95,130</u>	<u>\$ (9,967)</u>	<u>\$ 1,099,360</u>

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, not being depreciated:				
Land and Improvements	\$ 2,222	\$ -	\$ -	\$ 2,222
Total assets, not being depreciated	<u>2,222</u>	<u>-</u>	<u>-</u>	<u>2,222</u>
Capital assets, being depreciated:				
Buildings & Improvements	17,500	-	-	17,500
Machinery & Equipment	182,363	-	(22,831)	159,532
Vehicles	40,071	-	-	40,071
Infrastructure	5,126,982	-	-	5,126,982
Total assets, being depreciated	<u>5,366,916</u>	<u>-</u>	<u>(22,831)</u>	<u>5,344,085</u>
Less accumulated depreciation for:				
Buildings & Improvements	(15,750)	(584)	-	(16,334)
Machinery & Equipment	(76,801)	(11,597)	22,831	(65,567)
Vehicles	(32,988)	(2,500)	-	(35,488)
Infrastructure	(1,737,417)	(172,208)	-	(1,909,625)
Total accumulated depreciation	<u>(1,862,956)</u>	<u>(186,889)</u>	<u>22,831</u>	<u>(2,027,014)</u>
Total assets, being depreciated, net	<u>3,503,960</u>	<u>(186,889)</u>	<u>-</u>	<u>3,317,071</u>
Business-Type Activities Capital Assets, net	<u>\$ 3,506,182</u>	<u>\$ (186,889)</u>	<u>\$ -</u>	<u>\$ 3,319,293</u>

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

Governmental Activities:

General Government	\$ 11,932
Public Safety:	
Police and Courts	10,876
Public Works/Streets	36,966
Housing & Development	<u>3,533</u>
Total Depreciation Expense, Governmental Activities	<u>\$ 63,307</u>

Business-type Activities:

Water	\$ 175,292
Sanitation	<u>11,597</u>
Total Depreciation Expense, Business-type Activities	<u>\$ 186,889</u>

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 7 – LONG-TERM DEBT

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 21,630		\$ (1,655)	\$ 19,975	\$ 9,145
Net Pension Liability	113,562	30,928	-	144,490	-
Governmental Activities					
Long-term Liabilities	<u>\$ 135,192</u>	<u>\$ 30,928</u>	<u>\$ (1,655)</u>	<u>\$ 164,465</u>	<u>\$ 9,145</u>
Business-Type Activities:					
Compensated Absences	\$ -	\$ 486	\$ -	\$ 486	\$ 486
Notes Payable	1,780,520	-	(98,596)	1,681,924	99,629
Net Pension Liability	33,921	9,238	-	43,159	-
Business-Type Activities					
Long-term Liabilities	<u>\$ 1,814,441</u>	<u>\$ 9,724</u>	<u>\$ (98,596)</u>	<u>\$ 1,725,569</u>	<u>\$ 100,115</u>

Business-Type Activities

Note Payables

The City's water and sanitation fund has two Georgia Environmental Finance Authority (GEFA) loans to improve and renovate portions of the water system. Note payables outstanding as of December 31, 2016 are as follows:

Loan	Interest Rate	Maturity Dates	Beginning Balance	Additions	Reductions	Ending Balance
GEFA DW09024	0.00%	12/1/2031	\$ 1,033,984	\$ -	\$ (64,624)	\$ 969,360
GEFA DW10018	3.00%	1/1/2033	746,536	-	(33,972)	712,564
Total Notes Payable			<u>\$ 1,780,520</u>	<u>\$ -</u>	<u>\$ (98,596)</u>	<u>\$ 1,681,924</u>

Annual debt service requirements to maturity for the note payables are as follows:

Year Ending December 31	Principal	Interest	Total
2017	\$ 99,629	\$ 20,898	\$ 120,527
2018	100,694	19,833	120,527
2019	101,791	18,736	120,527
2020	102,922	17,606	120,528
2021	104,086	16,441	120,527
2022-2026	539,183	63,454	602,637
2027-2031	574,104	28,534	602,638
2032-2033	59,515	1,047	60,562
Total	<u>\$ 1,681,924</u>	<u>\$ 186,549</u>	<u>\$ 1,868,473</u>

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 8 – PENSION PLAN

Plan Description

The City, as authorized by the City Council, has established a non-contributory defined benefit pension plan (The City of Sky Valley Retirement Plan), covering substantially all of the City's employees. The City's pension plan is administered through the Georgia Municipal Employee Benefit System (GMEBS), an agent multiple-employer pension plan administered by the Georgia Municipal Association. Contributions made by the City are commingled with contributions made by other members of GMEBS for investment purposes. The City does not own any securities on its own. Investment income from the securities is allocated on a pro rata basis. The Georgia Municipal Association issues a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained at www.gmanet.com or by writing to Georgia Municipal Association, Risk Management and Employee Benefit Services, 201 Pryor Street, NW, Atlanta, Georgia 30303 or by calling (404)688-0472.

The City Council, in its role as Plan Sponsor, has the governing authority to establish and amend from time to time, the benefits provided and the contribution rates of the City and its employees. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. All employees, excluding elected officials, who work thirty hours or more per week are eligible to participate in the Plan immediately upon hiring, but will not be vested until 5 years of service. Benefits are provided by the Plan whereby retirees receive 1.25% multiplied by the average of the five highest years of regular earnings multiplied by the total credited years of service. Death benefits are calculated using an actuarial reserve.

As of July 1, 2016, the date the most recent actuarial valuation, there were 26 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	8
Terminated vested participants not yet receiving benefits	6
Active employees - Vested	10
Active employees - Non-vested	2
Total	<u>26</u>

Funding Policy

The plan is subject to minimum funding standards of the Georgia Public Retirement Systems Standards law. The Board of Trustees of GMEBS has adopted a recommended actuarial funding policy for the plan which meets state minimum requirements and will accumulate sufficient funds to provide the benefits under the plan. The funding policy for the Plan, as adopted by the City

CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Council, is to contribute an amount equal to or greater than the actuarially recommended contribution rate. This rate is based on the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members, as determined by the City Council. For fiscal year 2016, the actuarially determined contribution rate was 6.14% of covered payroll. City contributions to the Plan were \$26,832 for the year ended December 31, 2016. Employees of the City do not contribute to the plan. For fiscal year 2017, based on July 1, 2016 actuarial valuation, the recommended contribution rate will be 6.16%.

Net Pension Liability of the City

At December 31, 2016, the City reported a liability of \$187,649 for its net pension liability. The City's net pension liability was measured as of July 1, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of March 31, 2016 with update procedures performed by the actuary to roll forward to the total pension liability measured as of July 1, 2016.

The changes in the components of the net pension liability of the City for the year ended December 31, 2016 were as follows:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2015	\$ 643,900	\$ 496,417	\$ 147,483
Changes for the Year:			
Service Cost	13,871	-	13,871
Interest	48,377	-	48,377
Differences Between Expected and Actual Experience	7,131	-	7,131
Contributions - Employer	-	30,273	(30,273)
Net Investment Income	-	1,577	(1,577)
Benefit Payments (Including Refunds of Employee Contributions)	(39,367)	(39,367)	-
Administrative Expense	-	(2,637)	2,637
Other	-	-	-
Net Changes	<u>30,012</u>	<u>(10,154)</u>	<u>40,166</u>
Balances at December 31, 2016	<u>\$ 673,912</u>	<u>\$ 486,263</u>	<u>\$ 187,649</u>

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

For the year ended December 31, 2016, the City recognized pension expense of \$31,677. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 5,945	\$ (7,128)
Changes of Assumptions	879	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	23,707	-
City Contributions Subsequent to the Measurement Date	20,124	-
Total	<u>\$ 50,655</u>	<u>\$ (7,128)</u>

City contributions subsequent to the measurement date of \$20,124 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31:	
2017	\$ 4,579
2018	4,579
2019	4,579
2020	8,477
2021	1,189
Total	<u>\$ 23,403</u>

Actuarial Assumptions

The total pension liability in the March 31, 2016 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Inflation	3.25%
Salary Increases	3.75% - 8.00%, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table with sex-distinct rates, set forward two years for males and one year for females.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through June 30, 2014.

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of March 31, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic Equity	45%	6.75%
International Equity	20%	7.45%
Global Fixed Income	5%	3.30%
Domestic Fixed Income	20%	1.75%
Real Estate	10%	4.55%
Cash	0%	
Total	<u>100%</u>	

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

Discount Rate – The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of pension plan investments was applied to all of the projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate 1 percentage point lower (6.75%) and 1 percentage point higher (8.75%) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
City's Net Pension Liability	\$ 285,703	\$ 187,649	\$ 107,236

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of July 1, 2016 and the current sharing pattern of costs between employer and employee.

The required schedule of changes in the City's net pension liability and related ratios immediately following the notes to the financial statements presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the total pension liability.

NOTE 9 – JOINT VENTURE

Under Georgia law, the City, in conjunction with other cities and counties in the northeast Georgia area, is a member of the Georgia Mountains Regional Commission (GMRC) and is required to pay annual dues thereto. Membership in a GMRC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34, which provides for the organization structure of a regional commission. 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 the GMRC. Separate financial statements may be obtained from the Georgia Mountains Regional Commission, P.O. Box 1720, Gainesville, Georgia 30503.

NOTE 10 – RISK MANAGEMENT

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

As part of these risk pools, the City is obligated to pay all contributions and assessments as prescribed by the pools, to cooperate with the pool's agents and attorneys, to follow loss reduction procedures established by the funds, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss. The City is also to allow the pool's agents and attorneys to represent the City in investigation, settlement discussions, and all levels of litigation arising out of any claim made against the City within the scope of loss protection furnished by the funds.

The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member government contract and in accordance with the worker's compensation law of Georgia. The funds are to pay all cost taxed against members in any legal proceeding defended by

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

Settled claims in the past three (3) years have not exceeded insurance coverage.

NOTE 11 – CONTINGENT LIABILITIES

Litigation

The City is involved in pending lawsuits in the normal course of the City's business. Liability, if any, which might result from these proceedings, would not, in the opinion of management and legal counsel, have a material adverse effect on the financial position of the City.

Grant Contingencies

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

NOTE 12 – HOTEL/MOTEL OCCUPANCY TAX

The City imposes a hotel/motel tax on lodging facilities within the City. The tax was assessed at 5%. Revenues were \$15,465 for the year ended December 31, 2016. Of this amount, 40%, or \$6,241, was expended. Expenditures of the tax were used to promote tourism, conventions, and trade shows and for tourism product development as required by O.C.G.A. 48-13-51.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

The City has determined that a restatement of the City's net assets is required to reflect corrections to the beginning balances for the following situations:

- The City did not capitalize its capital expenditures in 2015 in the amount of \$480,723. The biggest portion of this expenditure pertained to infrastructure for the paving of roads, parking lots, etc. for a total of \$468,223. The City also purchased an automobile in the amount of \$12,500. As a result, \$480,723 was added to the beginning balance of net assets for governmental activities, \$12,500 was added to the beginning balance of vehicles and \$468,223 was added to the beginning balance of infrastructure. Accumulated depreciation was also added to the beginning balance for infrastructure in the amount of \$3,252.

**CITY OF SKY VALLEY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

This restatement impacts the governmental activities of the government-wide statements of the City as follows:

	Governmental Activities
Net Position as Previously Reported	\$ 1,257,089
Addition to Capital Assets:	
Infrastructure	468,223
Vehicles	12,500
Less Accumulated Depreciation not taken	<u>(3,252)</u>
Net Position as Restated	<u>\$ 1,734,560</u>

- The City also reported a negative residual amount as restricted in its nonmajor governmental fund in the prior year in error. Although the amount was minimal, (\$51), this amount was deducted from the beginning balance of the General Fund. The negative balance occurred as a result of a transfer to the General Fund in excess of \$51. This restatement impacts the General Fund's Statement of Revenues, Expenditures, and Changes in Fund Balances as follows:

	General Fund
Net Fund Balance as Previously Reported	\$ 845,835
General Fund Current Liabilities:	
Due to Other Fund	<u>(51)</u>
Net Fund Balance as Restated	<u>\$ 845,784</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SKY VALLEY, GEORGIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS
December 31, 2016
(Unaudited)

	Fiscal Year End									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Total Pension Liability										
Service Cost	\$ 13,871	\$ 19,223								
Interest	48,377	46,961								
Differences Between Expected and Actual Experience	7,131	(11,881)								
Changes of Assumptions	-	1,464								
Changes of Benefit Terms	-	-								
Benefit Payments, Including Refunds of Employee Contributions	(39,367)	(35,634)								
Net Change in Total Pension Liability	<u>30,012</u>	<u>20,133</u>								
Total Pension Liability, Beginning	<u>643,900</u>	<u>623,767</u>								
Total Pension Liability, Ending (a)	<u>\$ 673,912</u>	<u>\$ 643,900</u>								
Plan Fiduciary Net Position										
Contributions - Employer	\$ 30,273	\$ 39,625								
Net Investment Income	1,577	44,066								
Benefit Payments, Including Refunds of Employee Contributions	(39,367)	(35,634)								
Administrative Expense	(2,637)	(2,303)								
Other	-	-								
Net Change in Plan Fiduciary Net Position	<u>(10,154)</u>	<u>45,754</u>								
Plan Fiduciary Net Position, Beginning	<u>496,417</u>	<u>450,663</u>								
Plan Fiduciary Net Position, Ending (b)	<u>\$ 486,263</u>	<u>\$ 496,417</u>								
City's Net Pension Liability, Ending (a) - (b)	<u>\$ 187,649</u>	<u>\$ 147,483</u>								
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.16%	77.10%								
Covered-Employee Payroll	\$ 460,417	\$ 430,063								
City's Net Pension Liability as a Percentage of Covered-Employee Payroll	40.76%	34.29%								

(Historical information prior to implementation of GASB 67/68 is not required)

(Historical information prior to implementation of GASB 67/68 is not required)

(Historical information prior to implementation of GASB 67/68 is not required)

CITY OF SKY VALLEY, GEORGIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY CONTRIBUTIONS
LAST 10 FISCAL YEARS
December 31, 2016
(Unaudited)

	Fiscal Year End									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially Determined Contribution	\$ 26,832	\$ 34,401								
Contributions in Relation of the Actuarially Determined Contribution	26,832	31,534								
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ 2,867</u>								
Covered-Employee Payroll	\$ 460,417	\$ 430,063								
Contributions as a Percentage of Covered-Employee Payroll	6.14%	7.33%								

(Historical information prior to implementation of GASB 67/68 is not required)

CITY OF SKY VALLEY, GEORGIA
NOTES TO REQUIRED SUPPLEMENTARY PENSION INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1

Valuation Date

The actuarially determined contribution was determined as of July 1, 2016, with an interest adjustment to the fiscal year. Contributions in relations to this actuarially determined contribution will be reported for the ending December 31, 2017

NOTE 2

Significant methods and assumptions used in calculating the actuarially determined calculations are as follows:

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Closed level dollar for remaining unfunded liability
Remaining Amortization Period	Remaining amortization period varies for the bases, with a net effective amortization period of 10 years
Asset Valuation Method	Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at end of year. The actuarial value is adjusted, if necessary, to be within 20% of market value.

Actuarial Assumptions:

Net Investment Rate of Return	7.75%
Projected Salary Increases	3.25% plus service based merit increases
Cost of Living Adjustments	0.00%
Retirement Age	65
Mortality Rates	
Healthy	RP-2000 Combined Healthy Mortality Table with sex distinct rates, set forward 2 years for males and 1 year for females
Disabled	RP-2000 Disabled Retiree Mortality Table with sex-distinct rates
Plan Termination Basis	1994 Group Annuity Reserving Unisex Table

NOTE 3

Changes in Benefits

Effective January 1, 2015, the Plan was amended to provide for immediate participation for Employees. This change has no impact on service credited under the Plan and has no impact on benefits.

CITY OF SKY VALLEY, GEORGIA
NOTES TO REQUIRED SUPPLEMENTARY PENSION INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4

Changes of Assumptions

As a result of the new administrative fee structure approved by the Board, the administrative expense assumption was updated for fiscal years beginning in 2016.

As a result of the plan change to provide immediate participation for Employees, for the fiscal year ending in 2015, the eligibility assumption has been changed from six month to immediate. The increase in the Plan's net pension liability is minimal and has been included in the differences between expected and actuarial experience.

Amounts reported for the fiscal year ending in 2015 and later reflect the following assumption changes approved by the Board in December 2014 based on the results of an actuarial experience study covering the period January 1, 2010 to June 30, 2014:

The mortality table for disabled participants was changed to remove the two-year set-forward for males and the one-year set-forward for females.

The turnover rates were updated to introduce select rates for service less than five years and to reduce the ultimate rate by 15% and to assume no turnover on and after age 55. The select period rates were further constrained to not be less than the ultimate rates.

The retirement rates where normal retirement is only available on or after age 65 were changed from the prior assumption of 100% at age 65 to the new assumption of 60% at ages 65 to 69 and 100% at age 70. Where normal retirement is available prior to age 65, the rates were changed from the prior assumption of 100% at earliest unreduced age, but not below age 60, to the new assumption of 10% at ages 55 to 59, 20% at age 60, 25% at age 61, 35% at age 62, 40% at age 63, 45% at age 64, 50% at ages 65 to 69, and 100% at age 70.

The inflation assumption was decreased from 3.50% to 3.25%.

The salary increase assumption was changed from select period rates during the first five years of service, followed by age-related rates to an assumption based on new service-related rates. Under the prior assumption, the salary increases ranged from 4.00% to 11.00% and included an inflation assumption of 3.50%. Under the new assumption, the salary increases range from 3.75% to 8.00% and include an inflation assumption of 3.25%.

SUPPLEMENTARY INFORMATION

CITY OF SKY VALLEY, GEORGIA
 SCHEDULE OF EXPENDITURES OF
 SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS
 FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Original Estimated Cost</u>	<u>Current Estimated Cost</u>	<u>Prior Years Cumulative Expenditures</u>	<u>Current Year Expenditures</u>	<u>Total Cumulative Expenditures</u>	<u>Estimated Percentage of Completion</u>
RABUN COUNTY SPLOST						
Roads	\$ 350,000	\$ 350,000	\$ 350,000	\$ -	\$ 350,000	100%
TOTAL RABUN COUNTY SPLOST	<u>\$ 350,000</u>	<u>\$ 350,000</u>	<u>\$ 350,000</u>	<u>\$ -</u>	<u>\$ 350,000</u>	

COMPLIANCE SECTION



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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

Honorable Mayor, Members of the
City Council and City Manager
Of the City of Sky Valley, Georgia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of City of Sky Valley, Georgia (the "City") as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 30, 2017.

Internal Control over Financial Reporting

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

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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2016-1 and 2016-2 to be significant deficiencies.

Compliance and Other Matters

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

City of Sky Valley, Georgia's Response to Findings

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

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.

Mixon & Associates, CPAs

Mixon & Associates, CPAs
Clarkesville, Georgia
June 30, 2017

**CITY OF SKY VALLEY, GEORGIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Financial Statement Findings

Finding 2016-1

Significant Deficiency in Internal Control Over Financial Reporting – Inadequate Segregation of Duties

Condition: The City lacks adequate segregation of duties due to the limited number of staff.

Criteria: Segregation of employees' duties is a common practice in an effective internal control structure. Segregation of duties is when specific employee functions related to important accounting areas such as, cash receipting and cash disbursements, are separated among different individuals to significantly reduce the risk that any one individual could intentionally or unintentionally misappropriate assets.

Effect: Failure to maintain adequate segregation of duties exposes the assets of the City to greater risk of misappropriation.

Recommendation: We recommend the City review its policies and procedures to determine where it can adequately segregate duties to alleviate the segregation of duties issues.

Management's Response: Management concurs with this finding. The City Manager will review the policies and procedures to determine the most efficient and effective solution to properly segregate duties.

Finding 2016-2

Significant Deficiency in Internal Control Over Financial Reporting – Inadequate Training for Preparation of Financial Statements

Condition: The City personnel may require additional training in the application of generally accepted accounting principles and the preparation of financial statements. Currently, the City relies on the external auditors for technical assistance in applying generally accepted accounting principles and the preparation of financial statements. This is common in governments in similar size and structure of the City. This does not indicate that the Finance Director is not trained to perform the daily accounting functions, but that the City has elected as a cost benefit to outsource

**CITY OF SKY VALLEY, GEORGIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

this expertise to their auditors. As required, we have indicated this finding as a significant deficiency in our Internal Control and Compliance Report.

Criteria: The City should possess the ability to prepare its own financial statements or have access to someone with adequate technical training and education to review the financial statements prepared by others.

Effect: The City does not possess adequate capabilities to prepare financial statements in accordance with accounting principles generally accepted in the United States.

Recommendation: The City should continue to receive training in identification and application of generally accepted accounting principles and the preparation of the City's financial statements.

Management's Response: Management concurs with this finding.



**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding 2016-1 - Inadequate Segregation of Duties

Planned Corrective Action: We agree with this finding and will review our policies and procedures to determine where we can adequately segregate duties to alleviate these issues.

Name of Contact Person: Linda Lapeyrouse; Phone: (706)746-2204; Email: svcitymanager@windstream.net

Finding 2016-2 - Inadequate Training for Preparation of Financial Statements

Planned Corrective Action: We agree with this finding, and will continue to seek training for adequate preparation of our financial statements.

Name of Contact Person: Linda Lapeyrouse; Phone: (706)746-2204; Email: svcitymanager@windstream.net