CITY OF SKY VALLEY
SKY VALLEY, GEORGIA

FINANCIAL STATEMENTS

For the Year Ended
December 31, 2012

	TABLE OF CONTENTS	PAGE
	FINANCIAL SECTION	
	Independent Auditor's Report	1 - 2
	BASIC FINANCIAL STATEMENTS	
	Government-Wide Statements	
Exhibit 1	Statement of Net Assets	3
Exhibit 2	Statement of Activities	4
	Fund Financial Statements **Governmental Funds Financial Statement**	
Exhibit 3	Balance Sheet	5
Exhibit 4	Statements of Revenues, Expenditures and Changes in Fund Balance	6-7
	Proprietary Fund Financial Statements	
Exhibit 5	Statement of Net Assets	8
Exhibit 6	Statement of Revenues, Expenses and Fund Net Assets	9
Exhibit 7	Statement of Net Assets	10
	Notes to Basic Financial Statements	11 – 25
	REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT DISCUSSION AND ANALYSIS	
Exhibit 8	Budgetary Comparison Schedule	26
	Notes to Required Supplementary Information	27
	Individual Funds Statements	
	Non-major Special Revenue Fund:	
Exhibit 9	Balance Sheet	28
Exhibit 10	Statement of Revenues, Expenditures, and Changes in Fund Balance	29

SINGLE AUDIT SECTION

Schedule of Expenditures of Federal Awards	30
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting	31-32
Independent Auditor's Report on Compliance with Requirements Applicable to Major Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133	33-34
Status of Prior Audit Findings	35
Schedule of Findings and Questioned Costs	36

Jack P. Green, Jr.

CERTIFIED PUBLIC ACCOUNTANT

37 WEST DOYLE STREET
POST OFFICE BOX 342
TOCCOA, GEORGIA 30577
PHONE: 706/886-7143
EMAIL: jaycpa@windstream.net

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
GEORGIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

May 16, 2013

INDEPENDENT AUDITOR'S OPINION

To the Mayor and City Commission
City of Sky Valley
Sky Valley, Georgia

I have audited the accompanying financial statements of the government 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, 2012, 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.

Auditor's Responsibility

My responsibility is to express opinions of these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 judgement, 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 purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, I 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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the basic 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, 2012, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

In accordance with *Government Auditing Standards*, I have also issued my report dated May 16, 2013 on my consideration of the City of Sky Valley's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

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

Report on Other Legal and Regulatory Requirements

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statement as a whole.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sky Valley's financial statements. The individual non-major fund financial statements and the Budgetary Comparison Schedule are presented for purposes of additional analysis and are not a required part of the basic financials statements. The non-major financial statements and the Budgetary Comparison Schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Jack P. Green, Jr

BASIC FINANCIAL STATEMENTS

CITY OF SKY VALLEY
STATEMENT OF NET ASSETS
DECEMBER 31, 2012

EXHIBIT 1

ASSETS	Governmental Activities	Business-Type Activities	Total
Cash	$ 1,129,359	$ 691,237	$ 1,820,596
Accounts Receivable - Net	374,297	37,364	411,661
Internal Balances	(121,092)	121,092	-
Capital Assets			
Land	157,739	2,222	159,961
Depreciable, Net	202,136	3,918,953	4,121,089
Total Assets	$ 1,742,439	$ 4,770,868	$ 6,513,307
LIABILITIES			
Accounts Payable	$ 583	$ -	$ 583
Service Deposits	-	806	806
Deferred Income	834,170	-	834,170
Long-Term Debt			
Due Within One Year	-	93,123	93,123
Due Beyond One Year	-	1,974,733	1,974,733
Total Liabilities	$ 834,753	$ 2,068,662	$ 2,903,415
NET ASSETS			
Invested in Capital Assets Net of Related Debt	$ 359,875	$ 1,853,319	$ 2,213,194
Unrestricted Assets	547,811	848,887	1,396,698
Total Net Assets	$ 907,686	$ 2,702,206	$ 3,609,892

The accompanying notes are an integral part of this statement.

CITY OF SKY VALLEY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

EXHIBIT 2

Functions/Programs	Expenses	Program Revenues: Charges for Service	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Government Activities	Net (Expense) Revenue and Changes in Net Assets: Business-Type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
PRIMARY GOVERNMENT							
Government Activities							
General Government	$ 282,839	$ 16,816	$ 3,000	$ -	$ (263,023)	$ -	$ (263,023)
Police and Courts	353,974	12,977	-	-	(340,997)	-	(340,997)
Streets and Roads	679,022	-	54,460	-	(624,562)	-	(624,562)
Fire and Rescue	72,532	-	-	-	(72,532)	-	(72,532)
Economic Development	3,129	-	-	-	(3,129)	-	(3,129)
Total Government Activities	$ 1,391,496	$ 29,793	$ 57,460	$ -	$ (1,304,243)	$ -	$ (1,304,243)
Business-Type Activities							
Water Service	$ 404,703	$ 340,822	$ -	$ 482,519	$ -	$ 418,638	$ 418,638
Garbage Service	108,681	110,640	-	-	-	1,959	1,959
Total Primary Government	$ 1,904,880	$ 481,255	$ 57,460	$ 482,519	$ (1,304,243)	$ 420,597	$ (883,646)
General Revenues							
Taxes:							
Property					$ 961,395	$ -	$ 961,395
Intangible and Transfer					7,381	-	7,381
Franchise					50,389	-	50,389
Accommodations					7,823	-	7,823
Beer and Wine					457	-	457
Insurance Premium					13,551	-	13,551
Unrestricted Investment Earnings					3,990	1,977	5,967
Miscellaneous					9,515	2,882	12,397
Total General Revenues					$ 1,054,501	$ 4,859	$ 1,059,360
Transfers					-	-	-
Change in Assets					$ (249,742)	$ 425,456	$ 175,714
Net Assets - Beginning					1,157,428	2,276,750	3,434,178
Net Assets - End					$ 907,686	$ 2,702,206	$ 3,609,892

The accompanying notes are an integral part of this statement.

CITY OF SKY VALLEY
BALANCE SHEET
GOVERNMENT FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

EXHIBIT 3

	General Fund	Other Government Fund	Total Government Funds
ASSETS			
Cash	$ 1,128,902	$ 457	$ 1,129,359
Accounts Receivable - Net	374,297	-	374,297
Due from Other Funds	-	-	-
TOTAL ASSETS	$ 1,503,199	$ 457	$ 1,503,656
LIABILITIES			
Accounts Payable	$ 583	$ -	$ 583
Due to Other Funds	121,092	$ -	121,092
Deferred Revenue	834,170	-	834,170
TOTAL LIABILITIES	$ 955,845	$ -	$ 955,845
FUND BALANCES			
Restricted for Tourism	$ -	$ 457	$ 457
Unassigned	547,354	-	547,354
TOTAL FUND BALANCES	$ 547,354	$ 457	$ 547,811
TOTAL LIABILITIES AND FUND BALANCES	$ 1,503,199	$ 457	$ 1,503,656

Adjustments to the Statement of Net Assets

Fund Balance	$	547,811
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds		359,875
Liabilities that are not due and payable in the current period and therefore not reported in the governmental funds		-
Net Assets of Governmental Activities (Exhibit 1)	$	907,686

The accompanying notes are an integral part of this statement.

CITY OF SKY VALLEY
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

EXHIBIT 4

	General Fund	Other Governmental Fund	Total Government Funds
REVENUES			
Taxes	$ 1,033,173	$ 7,823	$ 1,040,996
Licenses and Permits	15,785	-	15,785
Intergovernmental Revenues	57,460	-	57,460
Fines and Forfeitures	12,977	-	12,977
Miscellaneous	14,533	2	14,535
TOTAL REVENUES	$ 1,133,928	$ 7,825	$ 1,141,753
EXPENDITURES			
CURRENT:			
General Government	$ 277,467	$ -	$ 277,467
Police and Courts	347,600	-	347,600
Streets and Roads	700,024	-	700,024
Fire and Rescue	72,532	-	72,532
Economic Development	-	3,129	3,129
TOTAL EXPENDITURES	$ 1,397,623	$ 3,129	$ 1,400,752
EXCESS REVENUES OVER EXPENDITURES	$ (263,695)	$ 4,696	$ (258,999)
OTHER FINANCING SOURCES (USES)			
Transfers	4,694	(4,694)	-
NET CHANGE IN FUND BALANCE	$ (259,001)	$ 2	$ (258,999)
FUND BALANCE, JANUARY 1, 2012	806,355	455	806,810
FUND BALANCE, DECEMBER 31, 2012	$ 547,354	$ 457	$ 547,811

The accompanying notes are an integral part of this statement.

CITY OF SKY VALLEY
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

EXHIBIT 4

Adjustments to the statement of Activities

Net Change in Fund Balance	$ (258,999)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost those assets allocated over their estimated useful lives are reported as depreciation expense. This is the amount by which Capital Outlay ($ 44,695) exceeded Depreciation ($ 35,438).	9,257
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which payments ($ -0-) exceeded proceeds.	-
Change in assets of governmental activities (Exhibit 2)	$ (249,742)

The accompanying notes are an integral part of this statement.

CITY OF SKY VALLEY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

EXHIBIT 5

ASSETS	Water Enterprise Fund
CURRENT ASSETS	
Cash on Hand and in Bank	$ 691,237
Accounts Receivable - Net	37,364
Due From Other Funds	121,092
Total Current Assets	$ 849,693
CAPITAL ASSETS	
Land	$ 2,222
Depreciable Assets - Net	3,918,953
Total Assets	$ 3,921,175
TOTAL ASSETS	$ 4,770,868
LIABILITIES AND FUND EQUITY	
CURRENT LIABILITIES	
Service Deposit	$ 806
Current Portion of Long-Term Debt	93,123
Total Current Liabilities	$ 93,929
NONCURRENT LIABILITIES	
Notes Payable	$ 1,974,733
TOTAL LIABILITIES	$ 2,068,662
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	$ 1,853,319
Unrestricted Assets	848,887
Total Net Assets	$ 2,702,206
TOTAL LIABILITIES AND NET ASSETS	$ 4,770,868

The accompanying notes are an integral part of this statement.

CITY OF SKY VALLEY
STATEMENT OF REVENUES, EXPENSES, AND NET FUND ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

EXHIBIT 6

	Water Enterprise Fund
OPERATING REVENUES:	
Water Fees	$ 340,822
Garbage Fees	110,640
Total Operating Revenues	$ 451,462
OPERATING EXPENSES:	
Water	$ 247,963
Garbage	102,941
Depreciation	162,480
Total Operating Expenses	$ 513,384
OPERATING INCOME (LOSS)	$ (61,922)
NON OPERATING REVENUES (EXPENSES):	
Grants and Loan Forgiveness	$ 482,519
Interest Income	1,977
Other Income	2,882
Non Operating Revenues	$ 487,378
CHANGE IN NET ASSETS	$ 425,456
TOTAL NET ASSETS BEGINNING	2,276,750
TOTAL NET ASSETS ENDING	$ 2,702,206

The accompanying notes are an integral part of this statement.

CITY OF SKY VALLEY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
DECEMBER 31, 2012

EXHIBIT 7

	Water Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customer	$ 458,618
Payments to Suppliers	(211,046)
Payments to Employees	(139,858)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 107,714
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Earned	$ 1,977
CASH FLOWS FOR NONCAPITAL FINANCING ACTIVITIES	
Net Transfers to Other Funds	$ (124,179)
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES	
Increase in Notes Payable	$ 775,376
Grants and Loan Forgiveness	482,519
Decrease in Construction Loan	(818,855)
Increase in Fixed Assets	(330,343)
NET CASH FROM CAPITAL RELATED FINANCING	$ 108,697
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 94,209
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	597,028
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 691,237
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities	
Operating Income (Loss)	$ (61,922)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities	
Depreciation	$ 162,480
Decrease in Accounts Receivable	3,968
Increase in Service Deposits	306
Other Income	2,882
TOTAL ADJUSTMENTS	$ 169,636
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 107,714

The accompanying notes are an integral part of this statement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

The City of Sky Valley was incorporated, in 1978, under the provisions of the Constitution, of the State of Georgia. The City operates under a mayor-council form of Government. The City's combined financial statements include the accounts of all the city operations.

The financial statements of the City of Sky Valley 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.

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The criteria for including organizations as component units within the City's reporting entity, as set forth in section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, includes whether:

-the organization is legally separate
-the City holds the corporate powers of the organization
-the City appoints a voting majority of the organization's board
-the City is able to impose its will on the organization
-the organization has the potential to impose a financial benefit/burden on the City
-there is a fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City has no component units.

B. Basis of Presentation – Fund Accounting

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* The statement, known as the "Reporting Model" statement, affects the way the City prepares financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private sector financial reports. GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions.

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transaction. The government-wide Statement of Activities reflects both the gross and net cost per functional category (recreation, public safety, streets and sanitation, etc.) which is otherwise being supported by general

government revenues (property, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions.

The program revenues must be directly associated with the function (public safety, public works, recreation, etc.) or a business-type activity. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental funds are presented on a different measurement focus and basis of accounting than the government-wide statement's governmental column, reconciliation is presented which briefly explains the adjustment necessary to reconcile funds based on financial statements with the governmental column of the government-wide presentation.

The focus of the revised model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

Management's Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports. (MD&A is not included in this report).

Government-Wide Financial Statements – The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and other capital assets, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

Schedule of Net Assets – The Schedule of Net Assets is designed to display the financial position of the primary government (government and business-type activities). Governments will report all capital assets in the government-wide Schedule of Net Assets and will report depreciation expense-the cost of "using up" capital assets-in the Schedule of Activities. The net assets of a government will be broken down into three categories 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Schedule of Program Activities – The new government-side statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

Budgetary Comparison Schedules – Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons.

Under the new reporting model, governments will continue to provide budgetary comparison information in their annual reports. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objective in accordance with special regulations, restrictions, or limitations.

1. Governmental Funds
   Governmental Funds are those through which most governmental functions typically are financed.

   General Fund
   The General Fund is the primary operating fund of the City and is always classified as a major fund. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income.

2. Proprietary Funds
   Proprietary Funds are used to account for activities that are similar to those found in the private sector. All assets, liabilities, equities, revenues, expense, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Operating revenues include charges for services. Subsidies and grants to proprietary funds which finance either capital or current operations are recorded as non-operating revenue when earned. Operating expenses include cost of service as well as, materials, contracts, personnel, and depreciation. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, the City has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for proprietary funds.

   Enterprise Fund or Business Funds
   The Enterprise Fund accounts for operations that are financed in a manner similar to private business enterprise, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's Enterprise Fund accounts for the operations of the City's water system and garbage collection, which is a major fund.

3. Policy of Using Restricted Resources
   The City first applies restricted resources when an expense for purposes for which both restricted and unrestricted net assets are available.

C. Basis of Accounting
   The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus, only current assets and current liabilities generally are include on the balance sheet in the fund statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statements of net assets and statements of activities, all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the balance sheet. Proprietary fund equity is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The fund financial statements of the General fund is maintained and reported on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within sixty days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

The statements of net assets, statements of activities, and financial statements of the Proprietary Fund are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

D. Budgets and Budgetary Accounting

The City Commission annually adopts budgets for the General Fund of the Primary Government. All appropriations are legally controlled at the departmental level for the General Fund. On October 18, 2011, the City Commission adopted the original budget. There was an amendment made during the year to more closely reflect actual transactions. Expenditures may not legally exceed appropriations at the department level. Transfers within departments may be approved by the City Clerk. Transfers between departments may be approved by the City Commission. A supplementary budget appropriation would be necessary to support expenditures in excess of the annual appropriated budget.

The budgets are integrated into the accounting system, and the budgetary, as presented in financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the Budgetary Comparison Schedule for the General Fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders, contracts and other commitments for the expenditures are recorded to reserve that portion other applicable appropriation is not utilized by the City of Sky Valley.

E. Cash and Investments

Cash includes amounts in demand deposits. State statutes include certificates of deposit and bank money market accounts within its definition of investments and this is the manner in which they are presented on the balance sheet. State statutes authorize the City to invest only in obligations of the United States and of its agencies and instrumentalities, or bonds or certificates of indebtedness of the State of Georgia and of its agencies and instrumentalities, or certificates of deposit of banks which have deposits insured by the FDIC with any uninsured cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

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.

G. Short-Term Interfund Receivables/Payables
During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

H. Inventories
It is the City's policy to expense parts as they are purchased. No inventory is recorded due to lack of materiality.

I. Prepaid Expenses
Prepaid expenses are recognized as expenses during the benefiting period in proprietary funds.

J. Capital Assets
Capital outlays are recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent of the City's capitalization threshold is met. The City capitalizes asset purchase valued at $5,000 or more. Depreciation is recorded on general capital assets on a government-wide basis. Capital outlays of the Proprietary Fund are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the government-wide basis. All capital assets are valued at their estimated fair market value on the date donated.

The estimated useful lives are as follows:

Buildings	25 - 40 years
Utility Plant and System	30 years
Equipments	5 - 10 years

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sales or retirement of land, buildings, and equipment, 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 operations.

K. Long-Term Obligations
The City reports long-term debt of governmental funds at face value in the Government-wide Statement of Net Assets. Long-term debt is not reported for governmental activities in the fund financial statements. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in both the government-wide and fund financial statements.

L. Fund Equity/Net Assets
Fund equity at the governmental fund financial reporting level is classified as "fund of balance." Fund equity for all other reporting is classified as "net assets."

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 amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

- Restricted-Fund balances are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- Commited-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. The City Council also may modify or rescind the commitment.
- Assigned-Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City's finance committee or the City's finance director to assign fund balances.
- Unassgined-Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

Flow Assumptions-When both restricted and unrestricted amounts of fund balance are available for use for expenditures uncured, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

Net Assets-Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the City has spent) for the acquisition, construction or improvement of those assets. Net assets are reported as restricted as described in the fund balance section above. All other net assets are reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Internal Activity

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and 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 noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." 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 available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

N. Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

O. Program Revenues

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, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

P. Operating Revenues and Expenses

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 of the City enterprise fund 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.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

State statutes include certificates of deposit and bank money market accounts within its definition of investments and this is the manner in which they are presented on the balance sheet. To conform to GASB Statement No. 3 definitions of deposits and investments, however, these certificates of deposit and money market accounts have been reclassified from investments to deposits for the data presented below.

At December 31, 2012, the carrying amount of the City's deposits was $ 1,820,296 with $300 cash on hand and the bank balances were $ 1,891,869. All bank balances of deposits as of December 31, 2012 are entirely insured or collateralized with securities held by the City or by its agent in the City's name.

NOTE 3 – CAPITAL ASSETS

The following is a summary of changes in the governmental activities during the fiscal year:

	Balance 1/01/12	Additions	Deletions	Balance 12/31/12
Non-Depreciable Assets-Land	$ 157,739	$ -	$ -	$ 157,739
Other Capital Assets				
Buildings	$ 173,590	$ -	$ -	$ 173,590
Machinery and Equipment	450,573	44,696	-	495,269
Total Depreciable Assets	$ 624,163	$ 44,696	$ -	$ 668,859
Less: Accumulated Depreciation for:				
Buildings	(53,630)	(5,939)	-	(59,569)
Machinery and Equipment	(377,654)	(29,500)	-	(407,154)
Net Depreciable Assets	$ 192,879	$ 9,257	$ -	$ 202,136

Depreciation was charged to governmental functions as follows:

General Government Administration	$ 5,372
Police and Courts	6,375
Streets and Roads	23,692
Total	$ 35,439

The following is a summary of proprietary fund-type capital assets at December 31, 2012:

	Balance 01/01/12	Additions	Deletions	Balance 12/31/12
Non-Depreciable Assets				
Land and Improvements	$ 2,222	$ -	$ -	$ 2,222
Construction in Progress	$ 2,919,635	$ 330,343	$ 3,249,978	$ -
Other Capital Assets				
Building	$ 17,500	$ -	$ -	$ 17,500
Water System	1,891,519	3,249,978	-	5,141,497
Machinery & Equipment	120,794	-	-	120,794
Garbage Equipment	96,137	-	-	96,137
Total Depreciable Assets	$ 2,125,950	$ 3,249,978	$ -	$ 5,375,928
Less: Accumulated Depreciation for:				
Building	$ (13,417)	$ (583)	$ -	$ (14,000)
Water System	(1,075,629)	(156,157)	-	(1,231,786)
Machinery & Equipment	(120,792)	-	-	(120,792)
Garbage Equipment	(84,657)	(5,740)	-	(90,397)
Net Depreciable Assets	$ 831,455	$ 3,087,498	$ -	$ 3,918,953

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

During normal operations, the City generally pays all for goods and services with the General Fund and is subsequently reimbursed by the Enterprise Fund. At December 31, 2012, the General Fund owed the Water Enterprise Fund $ 121,092 for excess reimbursements. There have been no eliminations between or within fund types.

The City transfers the balance not used by the Hotel Motel Tax Fund to the General Fund. This year's transfer was $ 4.694.

NOTE 5 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft 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 a common risk management and insurance program for member local governments.

As a part of these risk pools, the Government 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 fund, and 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 Government is also to allow the pool's agents and attorneys to represent the Government in investigation, settlement discussions and all levels of litigation arising out of any claim against the Government within the scope of loss protection furnished by the fund.

The Fund is to defend, in the name of and on behalf of the members, any suits or other proceedings which may at any time be instituted against them on account of injuries or death within the preview of the Workers' Compensation Law of Georgia, or on the basis of employer's liability, including suits or other proceedings, allegations or demands be wholly groundless, false or fraudulent. The fund is to pay all cost taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expense incurred for investigation, negotiation or defense.

However, the enabling statue creating the Plans permits the funds to levy an assessment upon its members to make up any deficiency the Plans may have in surplus or reserves. Since excess insurance is purchased by the Plans to protect them from catastrophic losses, no amount has been recorded in the financial statements for this contingency as management believes the likelihood for assessment is remote.

There have been no insurance settlements exceeding coverage within the past three years.

NOTE 6. EMPLOYEE RETIREMENT SYSTEM

A. PLAN DESCRIPTION

The City contributes to the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer defined benefit pension plan that acts as a common investment and administrative agent for cities in the municipalities in Georgia. The City is assigned the authority to establish and amend benefit provisions of the Plan. The Plan provides retirement and disability Benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Section 47-20-10 of the Georgia Code sets forth the funding standards for state and local government pension plans.

Administrative expenses are based on total covered payroll of plan members and are added to the annual funding requirement. The GMEBS issues a publicly available financial report that includes financial statements and required supplementary information for the City of Sky Valley retirement plan. That report may be obtained by writing to Georgia Municipal Association, 201 Pryor Street, SW, Atlanta, Georgia 30303 or by calling 404-577-6663.

Funding Policy

City employees are not required to contribute to the Plan. The City is required to contribute at an actuarially determined rate; the current rate is 6.94% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the Georgia Municipal Employees Benefit System Board of Trustees.

Annual Pension Cost

For 2012, the City's annual pension cost of $30,352 to GMEBS was equal to the City's required and actual contributions. The last actuarial valuation date was July 1, 2012 the funding policy for the plan is to contribute an amount equal to the recommended contribution in each year. The recommended contribution meets the guidelines for calculating an annual required contribution set forth in Paragraphs 9-10 of Statement No. 27. These contributions are determined under the projected unit credit actuarial cost method and the asset valuation method for developing the actuarial valued of assets. The period, and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years from 1982 and current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods as a level dollar amount. These amortization periods, if applicable, are open for this plan year.

To minimize the effect of random variations in financial market values on the recommended contribution, the Board of Trustees adopted an asset valuation method for use in the calculation. The method for determining the actuarial value of assets is part of GMEBS actuarial funding policy. The smoothing technique gradually incorporates investment performance that exceeds or falls short of the expected return of 7.75%, which is the valuation's investment return assumption.

Year Ending	Annual Pension	Of APC Contributed	Pension Obligation
09/30/09	$ 27,198	100%	0
07/01/10	26,653	100%	0
07/01/11	28,199	100%	0
07/01/12	30,352	100%	0

Funding Status:

Date Sept.1	Value Of Assets	Liability (AAL)	Funded Ratio	Liability (UAAL)	Covered Payroll	Of Covered Payroll
2006	$ 242,184	$ 314,796	76.9%	$ 72,612	$ 355,228	20.4 %
2007	269,099	337,916	79.6%	68,817	336,400	20.5 %
2008	290,560	368,943	78.8%	78,383	473,922	16.5 %
2009	289,565	382,426	75.7%	92,861	406,920	22.82%
7/1/2010	325,513	396,239	82.2%	70,726	451,874	15.70%
7/1/2011	362,841	429,470	84.5%	66,629	482,711	13.80%
7/1/2012	388,722	465,568	83.5%	76,846	475,066	16.18%

Effect of plan changes on the actuarial accrued liability of any current year changes in assumption or benefit provisions is:

The plan provision valued and the actuarial assumptions are the same as those used in the preceding valuation.

The effect on the recommended contributions of any current year changes in actuarial assumptions, benefit provisions or actuarial funding method is:

The plan provisions valued and the actuarial assumptions and cost methods are the same as those used to determine the contribution requirement for the preceding year and the effect will be provided upon request.

Actuarial Assumptions and Methods:		
Economic Assumptions		
Interest Rate		7.75%
Annual Rates of Increase in:		
Salaries:		
Inflation		3.5
Merit		0
Future Social Security Wage Bases		3.5
Cost of Living Adjustment		N/A
Demographic Assumptions		
Mortality		1983 GAM Table
Termination	Age	Rate
	20	0.2580
	30	0.1560
	40	0.0945
	50	0.0585
	60	-
Disability	50% of 1975 SSA Study	
Retirement	Employees: 65 with 5 years of service	
Form of Payment	Life annuity	
Administrative Expenses	$1,500 plus $35 per active participant,	

NOTE 7. CONTINGENT LIABILITIES - GRANT PROGRAMS

The City participated in state and Federal grant programs. These programs are subject to program compliance audits by the grantors or their representatives.

NOTE 8. CONSTRUCTION LOAN

The Enterprise Fund had a temporary construction loan to pay for the cost of the renovation and upgrading of the Water System. During 2012 the City borrowed an additional $ 381,145. and paid the loan by converting $ 840,000 to a long term debt and receiving a grant for $ 360,000.

Short Term Construction Loan	Balance 1/1/12	Additions	Reductions	Balance 12/31/12
	$ 818,855	$ 381,145	$ 1,200,000	$ -

NOTE 9. LONG TERM DEBT

The Enterprise Fund borrowed $ 1,292,480 in two separate notes to improve and renovate portions of the water system. Note DW 09024 is due in monthly installments of $ 5,385.33 beginning January 1, 2012 and bears no interest. Note DW 10018 is due in monthly installments of $ 4,658.62 beginning January 1, 2013 and bears interest of 3.0 % per annum.

Business Type Activities Proprietary Fund	Balance 1/1/12	Additions	Reductions	Balance 12/31/12	Due Within One Year
GEFA DW09024	$ 1,292,480	$ -	$ 64,624	$ 1,227,856	$ 64,624
GEFA DW10018		840,000	-	840,000	28,499
Total	$ 1,292,480	$ 840,000	$ 64,624	$ 2,067,856	$ 93,123

Principal Amounts Due in the next five years are as follows:

2013	$ 93,123
2014	$ 96,620
2015	$ 97,593
2016	$ 98,596
2017	$ 99,629

NOTE DW10018

YEAR	PRINCIPAL	INTEREST	TOTAL
2013	$ 28,499	$ 22,745	$ 51,244
2014	31,996	23,907	55,903
2015	32,969	22,934	55,903
2016	33,972	21,931	55,903
2017	35,005	20,898	55,903
2018	36,070	19,833	55,903
2019	37,167	18,736	55,903
2020	38,298	17,605	55,903
2021	39,462	16,441	55,903
2022	40,663	15,240	55,903
2023	41,899	14,004	55,903
2024	43,174	12,729	55,903
2025	44,487	11,416	55,903
2026	45,840	10,063	55,903
2027	47,234	8,669	55,903
2028	48,671	7,232	55,903
2029	50,152	5,751	55,903
2030	51,677	4,226	55,903
2031	53,249	2,654	55,903
2032	54,868	1,035	55,903
2033	4,648	12	4,660
	$ 840,000	$ 278,061	$ 1,118,061

Note DW09024

YEAR	PRINCIPAL	INTEREST	PAYMENT
2013	$ 64,624	$ -	$ 64,624
2014	64,624	-	64,624
2015	64,624	-	64,624
2016	64,624	-	64,624
2017	64,624	-	64,624
2018	64,624	-	64,624
2019	64,624	-	64,624
2020	64,624	-	64,624
2021	64,624	-	64,624
2022	64,624	-	64,624
2023	64,624	-	64,624
2024	64,624	-	64,624
2025	64,624	-	64,624
2026	64,624	-	64,624
2027	64,624	-	64,624
2028	64,624	-	64,624
2029	64,624	-	64,624
2030	64,624	-	64,624
2031	64,624	-	64,624
	$ 1,227,856	$ -	$ 1,227,856

NOTE 10. PROPERTY TAX CALENDAR

The City levies property taxes for the next year in November of each year. The due date for these taxes was January 11, 2013 and the lien date is the following May 13. Taxes are collected throughout the year. Receivables are recorded as deferred income when levied and recognized as income in the next year.

The total 2011 property assessment was $ 180,366,731 of real and personal property. The 2011 property is taxed at 13.0 mills on 40 percent of net assessment and the tax due after exemptions is $ 937,907 which was recognized as revenue in 2012.

NOTE 11. JOINT VENTURES

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 (RC). Membership in an RC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the RC in Georgia. The RC 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 RC

Georgia Mountains Regional Commission
P.O. Box 1720
Gainesville, Georgia 30503

NOTE 12. HOTEL-MOTEL TAX

The City collects a 5% hotel motel tax and is required to spend 40% of this for promoting tourism, conventions, and trade shows. Below is a summary of collections and expenditures:

	Amount	Percent
Collections	$ 7,823	
Tourism Promotion	3,129	40.0%

NOTE 13. LITIGATION AND CONTINGENT LIABILITIES

The City was a defendant in two lawsuits at December 31, 2012. In the opinion of the City management, the outcome of these contingencies will not have a material effect on the financial position of the City.

CITY OF SKY VALLEY
BUGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

EXHIBIT 8

	Original Budget	Budget as Amended	Actual	Variance From Amended
REVENUES				
Taxes	$ 1,017,335	$ 1,032,410	$ 1,033,173	$ 763
Licenses and Permits	33,600	14,100	15,785	1,685
Intergovernmental Revenues	36,500	57,500	57,460	(40)
Fines and Forfeitures	2,000	12,200	12,977	777
Miscellaneous	27,900	12,800	14,533	1,733
TOTAL REVENUES	$ 1,117,335	$ 1,129,010	$ 1,133,928	$ 4,918
EXPENDITURES				
CURRENT				
General Government	$ 299,305	$ 292,405	$ 277,467	$ 14,938
Police and Courts	328,214	350,070	347,600	2,470
Streets and Roads	698,090	722,460	700,024	22,436
Fire and Rescue	72,532	72,540	72,532	8
TOTAL EXPENDITURES	$ 1,398,141	$ 1,437,475	$ 1,397,623	$ 39,852
EXCESS REVENUES OVER EXPENSES	$ (280,806)	$ (308,465)	$ (263,695)	$ 44,770
OTHER FINANCIAL SOURCES	-	-	4,694	4,694
NET CHANGE IN FUND ASSETS	$ (280,806)	$ (308,465)	$ (259,001)	$ 49,464
FUND BALANCE, JANUARY 1, 2012			806,355	
FUND BALANCE, DECEMBER 31, 2012			$ 547,354	

NOTE 1 – BUDGETARY DATA

The city is required by law to adopt a budget. The procedures in establishing the budgetary data reflected in the financial statements are as follows:

1. Prior to January 1, the City Clerk submits to the City Commission a proposed operating budget 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 January 1, the Commission approves the budget.
4. The City Clerk is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any department must be approved by the City Commission.
5. Formal budgetary integration is employed as a management control device during the year for all funds.

The Budgetary Comparison Schedule presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets amended.

Expenditures may not legally exceed budgeted appropriations at the departmental level in the general fund. The Enterprise Funds adopt a budget at the fund level. No eliminations have been made between funds.

CITY OF SKY VALLEY
BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

EXHIBIT 9

ASSETS		
Cash in Bank	$	457
FUND BALANCE		
Unassigned Fund Balance	$	457

CITY OF SKY VALLEY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

EXHIBIT 10

REVENUE	
Hotel-Motel Tax	$ 7,823
EXPENDITURES	
Economic Development	$ 3,129
EXCESS REVENUES OVER DEVELOPMENT	$ 4,694
Interest Income	2
EXCESS REVENUES OVER EXPENDITURES	$ 4,696
OTHER FINANCING SOURCES	
Transfer Out	(4,694)
NET CHANGE IN FUND BALANCE	$ 2
FUND BALANCE, JANUARY 1, 2012	455
FUND BALANCE, DECEMBER 31, 2012	$ 457

SINGLE AUDIT

CITY OF SKY VALLEY
SKY VALLEY, GEORGIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2012

	Federal Award Number	Program or Award Number	Disbursements or Expenditures
FEDERAL GRANTOR			
Environmental Protection Agency			
Georgia Environmental Finance Authority			
DW10-018	*66.468	-	$ 381,145
United States Department of Agriculture			
ARC Grant	*10.760		122,519
	GRAND TOTAL FOR REPORTING ENTITY		$ 503,664

NOTE:
The accompanying schedule of expenditure of federal awards includes the federal grant activity of the Authority and is presented on the full accrual basis of accounting (see Note 1 for a detailed description of this basis of accounting). The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Since this schedule reports the expenditure of federal awards, including capital expenditures, some of the amounts appearing on this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

* -Major program
** -Non-major program

See Auditor's report.

Jack P. Green, Jr.

CERTIFIED PUBLIC ACCOUNTANT

37 WEST DOYLE STREET
POST OFFICE BOX 342
TOCCOA, GEORGIA 30577
PHONE: 706/886-7143
EMAIL: jaycpa@windstream.net

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
GEORGIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

May 16, 2013

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*

To the Mayor and City Council
City of Sky Valley, Georgia

I 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 State, the financial statements of the governmental activities, 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, 2012, and the related notes to the financial statements which collectively comprise the City of Sky Valley, Georgia's basic financial statements and have issued my report thereon dated May 16, 2013.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Sky Valley, Georgia's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions of 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, I 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement 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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and as not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I 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's financial statements are free of material misstatement, I 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 such an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instance of noncompliance that are required to be reported under *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Purpose of this Report

This 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.



Jack P. Green, Jr.

CERTIFIED PUBLIC ACCOUNTANT

37 WEST DOYLE STREET
POST OFFICE BOX 342
TOCCOA, GEORGIA 30577
PHONE: 706/886-7143
EMAIL: jaycpa@windstream.net

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
GEORGIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

May 16, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Mayor and City Commission
City of Sky Valley
Sky Valley, Georgia

Report on Compliance for Each Major Federal Program

I have audited the City of Sky Valley, Georgia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Sky Valley's major federal programs for the year ended December 31, 2012. The City of Sky Valley's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the City of Sky Valley's compliance with those requirements.

Opinion on Each Major Federal Progam

In my opinion, the City of Sky Valley, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2012.

Report on 0Internal Control Over Compliance

Management of City of Sky Valley is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance , I considered the City's internal control over compliance with the types requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance

with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Sky Valley's internal control over compliance.

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

My consideration of internal control over compliance 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 compliance that might be material weaknesses or, significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

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

Jack P. Green, Jr.

The prior audit report for the period ended December 31, 2011 contained no findings.

Summary of Audit Results

The independent auditor's opinion on the City's financial statements was unqualified and was dated May 16, 2013 for the year ended December 31, 2012. The audit did not disclose any noncompliance which was material to the financial statements. The audit did not disclose a significant deficiency in the internal control system over financial reporting. The report issued on the City's compliance for major programs was unqualified. The audit did not disclose significant deficiencies in internal control over a major program. The major programs were as follows:

CFDA #	Description
66.468a	Drinking Water State Revolving Loan Program

The type A programs were those where Federal expenditures exceeded $300,000 and type B were those where the expenditures were less than $300,000 as detailed in the Schedule of Expenditures of Federal Awards. This auditee did not qualify as a low-risk auditee for the fiscal year ended December 31, 2012.

Finding Related to the Financial Statements Which are Required to be Reported in Accordance with GAGAS:

There were no findings related to the internal control over financial reporting which is required to be reported in accordance with GAGAS disclosed by the audit of the City for the year ended December 31, 2012.

Findings and Questioned Costs for Federal Awards:

There were no audit findings and/or questioned costs for Federal Awards disclosed by the audit of the City of Sky Valley for the year ended December 31, 2012.