CITY OF TOCCOA, GEORGIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
JUNE 30, 2010

CITY OF TOCCOA, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2010

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MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Toccoa, Georgia** (the City) as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Toccoa, Georgia as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2011, on our consideration of the City of Toccoa, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 and the schedule of funding progress on page 50 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Toccoa, Georgia's basic financial statements. The combining and individual fund financial statements and schedules, schedule of expenditures of special purpose local option sales tax proceeds (as required by the Official Code of Georgia Annotated 48-8-21), and schedule of expenditures of federal awards (as required by U.S. Office of Management and Budget Circular A-133), as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules, schedule of expenditures of special purpose local option sales tax proceeds, and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mauldin & Jenkins, LLC

Atlanta, Georgia
February 3, 2011

As management of the City of Toccoa, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2010. This narrative is intended to assist the reader in understanding significant issues and provide an overview of financial activities and indentify changes in financial position. We encourage readers to consider this information presented herein, in conjunction with the additional information furnished in the financial statements, and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at June 30, 2010 by $54,795,615 (net assets), of this amount, $3,381,824 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. The government's total net assets increased by $578,819 during the fiscal year ended June 30, 2010; with the increase from business-type activities ($788,565) offsetting a decrease in governmental activities.
- As of June 30, 2010, the City's governmental funds reported combined ending fund balances of $6,965,294 an increase of $1,626,792 in comparison with the prior year. This increase is attributable mainly to a $725,000 increase in Fund Balance of General Fund and $806,000 increase in the Fund Balance for SPLOST funds.
- The unreserved fund balance for the General Fund at June 30, 2010 was $1,154,642 which was 17% of total General Fund expenditures for the year. The unreserved General Fund balance at June 30, 2009 was $556,071.
- The City's total long term debt experienced a net decrease of $1,739,223 during the fiscal year ended June 30, 2010. This decrease was due to principal payments at scheduled maturity during the year.

Overview of the Financial Statements

The annual financial statements consist of a series of financial statements. This narrative is intended to serve as an introduction to the basic financial statements. The City's basic financial statements comprise three components:

- Government Wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government Wide Financial Statements: The government-wide financial statements are designed to provide readers with a broad overview of the City's finances. They are prepared using the accrual basis of accounting, which is the accounting method used in most private-sector companies. There are two government-wide statements, the statement of net assets and the statement of activities, which are described below.

1) The "statement of net assets" presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as an indicator of whether the financial position of the City is improving or deteriorating.

2) The "statement of activities" presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the

underlying event giving rise to the change occurs, regardless of the timing of the related cash flow. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish between functions that are principally supported by taxes and intergovernmental revenues (governmental activities) and other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Governmental activities of the City include general government, public safety, public works, culture and recreation, and economic and community development. Business-type activities include water and sewer, solid waste, and natural gas services.

The government-wide financial statements can be found on pages 12 and 13 of this report.

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements focus on the most significant funds, reporting on the City's operations in greater detail than the government-wide statements. All of the City's funds can be divided into two categories: governmental and proprietary.

Governmental Funds: Most of the basic services provided by the City are financed through governmental funds and are essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. These statements assist the reader in determining whether there are adequate financial resources available to meet the current needs of the City.

Because the focus of governmental funds is short-term and the focus of the government-wide financial statements is both short-term and long-term, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 5 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the two funds which are considered to be major funds. The remaining fund are aggregated and presented as non-major governmental funds, however a combining schedule for the non-major governmental funds is presented as supplementary information to these financial statements.

The City adopts an annual appropriated budget for the General Fund and all special revenue funds. Project length budgets are adopted for all capital project funds. A budgetary comparison statement is provided for the General Fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

Proprietary Funds: The City maintains one type of proprietary funds - enterprise funds. Enterprise funds charge a fee for services to outside customers. The City uses individual enterprise funds to account for its water and sewer, solid waste, natural gas, and golf course activities – each of which is considered to

be a major fund. The City's enterprise fund statements are the same as the business-type activities reported in the government-wide financial statements, but provide more detail.

The basic proprietary fund financial statements can be found on pages 18-20 of this report.

Notes to the Financial Statements: The notes to the financial statements provide additional information that is essential for the reader in order to obtain a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 21-49 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligations to provide pension benefits to its employees.

The required supplementary information can be found on page 50 of this report.

The "combining statements" referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

Combining and individual fund statements and schedules can be found on pages 52-56 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $54,795,615 and $54,216,796 at June 30, 2010 and 2009, respectively. The following is a condensed version of the government-wide statement of net assets.

City of Toccoa – Net Assets ($000)

	Governmental Activities		Business-Type		Total	
	2010	2009	2010	2009	2010	2009
Assets:						
Current and other assets	$ 7,379	$ 6,891	$ 3,506	$ 3,247	$ 10,885	$ 10,138
Capital assets	23,377	24,014	54,853	56,039	78,230	80,053
Total assets	30,756	30,905	58,359	59,286	89,115	90,191
Liabilities:						
Long-term liabilities outstanding	2,143	2,511	30,377	32,147	32,520	34,658
Other liabilities	585	156	1,215	1,160	1,800	1,316
Total liabilities	2,728	2,667	31,592	33,307	34,320	35,974
Net assets:						
Invested in capital assets, net of related debt	22,915	24,728	24,250	24,021	47,165	48,749
Restricted	4,002	3,088	246	754	4,248	3,842
Unrestricted	1,111	422	2,271	1,204	3,382	1,626
Total net assets	$ 28,028	$ 28,238	$ 26,767	$ 25,979	$ 54,795	$ 54,217

The largest portion of the City's net assets (86.1%) reflects its investment in capital assets such as land, buildings, plant, utility system, equipment, and infrastructure (roads, bridges, and other immovable assets), less any related debt used to acquire those assets that is still outstanding. These capital assets are used by the City to provide services to citizens. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted net assets of $4,248,363 are restricted by contracts or agreements with outside parties, by law, or by enabling legislation to be used for specific purposes such as capital projects or debt service.

The remaining balance of unrestricted net assets $3,381,824 may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City was able to report positive balances in each category of net assets for governmental activities and for business-type activities. The same situation held true for the prior fiscal year.

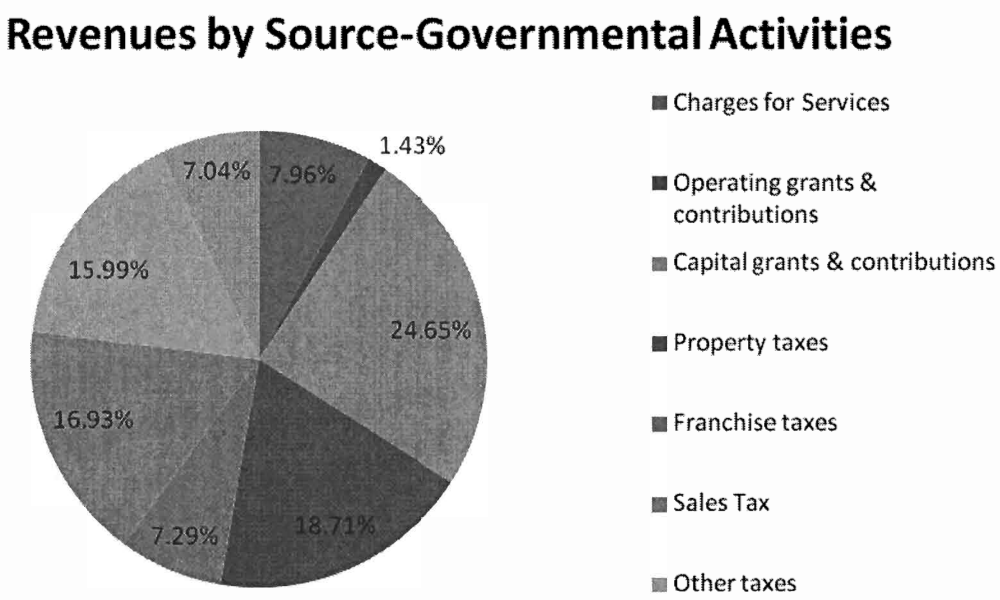
Governmental activities: Governmental activities decreased the City's net assets by $209,746 and business-type activities increased the City's net assets by $788,565. Much of the decrease in governmental activities net assets came from a decrease in property tax revenue. The increase in business-type activities net assets came predominately from a $700,000 intergovernmental revenue received by the Water and Sewer fund.

The following condensed financial information was derived from the government-wide statement of activities and summarizes changes in net assets for the year ended June 30, 2010 and 2009.

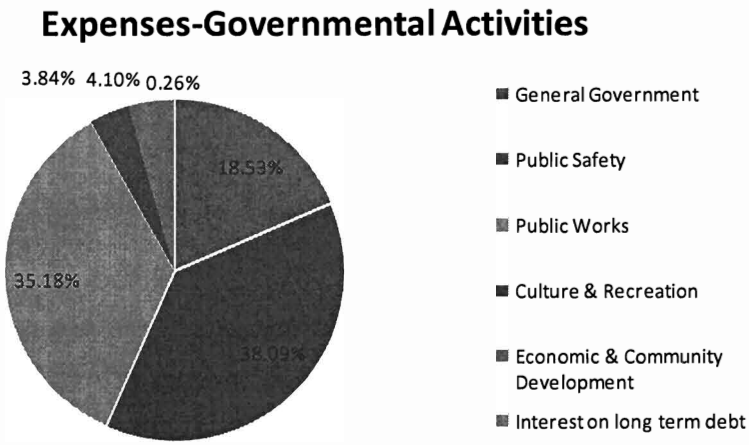
City of Toccoa – Changes in Net Assets ($000)

	Governmental Activities		Business-Type		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	$ 575	$ 594	$ 19,060	$ 21,141	$ 19,635	$ 21,735
Operating grants and contributions	103	-	-	-	103	-
Capital grants and contributions	1,781	1,771	700	841	2,481	2,612
General revenues:						
Property taxes	1,352	1,426	-	-	1,352	1,426
Franchise taxes	527	547	-	-	527	547
Sales tax	1,223	1,139	-	-	1,223	1,139
Other taxes	1,155	1,015	-	-	1,155	1,015
Other	509	162	8	20	517	182
Total revenues	7,225	6,654	19,768	22,002	26,993	28,656
Expenses						
General government	1,804	3,206	-	-	1,804	3,206
Public safety	3,707	3,904	-	-	3,707	3,904
Public works	3,424	3,009	-	-	3,424	3,009
Culture & recreation	374	10	-	-	374	10
Economic & community deve	399	-	-	-	399	-
Interest on long term debt	25	-	-	-	25	-
Water and sewer	-	-	4,754	4,960	4,754	4,960
Solid waste	-	-	806	835	806	835
Natural gas	-	-	11,095	13,458	11,095	13,458
Golf course	-	-	27	28	27	28
Total expenses	9,733	10,129	16,682	19,281	26,415	29,410
Transfers	2,298	2,685	(2,298)	(2,685)	-	-
Change in net assets	(210)	(790)	788	36	578	(754)
Net assets-July 1 (restated)	28,238	29,028	25,979	25,943	54,217	54,971
Net assets-June 30	$ 28,028	$ 28,238	$ 26,767	$ 25,979	$ 54,795	$ 54,217

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



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



Governmental activities revenues totaled approximately $7,225,000 for fiscal year 2010. Capital grants and contributions, which include the proceeds from Stephens County for the City's portion of the Special Purpose Local Option Sales Tax (SPLOST), make up the largest portion on these revenues accounting for 25% of total revenues. Property taxes and Local Option Sales Taxes (LOST) are the second and third largest revenue source accounting for 19% and 17%, respectively, of governmental revenues for the year.

Decreases in property tax revenue, caused by the declining real estate economic climate, were offset by increases in sales tax revenue and other taxes.

Governmental activities expenses totaled approximately $9,732,934 for fiscal year 2010. Of the expenses, 38% is related to public safety. In addition, public works and general government accounted for 35% and 18.5% of total governmental expenses for the year. Overall expenditures decreased at the City in response to budget cuts as a result of the economic conditions.

Business-type activities: Business-type activities increased the City's net assets by $788,565, due primarily to the $700,000 capital grant received by the Water and Sewer fund.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to insure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: As previously mentioned, the focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current year, the City's governmental funds reported combined ending fund balances of $6,965,294 an increase of $1,626,792 or 30% in comparison with the prior year. Approximately 73% of the fund balance or $5,086,029 is classified as unreserved. Of this total amount $1,154,642 is available for spending in future years without restrictions. The remainder is predominately restricted for spending on capital projects under the SPLOST program. The combined unreserved fund balance consists of the General Fund's-undesignated of $1,154,642, special revenue funds-undesignated of $98,625 and capital projects funds-undesignated (SPLOST) of $3,832,762. The remainder of fund balance is reserved to indicate it is not available for new spending because it is in long-term form – such as advances to other funds or for payment/functions of the GMA Lease Pool.

The General Fund is the chief operating fund of the City, at the end of the current fiscal year, unreserved fund balance of the General Fund was $1,154,652 As a measure of the General Fund's liquidity, it would be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 17% of total General Fund expenditures, which compares to 8% in the prior year.

The fund balance of the City's General Fund increased by $725,174 during the current fiscal year. This resulted from revenue increasing by $268,627 and total expenditures decreased $505,508 when compared to the prior year. The decrease in expenditures was mainly due to cautious spending in an already strict budget environment.

Proprietary Funds: The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about the funds.

At the fiscal year end, the Water and Sewer Fund has unrestricted net assets of $1,275,185. Overall, net assets of this fund increased by $656,992, largely because of $700,000 in intergovernmental revenue due to a contract with the Georgia Environmental Finance Authority using American Recovery and Reinvestment Act funding. Operating income was $2,050,851.

The Solid Waste Fund has unrestricted net assets of $118,160 and total net assets increased by $42,384 from the prior year due to revenue exceeding expenses and transfers out.

The Natural Gas Fund had unrestricted net assets of $877,474. Total net assets increased by $114,086 from the prior year primarily due to revenue exceeding expenses and transfers out. Operating income was $1,606,181.

General Fund Budgetary Highlights

During the year several budget amendments were adopted by the City Commission, increasing budgeted revenues and expenditures, but having no result on budgeted bottom line. The adjustments are included in the final budget column totals in the budgetary statement.

During the year, General Fund revenues were less than budgetary projections, however actual expenditures were also less than budgetary estimates, and overall the City was able to add $725,174 to fund balance, when no change in fund balance was budgeted. Actual revenues were $195,948 lower than estimates due to a continued downturn in the economy. Expenditures were less than budgetary appropriations by $547,833 as a result of careful monitoring of expenditures. Transfers out were also less than the budgeted amount by $373,289 due to cash flow constraints.

Capital Assets and Debt Administration

Capital assets: The City's investment in capital assets for its governmental activities as of June 30, 2010, amounted to $23,376,984, net of depreciation. The investment in capital assets includes land, plant and buildings, machinery, equipment and fixtures, and streets and drainage. The balance represents a $2,079,509 decrease from the prior year, caused by depreciation expense for the year. There were no significant additions. The business-type activities had net capital assets of $54,852,993 at June 30, 2010, representing a decrease of $1,185,580 also caused mainly by depreciation, however the Water and Sewer system did have one major addition, included in construction in progress of $1,043,762 with the construction of a new chemical feed system.

Capital assets held by the City at the end of the fiscal year are summarized as follows:

City of Toccoa – Capital Assets (net of accumulated depreciation) ($000)
Fiscal Year 2010 and 2009

	Governmental Activities		Business-Type		Total	
	2010	2009	2010	2009	2010	2009
Land and improvements	$ 599	$ 599	$ 295	$ 295	$ 894	$ 894
Buildings	6,219	6,219	3,446	3,446	9,665	9,665
Urban Renewal parks	37	37	-	-	37	37
Machinery and equipment	3,564	3,453	4,246	4,209	7,810	7,662
Infrastructure	41,596	41,596	-	-	41,596	41,596
Utility systems	-	-	87,435	87,408	87,435	87,408
Construction in progress	-	-	1,044	-	1,044	-
Total	52,015	51,904	96,466	95,358	148,481	147,262
Accumulated depreciation	28,638	26,447	41,613	39,319	70,251	65,766
Net Captial Assets	$ 23,377	$ 25,457	$ 54,853	$ 56,039	$ 78,230	$ 81,496

Additional information on the City's capital assets can be found in Note 6 of these financial statements.

Long-term debt: At June 30, 2010, the City had $20,532,097 in Natural Gas bonded debt and $650,000 in Water and Sewer bonded debt. Overall these are $1,333,234 lower than the prior year due to repayment of bonds at scheduled maturity. The City's Water and Sewer fund also had $9,094,663 in GEFA notes payable at the end of the fiscal year. This included $300,000 in new notes entered into during the year.

The City's governmental activities had certificates of participation of $2,277,000 at June 30, 2010 and 2009, which relate to the GMA Lease Pool program in which the City participates. The certificates are due in a balloon payment in 2028.

Additional information on the City's long-term debt can be found in Note 8 of this report.

Economic Factors and Next Year's Budget and Rates

Although, we are hopeful for signs of improvement in the economy, the City's budget for FY 2011 remains very conservative. Capital Outlay budgeted for the year is at a minimum and operating costs are expected to be at or near what was required for FY 2010.

Request for information

This financial report is designed to provide a general overview of the City of Toccoa's finances for our citizens, taxpayers, customers, investors, creditors, and other interested parties. Questions concerning any of the information should be addressed to the City's Finance Department, 92 N. Alexander Street, Toccoa, Georgia 30577 or by phone at (706) 886-8451.

BASIC FINANCIAL STATEMENTS

CITY OF TOCCOA, GEORGIA

STATEMENT OF NET ASSETS
JUNE 30, 2010

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	$ 4,915,635	$ 1,084,379	$ 6,000,014
Taxes receivable, net	297,968	-	297,968
Accounts receivable, net of allowance for doubtful accounts	22,985	1,448,229	1,471,214
Due from other governments	263,495	-	263,495
Internal balances	326,226	(326,226)	-
Inventory	35,788	413,770	449,558
Investments	1,517,251	50,000	1,567,251
Restricted cash	-	192,159	192,159
Restricted investments	-	379,366	379,366
Deferred charges	-	264,861	264,861
Capital assets, non-depreciable	598,776	1,339,038	1,937,814
Capital assets, depreciable, net of accumulated depreciation	22,778,208	53,513,955	76,292,163
Total assets	30,756,332	58,359,531	89,115,863
LIABILITIES			
Accounts and retainage payable	179,788	575,836	755,624
Accrued liabilities	47,106	196,658	243,764
Unearned revenue	357,945	-	357,945
Customer deposits payable	-	442,993	442,993
Compensated absences, due within one year	132,379	62,164	194,543
Compensated absences, due in more than one year	31,836	37,969	69,805
Bonds payable, due within one year	-	1,405,000	1,405,000
Bonds payable, due in more than one year	-	19,777,097	19,777,097
Certificates of participation, due in more than one year	1,919,055	-	1,919,055
Notes payable, due within one year	59,759	723,403	783,162
Notes payable, due in more than one year	-	8,371,260	8,371,260
Total liabilities	2,727,868	31,592,380	34,320,248
NET ASSETS			
Invested in capital assets, net of related debt	22,915,421	24,250,007	47,165,428
Restricted for:			
Debt service	-	246,325	246,325
Capital projects	3,888,462	-	3,888,462
Programs	111,760	-	111,760
Tourism	1,816	-	1,816
Unrestricted	1,111,005	2,270,819	3,381,824
Total net assets	$ 28,028,464	$ 26,767,151	$ 54,795,615

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

CITY OF TOCCOA, GEORGIA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expenses) Revenues and Changes in Net Assets: Primary Government: Business-type Activities	Net (Expenses) Revenues and Changes in Net Assets: Primary Government: Total
Primary government:							
Governmental activities:							
General government	$ 1,803,637	$ 133,130	$ 45,865	$ 3,837	$ (1,620,805)	$ -	$ (1,620,805)
Public safety	3,706,969	422,702	57,480	99,907	(3,126,880)	-	(3,126,880)
Public works	3,423,549	19,042	-	1,464,352	(1,940,155)	-	(1,940,155)
Culture and recreation	374,408	-	-	176,294	(198,114)	-	(198,114)
Economic and community development	398,865	-	-	36,280	(362,585)	-	(362,585)
Interest on long-term debt	25,506	-	-	-	(25,506)	-	(25,506)
Total governmental activities	9,732,934	574,874	103,345	1,780,670	(7,274,045)	-	(7,274,045)
Business-type activities:							
Water and sewer	4,754,449	6,385,221	-	700,000	-	2,330,772	2,330,772
Solid waste	806,167	1,161,831	-	-	-	355,664	355,664
Natural gas	11,094,609	11,513,305	-	-	-	418,696	418,696
Golf course	27,011	-	-	-	-	(27,011)	(27,011)
Total business-type activities	16,682,236	19,060,357	-	700,000	-	3,078,121	3,078,121
Total primary government	$ 26,415,170	$ 19,635,231	$ 103,345	$ 2,480,670	(7,274,045)	3,078,121	(4,195,924)
General revenues:							
Property taxes					1,352,008	-	1,352,008
Sales taxes					1,223,079	-	1,223,079
Franchise taxes					526,978	-	526,978
Insurance premium tax					516,896	-	516,896
Hotel/Motel occupancy tax					44,576	-	44,576
Business taxes					237,821	-	237,821
Other taxes					355,316	-	355,316
Unrestricted investment earnings					64,505	8,022	72,527
Gain on sale of assets					14,125	-	14,125
Other revenue					431,417	-	431,417
Transfers					2,297,578	(2,297,578)	-
Total general revenues and transfers					7,064,299	(2,289,556)	4,774,743
Change in net assets					(209,746)	788,565	578,819
Net assets, beginning of year, as restated					28,238,210	25,978,586	54,216,796
Net assets, end of year					$ 28,028,464	$ 26,767,151	$ 54,795,615

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

CITY OF TOCCOA, GEORGIA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

ASSETS	Major Governmental Funds: General	SPLOST IV Fund	SPLOST V Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents	$ 1,086,431	$ 1,549,704	$ 1,841,720	$ 437,780	$ 4,915,635
Taxes receivable, net	296,152	-	-	1,816	297,968
Accounts receivable	22,985	-	-	-	22,985
Intergovernmental receivable	-	-	252,600	10,895	263,495
Investments	1,517,251	-	-	-	1,517,251
Advances to other funds	326,226	-	-	-	326,226
Inventory	35,788	-	-	-	35,788
Total assets	$ 3,284,833	$ 1,549,704	$ 2,094,320	$ 450,491	$ 7,379,348
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 72,529	$ -	$ -	$ 107,259	$ 179,788
Accrued salaries	37,768	-	-	169	37,937
Deferred revenue	140,629	-	55,700	-	196,329
Total liabilities	250,926	-	55,700	107,428	414,054
FUND BALANCES					
Reserved for:					
GMA Lease Pool	1,517,251	-	-	-	1,517,251
Long-term advances to other funds	326,226	-	-	-	326,226
Inventory	35,788	-	-	-	35,788
Unreserved, undesignated, reported in:					
General Fund	1,154,642	-	-	-	1,154,642
Special revenue funds	-	-	-	98,625	98,625
Capital project funds	-	1,549,704	2,038,620	244,438	3,832,762
Total fund balances	3,033,907	1,549,704	2,038,620	343,063	6,965,294
Total liabilities and fund balances	$ 3,284,833	$ 1,549,704	$ 2,094,320	$ 450,491	

Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	23,376,984
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	196,329
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(2,510,143)
Net assets of governmental activities	$ 28,028,464

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

CITY OF TOCCOA, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2010

	Major Governmental Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General	SPLOST IV Fund	SPLOST V Fund		
Revenues					
Taxes:					
Property taxes	$ 1,281,599	$ -	$ -	$ -	$ 1,281,599
Sales taxes	1,196,049	-	-	-	1,196,049
Hotel/Motel occupancy taxes	19,588	-	-	24,988	44,576
Franchise taxes	526,978	-	-	-	526,978
Insurance premium tax	516,896	-	-	-	516,896
Business taxes	237,821	-	-	-	237,821
Other taxes	355,316	-	-	-	355,316
Licenses and permits	70,703	-	-	-	70,703
Intergovernmental	25,865	-	1,233,006	617,498	1,876,369
Fines and forfeitures	271,685	-	-	-	271,685
Charges for services	232,486	-	-	-	232,486
Investment earnings	64,505	5,709	6,779	874	77,867
Other revenues	431,417	-	-	-	431,417
Total revenues	5,230,908	5,709	1,239,785	643,360	7,119,762
Expenditures					
Current:					
General government	1,699,395	-	-	13,257	1,712,652
Judicial	143,012	-	-	-	143,012
Police	1,755,828	-	-	48,421	1,804,249
Fire	1,388,355	-	-	-	1,388,355
Streets and sanitation	424,564	-	-	324,000	748,564
Cemetery	78,089	-	-	-	78,089
Public Building and grounds	613,746	-	-	-	613,746
Parks and recreation	10,344	-	-	94,749	105,093
Animal Control	143,762	-	-	-	143,762
Planning, building inspection, and development	334,886	-	-	66,596	401,482
Capital outlay	95,234	146,353	293,860	-	535,447
Debt service:					
Principal	113,885	-	-	-	113,885
Interest	16,337	-	-	-	16,337
Total expenditures	6,817,437	146,353	293,860	547,023	7,804,673
Excess (deficiency) of revenues over (under) expenditures	(1,586,529)	(140,644)	945,925	96,337	(684,911)
Other financing sources (uses):					
Proceeds from sale of capital assets	14,125	-	-	-	14,125
Transfers in	2,299,692	-	-	-	2,299,692
Transfers out	(2,114)	-	-	-	(2,114)
Total other financing sources (uses)	2,311,703	-	-	-	2,311,703
Net change in fund balances	725,174	(140,644)	945,925	96,337	1,626,792
Fund balances, beginning of year, as restated	2,308,733	1,690,348	1,092,695	246,726	5,338,502
Fund balances, end of year	$ 3,033,907	$ 1,549,704	$ 2,038,620	$ 343,063	$ 6,965,294

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

CITY OF TOCCOA, GEORGIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

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

Net change in fund balances - total governmental funds	$	1,626,792
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		(2,079,509)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		91,723
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		113,885
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		37,363
Change in net assets - governmental activities	$	(209,746)

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

CITY OF TOCCOA, GEORGIA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED JUNE 30, 2010

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Property taxes	$ 1,283,447	$ 1,283,447	$ 1,281,599	$ (1,848)
Sales taxes	1,145,290	1,232,590	1,196,049	(36,541)
Hotel motel occupancy tax	31,332	31,332	19,588	(11,744)
Franchise taxes	545,288	545,288	526,978	(18,310)
Insurance premium taxes	525,000	525,000	516,896	(8,104)
Business taxes	225,462	230,284	237,821	7,537
Other taxes	362,821	362,821	355,316	(7,505)
Licenses and permits	105,384	105,384	70,703	(34,681)
Intergovernmental	18,100	18,100	25,865	7,765
Fines and forfeitures	350,000	350,000	271,685	(78,315)
Charges for services	249,628	267,581	232,486	(35,095)
Investment earnings	12,436	42,436	64,505	22,069
Other revenues	367,190	432,593	431,417	(1,176)
Total revenues	5,221,378	5,426,856	5,230,908	(195,948)
Expenditures:				
Current:				
General government	1,758,163	1,849,063	1,794,629	54,434
Judicial	141,654	141,654	143,012	(1,358)
Police	1,834,202	1,834,202	1,755,828	78,374
Fire	1,538,634	1,538,634	1,388,355	150,279
Streets and sanitation	392,527	429,827	424,564	5,263
Cemetery	82,726	82,726	78,089	4,637
Public building and grounds	614,327	615,127	613,746	1,381
Parks and recreation	13,695	13,695	10,344	3,351
Animal control	134,713	144,113	143,762	351
Planning, building inspection, and development	560,207	586,007	334,886	251,121
Debt service:				
Principal	113,885	113,885	113,885	-
Interest	16,337	16,337	16,337	-
Total expenditures	7,201,070	7,365,270	6,817,437	547,833
Excess (deficiency) of revenues over expenditures	(1,979,692)	(1,938,414)	(1,586,529)	351,885
Other financing sources (uses):				
Proceeds from sale of capital assets	-	14,125	14,125	-
Transfers in	2,299,692	2,299,692	2,299,692	-
Transfers out	(320,000)	(375,403)	(2,114)	373,289
Total other financing sources (uses)	1,979,692	1,938,414	2,311,703	373,289
Net change in fund balances	-	-	725,174	725,174
Fund balances, beginning of year, as restated	2,308,733	2,308,733	2,308,733	-
Fund balances, end of year	$ 2,308,733	$ 2,308,733	$ 3,033,907	$ 725,174

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

CITY OF TOCCOA, GEORGIA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

ASSETS	Business-type Activities - Enterprise Funds				
	Water and Sewer Fund	Solid Waste Fund	Natural Gas Fund	Golf Course Fund	Totals
CURRENT ASSETS					
Cash and cash equivalents	$ 3,806	$ 4,342	$ 1,076,231	$ -	$ 1,084,379
Accounts receivable, net	985,993	126,379	335,857	-	1,448,229
Inventory	204,724	-	209,046	-	413,770
Investments	50,000	-	-	-	50,000
Total current assets	1,244,523	130,721	1,621,134	-	2,996,378
NONCURRENT ASSETS					
Restricted cash	192,159	-	-	-	192,159
Restricted investments	379,366	-	-	-	379,366
Deferred charges	36,003	-	228,858	-	264,861
Capital assets:					
Nondepreciable	1,212,683	-	54,800	71,555	1,339,038
Depreciable assets, net of accumulated depreciation	28,884,217	590,405	23,925,200	114,133	53,513,955
Total noncurrent assets	30,704,428	590,405	24,208,858	185,688	55,689,379
Total assets	31,948,951	721,126	25,829,992	185,688	58,685,757
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	51,100	1,560	523,176	-	575,836
Accrued salaries	11,565	1,492	8,422	-	21,479
Accrued interest	84,813	-	85,166	-	169,979
Compensated absences payable, current	28,406	1,915	31,843	-	62,164
Customer deposits payable	125,751	-	317,242	-	442,993
Notes payable, current	723,403	-	-	-	723,403
Bonds payable, current	-	-	1,085,000	-	1,085,000
Total current liabilities	1,025,038	4,967	2,050,849	-	3,080,854
NONCURRENT LIABILITIES					
Payable from restricted assets:					
Bonds payable, current	320,000	-	-	-	320,000
Accrued interest	5,200	-	-	-	5,200
Compensated absences payable	23,706	7,594	6,669	-	37,969
Advances from other funds	53,214	273,012	-	-	326,226
Notes payable	8,371,260	-	-	-	8,371,260
Bonds payable	330,000	-	19,447,097	-	19,777,097
Total noncurrent liabilities	9,103,380	280,606	19,453,766	-	28,837,752
Total liabilities	10,128,418	285,573	21,504,615	-	31,918,606
NET ASSETS					
Invested in capital assets, net of related debt	20,299,023	317,393	3,447,903	185,688	24,250,007
Restricted for debt service	246,325	-	-	-	246,325
Unrestricted	1,275,185	118,160	877,474	-	2,270,819
Total net assets	$ 21,820,533	$ 435,553	$ 4,325,377	$ 185,688	$ 26,767,151

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

CITY OF TOCCOA, GEORGIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds				
OPERATING REVENUES	**Water and Sewer Fund**	**Solid Waste Fund**	**Natural Gas Fund**	**Golf Course Fund**	**Totals**
Charges for services	$ 6,380,314	$ 1,161,831	$ 11,513,305	$ -	$ 19,055,450
Miscellaneous revenue	4,907	-	-	-	4,907
Total operating revenues	6,385,221	1,161,831	11,513,305	-	19,060,357
OPERATING EXPENSES					
Personal services and benefits	1,582,253	254,223	1,106,571	-	2,943,047
Purchased and contracted services	436,838	383,698	527,042	-	1,347,578
Supplies and equipment	872,527	75,759	7,175,764	-	8,124,050
Depreciation	1,359,807	77,152	991,320	27,011	2,455,290
Miscellaneous	82,945	15,335	106,427		204,707
Total operating expenses	4,334,370	806,167	9,907,124	27,011	15,074,672
Operating income (loss)	2,050,851	355,664	1,606,181	(27,011)	3,985,685
NON-OPERATING REVENUES (EXPENSES)					
Investment earnings	8,022	-	-	-	8,022
Interest and fiscal agent fees	(420,079)	-	(1,187,485)	-	(1,607,564)
Intergovernmental revenue	700,000	-	-	-	700,000
Total non-operating revenues (expenses)	287,943	-	(1,187,485)	-	(899,542)
Income (loss) before transfers	2,338,794	355,664	418,696	(27,011)	3,086,143
Transfers in	-	-	-	2,114	2,114
Transfers out	(1,681,802)	(313,280)	(304,610)	-	(2,299,692)
	(1,681,802)	(313,280)	(304,610)	2,114	(2,297,578)
Change in net assets	656,992	42,384	114,086	(24,897)	788,565
NET ASSETS, beginning of year, as restated	21,163,541	393,169	4,211,291	210,585	25,978,586
NET ASSETS, end of year	$ 21,820,533	$ 435,553	$ 4,325,377	$ 185,688	$ 26,767,151

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

CITY OF TOCCOA, GEORGIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds				
	Water and Sewer Fund	Solid Waste Fund	Natural Gas Fund	Golf Course Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	$ 5,912,233	$ 1,121,620	$ 11,674,670	$ -	$ 18,708,523
Payments to vendors	(1,364,466)	(473,554)	(7,676,858)	-	(9,514,878)
Payments to or on behalf of employees	(1,599,381)	(254,289)	(1,131,406)	-	(2,985,076)
Net cash provided by operating activities	2,948,386	393,777	2,866,406	-	6,208,569
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Transfers from other funds	-	-	-	2,114	2,114
Transfers to other funds	(1,681,802)	(313,280)	(304,610)	-	(2,299,692)
Received advance from other fund	53,214	122,040	-	-	175,254
Net cash provided by (used in) non-capital financing activities	(1,628,588)	(191,240)	(304,610)	2,114	(2,122,324)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Grant received for capital purchases	700,000	-	-	-	700,000
Principal payments on notes payable	(695,513)	-	-	-	(695,513)
Principal payments on bonds payable	(310,000)	-	(1,035,000)	-	(1,345,000)
Principal payments on capital leases payable	-	-	-	(2,114)	(2,114)
Proceeds from notes payable	300,000	-	-	-	300,000
Interest paid	(410,781)	-	(1,064,359)	-	(1,475,140)
Purchases of capital assets	(1,043,762)	(198,675)	(27,273)	-	(1,269,710)
Net cash used in capital and related financing activities	(1,460,056)	(198,675)	(2,126,632)	(2,114)	(3,787,477)
CASH FLOWS FROM INVESTING ACTIVITIES					
Investments purchased	(429,366)	-	-	-	(429,366)
Interest received	8,022	-	-	-	8,022
Net cash used in investing activities	(421,344)	-	-	-	(421,344)
Net increase (decrease) in cash and cash equivalents	(561,602)	3,862	435,164	-	(122,576)
Cash and cash equivalents, beginning of year	757,567	480	641,067	-	1,399,114
Cash and cash equivalents, end of year	$ 195,965	$ 4,342	$ 1,076,231	$ -	$ 1,276,538
Reconciliation to the statement of net assets					
Cash and cash equivalents	$ 3,806	$ 4,342	$ 1,076,231	$ -	$ 1,084,379
Restricted cash	192,159	-	-	-	192,159
Total	$ 195,965	$ 4,342	$ 1,076,231	$ -	$ 1,276,538
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	$ 2,050,851	$ 355,664	$ 1,606,181	$ (27,011)	$ 3,985,685
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	1,359,807	77,152	991,320	27,011	2,455,290
Change in assets and liabilities:					
Accounts receivables	(472,988)	(40,211)	161,365	-	(351,834)
Inventory	(17,148)	-	42,705	-	25,557
Accounts payable	29,306	1,238	77,528	-	108,072
Accrued salaries	(17,436)	(2,126)	(14,105)	-	(33,667)
Compensated absences	308	2,060	(10,730)	-	(8,362)
Customer deposits payable	15,686	-	12,142	-	27,828
Net cash provided by operating activities	$ 2,948,386	$ 393,777	$ 2,866,406	$ -	$ 6,208,569

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

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Toccoa, Georgia (the "City") was incorporated, under the laws of the State of Georgia, in 1874 and operates under an elected Mayor-Commission form of government. The five commissioners each year elect the mayor from the elected commissioners. The City provides such services as police protection, fire services, parks and recreation amenities, planning and building inspection, municipal court services, public works, water and sewer services, natural gas services, solid waste services, and general and administrative services.

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

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City (the primary government) and its component units, an entity for which the government is considered to be financially accountable. Based on these criteria, the Toccoa Downtown Development Authority is a component unit of the City, however has no assets, liabilities or financial transactions.

The Toccoa Housing Authority administers Federal funding and/or other financing for improvement of housing conditions in the City. The five citizens who serve as the governing board of the Authority are appointed by the City Commission, however the City has no significant influence over the management, budget or policies of the Authority. As a result, the Authority is not a component unit of the City, but is considered a related organization and reports independently.

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets 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 assets 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 segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

The City reports the following major governmental funds:

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

The ***SPLOST IV Fund*** accounts for the acquisition and construction of capital expenditures which are financed by the special purpose local option sales tax program IV of the City, in an agreement with Stephens County.

The ***SPLOST V Fund*** accounts for the acquisition and construction of capital expenditures which are financed by the special purpose local option sales tax program V of the City, in an agreement with Stephens County.

The City aggregates other nonmajor governmental funds in a single column in the fund financial statements.

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The City reports the following major enterprise funds:

The ***Water and Sewer Fund*** accounts for the operation of the water and sewerage system including all revenues from sources applicable to the system's operations and all expenses of the operation.

The ***Solid Waste Fund*** accounts for the activities associated with the collection of residential and commercial garbage. Activity is rendered on a user charge basis.

The ***Natural Gas Fund*** accounts for the activities associated with distributing natural gas to customers, both inside and outside the City. Activity is rendered on a user charge basis.

The ***Golf Course Fund*** accounts for the activities associated with the leasing of the City's golf course to a private company for operation.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property taxes, sales taxes, franchise taxes, hotel/motel occupancy taxes, business taxes, intergovernmental revenue, and interest associated with the current year are all considered to be susceptible to accrual and so have been recognized as revenues of the current year. 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.

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

Proprietary funds distinguish operating revenues and expenses from 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 cost of these goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets

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

E. Deposits and Investments

Georgia statutes authorize the City to invest in the following: (1) obligations of Georgia or any other state; (2) obligations of the United States; (3) obligations fully insured or guaranteed by the United States government or one of its agencies; (4) obligations of any corporation of the United States government; (5) prime bankers' acceptances; (6) the State of Georgia local government investment pool; (7) repurchase agreements; and (8) obligations of any other political subdivisions of the State of Georgia. Any investment or deposit in excess of the federal depository insured amounts must be collateralized by an equivalent amount of state or U.S. obligations. For purposes of the statement of cash flows, all highly liquid investments with an original maturity of less than 90 days are considered to be cash equivalents. Investments are reported at fair value based on quoted market prices.

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

F. Receivables

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

G. Interfund Receivables and Payables

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

Note 1. Summary of Significant Accounting Policies (Continued)

H. Inventory

Inventories are valued at lower of cost or market using the first-in, first-out method. The cost of governmental fund type inventory is recorded as an expenditure when consumed rather than when purchased.

I. Restricted Assets

Proceeds of the Water and Sewer Revenue Bond Issue are classified as restricted assets on the balance sheet because they are maintained in a separate bank account and their use is limited by applicable bond covenants.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

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

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

Asset	Years
Buildings	20-40
Machinery and equipment	5-20
Utility plant and system	20-40
Infrastructure and urban parks	15-100

Note 1. Summary of Significant Accounting Policies (Continued)

K. Compensated Absences

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

L. Long-term Obligations

In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. Fund Equity and Net Assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Net assets in the statement of net assets are distinguished between amounts invested in capital assets (net of any related debt, if any), amounts that are restricted for use by third parties or outside requirements, and amounts that are unrestricted.

Note 1. Summary of Significant Accounting Policies (Continued)

N. Management Estimates

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

Note 2. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities are not due and payable in the current period and therefore are not reported in the funds." The details of this $2,510,143 difference are as follows:

Certificates of participation (COPs) payable	$	(2,277,000)
Less: Fair value of interest swap agreement on COPs		357,945
Add: Unearned revenue for effective hedge swap agreement		(357,945)
Notes payable		(59,759)
Accrued interest payable		(9,169)
Compensated absences		(164,215)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net assets - governmental activities*	$	(2,510,143)

Note 2. Reconciliation of Government-wide and Fund Financial Statements (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this $2,079,509 difference are as follows:

Capital outlay	$	141,708
Depreciation expense		(2,221,217)
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *change in net assets of governmental activities*	$	(2,079,509)

Another element of that reconciliation states that "The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $113,885 difference are as follows:

Principal repayments:		
Notes payable	$	113,885
Net adjustment to increase *net changes in fund balances - total governmental funds to arrive at change in net assets of governmental activities*	$	113,885

Note 2. Reconciliation of Government-wide and Fund Financial Statements (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities (Continued)

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this $37,363 difference are as follows:

Compensated absences	$	46,532
Accrued interest		(9,169)
Net adjustment to increase *net changes in fund balances - total governmental funds to arrive at change in net assets of governmental activities*	$	37,363

Note 3. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

a. Prior to July 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.

b. Public hearings are conducted at City Hall to obtain taxpayer comments.

c. Prior to July 1, the Commission approves the budget.

d. The City Manager is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any department must be approved by the City Commission.

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

Note 3. Stewardship, Compliance, and Accountability (Continued)

B. Budgetary Excesses

The General Fund had an excess of actual expenditures over budget in the amount of $1,358 for the judicial functional area which resulted from higher than expected costs.

Note 4. Deposits and Investments

As of June 30, 2010, the City had deposits with financial institutions, including certificates of deposits, and a guaranteed investment contract. The amounts classified as investments at June 30, 2010 were:

Investment	Fair Value	Interest Rate Risk
Certificate of Deposit	$ 429,366	Maturity Date November 20, 2010
Guaranteed Investment Contract	1,517,251	Maturity Date June 1, 2028
Total	$ 1,946,617	

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

Credit Risk – Georgia law and the City's Investment Policy allow investments in obligations of the State of Georgia or other states; obligations issued by the U.S. Government; obligations fully insured or guaranteed by the U.S. Government or by a government agency of the United States; obligations of any corporation of the U.S. Government; prime banker's acceptances; the local government investment pool established by state law; repurchase agreements; and obligations of other political subdivisions of the State of Georgia.

Custodial Credit Risk – Deposits - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. The State of Georgia requires financial institutions to pledge securities at 110% of a local government's deposits. At June 30, 2010, all of the deposits of the City were fully collateralized in accordance with the state statutes.

Note 5. Receivables

The City receives property tax assessments from Stephens County, Georgia. Property taxes are levied on property values assessed as of January 1. Tax bills were levied on all real and personal property and mailed to taxpayers in September. The due date for these taxes was in December, and after that date, both penalty and interest are accrued until the taxes are collected. Property taxes are recorded as receivables and deferred revenues when assessed. Accordingly, the January 1, 2009 Property Tax Digest was recognized as revenues for fiscal year 2010, if available (i.e. collected within sixty days subsequent to year-end).

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

	General	SPLOST V	Water and Sewer	Solid Waste	Natural Gas	Nonmajor Governmental
Receivables:						
Taxes	$ 296,152	$ -	$ -	$ -	$ -	$ 1,816
Accounts	22,985	-	1,102,046	152,709	423,830	-
Intergovernmental	-	252,600	-	-	-	10,895
Less allowance for uncollectibles	-	-	(116,053)	(26,330)	(87,973)	-
Net total receivables	$ 319,137	$ 252,600	$ 985,993	$ 126,379	$ 335,857	$ 12,711

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and improvements	$ 598,776	$ -	$ -	$ 598,776
Total assets, not being depreciated	598,776	-	-	598,776
Capital assets, being depreciated:				
Buildings	6,218,763	-	-	6,218,763
Urban renewal parks	37,466	-	-	37,466
Machinery and equipment	3,452,469	141,708	(30,421)	3,563,756
Infrastructure	41,596,214	-	-	41,596,214
Total assets, being depreciated	51,304,912	141,708	(30,421)	51,416,199
Less accumulated depreciation for:				
Buildings	(2,108,182)	(154,687)	-	(2,262,869)
Urban renewal parks	(37,466)	-	-	(37,466)
Machinery and equipment	(2,998,854)	(231,340)	30,421	(3,199,773)
Infrastructure	(21,302,693)	(1,835,190)	-	(23,137,883)
Total accumulated depreciation	(26,447,195)	(2,221,217)	30,421	(28,637,991)
Total assets, being depreciated, net	24,857,717	(2,079,509)	-	22,778,208
Governmental activities capital assets, net	$ 25,456,493	$ (2,079,509)	$ -	$ 23,376,984
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 295,276	$ -	$ -	$ 295,276
Construction in progress	-	1,043,762	-	1,043,762
Total assets, not being depreciated	295,276	1,043,762	-	1,339,038
Capital assets, being depreciated:				
Buildings	3,445,521	-	-	3,445,521
Utility systems	87,407,723	27,272	-	87,434,995
Machinery and equipment	4,209,608	198,676	(161,907)	4,246,377
Total assets, being depreciated	95,062,852	225,948	(161,907)	95,126,893
Less accumulated depreciation for:				
Buildings	(1,795,794)	(78,048)	-	(1,873,842)
Utility systems	(34,223,868)	(2,209,355)	-	(36,433,223)
Machinery and equipment	(3,299,893)	(167,887)	161,907	(3,305,873)
Total accumulated depreciation	(39,319,555)	(2,455,290)	161,907	(41,612,938)
Total assets, being depreciated, net	55,743,297	(2,229,342)	-	53,513,955
Business-type activities capital assets, net	$ 56,038,573	$ (1,185,580)	$ -	$ 54,852,993

Note 6. Capital Assets (Continued)

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

Governmental activities:		
General government	$	102,147
Public safety		250,270
Public works		1,868,800
Total depreciation expense - governmental activities	$	2,221,217
Business-type activities:		
Water and sewer	$	1,359,807
Solid waste		77,152
Natural gas		991,320
Golf course		27,011
Total depreciation expense - business-type activities	$	2,455,290

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

The composition of inter-fund balances as of June 30, 2010, is as follows:

Advances from/to other funds:

Receivable Fund	Payable Fund		Amount
General fund	Water and Sewer	$	53,214
General fund	Solid Waste		273,012
Total		$	326,226

The outstanding balances of advances between funds result from financing of equipment by the enterprise funds through the GMA lease pool for which the related assets and ultimate repayment are accounted for in the General Fund. See further discussion in Note 8.

Note 7. Inter-fund Receivables, Payables, and Transfers (Continued)

Inter-fund transfers for the year ended June 30, 2010:

	Transfers Out				
Transfers in	General Fund	Water & Sewer Fund	Solid Waste Fund	Natural Gas Fund	Total
General Fund	$ -	$ 1,681,802	$ 313,280	$ 304,610	$ 2,299,692
Golf Course Fund	2,114	-	-	-	2,114
Total	$ 2,114	$ 1,681,802	$ 313,280	$ 304,610	$ 2,301,806

Transfers are used to 1) make subsidies to the General Fund from the enterprise funds and 2) move unrestricted General Fund revenues to finance certain programs.

Note 8. Long-term Debt

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Certificates of Participation	$ 2,277,000	$ -	$ -	$ 2,277,000	$ -
Less Value of Interest Rate Swap	-	(357,945)	-	(357,945)	-
Net certificates of participation	2,277,000	(357,945)	-	1,919,055	-
Notes payable	173,644	-	(113,885)	59,759	59,759
Compensated absences	210,747	85,847	(132,379)	164,215	132,379
Governmental activity Long-term liabilities	$ 2,661,391	$ (272,098)	$ (246,264)	$ 2,143,029	$ 192,138

Note 8. Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Revenue bonds:					
Natural Gas bonds	$ 21,660,000	$ -	$ (1,035,000)	$ 20,625,000	$ 1,085,000
Less: Discount	(104,669)	-	11,766	(92,903)	-
Net Natural Gas	21,555,331	-	(1,023,234)	20,532,097	1,085,000
Water & Sewer bonds	960,000	-	(310,000)	650,000	320,000
Notes payable	9,490,176	300,000	(695,513)	9,094,663	723,403
Capital lease obligation	2,114	-	(2,114)	-	-
Compensated absences	108,495	53,803	(62,165)	100,133	62,164
Business-type activity Long-term liabilities	$ 32,116,116	$ 353,803	$ (2,093,026)	$ 30,376,893	$ 2,190,567

For governmental activities, compensated absences are predominately liquidated by the General Fund. For business-type activities, compensated absences are liquidated by the fund which funds the related personnel costs.

Governmental Activities

Certificates of Participation

In June 1998, the City entered into a lease pool agreement with the Georgia Municipal Association (the "Association"). The funding of the lease pool was provided by the issuance of $150,126,000 Certificates of Participation by the Association. The Association passed the net proceeds through to the participating municipalities with the City's participation totaling $2,277,000. The lease pool agreement with the Association provides that the City owns their portion of the assets invested by the pool and is responsible for the payment of their portion of the principal and interest of the Certificates of Participation. The principal is due in a lump sum payment on June 1, 2028. Interest is payable at a rate of 4.75% each year. The City draws from the investment to lease equipment from the Association. The lease pool agreement requires the City to make lease payments back into its investment account to fund the principal and interest requirements of the 1998 GMA Certificates of Participation.

As part of the issuance of the certificates of participation, the City entered into an interest rate swap agreement. Under the Swap Agreement, the City is required to pay (1) a semiannual (and beginning July 1, 2003, a monthly) floating rate of interest based on the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index (plus a 31 basis points spread) to, or on behalf of, the Swap Counterparty (the "Swap Payment"); and the Swap Counterparty will pay to, or on behalf of, the City a semi-annual payment based on a rate equal to the fixed rate on the certificates of participation (4.75%) times a notional amount specified in the Swap Agreement, but generally equal to the outstanding unpaid principal portion of such Contract, less the amount originally deposited in the Reserve Fund relating to the Contract, and (ii) a one-time Swap Premium to be paid on the effective date of the Swap Agreement. The semiannual payments from the Swap Counterparty with respect to the City are structured, and expected, to be sufficient to make all interest payments due under the Contract, and related distributions of interest on the Certificates.

Note 8. Long-term Debt (Continued)

Governmental Activities (Continued)

Certificates of Participation (Continued)

Monthly interest payments between the City, the holders of the Certificates of Participation, and the Swap Counterparty can be made in net settlement form as part of this agreement. Under the Swap Agreement, the City's obligation to pay floating payments to the Swap Counterparty in any calendar year may not exceed an amount equal to the SIFMA Municipal Swap Index plus 5% to be determined on the first business day of December in the preceding year. This agreement matures on June 1, 2028, at the same time of the certificates of participation. This derivative qualifies as a fair market hedge.

In the unlikely event that the Swap Counterparty becomes insolvent, or fails to make payments as specified in the Swap Agreement, the City would be exposed to credit risk in the amount of the Swap's fair value. To minimize this risk, the City executed this agreement with counterparties of appropriate credit strength, with the counterparty being rated Aa3 by Moody's. At June 30, 2010, the floating rate being paid by the City is 0.56% and the market value of this agreement is $357,945. The market value of the hedge was determined using settlement prices at the end of the day on June 30, 2010 based on the derivative contract. This market value is reported as a component of the certificates of participation in long-term debt in the statement of net assets. As this derivative is an effective hedge, qualifying for hedge accounting, the inflow from the hedge (any change in fair value from inception until fiscal year end) is deferred and reported as deferred revenue in the statement of net assets.

Annual debt service requirements to maturity for the certificates of participation are as follows:

Year Ending June 30,	Principal	Interest
2011	$ -	$ 108,158
2012	-	108,158
2013	-	108,158
2014	-	108,158
2015	-	108,158
2016-2020	-	540,790
2021-2025	-	540,790
2026-2028	2,277,000	324,474
Total	$ 2,277,000	$ 1,946,844

Note 8. Long-term Debt (Continued)

Governmental Activities (Continued)

Notes Payable

During fiscal year 2001, the City entered into a note payable with Wachovia Bank and Trust, Winston Salem, North Carolina for a new fire station. The original note was in the amount of $906,000 with the first payment being due June 15, 2001. The balance is payable in semi-annual installments of $61,539 including interest of 6.26% per annum as follows:

Year Ending June 30,	Principal	Interest
2011	$ 59,759	$ 1,780
Total	$ 59,759	$ 1,780

Business-type Activities

Revenue Bonds Payable – Natural Gas Fund

On March 1, 1999, the City entered into an agreement with the Municipal Gas Authority of Georgia whereby revenue bonds were issued, in two phases, through the Municipal Gas Authority of Georgia, for the City to construct a gas line from Toccoa, Georgia to Franklin, North Carolina. The two phases of bonds issued were Series 1999 in the amount of $23,975,000 and Series 2000 in the amount of $2,925,000. The revenues of the City's Natural Gas Fund were pledged as collateral for these bonds. The City has also agreed to levy a tax on the properties in the City, if necessary, to meet this obligation. Interest rates on these bonds range from 3.75% to 5% with annual maturities through fiscal year 2024. Remaining annual debt service requirements, as of June 30, 2010 are as follows:

Year Ending June 30	Principal	Interest	Total
2011	$ 1,085,000	$ 1,021,994	$ 2,106,994
2012	1,135,000	972,894	2,107,894
2013	1,185,000	920,368	2,105,368
2014	1,250,000	864,313	2,114,313
2015	1,310,000	804,613	2,114,613
2016-2020	7,630,000	2,964,000	10,594,000
2021-2024	7,030,000	864,438	7,894,438
Total	$ 20,625,000	$ 8,412,620	$ 29,037,620

Note 8. Long-term Debt (Continued)

Business-type Activities (Continued)

Revenue Bonds Payable – Water and Sewer Fund

In fiscal year 2004, the City issued Water and Sewer Revenue Bonds, Series 2004, in the original amount of $2,385,000 in order to refinance certain previously issued Water and Sewer revenue bonds of the City. The revenues of the City's Water and Sewer Fund were pledged as collateral for these bonds. The interest rate on these bonds is 3.2% with annual maturities through fiscal year 2012. Remaining annual debt service requirements, as of June 30, 2010 are as follows:

Year Ending June 30	Principal	Interest	Total
2011	$ 320,000	$ 15,680	$ 335,680
2012	330,000	5,280	335,280
Total	$ 650,000	$ 20,960	$ 670,960

The Series 2004 Bonds and other bonds were issued to defease certain prior outstanding Water and Sewer Revenue Bonds of the City. The proceeds from these refunding bonds were placed in an irrevocable trust to provide for all future debt service payments on the old, or defeased, bonds. Accordingly, the trust accounts and the defeased bonds are not reported in the City's financial statements. At June 30, 2010 the outstanding balance of defeased Water and Sewer Revenue Bonds was $280,000.

Notes Payable

The City's Water and Sewer fund has several Georgia Environmental Finance Authority (GEFA) loans for the construction of various water and sewer system projects. Notes payable outstanding as of June 30, 2010 are as follows:

Loan	Interest Rate %	Maturity Dates	Beginning Balance	Additions	Reductions	Ending Balance
94-035-WS	5.12%	7/1/2016	$ 761,828	$ -	$ (89,138)	$ 672,690
96-031-WS	5.21%	4/1/2018	366,875	-	(32,846)	334,029
2000-L60-WS	5.35%	6/1/2016	97,529	-	(11,812)	85,717
98-L32-WQ	4.76%	2/1/2020	538,545	-	(39,355)	499,190
CW98-009	3.75%	4/1/2021	7,617,417	-	(518,236)	7,099,181
2006-L32-WQ	4.28%	4/1/2027	107,982	-	(4,126)	103,856
CW09054APF70	3.00%	4/1/2017	-	300,000	-	300,000
Total GEFA Notes Payable			$ 9,490,176	$ 300,000	$ (695,513)	$ 9,094,663

Note 8. Long-term Debt (Continued)

Business-type Activities (Continued)

Notes Payable (Continued)

Remaining annual debt service requirements, as of June 30, 2010 are as follows:

Year Ending June 30	Principal	Interest	Total
2011	$ 723,403	$ 339,840	$ 1,063,243
2012	754,409	309,781	1,064,190
2013	785,741	278,450	1,064,191
2014	818,401	245,789	1,064,190
2015	852,478	212,163	1,064,641
2016-2020	4,108,809	552,048	4,660,857
2021-2025	735,253	22,639	757,892
2026-2027	16,169	2,082	18,251
Total	$ 8,794,663	$ 1,962,792	$ 10,757,455

GEFA note CW09054APF70, entered into during fiscal year 2010, which had a $300,000 balance drawn down and to be repaid as of June 30, 2010 has not been transferred to repayment status and thus a future payment schedule has not been established. As a result, this balance is not included in the debt service requirements above. This note was part of an overall contract for GEFA to provide $1,000,000 to the City for the related project. Of the total contract amount, $700,000 was forgiven as part of the American Reinvestment and Recovery Act funding and this portion of the contract has been recognized as intergovernmental revenue for the Water and Sewer fund.

Capital Lease Obligation

The City leased 30 golf carts and three club carts from CitiCapital Commercial Corporation on July 28, 2005 in the amount of $92,080. The final payment on the lease was made in fiscal year 2010 and the obligation has been fully paid.

Note 9. Pension Plan

Plan Description

The City, as authorized by the City Commission, has established a non-contributory defined benefit pension plan (The City of Toccoa Retirement Plan), covering substantially all of the City's employees. The City's pension plan is administered through the Georgia Municipal Employee Benefit System (GMEBS), an agent multiple-employer pension plan administered by the Georgia Municipal Association. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The City Commission has the governing authority to establish and amend from time to time, the contribution rates of the employer and its plan members. The Georgia Municipal Association issues a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained by writing to Georgia Municipal Association, Risk Management and Employee Benefit Services, 201 Pryor Street, NW, Atlanta, Georgia 30303 or by calling (404) 688-0472.

As of January 1, 2010, the date of the most recent actuarial valuation, there were 305 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	73
Terminated vested participants not yet receiving benefits	84
Active employees	148
Total	305

Funding Policy

The Plan is subject to minimum funding standards of the Georgia Public Retirement Systems Standards law. The Board of Trustees of GMEBS has adopted a recommended actuarial funding policy for the plan which meets state minimum requirements and will accumulate sufficient funds to provide the benefits under the plan. The funding policy for the plan is to contribute an amount equal to or greater than the recommended contribution described below. For fiscal year 2010, the actuarially determined contribution rate was 15.77% of covered payroll. For fiscal year 2011, based on the January 1, 2010 actuarial valuation, the recommended contribution rate will be 9.62%.

Note 9. Pension Plan (Continued)

Actuarial Information

For 2010, the City's actual contribution, which equaled the required contribution, was $606,229. The recommended contribution was determined as part of the January 1, 2009 actuarial valuation using the projected unit credit actuarial cost method. Actuarial assumptions include a 7.75% rate of return on investments and projected salary increases of 3.5% (all due to inflation). The period, and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years from 1982 and current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provision and 30 years for actuarial assumptions and cost methods as a level dollar amount. These amortization periods are closed for this plan year. The actuarial value of the plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period.

The information presented below is based on the annual actuarial valuation as of January 1, 2010.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2010	$ 12,962,064	$ 13,316,668	$ 354,604	97.34 %	$ 4,725,832	7.50 %

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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of January 1, 2010.

Note 9. Pension Plan (Continued)

Annual Pension Cost

The chart below shows the annual pension cost for the current year and prior two years along with the percentage actually contributed by the City.

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Actual Pension Contribution	Percentage of APC Contributed	Net Pension Obligation (Asset)
2010	$ 606,229	$ 606,229	100.0 %	$ -
2009	771,039	771,039	100.0	-
2008	436,750	436,750	100.0	-

Note 10. Joint Venture

Under Georgia law, the City, in conjunction with other cities and counties in the northeast Georgia area, is a member of the Georgia Mountains Regional Development Center (RDC) and is required to pay annual dues thereto. During the year ended June 30, 2010, the City paid $10,046 in such dues. Membership in a RDC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34, which provides for the organization structure of a RDC. RDC Board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of the RDC. Separate financial statements may be obtained from the Georgia Mountains Regional Development Center, P.O. Box 1720, Gainesville, Georgia 30503.

Note 11. Risk Management

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

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

The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member government contract and in accordance with the worker's compensation law of Georgia. The funds are to pay all cost taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

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

Note 12. Contingent Liabilities

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

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

Note 13. Fund Deficit

The City's Flood Grant Fund, a non-major governmental fund, had a deficit fund balance of $14,951. This balance will be funded by future grant revenues, or, if future revenues are not available, then the deficit will be funded by the General Fund.

Note 14. Economic Dependency/Commitment

The City has entered into a contract for the purchase of wholesale natural gas supplies and related services with the Municipal Gas Authority of Georgia (MGAG) that requires the City to purchase all of its natural gas from MGAG. The gas supply contract with MGAG authorizes MGAG to establish rates and charges so as to produce revenues sufficient to cover its operating costs and retire its bonds issued to acquire long-term gas supplies for sale to its members, including the City. In the event that revenues are insufficient to cover all costs and retire bonds issued by MGAG, the City is obligated to pay its obligation share of the costs of the gas supply and related services MGAG provides to the City, which costs include amounts equal to principal and interest on MGAG's bonds. These obligations, which extend through the year 2014, and may be extended through 2026, are general obligations of the City to which the City's full faith, credit and taxing powers are pledged. The City's obligation to MGAG for gas supply costs are based on MGAG's costs to provide such supply, including bonds issued to purchase long-term rights to bulk supply. Payments to MGAG are made monthly based on actual usage. The total payments under these contracts amounted to $6,757,582 in 2010.

Note 15. Hotel/Motel Occupancy Tax

The City imposes a hotel/motel tax on lodging facilities within the City. The tax is assessed at 5% and, in accordance with O.C.G.A. 48-13-51, the City is required to spend at least 40% of this for promoting tourism, conventions, and trade shows. Revenues were $24,988 for the year ended June 30, 2010. Of this amount 100% was used to promote tourism.

Note 16. Prior Period Adjustments

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

- The City did not appropriately account for the activity related to the 1998 GMA Lease Pool. The investment and related certificates of participation described in Note 8, which are owned and full liabilities of the City, had previously not been reported in the financial statements. Instead, the City reported only a capital lease liability for amounts it had drawn from its investment account which was established by the certificates of participation. As a result an investment of $1,571,436 was added to the beginning net assets and an obligation for the certificates of participation of $2,277,000 (less obligations of $281,402 which were previously reported as liabilities) was deducted from beginning net assets.

- The City did not record a receivable, in the SPLOST V Fund, for sales taxes receivable at June 30, 2009, in the amount of $241,683, for sales taxes for which the underlying transactions had occurred and thus the revenue had been earned and the related receivable should have been recognized.

- The City did not record salary related costs (such as FICA and employer pension contributions) in its accrual of compensated absences. The City's liability at the beginning of the year needed to be increased to account for these costs, in the amount of $31,036.

- The City had not previously been depreciating a portion of roads which are capital infrastructure assets. The City had also not been following the modified approach, under generally accepted accounting principles, which would allow this infrastructure to not be depreciated. Accumulated depreciation, at the beginning of the year, in the amount of $328,877 was deducted from net assets.

These restatements impact the governmental activities of the government wide statements of the City as follows:

Governmental activities:	
Net assets, as previously reported	$ 28,780,602
Add: GMA lease pool investments	1,571,436
Deduct: GMA lease pool liabilities	(1,995,598)
Add: SPLOST receivable	241,683
Deduct: Additional compensated absence costs	(31,036)
Deduct: Accumulated depreciation not taken	(328,877)
Net assets, as restated	$ 28,238,210

Note 16. Prior Period Adjustments (Continued)

The City has also determined that a restatement of the City's fund balance in the General Fund is required to reflect corrections to beginning balances for the following situation:

- The City did not appropriately account for the activity related to the 1998 GMA Lease Pool. The investment previously described, which is owned by the City, had previously not been reported in the financial statements. As a result an investment of $1,571,436 was added to the beginning fund balance. Additionally, as certain amounts from this investment account were provided to fund equipment for the Solid Waste fund, an advance from the General Fund of $150,971, should have been reported as part of the activity of the program – and not as a capital lease obligation for the Solid Waste fund.

These restatements impact the General Fund beginning fund balance as follows:

General Fund:		
Fund Balance, as previously reported	$	586,326
Add: GMA lease pool investments		1,571,436
Add: GMA lease pool advances from other funds		150,971
Fund Balance, as restated	$	2,308,733

The City has also determined that a restatement of the City's fund balance in the SPLOST V Fund is required to reflect corrections to beginning balances for the following situation:

- The City did not record a receivable, in the SPLOST V Fund, for sales taxes receivable at June 30, 2009, in the amount of $241,683, for sales taxes for which the underlying transactions had occurred and thus the receivable should have been recognized and the revenue that met the availability criteria should have been earned. The availability criteria had not been met on $61,417 related to this receivable and thus that amount is deducted from the amount of the restatement.

These restatements impact the SPLOST V Fund beginning fund balance as follows:

SPLOST Fund:		
Fund Balance, as previously reported	$	912,429
Add: SPLOST receivable		241,683
Deduct: SPLOST deferred revenue		(61,417)
Fund Balance, as restated	$	1,092,695

Note 16. Prior Period Adjustments (Continued)

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

- The City did not appropriately account for the bond issuance costs and a bond discount related to the Series 1999 and Series 2000, Natural Gas revenue bonds. The issuance costs and discount should have been deferred on the statement of net assets and amortized over the life of the bonds as a component of interest expense. As a result, deferred issuance costs of $257,783 and a bond discount of $104,669 needed to be added to the net assets of the Natural Gas fund as of June 30, 2009 for the unamortized amounts through that date.

- The City did not previously report accrued interest expense at year end related to the Natural Gas revenue bonds. As a result, net assets of the Natural Gas fund, as of June 30, 2009, was reduced by $88,981 for this accrued interest.

- The City did not record salary related costs (such as FICA and employer pension contributions) in its accrual of compensated absences. The City's liability at the beginning of the year needed to be increased to account for these costs, in the amount of $15,977 ($7,629 in the Water and Sewer Fund, $1,096 in the Solid Waste Fund, and $7,252 in the Natural Gas Fund).

These restatements impact the business-type activities of the government wide statements and the individual major enterprise funds of the City as follows:

Business-type activities:	
Net assets, as previously reported	$ 25,721,092
Add: Deferred issuance costs	257,783
Add: Bond issuance discount	104,669
Deduct: Accrued interest expense	(88,981)
Deduct: Additional compensated absence costs	(15,977)
Net assets, as restated	$ 25,978,586
Water and Sewer Fund:	
Net assets, as previously reported	$ 21,171,170
Deduct: Additional compensated absence costs	(7,629)
Net assets, as restated	$ 21,163,541
Solid Waste Fund:	
Net assets, as previously reported	$ 394,265
Deduct: Additional compensated absence costs	(1,096)
Net assets, as restated	$ 393,169

Note 16. Prior Period Adjustments (Continued)

Natural Gas Fund:	
Net assets, as previously reported	$ 3,945,072
Add: Deferred issuance costs	257,783
Add: Bond issuance discount	104,669
Deduct: Accrued interest expense	(88,981)
Deduct: Additional compensated absence costs	(7,252)
Net assets, as restated	$ 4,211,291

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TOCCOA, GEORGIA

REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT PLAN
SCHEDULE OF FUNDING PROGRESS

Schedule of Funding Progress - Pension

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2010	$ 12,962,064	$ 13,316,668	$ 354,604	97.34 %	$ 4,725,832	7.50 %
1/1/2009	10,093,660	13,441,163	3,347,503	75.10	4,890,458	68.45
1/1/2008	12,030,232	12,685,531	655,299	94.83	4,538,959	14.44

Note: See assumptions used for the Schedule of Funding Progress in Note 9 to the financial statements.

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Hotel/Motel Fund – This fund is used to account for the occupancy tax collected by the City from area hotels and motels, and distributed based upon state statute.

Flood Grant Fund – This fund is used to account for the funds received from the federal and state governments as they relate to grants awarded to the City for the floods occurring during fiscal year 2010.

Grant Fund – This fund is used to account for the funds received from external sources as they relate to grants awarded to the City, not reported in other funds. Matching funds, which are the City's responsibility, are also recorded within this fund.

Capital Projects Funds

Capital projects funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

SPLOST II Fund – accounts for the acquisition and construction of capital expenditures which are financed by the special purpose local option sales tax program II of the City, in an agreement with Stephens County.

CITY OF TOCCOA, GEORGIA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010

ASSETS	Special Revenue Funds			Capital Projects	Total Nonmajor Governmental Funds
	Hotel/ Motel	Flood Grant	Grant Fund	SPLOST II Fund	
Cash and cash equivalents	$ -	$ 92,308	$ 101,034	$ 244,438	$ 437,780
Taxes receivable	1,816	-	-	-	1,816
Intergovernmental receivable	-	-	10,895	-	10,895
Total assets	$ 1,816	$ 92,308	$ 111,929	$ 244,438	$ 450,491
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ -	$ 107,259	$ -	$ -	$ 107,259
Accrued Salaries	-	-	169	-	169
Total liabilities	-	107,259	169	-	107,428
FUND BALANCES (DEFICIT)					
Unreserved, undesignated	1,816	(14,951)	111,760	244,438	343,063
Total fund balances	1,816	(14,951)	111,760	244,438	343,063
Total liabilities and fund balances	$ 1,816	$ 92,308	$ 111,929	$ 244,438	$ 450,491

CITY OF TOCCOA, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2010

	Special Revenue Funds			Capital Projects	Total Nonmajor Governmental Funds
	Hotel/ Motel	Flood Grant	Grant Fund	SPLOST II Fund	
Revenues:					
Hotel/Motel taxes	$ 24,988	$ -	$ -	$ -	$ 24,988
Intergovernmental	-	252,262	365,236	-	617,498
Investment earnings	-	-	-	874	874
Total revenues	24,988	252,262	365,236	874	643,360
Expenditures:					
Current:					
General government	-	4,064	9,193	-	13,257
Streets and sanitation	-	168,400	155,600	-	324,000
Parks and recreation	-	94,749	-	-	94,749
Police	-	-	48,421	-	48,421
Development	-	-	41,608	-	41,608
Economic and community development	24,988	-	-	-	24,988
Total expenditures	24,988	267,213	254,822	-	547,023
Excess (deficiency) of revenues over (under) expenditures	-	(14,951)	110,414	874	96,337
Net change in fund balances	-	(14,951)	110,414	874	96,337
Fund balances, beginning of year	1,816	-	1,346	243,564	246,726
Fund balances (deficit), end of year	$ 1,816	$ (14,951)	$ 111,760	$ 244,438	$ 343,063

CITY OF TOCCOA, GEORGIA
FLOOD GRANT FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2010

	Budget		Actual	Variance With Final Budget
	Original	Final		
Revenues:				
Intergovernmental	$ 364,500	$ 364,500	$ 252,262	$ (112,238)
Total revenues	364,500	364,500	252,262	(112,238)
Expenditures:				
Current:				
General government	40,000	40,000	4,064	35,936
Streets and drainage	229,620	229,620	168,400	61,220
Parks and recreation	94,880	94,880	94,749	131
Total expenditures	364,500	364,500	267,213	97,287
Net changes in fund balances	-	-	(14,951)	(14,951)
Fund balances, beginning of year	-	-	-	-
Fund balances (deficit), end of year	$ -	$ -	$ (14,951)	$ (14,951)

CITY OF TOCCOA, GEORGIA
GRANT FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2010

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Intergovernmental	$ 279,090	$ 279,090	$ 365,236	$ 86,146
Total revenues	279,090	279,090	365,236	86,146
Expenditures:				
Current:				
General government	20,000	20,000	9,193	10,807
Streets and drainage	173,705	173,705	155,600	18,105
Police	49,000	49,000	48,421	579
Development	36,385	36,385	41,608	(5,223)
Total expenditures	279,090	279,090	254,822	24,268
Excess (deficiency) of revenues over (under) expenditures	-	-	110,414	110,414
Net changes in fund balances	-	-	110,414	110,414
Fund balances, beginning of year	1,346	1,346	1,346	-
Fund balances, end of year	$ 1,346	$ 1,346	$ 111,760	$ 110,414

CITY OF TOCCOA, GEORGIA

SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS FOR THE YEAR ENDED JUNE 30, 2010

	Original Estimated Cost	Current Estimated Cost	Prior Years Cumulative Expenditures	Current Year Expenditures	Total Cumulative Expenditures
SPLOST V					
Highway 17 Sewer	$ 1,000,000	$ 1,000,000	$ 912,429	$ -	$ 912,429
Meadow Lift Station	250,000	250,000	-	-	-
Eastanollee WWTP	500,000	500,000	-	-	-
Fire Equipment	750,000	750,000	-	23,860	23,860
Roads	2,260,000	2,260,000	-	-	-
Historical Society Building	270,000	270,000	-	270,000	270,000
Recreation	400,000	400,000	-	-	-
Water System Improvements	2,330,000	2,330,000	-	-	-
Inflow & Infiltration	1,300,000	1,300,000	-	-	-
Total SPLOST V	$ 9,060,000	$ 9,060,000	$ 912,429	$ 293,860	$ 1,206,289
SPLOST IV					
Water Improvements	$ 2,000,000	$ 2,000,000	$ 1,098,444	$ 137,911	$ 1,236,355
Sewer Improvements	945,000	945,000	530,525	4,059	534,584
Roads & Bridges	240,000	240,000	295,363	4,383	299,746
Total SPLOST IV	$ 3,185,000	$ 3,185,000	$ 1,924,332	$ 146,353	$ 2,070,685
SPLOST II					
Sewer Improvements	$ 396,474	$ 396,474	$ 153,994	$ -	$ 153,994
Total SPLOST II	$ 396,474	$ 396,474	$ 153,994	$ -	$ 153,994
Total SPLOST	$ 12,641,474	$ 12,641,474	$ 2,990,755	$ 440,213	$ 3,430,968

CITY OF TOCCOA, GEORGIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Program Title	CFDA number	Pass-Through Number	Federal expenditures
U.S. Environmental Protection Agency:			
Pass-through programs - Georgia Environmental Facilities Authority			
Clean Water State Revolving Fund - Recovery Act Funded	66.458	CWSRF 09-054	1,000,000
U.S Department of Housing and Urban Development			
Community Development Block Grant	14.218	09b-x-127-2-5143	36,280
U.S. Department of Justice			
Edward Byrne Memorial Justice Assistance Grant	16.804	2009-SB-B9-0768	48,421
Department of Homeland Security			
Pass-through programs- Georgia Department of Homeland Security			
Disaster Grants (FEMA)	97.036		267,213
U.S. Department of Transportation			
Pipeline Safety Program	20.721		50,000
Total Federal Expenditures			1,401,914

The accompanying notes are an integral part of this Schedule.

CITY OF TOCCOA, GEORGIA

Note to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

(1) Summary of Significant Accounting Policies

Basis of Presentation and Accounting

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

In instances where the grant agreement requires the City to match grant awards with City funds, such matching funds are excluded in the accompanying Schedule of Expenditures of Federal Awards.

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

COMPLIANCE SECTION

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Toccoa, Georgia (the "City") as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 3, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items 2010-1 through 2010-9, to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs, as items 2010-10 through 2010-12, to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Toccoa, Georgia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2010-13.

We noted certain matters that we reported to management of the City of Toccoa, Georgia in a separate letter dated February 3, 2011.

The City of Toccoa, Georgia's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Toccoa, Georgia's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Mayor and City Commission, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Atlanta, Georgia
February 3, 2011

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the City of Toccoa, Georgia's (the "City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

As described in finding 2010-14 in the accompanying schedule findings and questioned costs, the City did not comply with requirements regarding equipment management that are applicable to its Clean Water State Revolving Fund program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-14 to be a material weakness.

The City of Toccoa, Georgia's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Toccoa, Georgia's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Mayor and City Commission, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Atlanta, Georgia
February 3, 2011

CITY OF TOCCOA, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting: Material weaknesses identified?	__X__ yes _____ no
Significant deficiencies identified not considered to be material weaknesses?	__X__ yes _____ none reported
Noncompliance material to financial statements noted?	__X__ yes _____ no

Federal Awards

Internal Control over major programs: Material weaknesses identified?	__X__ yes _____ no
Significant deficiencies identified not considered to be material weaknesses?	_____ yes __X__ none reported
Type of auditor's report issued on compliance for major programs	Qualified for Equipment Management for the Capitalization Grant for Clean Water State Revolving Loan Funds, otherwise, unqualified for other requirements
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?	__X__ yes _____ no

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalization Grant for Clean Water State Revolving Loan Funds

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	_____ yes __X__ no

Section II – Financial Statement Findings

Finding 2010-1 – Recording of Long-term Assets and Liabilities

Criteria: Governmental funds should use the current measurement focus and modified accrual basis of accounting, in accordance with accounting principles generally accepted for governmental entities (GAAP). This basis of accounting requires that governmental funds not include long-term assets or liabilities. Internal controls should be in place to ensure that long term assets and liabilities are not recorded in the City's governmental fund general ledger.

Condition: The City improperly recorded land, equipment, capital leases payable, notes payable, and compensated absence liabilities in governmental funds.

Context/Cause: The City has recorded some of the long-term assets and liabilities in the general ledger of its governmental funds. While these amounts are required to be reported in the government-wide statements, it is preferable that these long-term assets and liabilities be tracked separately in the ledger rather than within the governmental funds ledgers.

Effect: Audit adjustments of $69,986 were required to remove land and equipment from the assets of the General Fund and record these as expenditures. Additionally an audit adjustment to remove liabilities in the amount of $483,785 was required. This entry impacted prior fund balance as the entries had been recorded in the ledger in prior years. This portion of the entry was adjusted in prior year financial statements as well and thus was previously reported properly, however the entry had not been recorded on the City's general ledger.

Recommendation: We recommend the City review governmental funds on a monthly basis to ensure long-term assets and liabilities are not recorded at the fund level, instead the City should open a new fund, within the ledger, or a sub-ledger to track the long-term assets and liabilities of the governmental funds.

Response: The City agrees with the recommendation. The recording of long-term assets and liabilities will be reviewed and monitored to make sure they are recorded properly.

Finding 2010-2 – Prior Year Audit Entries/Fund Balance

Criteria: Internal controls should be in place to ensure that fund balance agrees with prior year financial statements.

Condition: The beginning fund balance of the General Fund and the beginning net assets of the Water and Sewer Fund did not agree to the prior year audited financial statements.

Context/Cause: During our testing of fund balance, audit adjustments were required to correct the beginning of the year fund balance and other balances of the General Fund in the amount of $301,673 and to correct beginning of the year net assets and other balances of the Water and Sewer Fund in the amount of $1,196. These entries appear to be caused by certain prior year audit adjustments not being posted to the City's general ledger.

Finding 2010-2 – Prior Year Audit Entries/Fund Balance (continued)

Effects: Audit adjustments totaling approximately $302,869 were needed to correctly report beginning fund balance and net assets.

Recommendation: We recommend the City review the audit entries for the current year audit, working with the auditors, to ensure all are posted for fiscal year 2011.

Response: The City agrees with the recommendation. The Finance Department will record the adjusting journal entries at the end of the audited fiscal year to that year. Then, each fund will be reviewed and reconciled to the financial statements to ensure the beginning balance of the next fiscal year will be the same as the ending of the prior year.

Finding 2010-3 –Revenue Recognition

Criteria: Internal controls should be in place to ensure that revenues of the City are appropriately recognized, including any related receivables.

Condition: Internal controls did not detect various misstatements in the reporting of the City's revenue, related receivables, and deferred revenue.

Context/Cause: During our testing of receivable and revenue, audit adjustments were required as follows:

- To accurately report amounts included in enterprise funds for unbilled receivables, which are estimates of services utilized, but not billed as of year end as the customer was in the middle of a billing cycle. This adjustment increased receivables and revenue in the Water and Sewer Fund by $391,039 and in the Solid Waste Fund by $20,971. This entry reduced receivables and revenue in the Natural Gas Fund by $220,912.
- To properly update and record receivables for the Local Option Sales Tax (LOST) in the General Fund by eliminating the prior year receivable of $160,778; recording the current year receivable of $58,647, recording deferred revenue of $27,030, and a net entry to reduce sales tax revenue by $129,161.
- To properly record receivables and revenue in the SPLOST fund for the Special Purpose Local Option Sales Tax (SPLOST) by adjusting prior year fund balance by a net of $180,266 for a prior year receivable which should have been recorded but wasn't; increasing the current year receivable by $152,553; increasing the current year deferred revenue by $55,700; and reducing the current year SPLOST revenue by $83,415.
- To record amounts related to property taxes in the General Fund which were not received within 60 days of year-end as deferred revenue. This entry increased deferred revenue and reduced revenue by $44,800.
- To reduce receivables and revenue for grant related income which had not yet been earned. These adjustments reduced receivables and revenue in the Flood Grant Fund by $111,500 and in the Grant Fund by $21,973.
- To properly report refunds of overpayments, in the amount of $376,420, in the Natural Gas Fund as reductions in revenue rather than as an expense.

Effects: Audit adjustments with a value of $1,704,423 were needed as detailed above.

Finding 2010-3 –Revenue Recognition (continued)

Recommendation: We recommend the City carefully review these year-end closing entries in order to ensure the journal entries related to all receivables and related revenues are updated and accurate.

Response: The City agrees with the recommendation. The Finance department will work closely with the auditor and insure that these journal entries are posted correctly at year end.

Finding 2010-4 –Expenditure Recognition

Criteria: Generally accepted accounting principles call for liabilities in governmental funds to be reported when goods or services have been received and payment is expected to be made from current and available resources. For enterprise funds, liabilities are reported for goods and services received.

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

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

- Liabilities for insurance related amounts and reserve amounts were recorded in the General Fund, when no underlying transaction had occurred to require reporting of a liability and expenditure. As a result liabilities and expenditures were reduced by $561,634.
- An account payable and resulting expense in the amount of $22,856 in the Water and Sewer fund had not been recorded, although the service had been provided.
- Liabilities were established, in the Natural Gas fund, for amounts received from LP gas sales for a future project to update gas lines. As the project has not started and no goods or services have been received, no liability exists. The related liability and expenses, in the amount of $218,474 were eliminated.

Effects: Audit adjustments with a value of $802,964 were needed as detailed above.

Recommendation: We recommend the City ensure that liabilities are reported when goods and services have been provided.

Response: The City agrees with the recommendation. The Finance department will work to determine that liabilities are posted when goods and services have been provided.

Finding 2010-5 –Allowance for Uncollectible Accounts

Criteria: Receivables should be reported net of an estimate for amounts which will not be received and will have to be written off as bad debts. Internal controls should be in place to ensure that the collectability of receivables be evaluated routinely, at least every year, and the related estimate for uncollectible receivables be adjusted based on a consistent methodology.

Condition: The City did not update its calculation for the allowance for doubtful accounts in the enterprise funds.

Context/Cause: The City did not significantly adjust its allowance for doubtful accounts during the year and did not perform an estimate calculation of the allowance for doubtful accounts at the end of fiscal year 2010.

Effects: An audit adjustment was required, after analysis performed by City management, to increase the allowance for doubtful accounts and related expense in the Water and Sewer fund by $66,045; the Natural Gas fund by $47,230; and the Solid Waste fund by $15,335.

Recommendation: We recommend the City establish a process and methodology under which it can evaluate the collectability of all receivables, including enterprise funds, taxes receivable, and other receivables at year-end and adjust the allowance for doubtful accounts accordingly.

Response: The City agrees with the recommendation. The Finance department will implement the methodology suggested by the current auditors.

Finding 2010-6 - Capital Assets

Criteria: Generally accepted accounting principles require that an asset whose useful life exceeds a reporting period, be accounted for as a capital asset and, if applicable, depreciated on a systematic basis over its useful life.

Condition: Internal controls did not detect misstatements in the reporting of the City's capital assets.

Context/Cause: During fiscal year 2010, the City did not maintain its own detailed ledger of construction in progress during the year. Additionally, the City did not routinely maintain and reconcile its capital asset listing.

Additionally, in prior years the City determined that its road base infrastructure asset was considered non-depreciable and no depreciation was taken on the related infrastructure amount. As the City was not following the allowable modified method of accounting for the road base as infrastructure, then it should be depreciated.

Effect: An asset for the chemical feed system constructed for the Water and Sewer fund, during fiscal year 2010, with proceeds from the contract with the Georgia Environmental Finance Authority was not recorded in the City's general ledger as a capital asset. As a result, an audit adjustment increasing capital assets and reducing expenses in the amount of $1,043,762 was recorded in the Water and Sewer fund. An error in the recording of depreciation in the Solid Waste fund also had to be corrected and adjusted by $13,952, increasing depreciation expense.

Finding 2010-6 - Capital Assets (continued)

As a result of the City not depreciating the road base asset, then a prior period adjustment of $328,877 to increase accumulated depreciation in the governmental activities and reduce the beginning of the year net assets. Additionally, the current year depreciation of $8,432 was also recorded as an audit adjustment.

Recommendation: We recommend that the City devote the resources necessary to ensure that the capital assets are properly recorded in the capital asset sub-ledger on an on-going and timely basis and that the sub-ledger be periodically reconciled to the general ledger, as appropriate.

Response: The City agrees with the recommendation. Procedures have been established in the Finance Department to monthly and quarterly reconcile the capital assets to the general ledger and to update the capital asset listing.

Finding 2010-7 – GMA Lease Pool Accounting

Criteria: Generally accepted accounting principles require that assets owned by the City and liabilities incurred by the City, be reported on the financial statements of the City.

Condition: During fiscal year 1998, the City entered into a lease pool program with the Georgia Municipal Association (GMA). This program was administered differently than previous, and since started, lease pool programs of GMA. In this particular program, all of the participating entities at the start of the program issued certificates of participation, facilitated by GMA. The certificates were actually legal obligations of each participating entity, in an amount of their entire participation, rather than an obligation of GMA which is available for drawing upon by the participating entities. As a result, the investment contract purchased by the proceeds from the certificate is also an asset of the City and not GMA. As the City draws from this asset, it is really only taking money out of its own restricted investment in order to pay for equipment and then the amount paid back into the account by the respective City funds are going back into the City's investment account so that the investment account will have sufficient funds to make the balloon payment on the certificates of participation at the end of the program.

Context/Cause: This transaction was unusual and did not operate as other GMA lease pool programs have.

Effect: For the General Fund, a prior period adjustment was required to report the restricted investment of $1,571,436 and advances to the Solid Waste fund (for amounts funded by the investment account for Solid Waste fund equipment in prior years). Additionally, adjustments were required to properly report the current year activity of the GMA Lease Pool in the General Fund by decreasing the restricted investment by $54,184; advances to other funds were increased by $175,254; interest income was increased by $21,958; lease proceeds were reduced by $32,500; debt service principle expenditures were reduced by $130,430; and interest expenditures were decreased by $1,202. The governmental activities opinion unit required a prior period adjustment to include the full long-term liability of the certificates of participation (above amounts which were already recorded as capital lease obligations) of $1,995,598. In the Water and Sewer fund, advances from other funds were increased by $14,986 with the offset being to interest expense. In the Natural Gas fund advances from other funds and interest expenses were increased by $90,417. In the Solid Waste fund, capital lease obligations at year end, in the amount of $273,012, were reclassified as advances from other funds.

Finding 2010-7 – GMA Lease Pool Accounting (continued)

Recommendation: We recommend that the City account for the GMA lease pool activity with this new understanding of the legal substance of the transaction and program.

Response: The City agrees with the recommendation. The City will account for the GMA lease pool activity as recommended by current auditors.

Finding 2010-8 – Debt Transactions

Criteria: Under full accrual accounting, enterprise funds defer debt issuance costs and amortize the expense over the life of the debt. Additionally, any issuance discount or premium are also accrued and amortized as a component of interest expense over the life of the debt. Interest expense should be expensed based on the period covered by the debt, which requires accrual of semi-annual interest payments for the months covered, but not yet paid at year-end.

Condition: Internal controls were not sufficient to detect material misstatements in the reporting of certain debt related transactions.

Context/Cause: During our testing of long-term debt, audit adjustments were required as follows:

- To report a prior period adjustment for deferred issuance costs related to the Natural Gas Revenue Bonds issued in 1999 and 2000 in the amount of $257,783 with the offset going to beginning of the year net assets of the Natural Gas Fund. Current year amortization was also required for the issuance costs in the amount of $28,925, offsetting interest expense.
- To report a prior period adjustment for the bond discount related to the Natural Gas Revenue Bonds issued in 1999 and 2000 in the amount of $104,669 with the offset going to beginning of the year net assets of the Natural Gas Fund. Current year amortization was also required for the discount in the amount of $11,767, offsetting interest expense.
- To report a prior period adjustment for accrued interest payable on the Natural Gas Revenue Bonds as of the end of the prior year, in the amount of $88,981, also decreasing beginning of the year net assets. We also recorded an audit adjustment in the amount of $85,166 to report accrued interest payable in the current year. These two entries had a net impact on interest expense of $3,815.
- To report the current year amortization expense, in the amount of $18,001 to reduce deferred issuance costs in the Water and Sewer fund for fiscal year 2010.

Effect: Audit adjustments totaling $554,600 were needed to correctly report these debt related transactions.

Recommendation: We recommend the City review debt transaction upon issuance and ensure all components are properly accounted for and then perform annual entries for the debt related accounts.

Response: The City agrees with the recommendation. The City will review debt transactions upon issuance and ensure that all components are accounted for and correct entries are posted.

Finding 2010-9 – Segregation of Duties

Criteria: Segregation of employee's duties is a common practice in an effective internal control structure. Segregation of duties is when specific employee functions related to important accounting areas (such as cash receipting or cash disbursements) are separated among different individuals to significantly reduce the risk that any one individual could intentionally or unintentionally misappropriate assets. Policies should be in place requiring the segregation of certain duties.

Condition/Context: During the course of our testwork, we noted several areas in which the segregation of duties could be improved. The following are controls or practices which should be in place to ensure adequate segregation of duties, but aren't at the City.

- Mail is opened and a list of daily receipts is prepared by two or more people independent of the cashier and accounts receivable bookkeeping.
- Individuals opening the mail prepare prenumbered cash receipts and attach remittance data to the cash receipts prior to forwarding the documentation to accounting.
- The list of daily cash receipts or lockbox listing from the bank is compared to postings to customer accounts, contribution records, and deposits and to a validated deposit slip by a person independent of the cash receipts and accounts receivable functions.
- All individuals with the ability to receive payments on customer accounts are independent of those who have the ability to post adjustments to those accounts.
- A cash "over" and "short" list is prepared for each cashier, and an appropriate person investigates both overages and shortages.
- Purchasing is separated from requisitioning, shipping, and receiving functions.
- There are defined payable cutoff procedures that are continually monitored by the appropriate level of management or another appropriate person.
- A current purchasing manual defines restrictions on purchases of goods or services from governing body members, employees, or other suppliers that would create a conflict of interest.
- Check signing (including control of mechanical check signers and signature plates) is independent of the initiator of purchases, approver of purchases, receiving, shipping, preparer of checks, cash receipts, accounts payable, and cash bookkeeping.
- A mechanical check protector is used to inscribe checks so that alteration of amounts or payees might be more easily detected.
- Checks are not returned to the preparer after signing.
- Persons preparing payroll are independent of other payroll and personnel duties (for example, timekeeping, distribution of checks, and hiring employees) and restricted from access to other payroll data or cash.
- Bank statements are received directly by the appropriate level of management or another appropriate person (such as a governing body member) and reviewed prior to routing to accounting for reconciliation.
- Journal entries to the City's general ledger are reviewed and approved by someone other than the preparer.

Effect: Without some segregation of duties within these functions; there is increased exposure that someone could intentionally or unintentionally misappropriate assets of the City.

Finding 2010-9 – Segregation of Duties (continued)

***Cause*:** The limited number of employees involved in the various offices and the resulting overlapping of duties causes segregation of duties to be difficult.

Recommendation: We recommend that the City review its processes and determine where it can cost-effectively segregate some of the duties in higher risk areas to alleviate the segregation of duties issues.

Response: The City agrees with the recommendation. Although constrained by budget issues, the City will make efforts to review its process and determine where it can cost-effectively segregate some of the duties in higher risk areas.

Finding 2010-10 – Compensated Absences

Criteria: Under GASB Statement No. 16, the liability recorded for accrued vacation earned, but not yet taken by employees, should include not only the salary cost of the personnel, but also salary related costs such as payroll taxes and the employer pension contribution.

Condition: The City has appropriately accrued a liability for the salary portion of the compensated absences, but had not previously reported the portion relating to any salary related costs.

Context/Cause: In order to accrue the salary related costs as a liability, a prior period adjustment was recorded in the governmental activities for $31,036; in the Water and Sewer fund for $7,629; in the Solid Waste fund for $1,096; and in the Natural Gas fund for $7,252. Additionally, current year activity related to this portion of the liability had to be added totaling $7,601 among the governmental activities and funds above.

Effect: Audit adjustments totaling $47,362 were needed to correctly report this portion of the compensated absences.

Recommendation: We recommend the City review the compensated absence calculation each year and ensure the salary related costs are added to the liability.

Response: The City agrees with the recommendation. The Finance Department will make sure that the related employee expenses (FICA and retirement) are added to the annual year-end entry for Compensated Absences.

Finding 2010-11 – Document Retention

Criteria: Internal controls should allow for a monitoring function to be performed over financial information for a reasonable time.

Condition: During our fieldwork, several documents were unavailable to support financial information of City for the fiscal year 2010, due to its policy of shredding documents within a specified period of time.

Context/Cause: During our testing of revenue, we were unable to review four checks for $94,235 related to franchise tax – cable and telephone revenue nor 2 checks for grant revenue in the amount of $94,082.

Effect: We were able to gain comfort that the revenue was materially correct through other audit tests, such as confirmation, however this lack of an audit trial could lead to problems when other audit tests are not available.

Recommendation: We recommend the City maintain supporting documentation for financial information for at least the most recent period audited, until the next audit is concluded (for example, maintain financial records on fiscal year 2010 until the audit of fiscal year 2011 is completed). Records related to federal financial grants should be maintained for any period prescribed by the grant.

Response: The City agrees with the recommendation. Procedures have been implemented that copies of all miscellaneous revenues will be sent to the Finance Department and not destroyed.

Finding 2010-12 – Customer Deposits Sub-ledger

Criteria: Internal controls should require that accounting sub-ledgers and details should reconcile to the overall general ledger of the City.

Condition: During our fieldwork, we noted that the detail of customer deposits (Natural Gas and Water and Sewer utility funds) did not reconcile to the liability reported on the City's general ledger.

Context/Cause: During our testing of customer deposits, we noted that the Natural Gas fund has a liability reported in the general ledger of $317,242 whereas the sub-ledger detail only totals $160,894, a difference of $156,348. The City noted that this difference resulted from the implementation of a new system a few years ago and some customer deposit accounts did not translate into the new system. The Water and Sewer fund has a difference between the ledgers of $13,518.

Effect: The City should be able to justify and detail to whom the liabilities are owed, so as to allow for accurate financial statement reporting, and also to prevent intentional or unintentional misappropriation of assets.

Recommendation: We recommend the City work to reconcile these differences to the extent possible.

Response: The City agrees with the recommendation. However, due to limitations of the software, it makes it very difficult to insure that the sub-ledgers and the general ledger agree. The Finance department will make every effort to reconcile these differences while trying to minimize the effect on revenues.

Finding 2010-13 – Budgeting of Hotel/Motel Tax Fund

Criteria: The State Uniform Chart of Accounts requires that hotel/motel taxes be accounted for as a special revenue fund, which the City has complied with. Official Code of Georgia (OCGA) Section 36-81-3 requires that all special revenue funds adopt an annual, balanced budget.

Condition: The City does not separately budget the Hotel/Motel Tax special revenue fund – instead budgeting for hotel/motel taxes in the General Fund and moving them out for accounting and financial reporting purposes.

Context/Cause: The City budgets these taxes in the General Fund.

Effect: Not separately budgeting for the Hotel/Motel Tax Fund results in the City being out of compliance with State law.

Recommendation: We recommend that the City move its budgeting of the hotel/motel taxes out of the General Fund and into a separate special revenue fund to mirror its financial reporting.

Response: The City agrees with the recommendation. The Hotel/Motel funds will be budgeted and accounted for in a separate fund.

Section III – Federal Award Findings and Questioned Costs

Finding 2010-14 - Equipment Management

Program: CFDA No. 66.458

CFDA Program Title: Clean Water State Revolving Fund – Recovery Act Funded

State Pass Through Award No.: CWSRF 09-054

Federal Award Years: 2009

Criteria: The A-102 Common Rule requires that equipment, purchased with federal funds, be used in the program for which it was acquired or, when appropriate, other Federal programs and equipment records shall be maintained.

Condition: The City did not add capital assets, purchased with federal grant funds, to its capital asset system, denoting that they were purchased with federal grant funds.

Effects or possible effects: Not including capital assets purchased with federal funds in the capital asset system or denoting that they were purchased with federal funds could result in proceeds from the disposal of those assets not being retained in the program as required by federal requirements.

Questioned Costs: None, as no assets were disposed of, but capital assets acquired with the value of $1,000,000 were not included in the capital asset system or denoted to have been purchased with federal funds.

Cause: The City did not make the proper entry or notations within the capital asset system.

Context: This was the only capital asset purchased with federal funds.

Recommendation: We recommend the City follow procedures to properly include all grant related information in the capital asset system for grant funded capital assets.

Views of Responsible Officials: The City agrees with the recommendation. The procedures implemented concerning monthly and quarterly updating of capital assets will help insure that all capital assets are included on the asset listing.

Section IV – Prior year Findings and Questioned Costs

There was not an audit of major federal award programs as of the prior year (June 30, 2009) due to the total amount expended being less than $500,000; therefore, no findings related to Federal Awards.