CITY OF TOCCOA, GEORGIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
JUNE 30, 2013

CITY OF TOCCOA, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013

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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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Toccoa, Georgia** (the "City") as of and for the year ended June 30, 2013, and related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Toccoa, Georgia as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 15, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and Statement No. 65, *Items Previously Reported as Assets and Liabilities,* as of July 1, 2012. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Funding Progress on pages 4-13 and 52, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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 statements and schedules, including the Schedules of Expenditures of Special Purpose Local Option Sales Tax Proceeds (as required by the Official Code of Georgia Annotated 48-8-21), 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 statements and schedules (the "supplementary information") are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2013 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* in considering the City of Toccoa, Georgia's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Atlanta, Georgia
December 7, 2013

As management of the City of Toccoa (the "City"), 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, 2013. 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 and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at June 30, 2013 by $53,377,781 (net position). Of this amount, $4,488,763 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors. The government's total net position decreased by $347,732 during the fiscal year ended June 30, 2013; with an increase from business-type activities ($1,037,353) and a decrease in governmental activities ($1,385,085).
- As of June 30, 2013, the City's governmental funds reported combined ending fund balances of $8,634,624 an increase of $525,185 in comparison with the prior year. This increase is attributable mainly to a $587,935 increase in fund balance of the SPLOST V Fund offset by a decrease in the fund balance of the SPLOST IV Fund. The increase in SPLOST V was due to the City spending less money on these SPLOST projects during the year ended June 30, 2013 than the incoming revenue.

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 required and 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 position and the statement of activities, which are described below.

1) The "statement of net position" presents information on all of the City's assets, liabilities, deferred outflows of resources, and deferred inflows of resources, with the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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, natural gas services, and the golf course.

The government-wide financial statements can be found on pages 14 and 15 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 7 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 three 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 16-19 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 20-22 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 23-51 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 52 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 53-58 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $53,377,781 and $53,725,513 at June 30, 2013 and 2012, respectively. The following is a condensed version of the government-wide statement of net position.

City of Toccoa – Net Position ($000)

	Governmental Activities		Business-Type		Total	
	2013	2012	2013	2012	2013	2012
Assets and deferred outflows:						
Current and other assets and deferred outflows	$ 9,555	$ 9,270	$ 3,365	$ 1,962	$ 12,920	$ 11,232
Capital assets	18,360	20,288	50,073	51,877	68,433	72,165
Total assets and deferred outflows	27,915	29,558	53,438	53,839	81,353	83,397
Liabilities and deferred inflows:						
Long-term liabilities outstanding	2,311	2,311	21,429	23,087	23,740	25,398
Other liabilities and deferred inflows	904	1,162	3,332	3,112	4,236	4,273
Total liabilities and deferred inflows	3,215	3,473	24,761	26,199	27,976	29,671
Net position:						
Net investment in capital assets	17,352	19,293	26,906	26,507	44,258	45,800
Restricted	4,631	4,161	-	-	4,631	4,161
Unrestricted	2,717	2,631	1,771	1,133	4,488	3,765
Total net position	$ 24,700	$ 26,085	$ 28,677	$ 27,640	$ 53,377	$ 53,726

The largest portion of the City's net position (83%) reflects its net investment in capital assets such as land, buildings, plant, utility system, equipment, and infrastructure (roads, bridges, and other immovable assets), less any related outstanding debt used to acquire those assets. These capital assets are used by the City to provide services to citizens. Although the City's net 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 position of $4,630,663 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.

The remaining balance of unrestricted net position $4,488,763 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 position for governmental activities and for business-type activities. The same situation held true for the prior fiscal year.

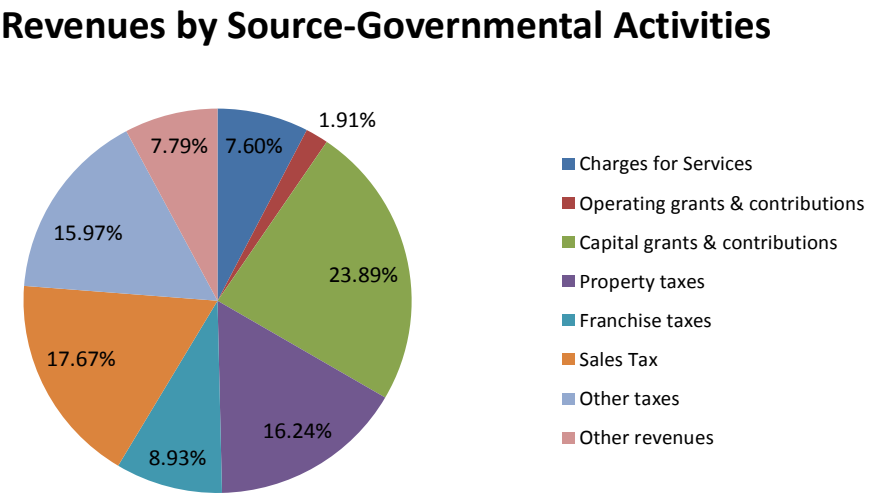
Governmental activities: Governmental activities decreased the City's net position by $1,385,085 and business-type activities increased the City's net position by $1,037,353. Much of the decrease in governmental activities net position came from decreases in various revenues, notably property taxes due to a decrease in the City's millage rate. The increase in business-type activities net position came predominately from increased revenues in Natural Gas sales as the fund recovered from a very mild winter in fiscal year 2012.

The following condensed financial information was derived from the government-wide statement of activities and summarizes changes in net position for the year ended June 30, 2013 and 2012.

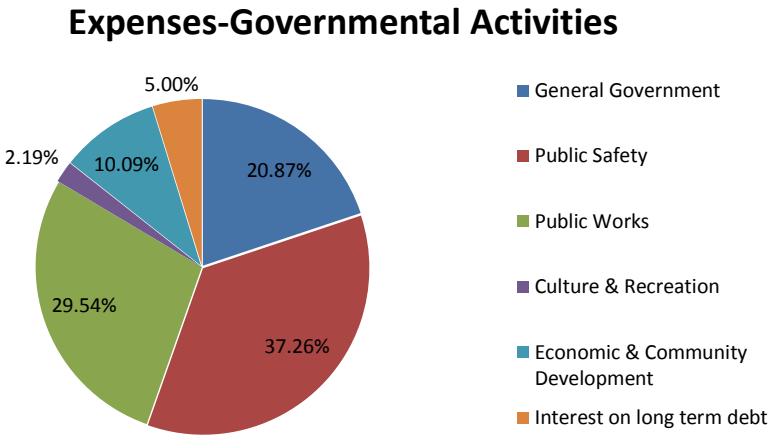
City of Toccoa – Changes in Net Position ($000)

	Governmental Activities		Business-Type		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Charges for services	$ 496	$ 476	$ 18,895	$ 17,295	$ 19,391	$ 17,771
Operating grants and contributions	125	27	-	-	125	27
Capital grants and contributions	1,566	1,601	134	-	1,700	1,601
General revenues:						
Property taxes	1,059	1,287	-	-	1,059	1,287
Franchise taxes	583	573	-	-	583	573
Sales tax	1,153	1,163	-	-	1,153	1,163
Other taxes	1,042	980	-	-	1,042	980
Other	500	476	-	3	500	480
Total revenues	6,523	6,583	19,029	17,298	25,552	23,882
Expenses						
General government	2,181	1,921	-	-	2,181	1,921
Public safety	3,894	3,712	-	-	3,894	3,712
Public works	3,087	3,018	-	-	3,087	3,018
Culture & recreation	229	26	-	-	229	26
Economic & community development	1,055	785	-	-	1,055	785
Interest on long term debt	5	8	-	-	5	8
Water and sewer	-	-	4,783	4,762	4,783	4,762
Solid waste	-	-	842	801	842	801
Natural gas	-	-	9,803	9,863	9,803	9,863
Golf course	-	-	20	20	20	20
Total expenses	10,451	9,470	15,449	15,446	25,900	24,916
Transfers	2,543	2,010	(2,543)	(2,010)	-	-
Change in net assets	(1,385)	(877)	1,037	(158)	(348)	(1,034)
Net position-July 1, restated	26,085	26,962	27,640	27,798	53,726	54,760
Net position-June 30	$ 24,700	$ 26,085	$ 28,677	$ 27,640	$ 53,378	$ 53,726

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 $6,523,203 for fiscal year 2013. 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 a large portion on these revenues accounting for 24% of total revenues. Property taxes and Local Option Sales Taxes (LOST) are also large revenue sources accounting for 16.24% and 17.67%, respectively, of governmental revenues for the year.

Governmental activities expenses totaled $10,450,798 for fiscal year 2013. Of the expenses, 37% is related to public safety. In addition, public works accounted for 30% of total governmental expenses for the year. Overall expenses increased at the City as a result of more grant expenses.

Business-type activities: Business-type activities decreased the City's net position by $1,037,353, due primarily to increases in Natural Gas sales as the fund recovered from a mild winter in fiscal year 2012.

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, unassigned 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 $8,634,624 an increase of $525,185 or 6% in comparison with the prior year. Approximately 4% of the fund balance or $324,938 is classified as nonspendable and includes amounts for inventory and long term advances. Restricted fund balance of $5,900,296 or 68% is for spending on capital projects, grants, and tourism, and the GMA lease pool. The remaining balance $2,409,390 is considered unassigned.

The General Fund is the chief operating fund of the City. For the current fiscal year, the fund balance of the City's General Fund increased by $55,462. This resulted primarily from transfers in from the enterprise funds to cover the decreased property tax revenues as a result of the millage rate decrease.

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 position of $984,652. Overall, net position of this fund decreased by $362,313 due to expenses and transfers out exceeding revenues. Operating income was $1,615,228, a decrease of $232,948 from the prior year.

The Solid Waste Fund has unrestricted net position of ($58,887) and total net position increased by $27,208 from the prior year due to revenues exceeding expenses and transfers. Operating income was $276,856 a decline of $66,035 from the prior year.

The Natural Gas Fund had unrestricted net position of $845,482. Total net position increased by $1,379,009 from the prior year primarily due to increase gas sales as the fund recovers from the mild winter in fiscal year 2012. Operating income was $2,716,151 an increase of $2,042,161 from the prior year.

General Fund Budgetary Highlights

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

During the year, General Fund revenues were more than budgetary projections while expenditures were less than budgetary estimates, however transfers in and out were less than budgeted amounts. Overall the City was able to add $55,462 to fund balance through transfers in from other funds.

Capital Assets and Debt Administration

Capital assets: The City's investment in capital assets for its governmental activities as of June 30, 2013, amounted to $18,359,532, net of accumulated depreciation. The investment in capital assets includes land, plant and buildings, machinery, equipment and fixtures, and streets and drainage. The balance represents a $1,928,673 decrease from the prior year, caused by depreciation expense for the year and the net effect of acquisitions and disposals. The business-type activities had net capital assets of $50,073,267 at June 30, 2013, representing a decrease of $1,803,451 also caused mainly by depreciation.

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 2013 and 2012

	Governmental Activities		Business-Type		Total	
	2013	2012	2013	2012	2013	2012
Land and improvements	$ 630	$ 630	$ 295	$ 295	$ 925	$ 925
Buildings	6,273	6,234	3,657	3,657	9,930	9,891
Urban Renewal parks	135	78	-	-	135	78
Machinery and equipment	4,442	4,422	6,211	6,127	10,653	10,549
Infrastructure	41,596	41,596	-	-	41,596	41,596
Utility systems	-	-	88,334	88,118	88,334	88,118
Construction in progress	-	-	432	-	432	-
Total	53,076	52,960	98,929	98,197	152,005	151,157
Accumulated depreciation	34,716	32,672	48,856	46,320	83,572	78,992
Net Capital Assets	$ 18,360	$ 20,288	$ 50,073	$ 51,877	$ 68,433	$ 72,165

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

Long-term debt: At June 30, 2013, the City had $17,328,984 in Natural Gas bonded debt. Overall these are $1,313,677 lower than the prior year due to repayment of bonds at scheduled maturity. The City's Water and Sewer fund also had $6,133,000 in revenue bonds payable, which were issued in fiscal year 2013 to refund the City's notes payable with the Georgia Environmental Finance Authority, at the end of the fiscal year

The City's governmental activities had certificates of participation of $2,277,000 at June 30, 2013 and 2012, 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.

New Accounting Standards and Change in Accounting Principle

Effective July 1, 2013, the City implemented GASB statements 63 (Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position) and GASB 65 (Items Previously Reported as Assets and Liabilities). The implementation of these standards has changed the presentation of certain items on the government wide statement of net position and the proprietary funds statement of net position. A restatement of beginning net position was also necessary as a result of these standards. Further information on GASB 63 can be found in footnote 1 and the restatement as a result of the change in accounting principal (GASB 65) can be found in footnote 15.

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 2014 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 2013.

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 POSITION
JUNE 30, 2013

	Primary Government		
ASSETS	**Governmental Activities**	**Business-type Activities**	**Total**
Cash and cash equivalents	$ 6,867,131	$ 899,159	$ 7,766,290
Taxes receivable, net	262,970	-	262,970
Accounts receivable, net	79,108	1,925,428	2,004,536
Due from other governments	218,237	-	218,237
Internal balances	250,896	(250,896)	-
Inventory	74,042	476,554	550,596
Investments	1,269,633	-	1,269,633
Other assets	533,264	-	533,264
Capital assets, non-depreciable	629,928	726,920	1,356,848
Capital assets, depreciable, net of accumulated depreciation	17,729,604	49,346,347	67,075,951
Total assets	27,914,813	53,123,512	81,038,325
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	-	315,138	315,138
Total deferred outflows of resources	-	315,138	315,138
LIABILITIES			
Accounts payable	159,659	653,200	812,859
Accrued liabilities	74,856	102,832	177,688
Customer deposits payable	-	422,267	422,267
Compensated absences, due within one year	135,754	60,418	196,172
Compensated absences, due in more than one year	33,938	40,279	74,217
Bonds payable, due within one year	-	2,083,000	2,083,000
Bonds payable, due in more than one year	-	21,378,984	21,378,984
Certificates of participation, due in more than one year	2,277,000	-	2,277,000
Capital leases payable, due within one year	-	10,821	10,821
Capital leases payable, due in more than one year	-	9,410	9,410
Total liabilities	2,681,207	24,761,211	27,442,418
DEFERRED INFLOWS OF RESOURCES			
Cumulative change in fair value of effective hedge	533,264	-	533,264
Total deferred inflows of resources	533,264	-	533,264
NET POSITION			
Net investment in capital assets	17,352,165	26,906,190	44,258,355
Restricted for:			
Capital projects	4,521,492	-	4,521,492
Grant programs	98,760	-	98,760
Tourism	10,411	-	10,411
Unrestricted	2,717,514	1,771,249	4,488,763
Total net position	$ 24,700,342	$ 28,677,439	$ 53,377,781

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

CITY OF TOCCOA, GEORGIA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

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 Position: Primary Government: Governmental Activities	Net (Expenses) Revenues and Changes in Net Position: Primary Government: Business-type Activities	Net (Expenses) Revenues and Changes in Net Position: Primary Government: Total
Primary government:							
Governmental activities:							
General government	$ 2,181,103	$ 58,004	$ 124,618	$ -	$ (1,998,481)	$ -	$ (1,998,481)
Public safety	3,893,561	396,489	-	112,138	(3,384,934)	-	(3,384,934)
Public works	3,087,252	18,421	-	1,269,296	(1,799,535)	-	(1,799,535)
Culture and recreation	229,288	22,872	-	84,009	(122,407)	-	(122,407)
Economic and community development	1,054,503	-	-	100,971	(953,532)	-	(953,532)
Interest on long-term debt	5,091	-	-	-	(5,091)	-	(5,091)
Total governmental activities	10,450,798	495,786	124,618	1,566,414	(8,263,980)	-	(8,263,980)
Business-type activities:							
Water and sewer	4,783,093	6,087,559	-	-	-	1,304,466	1,304,466
Solid waste	842,454	1,119,310	-	-	-	276,856	276,856
Natural gas	9,803,168	11,675,471	-	133,666	-	2,005,969	2,005,969
Golf course	20,268	12,840	-	-	-	(7,428)	(7,428)
Total business-type activities	15,448,983	18,895,180	-	133,666	-	3,579,863	3,579,863
Total primary government	$ 25,899,781	$ 19,390,966	$ 124,618	$ 1,700,080	(8,263,980)	3,579,863	(4,684,117)
General revenues:							
Property taxes					1,059,215	-	1,059,215
Sales taxes					1,152,672	-	1,152,672
Franchise taxes					582,505	-	582,505
Insurance premium tax					423,023	-	423,023
Hotel/Motel occupancy tax					36,095	-	36,095
Business taxes					231,101	-	231,101
Other taxes					351,802	-	351,802
Unrestricted investment earnings					30,238	-	30,238
Gain on sale of assets					499	-	499
Other revenue					469,235	-	469,235
Transfers					2,542,510	(2,542,510)	-
Total general revenues and transfers					6,878,895	(2,542,510)	4,336,385
Change in net position					(1,385,085)	1,037,353	(347,732)
Net position, beginning of year, as restated					26,085,427	27,640,086	53,725,513
Net position, end of year					$ 24,700,342	$ 28,677,439	$ 53,377,781

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

CITY OF TOCCOA, GEORGIA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

ASSETS	Major Governmental Funds: General	Major Governmental Funds: SPLOST IV Fund	Major Governmental Funds: SPLOST V Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents	$ 2,452,762	$ 487,758	$ 3,617,099	$ 309,512	$ 6,867,131
Taxes receivable, net	258,638	-	-	4,332	262,970
Accounts receivable	79,108	-	-	-	79,108
Intergovernmental receivable	-	-	184,939	33,298	218,237
Investments	1,269,633	-	-	-	1,269,633
Advances to other funds	250,896	-	-	-	250,896
Inventory	74,042	-	-	-	74,042
Total assets	$ 4,385,079	$ 487,758	$ 3,802,038	$ 347,142	$ 9,022,017
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 154,443	$ -	$ -	$ 5,216	$ 159,659
Accrued salaries	64,784	-	-	1,059	65,843
Total liabilities	219,227	-	-	6,275	225,502
DEFERRED INFLOWS OF RESOURCES					
Unearned revenue - property taxes	161,891	-	-	-	161,891
Total deferred inflows of resources	161,891	-	-	-	161,891
FUND BALANCES					
Fund balances					
Nonspendable:					
Inventory	74,042	-	-	-	74,042
Advances to other funds	250,896	-	-	-	250,896
Restricted:					
Capital construction	-	487,758	3,802,038	231,696	4,521,492
GMA Lease Pool participation	1,269,633	-	-	-	1,269,633
Tourism	-	-	-	10,411	10,411
Grant programs	-	-	-	98,760	98,760
Unassigned	2,409,390	-	-	-	2,409,390
Total fund balances	4,003,961	487,758	3,802,038	340,867	8,634,624
Total liabilities, deferred inflows of resources, and fund balances	$ 4,385,079	$ 487,758	$ 3,802,038	$ 347,142	

Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	18,359,532
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	161,891
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(2,455,705)
Net position of governmental activities	$ 24,700,342

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, 2013

	Major Governmental Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General	SPLOST IV Fund	SPLOST V Fund		
Revenues					
Taxes:					
Property taxes	$ 1,041,962	$ -	$ -	$ -	$ 1,041,962
Sales taxes	1,152,672	-	-	-	1,152,672
Hotel/Motel occupancy taxes	-	-	-	36,095	36,095
Franchise taxes	582,505	-	-	-	582,505
Insurance premium tax	423,023	-	-	-	423,023
Business taxes	231,101	-	-	-	231,101
Other taxes	351,802	-	-	-	351,802
Licenses and permits	61,593	-	-	-	61,593
Intergovernmental	124,618	-	1,160,404	397,754	1,682,776
Fines and forfeitures	259,555	-	-	-	259,555
Charges for services	174,638	-	-	-	174,638
Investment earnings	30,238	1,078	6,689	489	38,494
Other revenues	469,235	-	-	-	469,235
Total revenues	4,902,942	1,078	1,167,093	434,338	6,505,451
Expenditures					
Current:					
General government	1,976,653	-	-	61,259	2,037,912
Judicial	168,118	-	-	-	168,118
Police	1,722,394	-	-	111,278	1,833,672
Fire	1,476,386	-	-	-	1,476,386
Streets and sanitation	408,672	-	-	22,999	431,671
Cemetery	44,911	-	-	-	44,911
Public building and grounds	762,677	-	-	-	762,677
Parks and recreation	22,372	-	-	-	22,372
Animal Control	158,643	-	-	-	158,643
Planning, building inspection, and development	832,397	-	-	222,258	1,054,655
Capital outlay	88,389	53,457	385,321	-	527,167
Debt service:					
Interest	5,091	-	-	-	5,091
Total expenditures	7,666,703	53,457	385,321	417,794	8,523,275
Excess (deficiency) of revenues over (under) expenditures	(2,763,761)	(52,379)	781,772	16,544	(2,017,824)
Other financing sources (uses):					
Proceeds from sale of capital assets	499	-	-	-	499
Transfers in	2,819,601	-	-	-	2,819,601
Transfers out	(877)	(42,426)	(193,837)	(39,951)	(277,091)
Total other financing sources (uses)	2,819,223	(42,426)	(193,837)	(39,951)	2,543,009
Net change in fund balances	55,462	(94,805)	587,935	(23,407)	525,185
Fund balances, beginning of year	3,948,499	582,563	3,214,103	364,274	8,109,439
Fund balances, end of year	$ 4,003,961	$ 487,758	$ 3,802,038	$ 340,867	$ 8,634,624

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, 2013

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

Net change in fund balances - total governmental funds	$	525,185
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.		(1,928,325)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		17,253
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.		1,150
Change in net position - governmental activities	$	(1,385,085)

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, 2013

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Property taxes	$ 1,098,155	$ 1,042,155	$ 1,041,962	$ (193)
Sales taxes	1,250,000	1,153,000	1,152,672	(328)
Franchise taxes	600,500	574,500	582,505	8,005
Insurance premium taxes	400,000	423,000	423,023	23
Business taxes	275,000	231,100	231,101	1
Other taxes	317,400	340,400	351,802	11,402
Licenses and permits	63,000	63,000	61,593	(1,407)
Intergovernmental	29,000	124,700	124,618	(82)
Fines and forfeitures	237,500	237,500	259,555	22,055
Charges for services	186,200	181,300	174,638	(6,662)
Investment earnings	28,500	28,500	30,238	1,738
Other revenues	421,000	467,600	469,235	1,635
Total revenues	4,906,255	4,866,755	4,902,942	36,187
Expenditures:				
Current:				
General government	2,022,450	2,045,150	2,065,042	(19,892)
Judicial	117,272	168,272	168,118	154
Police	1,889,362	1,706,592	1,722,394	(15,802)
Fire	1,512,384	1,478,084	1,476,386	1,698
Streets and sanitation	460,171	411,256	408,672	2,584
Cemetery	48,553	45,553	44,911	642
Public building and grounds	749,405	757,605	762,677	(5,072)
Parks and recreation	24,574	24,574	22,372	2,202
Animal control	127,505	162,605	158,643	3,962
Planning, building inspection, and development	577,801	854,778	832,397	22,381
Debt service:				
Principal	101,860	57,860	-	57,860
Interest	4,517	9,617	5,091	4,526
Total expenditures	7,635,854	7,721,946	7,666,703	55,243
Deficiency of revenues under expenditures	(2,729,599)	(2,855,191)	(2,763,761)	91,430
Other financing sources (uses):				
Proceeds from sale of capital assets	5,000	7,300	499	(6,801)
Transfers in	3,183,888	3,221,088	2,819,601	(401,487)
Transfers out	(459,289)	(373,197)	(877)	372,320
Total other financing sources (uses)	2,729,599	2,855,191	2,819,223	(35,968)
Net change in fund balances	-	-	55,462	55,462
Fund balances, beginning of year	3,948,499	3,948,499	3,948,499	-
Fund balances, end of year	$ 3,948,499	$ 3,948,499	$ 4,003,961	$ 55,462

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

CITY OF TOCCOA, GEORGIA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

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	$ 360,764	$ 59,826	$ 478,567	$ 2	$ 899,159
Accounts receivable, net	714,314	132,559	1,078,555	-	1,925,428
Inventory	215,836	-	260,718	-	476,554
Total current assets	1,290,914	192,385	1,817,840	2	3,301,141
NONCURRENT ASSETS					
Advances to other funds	-	-	9,040	-	9,040
Capital assets:					
Nondepreciable	362,385	-	292,980	71,555	726,920
Depreciable assets, net of accumulated depreciation	26,591,438	513,091	22,116,118	125,700	49,346,347
Total noncurrent assets	26,953,823	513,091	22,418,138	197,255	50,082,307
Total assets	28,244,737	705,476	24,235,978	197,257	53,383,448
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charges on refunding	-	-	315,138	-	315,138
Total deferred outflows of resources	-	-	315,138	-	315,138
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	34,610	1,169	617,421	-	653,200
Accrued salaries	23,833	3,877	17,952	-	45,662
Accrued interest	2,693	-	54,477	-	57,170
Compensated absences payable, current	31,799	6,183	22,436	-	60,418
Customer deposits payable	168,113	-	254,154	-	422,267
Capital leases payable, current	-	-	-	10,821	10,821
Bonds payable, current	768,000	-	1,315,000	-	2,083,000
Total current liabilities	1,029,048	11,229	2,281,440	10,821	3,332,538
NONCURRENT LIABILITIES					
Compensated absences payable	21,199	4,122	14,958	-	40,279
Advances from other funds	24,015	235,921	-	-	259,936
Capital leases payable	-	-	-	9,410	9,410
Bonds payable	5,365,000	-	16,013,984	-	21,378,984
Total noncurrent liabilities	5,410,214	240,043	16,028,942	9,410	21,688,609
Total liabilities	6,439,262	251,272	18,310,382	20,231	25,021,147
NET POSITION					
Net investment in capital assets	20,820,823	513,091	5,395,252	177,024	26,906,190
Unrestricted	984,652	(58,887)	845,482	2	1,771,249
Total net position	$ 21,805,475	$ 454,204	$ 6,240,734	$ 177,026	$ 28,677,439

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

CITY OF TOCCOA, GEORGIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds				
OPERATING REVENUES	**Water and Sewer Fund**	**Solid Waste Fund**	**Natural Gas Fund**	**Golf Course Fund**	**Totals**
Charges for services	$ 6,087,559	$ 1,119,310	$ 11,675,471	$ 12,840	$ 18,895,180
Intergovernmental revenue	-	-	133,666	-	133,666
Total operating revenues	6,087,559	1,119,310	11,809,137	12,840	19,028,846
OPERATING EXPENSES					
Personal services and benefits	1,628,145	263,340	1,226,764	-	3,118,249
Purchased and contracted services	314,921	402,842	258,661	928	977,352
Supplies and equipment	1,025,183	86,810	6,447,846	-	7,559,839
Depreciation & amortization	1,429,403	76,471	1,065,655	16,831	2,588,360
Miscellaneous	74,679	12,991	94,060	-	181,730
Total operating expenses	4,472,331	842,454	9,092,986	17,759	14,425,530
Operating income (loss)	1,615,228	276,856	2,716,151	(4,919)	4,603,316
NON-OPERATING REVENUES (EXPENSES)					
Interest, issuance costs, and fiscal agent fees	(310,762)	-	(710,182)	(2,509)	(1,023,453)
Total non-operating revenues (expenses)	(310,762)	-	(710,182)	(2,509)	(1,023,453)
Income (loss) before transfers	1,304,466	276,856	2,005,969	(7,428)	3,579,863
Transfers in	251,214	31,613	31,613	877	315,317
Transfers out	(1,917,993)	(281,261)	(658,573)	-	(2,857,827)
	(1,666,779)	(249,648)	(626,960)	877	(2,542,510)
Change in net position	(362,313)	27,208	1,379,009	(6,551)	1,037,353
NET POSITION, beginning of year, as restated	22,167,788	426,996	4,861,725	183,577	27,640,086
NET POSITION, end of year	$ 21,805,475	$ 454,204	$ 6,240,734	$ 177,026	$ 28,677,439

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, 2013

	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	$ 6,131,653	$ 1,130,323	$ 11,295,937	$ 12,840	$ 18,570,753
Payments to vendors	(1,419,843)	(502,019)	(6,737,207)	(928)	(8,659,997)
Payments to or on behalf of employees	(1,629,266)	(262,642)	(1,228,066)	-	(3,119,974)
Net cash provided by operating activities	3,082,544	365,662	3,330,664	11,912	6,790,782
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Transfers from other funds	-	31,613	31,613	877	64,103
Transfers to other funds	(1,917,993)	(281,261)	(658,573)	-	(2,857,827)
Net cash used in non-capital financing activities	(1,917,993)	(249,648)	(626,960)	877	(2,793,724)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal payments on notes payable	(6,678,887)	-	-	-	(6,678,887)
Principal payments on bonds payable	-	-	(1,265,000)	-	(1,265,000)
Principal payments on capital leases payable	-	-	-	(10,331)	(10,331)
Proceeds from refunding bonds	6,133,000	-	-	-	6,133,000
Payment of bond issuance costs	(74,960)	-	-	-	(74,960)
Interest paid	(292,165)	-	(714,775)	(2,509)	(1,009,449)
Transfers from other funds specifically for capital purposes	251,214	-	-	-	251,214
Paid advance to other fund	(24,013)	(69,489)	(40,343)	-	(133,845)
Purchases of capital assets	(264,435)	-	(516,971)	-	(781,406)
Net cash used in capital and related financing activities	(950,246)	(69,489)	(2,537,089)	(12,840)	(3,569,664)
Net increase (decrease) in cash and cash equivalents	214,305	46,525	166,615	(51)	427,394
Cash and cash equivalents, beginning of year	146,459	13,301	311,952	53	471,765
Cash and cash equivalents, end of year	$ 360,764	$ 59,826	$ 478,567	$ 2	$ 899,159
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$ 1,615,228	$ 276,856	$ 2,716,151	$ (4,919)	$ 4,603,316
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	1,429,403	76,471	1,065,655	16,831	2,588,360
Change in assets and liabilities					
Accounts receivables	44,094	11,013	(513,200)	-	(458,093)
Inventory	(10,931)	-	(57,567)	-	(68,498)
Accounts payable	(9,747)	624	131,919	-	122,796
Accrued salaries	534	407	51	-	992
Compensated absences	(1,655)	291	(1,353)	-	(2,717)
Customer deposits payable	15,618	-	(10,992)	-	4,626
Net cash provided by operating activities	$ 3,082,544	$ 365,662	$ 3,330,664	$ 11,912	$ 6,790,782

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 as of and for the year ended June 30, 2013.

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 position and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and business-type activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The statement of net position includes 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 funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

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

The ***SPLOST 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 if recognition criteria are met. 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.

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 applicable to the fund. 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. 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)

J. 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.

K. 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 position. Bond premiums and discounts 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 expensed in the year of issue.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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 expenditures in the year of issue.

L. Fund Equity and Net Position

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

Fund Balance – Generally, fund balance represents the difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources under the current financial resources measurement focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- ***Nonspendable*** – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

Note 1. Summary of Significant Accounting Policies (Continued)

L. Fund Equity and Net Position (Continued)

- ***Restricted*** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

- ***Committed*** – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Commission through the adoption of a resolution including the verbiage "committed for the purpose of". Only the City Commission may modify or rescind the commitment through a subsequent resolution.

- ***Assigned*** – Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Commission has authorized the City Manager to assign fund balances through a written memorandum, in addition to the City Commission being able to assign fund balance through a motion at a public meeting.

- ***Unassigned*** – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the General Fund. Negative unassigned fund balances may be reported in all funds.

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

- Committed
- Assigned
- Unassigned

Note 1. Summary of Significant Accounting Policies (Continued)

L. Fund Equity and Net Position (Continued)

Minimum Fund Balance Policy - The City Commission adopted a policy to maintain a reserve account of not less than $2,000,000. This reserve account shall be in addition to any and all regular operating Fund Balances maintained in the General, Special Revenue and Enterprise Funds of the City. This account is to be set up as a separate bank account and maintained in the General Fund. This reserve account shall obtain its funding from the transfer of the employee health insurance payroll deductions, the sale of surplus and obsolete equipment, one-time general fund/enterprise revenues, allocations of annual budget transfers, unexpected revenues received and/or unexpected budget savings designated to be deposited into the account. This account is to be used solely for purposes approved by the City Commission. These uses are to be approved in a publicly held meeting and must be voted on by the City Commission.

Net Position - Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in reporting which utilizes the economic resources measurement focus. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the City has spent) for the acquisition, construction or improvement of those capital assets. Net position is reported as restricted using the same definition as used for restricted fund balance as described in the section above. All other net position is reported as unrestricted. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed

M. Deferred Outflows of Resources / Deferred Inflows of Resources

The City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of July 1, 2012. These new standards establish accounting and financial reporting for deferred outflows / inflows of resources and the concept of net position as the residual of all other elements presented in a statement of net position.

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the business type activities on the statement of net position as well as statement of net position for major proprietary funds. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunded debt.

Note 1. Summary of Significant Accounting Policies (Continued)

M. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of deferred inflows of resources, one of which arises only under the modified accrual basis of accounting and one of which arises only in under the accrual basis of accounting – both of which are only found in the governmental activities and funds. For the governmental funds, under the modified accrual basis of accounting, the City reports unavailable revenues from property taxes and other sources as a deferred inflow of resources, as these amounts will not be recognized as an inflow of resources until the period that the amounts become available. Additionally, the governmental activities, in the government-wide financial statements, report a deferred inflow of resources for the cumulative changes in fair value related to the hedging derivative financial instrument which was determined to be an effective hedge as described in more detail in Note 8.

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 position

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. 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 $2,455,705 difference are as follows:

Certificates of participation (COPs) payable	$	(2,277,000)
Fair value of interest swap agreement on COPs		533,264
Deferred inflow of resources for effective hedge swap agreement		(533,264)
Accrued interest payable		(9,013)
Compensated absences		(169,692)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net position - governmental activities*	$	(2,455,705)

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 position 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 $1,928,325 difference are as follows:

Capital outlay	$	192,330
Depreciation expense		(2,120,655)
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *change in net position of governmental activities*	$	(1,928,325)

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 $1,150 difference are as follows:

Compensated absences	$ (1,150)
Net adjustment to decrease *net changes in fund balances - total governmental funds to arrive at change in net position of governmental activities*	$ (1,150)

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.

B. Budgetary Excesses

The General Fund had an excess of actual expenditures over budget in the amount of $19,892 for the general government functional area, $15,802 for the police functional area, and $5,072 for the public building and grounds functional area, which resulted from higher than expected costs.

Note 4. Deposits and Investments

As of June 30, 2013, the City had a guaranteed investment contract. The amounts classified as investments at June 30, 2013 were:

Investment	Fair Value	Interest Rate Risk
Guaranteed Investment Contract	$ 1,269,633	Maturity Date June 1, 2028
Total	$ 1,269,633	

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, 2013, 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 inflows of resources when assessed. Accordingly, the January 1, 2012 Property Tax Digest was recognized as revenues for fiscal year 2013, 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	$ 258,638	$ -	$ -	$ -	$ -	$ 4,332
Accounts	79,108	-	786,830	158,798	1,149,082	-
Intergovernmental	-	184,939	-	-	-	33,298
Less allowance for uncollectibles	-	-	(72,516)	(26,239)	(70,527)	-
Net total receivables	$ 337,746	$ 184,939	$ 714,314	$ 132,559	$ 1,078,555	$ 37,630

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Transfers/ Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and improvements	$ 630,276	$ -	$ (348)	$ 629,928
Total assets, not being depreciated	630,276	-	(348)	629,928
Capital assets, being depreciated:				
Buildings	6,233,992	38,800	-	6,272,792
Urban renewal parks	77,835	65,141	(8,245)	134,731
Machinery and equipment	4,421,999	88,389	(68,037)	4,442,351
Infrastructure	41,596,214	-	-	41,596,214
Total assets, being depreciated	52,330,040	192,330	(76,282)	52,446,088
Less accumulated depreciation for:				
Buildings	(2,575,285)	(158,795)	-	(2,734,080)
Urban renewal parks	(40,158)	(1,346)	8,245	(33,259)
Machinery and equipment	(3,334,215)	(168,228)	68,037	(3,434,406)
Infrastructure	(26,722,453)	(1,792,286)	-	(28,514,739)
Total accumulated depreciation	(32,672,111)	(2,120,655)	76,282	(34,716,484)
Total assets, being depreciated, net	19,657,929	(1,928,325)	-	17,729,604
Governmental activities capital assets, net	$ 20,288,205	$ (1,928,325)	$ (348)	$ 18,359,532
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 295,276	$ -	$ -	$ 295,276
Construction in progress	-	654,864	(223,220)	431,644
Total assets, not being depreciated	295,276	654,864	(223,220)	726,920
Capital assets, being depreciated:				
Buildings	3,656,548	-	-	3,656,548
Utility systems	88,117,998	43,879	172,641	88,334,518
Machinery and equipment	6,126,954	82,663	1,244	6,210,861
Total assets, being depreciated	97,901,500	126,542	173,885	98,201,927
Less accumulated depreciation for:				
Buildings	(2,036,755)	(84,373)	-	(2,121,128)
Utility systems	(40,880,119)	(2,240,007)	18,495	(43,101,631)
Machinery and equipment	(3,403,184)	(260,477)	30,840	(3,632,821)
Total accumulated depreciation	(46,320,058)	(2,584,857)	49,335	(48,855,580)
Total assets, being depreciated, net	51,581,442	(2,458,315)	223,220	49,346,347
Business-type activities capital assets, net	$ 51,876,718	$ (1,803,451)	$ -	$ 50,073,267

Note 6. Capital Assets (Continued)

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

Governmental activities:		
General government	$	97,084
Public safety		166,137
Public works		1,848,172
Culture and recreation		9,262
Total depreciation expense - governmental activities	$	2,120,655
Business-type activities:		
Water and sewer	$	1,429,403
Solid waste		76,471
Natural gas		1,062,152
Golf course		16,831
Total depreciation expense - business-type activities	$	2,584,857

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

The composition of inter-fund balances as of June 30, 2013, is as follows:

Advances from/to other funds:

Receivable Fund	Payable Fund	Amount
General	Water and Sewer	$ 14,975
General	Solid Waste	235,921
Natural Gas	Water and Sewer	9,040
Total		$ 259,936

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, 2013:

	Transfers Out							
Transfers in	General Fund	SPLOST IV Fund	SPLOST V Fund	Non-Major Gov't	Water & Sewer Fund	Solid Waste Fund	Natural Gas Fund	Total
General Fund	$ -	$ -	$ -	$ 25,000	$ 1,854,767	$ 281,261	$ 658,573	$ 2,819,601
Water & Sewer Fund	-	42,426	193,837	14,951	-	-	-	251,214
Solid Waste Fund	-	-	-	-	31,613	-	-	31,613
Natural Gas Fund	-	-	-	-	31,613	-		31,613
Golf Fund	877	-	-	-	-	-	-	877
Total	$ 877	$ 42,426	$ 193,837	$ 39,951	$ 1,917,993	$ 281,261	$ 658,573	$ 3,134,918

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. Transfers from the SPLOST IV and V Fund to the Water & Sewer Fund are for the reimbursement of purchases of SPLOST assets in the Water & Sewer Fund.

Note 8. Long-term Debt

Long-term liability activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Certificates of Participation	$ 2,277,000	$ -	$ -	$ 2,277,000	$ -
Compensated absences	170,842	189,735	(190,885)	169,692	135,754
Governmental activity Long-term liabilities	$ 2,447,842	$ 189,735	$ (190,885)	$ 2,446,692	$ 135,754

Note 8. Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Revenue bonds:					
Natural Gas bonds	$ 18,300,000	$ -	$ (1,265,000)	$ 17,035,000	$ 1,315,000
Add: Premium	342,661	-	(48,677)	293,984	-
Net Natural Gas	18,642,661	-	(1,313,677)	17,328,984	1,315,000
Water & Sewer bonds	-	6,133,000	-	6,133,000	768,000
Notes payable	6,678,887	-	(6,678,887)	-	-
Capital lease obligation	30,562		(10,331)	20,231	10,821
Compensated absences	103,414	118,876	(121,593)	100,697	60,418
Business-type activity Long-term liabilities	$ 25,455,524	$ 6,251,876	$ (8,124,488)	$ 23,582,912	$ 2,154,239

Due to the implementation of GASB Statements No. 63 and 65 in 2013, the deferred loss on refunding of bonds is no longer reported net of bonds payable. Therefore, the value of the deferred loss on refunding has been removed from the above table.

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.

Note 8. Long-term Debt (Continued)

Governmental Activities (Continued)

Certificates of Participation (Continued)

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. 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 Aa1 by Moody's. At June 30, 2013, the floating rate being paid by the City is 0.40% and the market value of this agreement is $533,264, a decrease of $285,626 from the market value at the end of the previous fiscal year. The market value of the hedge was determined using settlement prices at the end of the day on June 30, 2013 based on the derivative contract. This market value is reported as another asset in the statement of net position. 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 a deferred inflow of resources in the statement of net position.

Note 8. Long-term Debt (Continued)

Governmental Activities (Continued)

Certificates of Participation (Continued)

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

Year Ending June 30,	Principal	Interest	Total
2014	$ -	$ 108,158	$ 108,158
2015	-	108,158	108,158
2016	-	108,158	108,158
2017	-	108,158	108,158
2018	-	108,158	108,158
2019-2023	-	540,788	540,788
2024-2028	2,277,000	540,788	2,817,788
Total	$ 2,277,000	$ 1,622,366	$ 3,899,366

Note 8. Long-term Debt (Continued)

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. The Series 1999 and 2000 bonds were refunded in fiscal year 2011 with the Series 2011 bonds as discussed below.

On March 31, 2011, the City entered into an agreement with the Municipal Gas Authority of Georgia whereby revenue bonds were issued, through the Municipal Gas Authority of Georgia, to refund all of the $20,625,000 outstanding Series 1999 and 2000 bonds. The Series 2011 Bonds were issued in the amount of $20,630,000. Interest rates on the bonds range from 3.00% to 5.00% with annual maturities through fiscal year 2024. The net proceeds from the Series 2011 Bonds were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on the refunded bonds. The result of this transaction is a decrease in future debt service payments of $1,644,885 and a present value savings, or economic gain, of $1,290,747. The refunded bonds are considered defeased and thus the assets in the trust fund along with the $17,220,000 in outstanding refunded bonds at June 30, 2013 are not reported in the City's financial statements.

Annual debt service requirements, as of June 30, 2013, for the Series 2011 Bonds, are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	$ 1,315,000	$ 676,269	$ 1,991,269
2015	1,365,000	623,669	1,988,669
2016	1,420,000	569,069	1,989,069
2017	1,480,000	512,269	1,992,269
2018	1,540,000	453,069	1,993,069
2019-2023	8,580,000	1,420,769	10,000,769
2024	1,335,000	58,406	1,393,406
Total	$ 17,035,000	$ 4,313,520	$ 21,348,520

Note 8. Long-term Debt (Continued)

Business-type Activities (Continued)

Revenue Bonds Payable – Water and Sewer Fund

On May 22, 2013, the City issued the Series 2013 revenue bonds in the amount of $6,133,000 which mature April 1, 2021. The Series 2013 bonds were issued to refund the City's five (5) outstanding loans with the Georgia Environmental Finance Authority. The result of this transaction is a decrease in future debt service payments of $306,899 and a present value savings, or economic gain, of $300,902.

Remaining annual debt service requirements, as of June 30, 2013 are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	$ 768,000	71,596	$ 839,596
2015	773,000	78,671	851,671
2016	785,000	66,620	851,620
2017	797,000	54,382	851,382
2018	810,000	41,947	851,947
2019-2021	2,200,000	53,063	2,253,063
Total	$ 6,133,000	$ 366,279	$ 6,499,279

Notes Payable

The City's outstanding notes payable with the Georgia Environmental Finance Authority (GEFA) were paid off with the Series 2013 Water and Sewer Bonds discussed above.

Note 8. Long-term Debt (Continued)

Business-type Activities (Continued)

Capital Lease Obligation

The City leased 20 golf carts from Yamaha Motor Corporation on March 31, 2011 in the amount of $42,025. This lease agreement qualifies as a capital lease for accounting purposes and has been recorded at the net present value of its future minimum lease payments as of the date of its inception. This lease is for a period of 48 months and carries and interest rate of 4.792%.

The assets acquired under this capital lease are as follows:

Golf Carts	$ 51,360
Less accumulated depreciation	(27,820)
Total	$ 23,540

The future annual requirements to amortize the capital lease obligation as of June 30, 2013 are as follows.

Year Ending June 30,	Principal	Interest	Total
2014	$ 10,821	$ 2,019	$ 12,840
2015	9,410	1,292	10,702
Total	$ 20,231	$ 3,311	$ 23,542

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 benefits provided and 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, 2013, the date of the most recent actuarial valuation, there were 317 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	79
Terminated vested participants not yet receiving benefits	92
Active employees	146
Total	317

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 2013, the actuarially determined contribution rate was 9.62% of covered payroll. For fiscal year 2014, based on the January 1, 2013 actuarial valuation, the recommended contribution rate will be 8.10%.

Note 9. Pension Plan (Continued)

Actuarial Information

For 2013, the City's actual contribution, which equaled the required contribution, was $467,519. The recommended contribution was determined as part of the January 1, 2012 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 between 4 to 11%, including 3.5% due to inflation. A cost of living adjustment of 3.5% is also included. 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, 2013.

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
1/1/2013	$ 14,500,215	$ 14,513,445	$ 13,230	99.91 %	$ 4,642,865	0.28 %

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, 2013.

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)
2013	$ 467,519	$ 467,519	100.0 %	$ -
2012	438,000	438,000	100.0	-
2011	462,513	462,513	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, 2013, the City paid $9,340 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. 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 $5,964,801 in 2013.

Note 14. 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 $36,095 for the year ended June 30, 2013. Of this amount 62% was used to promote tourism.

Note 15. Change in Accounting Principle

In conjunction with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the City is required to change its accounting treatment of debt issuance costs. The new standard requires that debt issuance costs be recognized as an expense in the period incurred rather than deferred and recognized as an expense (amortized) in a systematic and rational manner over the duration of the related debt as was the required treatment in prior reporting periods.

Note 15. Change in Accounting Principle (Continued)

Therefore, in conjunction with the implementation of Statement No. 65, the following restatements were required to the beginning net position of Business-type Activities, and the Natural Gas Fund to properly recognize debt issuance costs as expenses in the periods in which they were incurred:

	Business Type Activities	Natural Gas Fund
Net Position as previously reported	$ 27,893,328	$ 5,114,967
Recognize bond issue cost in prior years	(253,242)	(253,242)
Net Position as restated	$ 27,640,086	$ 4,861,725

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)
1/1/2013	$ 14,500,215	14,513,445	$ 13,230	99.91 %	$ 4,642,865	0.28 %
1/1/2012	13,886,337	13,989,552	103,215	99.26	4,776,990	2.16
1/1/2011	13,579,875	13,620,583	40,708	99.70	4,475,372	0.91

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 including a requirement for a portion to be spent on tourism.

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 and restricted by 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 amounts set aside for capital outlay.

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, 2013

ASSETS	Special Revenue Funds			Capital Projects	Total Nonmajor Governmental Funds
	Hotel/ Motel	Flood Grant	Grant Fund	SPLOST II Fund	
Cash and cash equivalents	$ 6,079	$ 2,814	$ 68,923	$ 231,696	$ 309,512
Taxes receivable	4,332	-	-	-	4,332
Intergovernmental receivable	-	-	33,298	-	33,298
Total assets	$ 10,411	$ 2,814	$ 102,221	$ 231,696	$ 347,142
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ -	$ -	$ 5,216	$ -	$ 5,216
Accrued salaries	-	-	1,059	-	1,059
Total liabilities	-	-	6,275	-	6,275
FUND BALANCES					
Restricted:					
Capital construction	-	-	-	231,696	231,696
Tourism	10,411	-	-	-	10,411
Grant programs	-	2,814	95,946	-	98,760
Total fund balances	10,411	2,814	95,946	231,696	340,867
Total liabilities and fund balances	$ 10,411	$ 2,814	$ 102,221	$ 231,696	$ 347,142

CITY OF TOCCOA, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2013

	Special Revenue Funds			Capital Projects	Total Nonmajor
	Hotel/ Motel	Flood Grant	Grant Fund	SPLOST II Fund	Governmental Funds
Revenues:					
Hotel/Motel taxes	$ 36,095	$ -	$ -	$ -	$ 36,095
Intergovernmental	-	-	397,754	-	397,754
Investment earnings	-	-	-	489	489
Total revenues	36,095	-	397,754	489	434,338
Expenditures:					
Current:					
General government	-	53,100	8,159	-	61,259
Streets and sanitation	-	-	22,999	-	22,999
Police	-	-	111,278	-	111,278
Development	-	-	199,918	-	199,918
Economic and community development	22,340	-	-	-	22,340
Total expenditures	22,340	53,100	342,354	-	417,794
Excess (deficiency) of revenues over (under) expenditures	13,755	(53,100)	55,400	489	16,544
Other financing sources (uses):					
Transfers out	(25,000)	-	-	(14,951)	(39,951)
Total other financing sources (uses)	(25,000)	-	-	(14,951)	(39,951)
Net change in fund balances	(11,245)	(53,100)	55,400	(14,462)	(23,407)
Fund balances, beginning of year	21,656	55,914	40,546	246,158	364,274
Fund balances, end of year	$ 10,411	$ 2,814	$ 95,946	$ 231,696	$ 340,867

CITY OF TOCCOA, GEORGIA
HOTEL/MOTEL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2013

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Hotel/Motel taxes	$ 36,095	$ 45,000	$ 36,095	$ (8,905)
Total revenues	36,095	45,000	36,095	(8,905)
Expenditures:				
Current:				
Development	22,341	20,000	22,340	(2,340)
Total expenditures	22,341	20,000	22,340	(2,340)
Other financing uses:				
Transfers out	(25,000)	(25,000)	(25,000)	-
Total other financing uses	(25,000)	(25,000)	(25,000)	-
Net changes in fund balances	(11,246)	-	(11,245)	(11,245)
Fund balances, beginning of year	21,656	21,656	21,656	-
Fund balances, end of year	$ 10,410	$ 21,656	$ 10,411	$ (11,245)

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, 2013

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Intergovernmental	$ -	$ -	$ -	$ -
Total revenues	-	-	-	-
Expenditures:				
Current:				
General government	-	53,100	53,100	-
Total expenditures	-	53,100	53,100	-
Net changes in fund balances	-	(53,100)	(53,100)	-
Fund balances, beginning of year	55,914	55,914	55,914	-
Fund balances, end of year	$ 55,914	$ 2,814	$ 2,814	$ -

CITY OF TOCCOA, GEORGIA
GRANT FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2013

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Intergovernmental	$ 825,121	$ 825,121	$ 397,754	$ (427,367)
Total revenues	825,121	825,121	397,754	(427,367)
Expenditures:				
Current:				
General government	12,000	9,530	8,159	1,371
Streets and sanitation	390,000	390,000	22,999	367,001
Police	108,880	81,800	111,278	(29,478)
Development	413,530	320,010	199,918	120,092
Total expenditures	924,410	801,340	342,354	458,986
Deficiency of revenues under expenditures	(99,289)	23,781	55,400	31,619
Other financing sources (uses):				
Transfers in	99,289	5,769	-	(5,769)
Total other financing sources (uses)	99,289	5,769	-	(5,769)
Net changes in fund balances	-	29,550	55,400	25,850
Fund balances, beginning of year	40,546	40,546	40,546	-
Fund balances, end of year	$ 40,546	$ 70,096	$ 95,946	$ 25,850

CITY OF TOCCOA, GEORGIA

SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS FOR THE YEAR ENDED JUNE 30, 2013

	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	$ - **(2)**	$ 16,712	$ 16,712
Meadow Lift Station	250,000	250,000	-	-	-
Eastanollee WWTP	500,000	500,000	4,343	-	4,343
Fire Equipment	750,000	750,000	619,415	25,012	644,427
Roads	2,260,000	2,260,000	184,768	278,456	463,224
Historical Society Building	270,000	270,000	270,000	-	270,000
Recreation	400,000	400,000	44,646	65,141	109,787
Water System Improvements	2,330,000	2,330,000	1,264,429 **(2)**	193,837	1,458,266
Inflow & Infiltration	1,300,000	1,300,000	-	-	-
Total SPLOST V	$ 9,060,000	$ 9,060,000	$ 2,387,601	$ 579,158	$ 2,966,759
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance					
			Total Expenditures	$ 385,321	
			Transfers Out	193,837 **(1)**	
				$ 579,158	
SPLOST IV					
Water Improvements	$ 2,000,000	$ 2,000,000	$ 1,998,779	$ 95,883	$ 2,094,662
Sewer Improvements	945,000	945,000	538,177	-	538,177
Roads & Bridges	240,000	240,000	508,704	-	508,704
Total SPLOST IV	$ 3,185,000	$ 3,185,000	$ 3,045,660	$ 95,883	$ 3,141,543
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance					
			Total Expenditures	$ 53,457	
			Transfers Out	42,426 **(1)**	
				$ 95,883	
SPLOST II					
Sewer Improvements	$ 396,474	$ 396,474	$ 153,994	$ 14,951	$ 168,945
Total SPLOST II	$ 396,474	$ 396,474	$ 153,994	$ 14,951	$ 168,945
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance					
			Total Expenditures	$ -	
			Transfers Out	14,951 **(1)**	
				$ 14,951	
Total SPLOST	$ 12,641,474	$ 12,641,474	$ 5,587,255	$ 689,992	$ 6,277,247

(1) Transfers out were recorded in order to properly transfer assets to the Water and Sewer fund purchased by the applicable SPLOST Fund. Amounts are allowable under the SPLOST referendum.

(2) The $912,429 in the Highway 17 Sewer project at 6/30/2012 was reallocated to the Water System Improvements project.

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Toccoa, Georgia (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 19, 2012. Our report includes a reference to the implementation of new accounting standards which modified terminology and presentation of certain accounts.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses, as items 2013-001 through 2013-003, to be material weaknesses.

Compliance and Other Matters

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

The City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Mauldin & Jenkins, LLC

Atlanta, Georgia
November 19, 2012

CITY OF TOCCOA, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

Section I – Summary of Auditor's Results

Financial Statements

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

Federal Awards

There was not an audit of major federal award programs as of June 30, 2013 due to the total amount of federal awards expended being less than $500,000.

CITY OF TOCCOA, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

Section II – Financial Statement Findings

Finding 2013-001 – Fiscal Year-End Financial Close and Reporting Controls

Criteria: Internal controls should be in place to ensure that all amounts reported within the financial statements are accurate in accordance with generally accepted accounting principles and have been reconciled to subsidiary ledgers and underlying accounting records.

Condition: Due to ineffective controls surrounding the fiscal year-end financial close procedures, eight audit adjustments were necessary at June 30, 2013.

Context/Cause: During our testing, audit adjustments were required as follows:

- To correct beginning fund balance in the general fund for a prior year entry which was posted incorrectly for $2,212
- To balance transfers between funds in the General Fund for $24,000
- To reduce accounts payable and related expenditures in the general fund by $15,000 for a prior year accrual this was not reversed in the current year
- To reduce revenue and related receivables in the grant fund by $20,851 for a prior year accrual this was not reversed in the current year
- To record unbilled receivables for utility billings by $1,832 in the Water & Sewer fund, $97,077 in the Gas fund, and $61 in the Solid Waste fund
- To record accounts payable in the Gas fund by $31,241 for expenditures incurred in fiscal year 2013 but were not paid until fiscal year 2014

Effect: Audit adjustments of $192,274 were required as detailed above.

Recommendation: We recommend the City's finance department implement and/or strengthen internal controls surrounding the fiscal year-end financial close out procedures.

Response: The City agrees with the recommendation and will make efforts to implement and strengthen internal controls surrounding the fiscal year-end financial close out procedures.

Finding 2013-002 – Accounting for 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.

Finding 2013-002 – Accounting for Capital Assets (continued)

***Context/Cause**:* During fiscal year 2013, the City did not routinely maintain and reconcile its capital asset listing. Audit adjustments were required as follows:

- To record depreciation expense for $2,587 for the governmental activities in the government wide financial statements and $30,840 in the Water & Sewer fund which was not recorded by the City
- To capitalize disbursements related to buildings on the governmental activities in the government-wide financial statements for $38,800.
- To properly record construction in progress capital assets in the Gas fund for 193,968.

Effect: Audit adjustments of $266,195 were needed as detailed above.

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 and has implemented a process for reviewing capital asset activity on a monthly basis.

Finding 2013-003 – 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.

Finding 2012-003 – Segregation of Duties (continued)

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.
- 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.
- 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.
- 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 2012-003 – 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 this recommendation. Due to reduced work force, segregation of duties will continue to be an issue, however the City will continue to look at possibilities to reduce the City's risks according to the controls and practices suggested by Mauldin & Jenkins.