

CITY OF NELSON, GEORGIA

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

CITY OF NELSON, GEORGIA
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FINANCIAL SECTION

The financial section includes the independent auditor's report on the financial statement audit, the basic financial statements including footnotes, and supplementary information.



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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Nelson, Georgia

We have audited the accompanying financial statements of the governmental activities and each major fund of City of Nelson, Georgia as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 and each major fund of the City of Nelson, Georgia, as of June 30, 2014, and, the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial

statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Nelson, Georgia's basic financial statements. The other supplementary information, consisting of General Fund Detailed Schedule of Revenues – Budget and Actual and General Fund Detailed Schedule of Expenditures – Budget and Actual, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Projects Constructed with Special Purpose Local Option Sales Tax is presented for purposes of additional analysis as required by the Official Code of Georgia Section 48-4-121, and is also not a required part of the financial statements. The General Fund Detailed Schedule of Revenues and Other Financing Sources – Budget and Actual, the General Fund Detailed Schedule of Expenditures and Other Financing Uses – Budget and Actual, and the Schedule of Projects Constructed with Special Purpose Local Option Sales Tax are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the General Fund Detailed Schedule of Revenues, General Fund Detailed Schedule of Expenditures – Budget and Actual, and Schedule of Projects Constructed with Special Purpose Local Option Sales Tax are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2014, on our consideration of the City of Nelson, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Nelson's internal control over financial reporting and compliance.

Welch, Walker & Associates, P.C., CPAs

October 2, 2014
East Ellijay, Georgia

BASIC FINANCIAL STATEMENTS

The basic financial statements include the government-wide statement of net position and government-wide statement of activities which include all of the primary government's governmental activities. In addition, the basic financial statements include the fund financial statements and the notes to the financial statements.

CITY OF NELSON, GEORGIA
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities
ASSETS	
Current Assets:	
Cash	\$ 174,357
Certificates of deposit	54,878
Restricted cash	221,102
Restricted certificates of deposit	200,000
Accounts receivable, net	6,040
Taxes receivable, net	15,776
Receivable from other governments	35,703
Total Current Assets	<u>707,856</u>
Non-current assets:	
Capital assets, not being depreciated	159,003
Capital assets, net of accumulated depreciation	1,639,987
Total Non-current Assets	<u>1,798,990</u>
Total Assets	<u>2,506,846</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Prepaid expenses	<u>18,439</u>
 LIABILITIES	
Current Liabilities:	
Accounts payable	3,491
Accrued salaries	4,087
Compensated absences	1,680
Total Liabilities	<u>9,258</u>
 DEFERRED INFLOWS OF RESOURCES	
Unearned revenue	<u>2,276</u>
 NET POSITION	
Invested in capital assets	1,798,990
Restricted for capital projects	442,350
Unrestricted	272,411
Total Net Position	<u><u>\$ 2,513,751</u></u>

The accompanying notes are an integral part of this statement.

CITY OF NELSON, GEORGIA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

<u>Functions/Programs</u>	Expenses	Program Revenue			Net (Expense)
		Charges for	Operating Grants and	Capital Grants and	Revenue and
		Services	Contributions	Contributions	Changes in Net
					Assets
					Total
					Governmental
					Activities
Governmental Activities:					
General government	\$ 115,294	\$ -	\$ -	\$ -	\$ (115,294)
Judicial	7,923	-	-	-	(7,923)
Public safety	141,605	12,490	-	-	(129,115)
Public works	173,351	30,159	-	134,610	(8,582)
Culture and recreation	13,095	-	-	244,825	231,730
Housing and development	350	1,024	-	-	674
Total Governmental Activities	<u>\$ 451,618</u>	<u>\$ 43,673</u>	<u>\$ -</u>	<u>\$ 379,435</u>	<u>(28,510)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					166,202
General sales and use taxes					110,072
Franchise taxes					35,643
Business taxes					73,506
Unrestricted investment earnings					253
Miscellaneous					1,868
Gain from the sale of capital assets					1,250
Total general revenues					<u>388,794</u>
Change in net position					<u>360,284</u>
Net position, beginning of year					<u>2,153,467</u>
Net position, end of year					<u>\$ 2,513,751</u>

The accompanying notes are an integral part of this statement.

CITY OF NELSON, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General Fund	SPLOST Fund	Total Governmental Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Assets:			
Cash	\$ 174,357	\$ -	\$ 174,357
Certificates of deposit	54,878	-	54,878
Restricted cash	-	221,102	221,102
Restricted certificates of deposit	-	200,000	200,000
Taxes receivable	15,776	-	15,776
Fines receivable, net	4,530	-	4,530
Accounts receivable	1,510	-	1,510
Receivable from other governments	14,455	21,248	35,703
Due from other funds	238	20,000	20,238
Total Assets	<u>265,744</u>	<u>462,350</u>	<u>728,094</u>
Deferred Outflows of Resources:			
Prepaid items	18,439	-	18,439
Total Assets and Deferred Outflows of Resources	<u>\$ 284,183</u>	<u>\$ 462,350</u>	<u>\$ 746,533</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Liabilities:			
Accounts payable	\$ 3,491	\$ -	\$ 3,491
Accrued liabilities	4,087	-	4,087
Due to other funds	20,000	238	20,238
Total Liabilities	<u>27,578</u>	<u>238</u>	<u>27,816</u>
Deferred Inflows of Resources:			
Unearned revenue	17,773	-	17,773
Total Liabilities and Deferred Inflows of Resources	<u>45,351</u>	<u>238</u>	<u>45,589</u>
FUND BALANCE			
Nonspendable	18,439	-	18,439
Restricted	-	462,112	462,112
Unassigned	220,393	-	220,393
Total Fund Balances	<u>238,832</u>	<u>462,112</u>	<u>700,944</u>
	<u>\$ 284,183</u>	<u>\$ 462,350</u>	<u>\$ 746,533</u>

The accompanying notes are an integral part of this statement.

CITY OF NELSON, GEORGIA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2014

Total fund balance, governmental funds	\$ 700,944
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.

Cost of capital assets	\$ 2,782,640	
Less accumulated depreciation	<u>(983,650)</u>	
		1,798,990

Some of the City's tax revenues will be collected after the fiscal year end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred on the fund financial statements.	15,497
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Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position. These liabilities include the following:

Compensated absences	<u>(1,680)</u>	<u>(1,680)</u>
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Net Position of Governmental Activities in the Statement of Net Position	<u>\$ 2,513,751</u>
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The accompanying notes are an integral part of this statement.

CITY OF NELSON GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2014

	General Fund	SPLOST Fund	Total Governmental Funds
Revenues:			
Taxes	\$ 379,455	\$ -	\$ 379,455
Intergovernmental	13,273	141,337	154,610
Licenses and permits	1,024	-	1,024
Fines and forfeitures	12,490	-	12,490
Charges for services	30,159	-	30,159
Investment earnings	44	135	179
Miscellaneous	1,868	-	1,868
Penalties and interest on delinquent taxes	74	-	74
Total Revenues	438,387	141,472	579,859
Expenditures:			
Current:			
General government	106,899	2,857	109,756
Judicial	7,923	-	7,923
Public safety	55,416	110	55,526
Public works	85,563	12,949	98,512
Culture and recreation	2,201	-	2,201
Housing and development	350	-	350
Intergovernmental	75,605	-	75,605
Capital Outlay:			
Park & Recreation	-	7,511	7,511
Public works	-	79,960	79,960
Total Expenditures	333,957	103,387	437,344
Excess (Deficiency) of Revenues over Expenditures	104,430	38,085	142,515
Other financing sources:			
Transfers in (out)	(13,273)	13,273	-
Proceeds from sale of capital assets	1,250	-	1,250
Total other financing sources	(12,023)	13,273	1,250
Net changes in fund balances	92,407	51,358	143,765
Fund balances, beginning of year	146,425	410,754	557,179
Fund balances, end of year	\$ 238,832	\$ 462,112	\$ 700,944

The accompanying notes are an integral part of this statement.

CITY OF NELSON, GEORGIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014

Net change in fund balances - total governmental funds:	\$	143,765
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Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. Capital expenditures of \$87,471 are offset by \$102,359 of depreciation.		(14,888)
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The net effect of the contribution of a capital asset from a county government. The value of the asset is \$244,825 with an offsetting refund of \$20,000 from the City's original contribution to the project in the previous fiscal year.		224,825
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Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues at the fund financial reporting level.

Property Taxes		
Deferred @ 6/30/2013	(9,528)	
Deferred @ 6/30/2014	<u>15,497</u>	5,969

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Compensated absences		
Liability @ 6/30/2013	(2,293)	
Liability @ 6/30/2014	1,680	<u>613</u>

Change in net assets of governmental activities in the Statement of Activities	\$	<u><u>360,284</u></u>
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CITY OF NELSON, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE--BUDGET TO ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance
	<u>Original</u>	<u>Final</u>	<u>(See Note 1L)</u>	<u>Final Budget</u>
				<u>Over (Under)</u>
Revenues:				
Property taxes	\$ 107,900	\$ 107,900	\$ 160,234	\$ 52,334
Franchise taxes	36,300	36,300	35,643	(657)
Business taxes	65,000	65,000	73,506	8,506
Local option sales tax	110,000	110,000	110,072	72
Licenses and permits	5,800	5,800	1,024	(4,776)
Intergovernmental	-	-	13,273	13,273
Charges for services	30,000	30,000	30,159	159
Fines and forfeitures	10,600	10,600	12,490	1,890
Investment earnings	-	-	44	44
Miscellaneous	-	-	1,868	1,868
Penalties and interest on delinquent taxes	-	-	74	74
Total Revenues	<u>365,600</u>	<u>365,600</u>	<u>438,387</u>	<u>72,787</u>
Expenditures:				
General government:				
Legislative/Executive	55,100	55,100	47,542	7,558
General administration	39,500	39,500	39,277	223
Elections	4,000	4,000	6,278	(2,278)
General government buildings	14,800	14,800	13,802	998
Judicial:				
Municipal court	7,650	7,650	7,923	(273)
Public Safety:				
Patrol	68,100	68,100	55,416	12,684
Fire	-	-	-	-
Public works:				
Highways and streets	68,100	68,100	61,385	6,715
Solid waste collection	27,250	27,250	24,178	3,072
Culture and Recreation:				
Parks and recreation	2,000	2,000	2,201	(201)
Housing and development:				
Protective inspection	1,100	1,100	350	750
Planning and zoning	-	-	-	-
Intergovernmental	78,000	78,000	75,605	2,395
Total Expenditures	<u>365,600</u>	<u>365,600</u>	<u>333,957</u>	<u>31,643</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>104,430</u>	<u>41,144</u>
Other Financing Sources (Uses)				
Proceeds from disposal of assets	-	-	1,250	-
Transfers out	-	-	(13,273)	-
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>(12,023)</u>	<u>-</u>
Net change in fund balance	-	-	92,407	41,144
Fund balance, beginning of year	146,425	146,425	146,425	-
Fund balance, end of year	<u>\$ 146,425</u>	<u>\$ 55,816</u>	<u>\$ 238,832</u>	<u>\$ 41,144</u>

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements are a required component of the basic financial statements of the City. The notes present required and essential information for the fair presentation of the statements that have not been disclosed on the face of the financial statements.

CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES:

The financial statements of the City of Nelson, Georgia ("the City") have been prepared in conformity with generally accepted accounting principles (GAAP) 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 of the City's accounting policies are described below.

A. THE REPORTING ENTITY

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The City's financial statements include the City's accounts of all operations. The criteria for including organizations within the City's reporting entity, as set forth in Governmental Accounting Standards Board's Statement No. 14 (GASB 14), "The Financial Reporting Entity", is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. As of June 30, 2014, there are no component units included in the financial statements of the City.

B. BASIS OF PRESENTATION - FUND ACCOUNTING

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The City's funds are grouped into two broad fund categories and four generic fund types for financial statement presentation purposes. Governmental funds include the general and capital projects funds.

C. ADOPTION OF NEW ACCOUNTING STANDARD

In the fiscal year ending June 30, 2013, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Statement No. 63 identified net position as the residual of all other elements presented in a statement of financial position. For the fiscal year ending June 30, 2014, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This standard continued to make changes in the financial reporting of deferred inflows and outflows of resources.

A deferred outflow of resources represents a consumption of net position that applies to a future period and these balances will not be recognized as an outflow of resources (expense/expenditure) until then. Likewise, a deferred inflow of resources represents an

CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

acquisition of net position that applies to a future period and these balances will not be recognized as an inflow of resources (revenue) until that time. This standard affects the Statement of Net Position in the government-wide statements for the fiscal year ended June 30, 2014.

BASIS OF ACCOUNTING

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements report on all non-fiduciary activities of the primary government. There are no component units to be considered at this time. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Transfers between funds reported in the governmental activities column are eliminated. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses and program revenues for each governmental program of the City. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the City.

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. It is the City's policy to utilize restricted resources, when available for use, before utilizing unrestricted resources.

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

GOVERNMENTAL FUNDS

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within 30 days of year-end and available to pay obligations of the current period). This includes investment earnings, income taxes withheld by employers, fines and forfeitures and state-levied locally shared taxes (including motor vehicle fees). Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

Property taxes, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property tax receivables are recorded and deferred until they become available.

Other revenues, including licenses and permits, certain charges for services, income taxes other than those withheld by employers, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Fines receivable for the fiscal year ended 2014 totaled, \$6,694. An allowance for uncollectible fines was established at \$2,164, resulting in net fines receivable of \$4,530. This is attributable to a large outstanding balance of probation fines that are essentially uncollectible at the end of the fiscal year.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on long-term debt, which has not matured, are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

The City reports the following major governmental funds:

General Fund: This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

SPLOST Fund: The SPLOST Fund is used to account for the revenues and expenditures relating to the special purpose local option sales tax as approved in voter referendums that are restricted to expenditures for specified capital projects.

D. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

E. CASH AND INVESTMENTS

Cash includes amounts in demand deposits. Statutes authorize the City to invest in U.S. Government obligations, U.S. Government agency obligations, State of Georgia obligations, obligations of other counties, municipal corporations and political subdivisions of the State of Georgia which are rated "AA" or better by Moody's Investors Service, Inc., negotiable certificates of deposit issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association, repurchase agreements when collateralized by U.S. Government or agency obligations, and pooled investment programs sponsored by the State of Georgia for the investment of local government funds.

F. PROPERTY TAX CALENDAR

The City is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the City. The City geographically lies on the boundary lines for Pickens County, Georgia and Cherokee County, Georgia and property taxes are collected based on each county's digest. For both Pickens County and Cherokee County, the City levies property taxes as of December 1, 2013 for values that were assessed on January 1, 2013. Secured property tax payments are due on February 1, 2014; penalties and interest are applied on April 1, 2014. The City has not established a lien date for either county at June 30, 2014.

G. CAPITAL ASSETS

All assets over the capitalization threshold of \$5,000 with a useful life extending beyond three years are capitalized and depreciated over time using the straight line method. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets include all roads and bridges and other infrastructure assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30 years
Buildings	50 years
Building improvements	20 years
Land improvements	10 to 15 years
Machinery and equipment	3 to 15 years
Vehicles	2 to 15 years

CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2014 are recorded as prepaid items. Prepaid insurance and prepaid dues were \$15,702 and \$2,737, respectively, for total prepaid assets of \$18,439 as of June 30, 2014.

I. COMPENSATED ABSENCES

The liability for compensated absences in the government-wide statements consists of unpaid, accumulated vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

J. FUND EQUITY

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

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

- ***Nonspendable*** - Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.
- ***Restricted*** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- ***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:

- ***Restricted***
- ***Unassigned***

Net position – Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used

**CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

(i.e., the amount that the City has spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

Minimum Fund Balance Policy – The Mayor and Council of the City of Nelson established a financial policy that requires a minimum fund balance of 20% of budgeted appropriations for the General Fund.

K. USE OF ESTIMATES

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

L. BUDGETS AND BUDGETARY CONTROL

The Finance Committee prepares a rough draft of the annual budgets from which the Mayor and City Council prepare proposed budgets. The City advertises in the local newspaper to give notice regarding a public hearing in which local citizens may give their input relating to the proposed budgets. The City also places a copy of the proposed budget on file for public inspection prior to the actual approval. Once these steps have been completed, the City Council then formally adopts the annual balanced budgets in a legally permissible manner.

Budgets have been legally adopted for all funds. Budgets are adopted on a basis consistent with generally accepted accounting principles, and on the same basis of accounting used by each fund to which the budget applies. The legal level of control of the City's budget is at the department level. All appropriations lapse at year end.

Revenues are budgeted by source. Expenditures are budgeted by department and may not exceed appropriations at this level. Budget revisions are subject to review and approval by the City Council.

For the year ended June 30, 2014, expenditures exceeded budget in the General Fund in the Elections department due to an overrun on the costs of a special election for the City. This overrun was offset by restrictions in spending in other departments. Overall, expenditures for the General Fund were \$31,643 under budget.

NOTE 2 – SUMMARY OF DEPOSIT BALANCES

Custodial 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 and state government instruments) to be collateralized by depository insurance, obligations of the U.S. Government, or bonds of public

CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

authorities, counties or municipalities. As of June 30, 2014, the City's bank balances were fully collateralized in all material respects in compliance with State requirements.

NOTE 3 - DUE TO/FROM OTHER GOVERNMENTS

The following amounts are due from other governments at June 30, 2014:

General Fund:

Georgia Department of Revenue	\$ 9,658
Pickens County	1,853
Cherokee County	<u>2,944</u>
	<u>\$ 14,455</u>

SPLOST Fund:

Cherokee County	<u>\$ 21,248</u>
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NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balances	Transfers	Additions	Disposals	Ending Balances
<i><u>Governmental Activities:</u></i>					
<i>Non-depreciable capital assets:</i>					
Land	\$ 159,003	\$ -	\$ -	\$ -	\$ 159,003
Construction in progress	<u>33,300</u>	-	-	<u>(33,300)</u>	-
<i>Total non-depreciable capital assets</i>	<u>192,303</u>	-	-	<u>(33,300)</u>	<u>159,303</u>
<i>Depreciable capital assets:</i>					
Infrastructure	1,359,068	-	122,760	-	1,481,828
Buildings and improvements	454,697	-	53,000	-	507,697
Land improvements	24,182	51,948	107,831	-	183,961
Machinery and equipment	268,374	(51,948)	62,005	-	210,794
Vehicles	<u>193,520</u>	-	-	<u>(21,800)</u>	<u>239,357</u>
<i>Total depreciable capital assets</i>	<u>2,299,841</u>	-	<u>345,596</u>	<u>(21,800)</u>	<u>2,623,637</u>
<i>Less accumulated depreciation:</i>					
Infrastructure	(491,234)	-	(53,930)	-	(545,164)
Buildings and improvements	(84,358)	-	(9,356)	-	(93,714)
Land improvements	(8,509)	33,978	(6,669)	-	18,800
Machinery and equipment	(160,244)	(33,978)	(10,565)	-	(194,641)
Vehicles	<u>(158,746)</u>	-	<u>(21,839)</u>	<u>21,800</u>	<u>(168,931)</u>
<i>Total accumulated depreciation</i>	<u>(903,091)</u>	-	<u>(102,359)</u>	<u>21,800</u>	<u>(983,650)</u>
<i>Total depreciable capital assets, net</i>	<u>1,396,750</u>	-	<u>243,237</u>	<u>(33,300)</u>	<u>1,639,987</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 1,589,053</u>	<u>\$ -</u>	<u>\$ 243,237</u>	<u>\$ (33,300)</u>	<u>\$ 1,798,990</u>

CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 6,423
Public safety	11,263
Public works	73,779
Culture and recreation	<u>10,894</u>
Total	<u>\$102,359</u>

NOTE 5 – INTERFUND ACTIVITY

Balances due to/from other funds at June 30, 2014 consist of the following:

Due to General Fund from SPLOST Fund	\$ 238	For repayment of capital expenditure paid out of General Fund
Due to SPLOST Fund from General Fund	\$ 20,000	For repayment of refund from Cherokee County related to new park

Transfers between funds during the fiscal year ended June 30, 2014 consisted of the following:

Transfer of LMIG funding for capital project from General Fund to SPLOST Fund \$13,273

NOTE 6 - RESTRICTED ASSETS / NET POSITION

Cash of \$221,102 and certificates of deposit of \$200,000 totaling \$421,102 in the SPLOST Fund are restricted for the purpose of constructing, maintaining and improving roads and bridges in the City, in addition to other specific projects outlined in the referendum. The source of these funds consists of proceeds from a special one percent local option sales tax levied by Cherokee County. Net position totaling \$442,350 in the government-wide financial statements is restricted by enabling legislation related to SPLOST funds. This amount includes receivables from other governments of \$21,248.

NOTE 7 – FUND EQUITY

Fund balances are classified as follows:

- **Nonspendable** – The following fund balances are nonspendable because they are allocated to:

General Fund:

Prepaid items	<u>\$ 18,439</u>
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- **Restricted -**

Capital Projects Fund:

Special Purpose Local Option Sales Tax Fund (SPLOST) –
Used to account for capital projects financed with
SPLOST

\$ 462,112

**CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers compensation for which the City carries the following insurance coverage. There were no significant reductions of insurance coverage compared to the prior year. Settled claims have not exceeded the commercial excess coverage in any of the past three fiscal years.

Risk Pools

The City is a member of the Georgia Interlocal Risk Management Agency (GIRMA). Insurance coverage and deductible options for property, casualty and crime under the policy are selected by City's management based on the anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed by GIRMA, as well as following loss reduction and prevention procedures established by GIRMA. GIRMA's responsibility includes paying claims, and representing the City in defense and settlement of claims. GIRMA's basis for estimating the liabilities for unpaid claims is "IBNR" established by an actuary. The City has not compiled a record of the claims paid up to the applicable deductible for the prior year or the current fiscal year. The City is unaware of any claims that the City is liable (up to the applicable deductible) which were outstanding and unpaid at June 30, 2014. No provisions have been made in the financial statements for the year ended June 30, 2014 for any estimate of potential unpaid claims.

The City has elected to be a member of the Georgia Municipal Association Workers' Compensation Self-Insurance Fund (GMAWCSIF), a risk management agency created under Georgia law. As a participant in the GMAWCSIF, the City has no legal obligation to pay its own workers' compensation claims. The City is required to make an annual contribution to the fund in an amount that is determined on the basis of actuarial projections of losses. With payment of the City's annual contribution, the City has effectively transferred the risk and responsibility for payment of its workers' compensation claims. However, the enabling statute creating the GMAWCSIF permits the fund to levy an assessment upon its members to make up any deficiency the fund may have in surplus or reserves. No amount has been recorded in the financial statements for this contingency, as management believes the likelihood for assessment is remote.

NOTE 9 - JOINT VENTURE

The City, in conjunction with cities and counties in a fifteen (15) county area, is a member of the Northwest Georgia Regional Commission (RC). Membership in an RC is automatic for each municipality and county in the state. The official Code of Georgia Section 50-8-34 (Georgia Planning Act of 1989 and House Bill 1216) provides for the organizational structure of the RCs. Each county and municipality in the state is required by law to pay minimum annual dues to the RC. The RC Board membership includes the chief elected official of each County and the chief elected official of each municipality. The County board members and municipal board members from the same County elect one member of the Board who is a resident (but not an elected or appointed official or employee of the County or municipality) to serve as the non-public Board member from a County.

CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RCs as public agencies and instrumentalities of their members. Georgia law also provides that the member governments are liable for any debts or obligations of an RC beyond its resource. (OCGA 50-8-39.1). Separate financial statements may be obtained from the Northwest Georgia Regional Commission at the following address: *Northwest Georgia Regional Commission, 1 Jackson Hill Drive, Rome, Georgia 30162-1798.*

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The City routinely enters into various contracts and agreements in the ordinary course of business. Such commitments are not considered material to the accompanying financial statements.

NOTE 11 – MATERIAL VIOLATION OF FINANCE-RELATED LEGAL PROVISIONS

O.C.G.A. 48-8-121 as it pertains to special local option sales tax proceeds states, “Such proceeds shall be kept in a separate account from other funds of such county and each qualified municipality receiving proceeds of the sales and use tax and shall not in any manner be commingled with other funds of such county and each qualified municipality receiving proceeds of the sales and use tax prior to the expenditure.” During fiscal year 2014, a refund of a contribution towards a capital project from Cherokee County was received and deposited in the General Fund of the City. These funds were originally SPLOST funds and should have been returned to that fund so as not to commingle restricted funds with the general operating funds of the City. Upon discovery of this error in September 2014, the funds were immediately transferred into the appropriate account.

OTHER SUPPLEMENTARY INFORMATION

The other supplementary information section includes a budgetary comparison schedule for the General Fund as well as pertinent information as to the preparation of and policies pertaining to the City's annual budget

CITY OF NELSON, GEORGIA
GENERAL FUND
DETAILED SCHEDULE OF REVENUES - BUDGET TO ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	2014		
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
TAXES			
General property taxes:			
Property	\$ 105,000	\$ 98,703	\$ (6,297)
Motor vehicle	2,500	60,906	58,406
Mobile home	-	63	63
Intangible	300	562	262
Railroad Tax	100	-	(100)
	<u>107,900</u>	<u>160,234</u>	<u>52,334</u>
Franchise taxes:			
Television cable	3,000	3,125	125
Electric	29,000	28,067	(933)
Natural gas	4,000	4,224	224
Telephone	300	227	(73)
	<u>36,300</u>	<u>35,643</u>	<u>(657)</u>
Business taxes:			
Business occupation	5,800	5,725	(75)
Insurance premium	65,000	67,781	2,781
	<u>70,800</u>	<u>73,506</u>	<u>2,706</u>
Public service taxes:			
Local sales and use taxes	110,000	110,072	72
LICENSES AND PERMITS			
Building permits and fees	-	1,024	1,024
Zoning and land use fees	-	-	-
Sign permit fee	-	-	-
	<u>-</u>	<u>1,024</u>	<u>1,024</u>
INTERGOVERNMENTAL REVENUE			
State capital grants	-	13,273	13,273
	<u>-</u>	<u>13,273</u>	<u>13,273</u>
CHARGES FOR SERVICES			
Sanitation	30,000	30,159	159
FINES AND FORFEITURES			
Municipal court fines	10,600	12,490	1,890
INVESTMENT EARNINGS			
Interest income	-	44	44
MISCELLANEOUS REVENUE			
Miscellaneous revenue	-	1,868	1,868
PENALTIES AND INTEREST ON DELINQUENT TAXES			
	<u>-</u>	<u>74</u>	<u>74</u>
Total Revenue	<u>\$ 365,600</u>	<u>\$ 438,387</u>	<u>\$ 72,787</u>

CITY OF NELSON, GEORGIA
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	2014		
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
GENERAL GOVERNMENT			
Legislative/Executive:			
Personal Services and Employee Benefits:			
Salaries and wages	\$ 48,000	\$ 42,204	\$ 5,796
FICA	3,600	3,249	351
Workers compensation	300	269	31
Purchased/Contracted Services:			
Dues and fees	200	524	(324)
Travel	1,000	496	504
Education and training	2,000	800	1,200
	<u>55,100</u>	<u>47,542</u>	<u>7,558</u>
General Administration:			
Personal Services and Employee Benefits:			
Salaries and wages	-	-	-
FICA	-	-	-
Workers compensation and unemployment	750	6	744
Purchased/Contracted Services:			
Professional fees	6,500	6,350	150
ADP fees	2,000	1,910	90
Audit fees	13,000	12,900	100
Rental of equipment and vehicles	3,000	3,197	(197)
Insurance and bonding	3,000	2,842	158
Advertising	750	928	(178)
Printing and Binding	500	35	465
Dues and fees	3,000	3,762	(762)
Other cost:			
Contingencies	1,000	-	1,000
Supplies:			
Supplies and materials	1,000	2,266	(1,266)
Small equipment	4,000	3,863	137
Miscellaneous	1,000	1,218	(218)
	<u>39,500</u>	<u>39,277</u>	<u>223</u>
Elections:			
Purchased/Contracted Services:			
Contract Services	4,000	6,278	(2,278)
	<u>4,000</u>	<u>6,278</u>	<u>(2,278)</u>
General Government Buildings:			
Purchased/Contracted Services:			
Repairs and maintenance	1,000	99	901
Custodial services	-	-	-
Insurance	2,500	2,476	24
Communications	4,000	3,438	562
Supplies:			
Water and sewer	500	507	(7)
Natural gas	2,000	3,219	(1,219)
Electricity	4,800	4,063	737
	<u>14,800</u>	<u>13,802</u>	<u>998</u>
<i>Total General Government</i>	<u>113,400</u>	<u>106,899</u>	<u>6,501</u>

CITY OF NELSON, GEORGIA
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	2014		Variance Over (Under)
	<u>Final Budget</u>	<u>Actual</u>	
JUDICIAL			
Municipal Court			
Purchased/Contracted Services:			
Education and training	500	875	(375)
Travel	500	936	(436)
Dues and fees	4,000	3,012	988
Professional fees	2,500	2,560	(60)
Supplies:			-
General supplies	150	540	(390)
<i>Total Judicial</i>	<u>7,650</u>	<u>7,923</u>	<u>(273)</u>
PUBLIC SAFETY:			
Police:			
Personal Services and Employee Benefits:			
Salaries and wages	45,000	29,996	15,004
FICA	4,000	2,219	1,781
Workers compensation	4,000	3,454	546
Purchased/Contracted Services:			-
Liability insurance	3,000	2,801	199
Communications	2,000	1,142	858
Advertising	-	-	-
Dues and fees	200	100	100
Education and training	400	1,123	(723)
Repairs and maintenance	2,500	2,318	182
Printing and binding	-	-	-
Travel	1,000	1,183	(183)
Supplies:			-
Gasoline	6,000	4,825	1,175
Small equipment, training aids	-	6,255	(6,255)
<i>Total Public Safety</i>	<u>68,100</u>	<u>55,416</u>	<u>12,684</u>
PUBLIC WORKS			
Highway and Streets:			
Personal Services and Employee Benefits:			
Salaries and wages	26,000	28,152	(2,152)
FICA	2,100	2,164	(64)
Workers compensation	4,500	4,184	316
Purchased/Contracted Services:			
Liability insurance	2,000	875	1,125
Vehicle repairs	5,000	2,561	2,439
Supplies:			
Street signs	1,000	203	797
Gasoline	2,500	2,905	(405)
Supplies and materials	1,000	555	445
Small equipment	1,000	395	605
Electricity	18,000	18,980	(980)
Maintenance	5,000	411	4,589
	<u>68,100</u>	<u>61,385</u>	<u>6,715</u>

CITY OF NELSON, GEORGIA
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	2014		Variance Over (Under)
	<u>Final Budget</u>	<u>Actual</u>	
Solid Waste Collection:			
Personal Services and Employee Benefits:			
Salaries and wages	9,000	8,521	479
FICA	750	669	81
Workers compensation	1,800	1,053	747
Purchased/Contracted Services:			-
Liability insurance	2,500	2,511	(11)
Dues and fees	700	612	88
Vehicle repairs	4,000	1,076	2,924
Other Services	6,500	5,952	548
Supplies:			-
Supplies and materials	500	1,202	(702)
Gasoline	1,500	2,582	(1,082)
	<u>27,250</u>	<u>24,178</u>	<u>3,072</u>
<i>Total Public Works</i>	<u>95,350</u>	<u>85,563</u>	<u>9,787</u>
CULTURE AND RECREATION			
Parks and Recreation:			
Purchased/Contracted Services:			
Repairs and maintenance	<u>2,000</u>	<u>2,201</u>	<u>(201)</u>
<i>Total Culture and Recreation</i>	<u>2,000</u>	<u>2,201</u>	<u>(201)</u>
HOUSING AND DEVELOPMENT			
Protective Inspection:			
Purchased/Contracted Services:			
Professional services	1,000	350	650
Supplies and materials	<u>100</u>	<u>-</u>	<u>100</u>
	<u>1,100</u>	<u>350</u>	<u>750</u>
Planning and Zoning:			
Purchased/Contracted Services:			
Professional services	-	-	-
Advertising	-	-	-
Education and training	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total Housing and Development</i>	<u>1,100</u>	<u>350</u>	<u>750</u>
INTERGOVERNMENTAL			
Remittance of fire tax	<u>78,000</u>	<u>75,605</u>	<u>2,395</u>
Total Expenditures	<u>\$ 365,600</u>	<u>\$ 333,957</u>	<u>\$ 31,643</u>

CITY OF NELSON, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<u>Project</u>	<u>Estimated Cost</u>		<u>Expenditures</u>			<u>Estimated % of Completion</u>
	<u>Original</u>	<u>Current</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>	
SPLOST #3						
Transportation facilities and equipment, parks and recreation facilities and public safety vehicles and equipment	\$ 940,000	\$ 940,000				
Roads/Transportation						
Facilities			\$ 173,300	\$ 95,766	\$ 269,066	
Equipment			70,342	-	70,342	
Parks and Recreation facilities			50,789	7,511	58,300	
Public Safety:						
Vehicles			99,754	110	99,864	
Equipment			13,837	-	13,837	
	<u>940,000</u>	<u>940,000</u>	<u>408,022</u>	<u>103,387</u>	<u>511,409</u>	54.41%
SPLOST #4						
Transportation facilities and equipment, parks and recreation facilities and public safety vehicles and equipment	720,000	720,000				
Roads/Transportation						
Facilities			-		-	
Equipment			-	-	-	
Parks and Recreation facilities			-	-	-	
Public Safety:						
Vehicles			-	-	-	
Equipment			-	-	-	
	<u>720,000</u>	<u>720,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	0.00%
GRAND TOTALS	<u>\$ 1,660,000</u>	<u>\$ 1,660,000</u>	<u>\$ 408,022</u>	<u>\$ 103,387</u>	<u>\$ 511,409</u>	

Note A: The SPLOST Schedule has been prepared on the modified accrual basis of accounting

Note B: There are \$15,916 of capital expenditures included in the total expenditures above that are not included in capital outlay on the Statement of Revenues, Expenditures and Changes in Fund Balances in the basic financial statements. These items did not meet the capitalization threshold according to the City's policy; therefore, they were not included in capital outlay nor were they capitalized for the Statement of Net Position in the government-wide financial statements.

Note C: SPLOST 1 and SPLOST 2 shown on the previous year schedule were removed in the current year because the City has utilized all funds associated with the referendum as of June 30, 2013.

COMPLIANCE AND INTERNAL CONTROL



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As part of obtaining reasonable assurance about whether City of Nelson, Georgia'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2014-03.

City of Nelson, Georgia's Response to Findings

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

Purpose of this Report

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

Welch Walker + Associates, P.C., CPAs

East Ellijay, Georgia
October 2, 2014

CITY OF NELSON, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL:

2012-01 – Segregation of Duties

Criteria: Segregation of employees' duties is a common practice in an effective internal control structure. Policies should be in place requiring the segregation of certain duties.

Condition/Context: During the course of our testing procedures, we noted several areas in which the segregation of duties could be improved. Ideally, the duties of cash handling and bookkeeping should be segregated in order to prevent those handling cash from having access to the accounting records. Also, the duties of posting detailed transactions to the general ledger system should be segregated from other functions, such as cash reconciliation, accounts receivable, accounts payable and/or purchasing.

Effect: Without segregation of duties within these functions, there is increased exposure that City assets could be intentionally or unintentionally misappropriated.

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

Recommendation: We recommend the City continue their efforts in the design of their internal controls in order to operate with effective segregation of duties. Having adequate segregation of duties will ensure the proper recording and recognition of accounting transactions and will lessen the potential for misappropriation of City assets.

Response: This is a reoccurring item. Due to the size of the City's administration, total segregation of duties is not practical at this time. The City Council will continue to be closely involved in financial reporting and will continue to provide oversight as practical in order to mitigate risk of misappropriation of assets.

2014-01 – Necessary Accounting Expertise

Criteria: Current accounting pronouncements require that local governments be capable of preparing or reviewing the financial statements and having the skills and competencies necessary to prevent, detect and correct misstatements.

Condition/Context: While the Mayor and Clerk have enough knowledge of the financial activity of the City, there is still the need for someone with additional skill to review the audited financial statements.

Cause: As in other cities of similar size, this level of knowledge is not typically needed on a daily basis. In the past, the City has relied upon the previous city manager/clerk to prepare the financial statements, and this person had the skills and expertise and sufficient knowledge to take responsibility for the accuracy of the statements. In this person's absence, there is not another City employee who has the same qualifications at this time.

Recommendation: We recommend that the City consider having an outside consultant review the financial statements prior to issuance to comply with this accounting pronouncement.

Response: The City agrees with this finding, and has immediate plans to explore their options to retain a CPA firm to review audited financial statements each year.

**CITY OF NELSON, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

2014-02 – Material Adjustments and Maintenance of General Ledger

Criteria: The City is responsible for preparing annual financial statements in accordance with generally accepted accounting principles (GAAP). Timely recording all transactions on a modified accrual basis is in accordance with GAAP and provides more meaningful financial information.

Condition/Context: Although the year-end financial statements are prepared on the appropriate modified accrual basis, the City maintains its general ledger on a cash basis throughout the year. In addition, the transactions for cash activity shown on bank statements as automatic debits and credits are not being entered into the general ledger as they occur. The reconciliation of cash account activity on the general ledger to the bank statements is not being performed monthly. Reconciliation of other transaction classes, such as accounts payable and accounts receivable, are not being prepared as well.

Effect: Failure to properly account for and reconcile revenue, receivables, expenditures, payables, cash and other general ledger transactions will distort financial information provided to management and the City Council, and could result in financial decisions being made in consideration of incomplete and inaccurate data.

Cause: Routine preparation of reconciliation of all detailed account balances within in the general ledger is not being performed due to limited knowledge and training of current personnel.

Recommendation: We recommend that the current staff be enrolled in a governmental accounting training program as soon as possible so that the basics of general ledger entry and maintenance can be given to staff. We further recommend that general ledger account balances be reconciled on a timely and routine basis. These practices will enable the City to prepare accurate interim financial reports for monthly reporting to Council and for ongoing decision making purposes.

Response: The City agrees with this finding and plans to send the new clerk for training as soon as possible. In addition, they intend to hire an outside bookkeeper or retain a CPA firm to assist with the monthly reconciliation of general ledger transaction classes.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW:

2014-03 – Material Violation of Finance-Related Legal Provisions

Criteria: O.C.G.A. 48-8-121 as it pertains to special local option sales tax proceeds states, "Such proceeds shall be kept in a separate account from other funds of such county and each qualified municipality receiving proceeds of the sales and use tax and shall not in any manner be commingled with other funds of such county and each qualified municipality receiving proceeds of the sales and use tax prior to the expenditure."

Condition/Context: Although there is a separate cash account used for SPLOST proceeds, one transaction was inadvertently commingled with the general operating funds of the City during the fiscal year. This was due to lack of understanding on the staff's part as to the origin of the funds received.

Effect: Commingling legally restricted funds with the general operating funds of the City violates state law.

CITY OF NELSON, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Cause: During the fiscal year, Cherokee County completed the construction of a park for the City of Nelson utilizing excess bond proceeds held by the County. The original project budget required a \$20,000 match from the City to cover all costs. This matching contribution was paid from SPLOST monies. Upon completion of the project, Cherokee County refunded the City the full amount of their original contribution of \$20,000 because the costs associated with the project were not as much as originally forecasted. Current staff was unaware that such refund was SPLOST related; therefore, the refund was deposited into the general operating account of the City.

Recommendation: We recommend that care and diligence be taken when executing transactions on the City's behalf. In the future, any unusual or infrequent transactions should be researched more thoroughly before action is taken.

Response: The City agrees with this finding. Upon discovery of this violation during audit fieldwork, the funds were immediately transferred to the proper SPLOST cash account at the financial institution.