CITY OF NELSON, GEORGIA

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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 Mayor and City Council
City of Nelson, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Nelson, Georgia, as of and for the year ended June 30, 2015, 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, 2015, 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 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 historic context. Our opinion on the basic financial statements is not affected by the 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, including comparing and reconciling such information directly to the underlying accounting and other records used to prepared 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 December 4, 2015, 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 the City of Nelson, Georgia's internal control over financial reporting and compliance.

Welch, Walker, & Associates, P.C., CPAs
East Ellijay, Georgia
December 4, 2015

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, 2015

	Governmental Activities
ASSETS	
Current Assets:	
Cash	$ 182,146
Cash equivalents	54,878
Restricted cash	400,829
Restricted cash equivalents	100,000
Fines receivable, net	1,019
Accounts receivable	4,828
Taxes receivable, net	21,404
Receivable from other governments	54,973
Prepaid items	20,049
Total Current Assets	840,126
Non-current assets:	
Capital assets, not being depreciated	164,070
Capital assets, net of accumulated depreciation	1,681,391
Total Non-current Assets	1,845,461
Total Assets	2,685,587
LIABILITIES	
Current Liabilities:	
Accounts payable	3,366
Compensated absences	11,591
Total Liabilities	14,957
DEFERRED INFLOWS OF RESOURCES	
Unearned revenue	1,416
NET POSITION	
Invested in capital assets	1,845,461
Restricted for capital projects	540,384
Unrestricted	283,369
Total Net Position	$ 2,669,214

The accompanying notes are an integral part of this statement.

CITY OF NELSON, GEORGIA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Total Governmental Activities
Governmental Activities:					
General government	$ 194,728	$ -	$ -	$ -	$ (194,728)
Judicial	8,575	-	-	-	(8,575)
Public safety	90,737	7,443	-	-	(83,294)
Public works	214,201	31,370	-	263,534	80,703
Culture and recreation	30,464	-	-	-	(30,464)
Housing and development	878	555	-	-	(323)
Total Governmental Activities	$ 539,583	$ 39,368	$ -	$ 263,534	(236,681)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					103,445
General sales and use taxes					113,704
Franchise taxes					39,973
Business taxes					75,194
Intergovernmental revenues not restricted to specific programs					58,562
Unrestricted investment earnings					169
Miscellaneous					1,097
Total general revenues					392,144
Change in net position					155,463
Net position, beginning of year					2,513,751
Net position, end of year					$ 2,669,214

The accompanying notes are an integral part of this statement.

CITY OF NELSON, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	General Fund	SPLOST Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 237,024	$ -	$ 237,024
Restricted cash	-	400,829	400,829
Restricted cash equivalents	-	100,000	100,000
Taxes receivable, net	21,404	-	21,404
Fines receivable, net	1,019	-	1,019
Accounts receivable	4,828	-	4,828
Receivable from other governments	15,418	39,555	54,973
Due from other funds	238	15,681	15,919
Prepaid items	20,049	-	20,049
Total Assets	$ 299,980	$ 556,065	$ 856,045
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Liabilities:			
Accounts payable	$ 3,366	$ -	$ 3,366
Due to other funds	15,681	238	15,919
Total Liabilities	19,047	238	19,285
Deferred Inflows of Resources:			
Deferred property taxes	21,761	-	21,761
Unearned sanitation revenue	1,416	-	1,416
Total Deferred Inflows of Resources	23,177	-	23,177
Total Liabilities and Deferred Inflows of Resources	42,224	238	42,462
FUND BALANCE			
Nonspendable	20,049	-	20,049
Restricted for:			
Capital projects funds	-	555,827	555,827
Unassigned	237,707	-	237,707
Total Fund Balances	257,756	555,827	813,583
	$ 299,980	$ 556,065	$ 856,045

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, 2015

Total fund balance, governmental funds		$ 813,583
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	$ 2,951,133	
Less accumulated depreciation	(1,105,672)	
		1,845,461
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.		21,761
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	$ (11,591)	(11,591)
Net Position of Governmental Activities in the Statement of Net Position		$ 2,669,214

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, 2015

	General Fund	SPLOST Fund	Total Governmental Funds
Revenues:			
Taxes	$ 324,862	$ -	$ 324,862
Intergovernmental	72,070	247,596	319,666
Licenses and permits	555	-	555
Fines and forfeitures	7,443	-	7,443
Charges for services	31,370	-	31,370
Contributions	2,262	-	2,262
Investment earnings	169	167	336
Miscellaneous	1,097	-	1,097
Penalties and interest on delinquent taxes	1,191	-	1,191
Total Revenues	441,019	247,763	688,782
Expenditures:			
Current:			
General government	117,030	1,212	118,242
Judicial	8,575	-	8,575
Public safety	72,365	-	72,365
Public works	140,364	2,003	142,367
Culture and recreation	6,907	-	6,907
Housing and development	878	-	878
Capital Outlay:			
Public safety	-	29,657	29,657
Public works	-	53,926	53,926
Culture and recreation	-	67,350	67,350
Intergovernmental	75,876	-	75,876
Total Expenditures	421,995	154,148	576,143
Excess (Deficiency) of Revenues over Expenditures	19,024	93,615	112,639
Other financing sources:			
Transfers in (out)	(100)	100	-
Total other financing sources	(100)	100	-
Net changes in fund balances	18,924	93,715	112,639
Fund balances, beginning of year	238,832	462,112	700,944
Fund balances, end of year	$ 257,756	$ 555,827	$ 813,583

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, 2015

Net change in fund balances - total governmental funds:			$ 112,639
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 $168,493 are offset by $122,022 of depreciation.			46,471
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, as of June 30, 2014	$ (15,497)	
	Deferred, as of June 30, 2015	21,761	6,264
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, as of June 30, 2014	$ 1,680	
	Liability, as of June 30, 2015	(11,591)	(9,911)
Change in net position of governmental activities in the Statement of Activities			$ 155,463

The accompanying notes are an integral part of this statement.

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, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final	(See Note 1. M.)	Final Budget
Budgetary fund balance, beginning of year	$ 146,425	$ 55,816	$ 238,832	$ 183,016
Revenues (inflows):				
Property taxes	107,919	105,870	95,991	(9,879)
Franchise taxes	34,700	34,700	39,973	5,273
Business taxes	72,500	72,500	75,194	2,694
Local option sales tax	110,000	101,671	113,704	12,033
Licenses and permits	1,000	1,000	555	(445)
Intergovernmental	26,301	26,301	72,070	45,769
Charges for services	30,000	30,000	31,370	1,370
Fines and forfeitures	18,000	10,600	7,443	(3,157)
Contributions	-	-	2,262	2,262
Investment earnings	20	20	169	149
Miscellaneous	1,600	1,600	1,097	(503)
Penalties and interest on delinquent taxes	200	200	1,191	991
Total Revenues	402,240	384,462	441,019	56,557
Changes to appropriations (outflows):				
General government:				
Legislative/Executive	30,456	42,338	38,556	3,782
Elections	4,000	6,300	518	5,782
General administration	39,526	39,226	53,832	(14,606)
General government buildings	19,020	22,778	24,124	(1,346)
Judicial:				
Municipal court	8,200	8,200	8,575	(375)
Public Safety:				
Patrol	57,052	62,683	71,938	(9,255)
Fire	-	-	427	(427)
Public works:				
Highways and streets	91,721	90,655	116,538	(25,883)
Solid waste collection	27,108	27,108	23,826	3,282
Culture and Recreation:				
Parks and recreation	19,035	12,000	6,907	5,093
Housing and development:				
Protective inspection	1,100	1,100	878	222
Intergovernmental	75,605	75,605	75,876	(271)
Total Changes to Appropriations	372,823	387,993	421,995	(34,002)
Excess (Deficiency) of Revenues Over Expenditures	29,417	(3,531)	19,024	22,555
Other Financing Sources (Uses)				
Transfers out	-	-	(100)	(100)
Total Other Financing Sources and Uses	-	-	(100)	(100)
Net change	29,417	(3,531)	18,924	22,455
Fund balance, end of year	$ 175,842	$ 52,285	$ 257,756	$ 205,471

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.

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, 2015, 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. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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.

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 2015 totaled, $3,183. The allowance for uncollectible fines was $2,164, resulting in net fines receivable of $1,019. 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

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of 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.

E. CASH AND INVESTMENTS

The City considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash equivalents.

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 with in 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 levied property taxes on November 12, 2014 for values that were assessed on January 1, 2014. Secured property tax payments are due on February 1, 2015; penalties and interest are applied on April 1, 2015. The City has not established a lien date for either county at June 30, 2015.

At June 30, 2015, the City estimated that a small portion of taxes receivable was unlikely to be collected. Therefore, an allowance for uncollected taxes of $357 was established, which resulted in a net tax receivable of $21,404.

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:

Asset Class	Estimated Useful Lives
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

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2015 are recorded as prepaid items. Prepaid insurance and prepaid dues were $16,711 and $3,338, respectively, for total prepaid assets of $20,049 as of June 30, 2015.

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.
- ***Committed*** – The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.
- ***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 (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. This policy requires the City to maintain 20% of the upcoming year's budget in fund balance at all times, with provisions for replenishing fund balance in the event that this threshold is not met in any given year. At the end of fiscal year 2015, the City exceeded the minimum fund balance requirement by $180,157; therefore, the General Fund is in compliance with the policy.

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. INTERFUND BALANCES

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables and payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances.

M. 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 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. In fiscal year 2015, the City did not adopt a balanced budget for General Fund, i.e., both original and final budgets did not have inflows that equaled outflows. See note 12 for details.

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. Material budget variances occurred in fiscal year 2015. See note 12 for details.

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 authorities, counties or municipalities. As of June 30, 2015, the City's bank balances were fully collateralized in all material respects in compliance with State requirements.

3. INTERFUND BALANCES AND ACTIVITY

A. TRANSFER TO/FROM OTHER FUNDS

Transfers between funds consisted of the following at year end:

Transfers In	Transfers Out	Amount	Purpose
SPLOST Fund	General Fund	$ 100	Funds to open a new SPLOST checking account

B. DUE TO/FROM OTHER FUNDS

The following amounts are due from other funds at year end:

Due from	Due to	Amount	Purpose
General Fund	SPLOST Fund	$ 250	
General Fund	SPLOST Fund	15,431	
		$ 15,681	Repayment of unallowable expenditures based on related referendums
SPLOST Fund	General Fund	$ 238	For repayment of capital expenditure paid out of General Fund

All balances are expected to be repaid within one year from the date of the financial statements.

4. RECEIVABLE FROM OTHER GOVERNMENTS

The following amounts are due from other governments at year end:

General Fund:	Amount
Cherokee County	$ 3,570
Georgia Department of Revenue	9,635
Cherokee County	2,213
	$ 15,418
SPLOST Fund:	
Cherokee County	$ 22,965
Pickens County	16,590
	$ 39,555

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balances	Transfers	Additions	Disposals	Ending Balances
Governmental Activities:					
Non-depreciable capital assets:					
Land	$ 159,003	$ -	$ -	$ -	$ 159,003
Construction in progress	-	-	5,067	-	5,067
Total non-depreciable capital assets	159,303	-	5,067	-	164,070
Depreciable capital assets:					
Infrastructure	1,481,828	-	11,716	-	1,493,544
Buildings and improvements	507,697	-	68,128	-	575,825
Land improvements	183,961	-	-	-	183,961
Machinery and equipment	210,794	-	53,925	-	264,719
Vehicles	239,357	-	29,657	-	269,014
Total depreciable capital assets	2,623,637	-	163,426	-	2,787,063
Less accumulated depreciation:					
Infrastructure	(545,164)	-	(55,936)	-	(601,100)
Buildings and improvements	(93,714)	-	(11,671)	-	(105,385)
Land improvements	18,800	-	(12,508)	-	(61,814)
Machinery and equipment	(194,641)	-	(15,182)	-	(141,717)
Vehicles	(168,931)	-	(26,725)	-	(195,656)
Total accumulated depreciation	(983,650)	-	(122,022)	-	(1,105,672)
Total depreciable capital assets, net	1,639,987	-	41,404	-	1,681,391
Governmental activities capital assets, net	$ 1,798,990	$ -	$ 46,471	$ -	$ 1,845,461

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	$ 6,455
Public safety	16,681
Public works	75,329
Culture and recreation	23,557
Total	$122,022

6. RESTRICTED ASSETS AND NET POSITION

Cash of $400,829 and certificates of deposit of $100,000 totaling $500,829 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 special one percent local option sales taxes levied by Cherokee and Pickens Counties. Net position totaling $540,384 in the government-wide financial statements is restricted by enabling legislation related to SPLOST funds. This amount includes receivables from other governments of $39,555.

7. CLASSIFICATION OF EQUITY

Fund balances are classified as follows:

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

General Fund:	
Prepaid items	$ 20,049

- ***Restricted*** -

  Capital Projects Fund:
  Special Purpose Local Option Sales Tax Fund (SPLOST) – Used to account for capital projects financed with SPLOST $ 555,827

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, 2015. No provisions have been made in the financial statements for the year ended June 30, 2015 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.

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.

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.*

10. SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 4, 2015, the date which the financial statements were available to be issued. A review of subsequent year-end transactions shows additional non-compliant expenditures that will require repayment from the General Fund to the SPLOST Fund during fiscal year 2016. The exact amount of unallowable expenditures for fiscal year 2016 was not determined as of the date of the audit report. However, the estimate is material. There were no items noted that required modification to the financial statements at June 30, 2015.

11. COMMITMENTS AND CONTINGENCIES

The City, from time to time, may be involved in litigation, disputes and claims arising in the ordinary course of business. These matters arise from a variety of sources, including the day to day operations of the City and contracts/agreements related to its services and vendors. At the close of fieldwork, the City had no pending litigation claims.

12. MATERIAL VIOLATION OF FINANCE-RELATED LEGAL PROVISIONS AND STEWARDSHIP

OCGA 48-8-121 states that SPLOST proceeds shall be used exclusively for the purpose(s) specified in the resolution or ordinance calling for imposition of the tax. During the fiscal year ended June 30, 2015, there were expenditures totaling $15,681 that did not meet the requirements of the referendum approved for SPLOST expenditures and/or projects. These expenditures have been reclassified as payable from the General Fund to SPLOST Fund as of June 30, 2015.

Municipalities must establish by ordinance a balanced budget for the General Fund. In fiscal year 2015, both the original and final budgets were not balanced, i.e., inflows did not equal outflows. This is depicted on page 9. This is a violation of O.C.G.A. 36-81-3(b).

Excess of Expenditures over Appropriations – Governmental Funds

For the year ended June 30, 2015, expenditures materially exceeded appropriations for general administration, police patrol and highways and streets departments in the General Fund, as depicted on page 9 of the financial statements. This was due to inaccurate budgeting on the City's part, and the inability to adhere to the unreasonable budget during the fiscal year. No attempts to amend the budget were taken by management or the governing body. Overall, the City's revenues exceeded budget which counterbalances the budget overruns in these three departments.

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, 2015

	Final Budget	Actual	Variance Over (Under)
TAXES			
General property taxes:			
Property	$ 104,000	$ 93,941	$ (10,059)
Motor vehicle	1,300	1,086	(214)
Mobile home	60	8	(52)
Intangible	500	865	365
Railroad Tax	10	91	81
	105,870	95,991	(9,879)
Franchise taxes:			
Television cable	3,200	-	(3,200)
Electric	29,000	29,555	555
Natural gas	2,200	3,988	1,788
Telephone	300	6,430	6,130
	34,700	39,973	5,273
Business taxes:			
Business occupation	4,500	4,324	(176)
Insurance premium	68,000	70,870	2,870
	72,500	75,194	2,694
Public service taxes:			
Local sales and use taxes	101,671	113,704	12,033
LICENSES AND PERMITS			
Building permits and fees	1,000	555	(445)
	1,000	555	(445)
INTERGOVERNMENTAL REVENUE			
State capital grants	13,273	13,508	235
Title Ad Valorem Tax	13,028	58,562	45,534
	26,301	72,070	45,769
CHARGES FOR SERVICES			
Sanitation	30,000	31,370	1,370
FINES AND FORFEITURES			
Municipal court fines	10,600	7,443	(3,157)
CONTRIBUTIONS FROM PRIVATE SOURCES			
GMA grants	-	2,262	2,262
INVESTMENT EARNINGS			
Interest income	20	169	149
MISCELLANEOUS REVENUE			
Miscellaneous revenue	1,600	1,097	(503)
PENALTIES AND INTEREST ON DELINQUENT TAXES	200	1,191	991
Total Revenue	**$ 384,462**	**$ 441,019**	**$ 56,557**

CITY OF NELSON, GEORGIA
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL
For the Fiscal Year Ended June 30, 2015

	Final Budget	Actual	Variance Over (Under)
GENERAL GOVERNMENT			
Legislative/Executive:			
Personal Services and Employee Benefits:			
Salaries and wages	$ 35,360	$ 32,982	$ 2,378
FICA	2,828	2,796	32
Workers compensation	450	220	230
Purchased/Contracted Services:			
Dues and fees	200	50	150
Supplies and materials	-	189	(189)
Travel	1,500	1,179	321
Education and training	2,000	1,140	860
	42,338	38,556	3,782
Elections:			
Purchased/Contracted Services:			
Contract Services	6,300	518	5,782
	6,300	518	5,782
General Administration:			
Workers compensation and unemployment	-	212	(212)
Purchased/Contracted Services:			
Professional fees	6,500	9,360	(2,860)
ADP fees	2,000	2,732	(732)
Audit fees	14,500	16,475	(1,975)
Bank charges	-	667	(667)
Rental of equipment and vehicles	3,000	4,043	(1,043)
Insurance and bonding	2,776	3,400	(624)
Advertising	750	1,328	(578)
Printing and Binding	500	24	476
Dues and fees	3,000	3,639	(639)
Supplies:			
Supplies and materials	1,200	3,228	(2,028)
Small equipment	4,000	8,235	(4,235)
Miscellaneous	1,000	489	511
	39,226	53,832	(14,606)
General Government Buildings:			
Purchased/Contracted Services:			
Repairs and maintenance	1,000	4,253	(3,253)
Custodial services	-	443	(443)
Insurance	3,978	1,734	2,244
Communications	4,000	3,081	919
Abatement	4,000	-	4,000
Contingencies	1,000	-	1,000
Supplies:			
Water and sewer	500	928	(428)
Natural gas	3,500	2,951	549
Electricity	4,800	4,889	(89)
Property:			
Building improvement	-	5,845	(5,845)
	22,778	24,124	(1,346)
Total General Government	110,642	117,030	(6,388)

CITY OF NELSON, GEORGIA
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL
For the Fiscal Year Ended June 30, 2015

	Final Budget	Actual	Variance Over (Under)
JUDICIAL			
Municipal Court			
Purchased/Contracted Services:			
Education and training	550	50	500
Travel	1,000	641	359
Dues and fees	4,000	4,705	(705)
Professional fees	2,500	3,095	(595)
Supplies:			
General supplies	150	84	66
Total Judical	8,200	8,575	(375)
PUBLIC SAFETY:			
Police:			
Personal Services and Employee Benefits:			
Salaries and wages	37,100	38,727	(1,627)
FICA	2,800	3,118	(318)
Workers compensation	3,064	2,743	321
Purchased/Contracted Services:			
Liability insurance	3,088	3,928	(840)
Communications	5,531	232	5,299
Dues and fees	200	242	(42)
Education and training	400	1,530	(1,130)
Repairs and maintenance	2,500	7,101	(4,601)
Travel	1,200	403	797
Uniform service	-	4,338	(4,338)
Supplies:			
Gasoline	6,000	5,491	509
Small equipment, training aids	800	3,504	(2,704)
Books & Periodicals	-	50	(50)
Other Costs:			
Jail expense	-	432	(432)
Miscellaneous	-	99	(99)
	62,683	71,938	(9,255)
Fire:			
Contributions	-	427	(427)
	-	427	(427)
Total Public Safety	62,683	72,365	(9,682)
PUBLIC WORKS			
Highway and Streets:			
Personal Services and Employee Benefits:			
Salaries and wages	34,320	44,698	(10,378)
FICA	2,746	3,666	(920)
Workers compensation	4,032	3,128	904
Contract labor	10,000	-	10,000
Purchased/Contracted Services:			
Liability insurance	1,057	1,929	(872)
Vehicle repairs	5,000	4,934	66

CITY OF NELSON, GEORGIA
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL
For the Fiscal Year Ended June 30, 2015

	Final Budget	Actual	Variance Over (Under)
Supplies:			
Street signs	1,000	1,572	(572)
Gasoline	2,500	4,276	(1,776)
Supplies and materials	1,000	2,112	(1,112)
Small equipment	1,000	576	424
Electricity	18,000	20,615	(2,615)
Maintenance	10,000	17,317	(7,317)
Property:			
Infrastructure	-	11,715	(11,715)
	90,655	116,538	(25,883)
Solid Waste Collection:			
Personal Services and Employee Benefits:			
Salaries and wages	9,000	10,110	(1,110)
FICA	720	894	(174)
Workers compensation	726	617	109
Purchased/Contracted Services:			
Liability insurance	2,862	2,714	148
Vehicle repairs	4,000	1,275	2,725
Other Services	6,500	6,663	(163)
Supplies:			
Supplies and materials	1,000	-	1,000
Gasoline	2,300	1,553	747
	27,108	23,826	3,282
Total Public Works	117,763	140,364	(22,601)
CULTURE AND RECREATION			
Parks and Recreation:			
Purchased/Contracted Services:			
Repairs and maintenance	10,000	4,049	5,951
Recreation:			
Museum	2,000	2,858	(858)
Total Culture and Recreation	12,000	6,907	5,093
HOUSING AND DEVELOPMENT			
Advertising	-	64	(64)
Professional services	1,000	750	250
Supplies and materials	100	64	36
	1,100	878	222
Total Housing and Development	1,100	878	222
INTERGOVERNMENTAL			
Remittance of fire tax	75,605	75,876	(271)
Total Expenditures	**$ 387,993**	**$ 421,995**	**$ (34,002)**

CITY OF NELSON, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
For the Fiscal Year Ended June 30, 2015

Project	Estimated Cost		Expenditures			Estimated % of Completion
	Original	Current	Prior Years	Current Year	Total	
SPLOST #3						
Transportation facilities and equipment, parks and recreation facilities and public safety vehicles and equipment	$ 940,000	$ 940,000				
Roads/Transportation						
Facilities	-	-	$ 269,066	$ 502	$ 269,568	
Equipment	-	-	70,342	53,925	124,267	
Parks and Recreation facilities	-	-	58,300	50,883	109,183	
Public Safety:						
Vehicles	-	-	99,864	-	99,864	
Equipment	-	-	13,837	-	13,837	
	940,000	940,000	511,409	105,310	616,719	65.61%
SPLOST #4						
Transportation facilities and equipment, parks and recreation facilities and public safety vehicles and equipment	720,000	720,000				
Roads/Transportation						
Facilities	-	-	-	-	-	
Equipment	-	-	-	2,714	2,714	
Parks and Recreation facilities	-	-	-	16,467	16,467	
Public Safety:						
Vehicles	-	-	-	29,657	29,657	
Equipment	-	-	-	-	-	
	720,000	720,000	-	48,838	48,838	6.78%
GRAND TOTALS	**$ 1,660,000**	**$ 1,660,000**	**$ 511,409**	**$ 154,148**	**$ 665,557**	

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

Note B: *The expenditures for total SPLOST activity do not reconcile to the capital outlay total shown in the basic financial statements. There were purchases of items that did not meet the City's capitalization threshold. These items have been expensed in accordance with the financial policies of the City. However, the total expenditures shown above for the current fiscal year reconcile to the amount shown in the fund statements.*

COMPLIANCE AND INTERNAL CONTROL

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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*

To the Mayor and City Council
City of Nelson, 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 and each major fund of City of Nelson, Georgia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Nelson, Georgia's basic financial statements and have issued our report thereon dated December 4, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Nelson, Georgia'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 of Nelson, Georgia's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Nelson, Georgia'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 and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. See Findings 2012-001, 2014-002, 2015-001, 2015-002, 2015-003, 2015-004.

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 deficiency described in the accompanying schedule of findings and responses to be a significant deficiency. See finding 2015-005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing*

Standards and which are described in the accompanying schedule of findings and responses as items 2015-006, 2015-007, 2015-008, 2015-009.

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
December 4, 2015

CITY OF NELSON, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2015

MATERIAL WEAKNESSES:

2012-001 – 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. It would be advantageous to outsource the monthly reconciliation and year end closing entries to a CPA firm in order to further mitigate the risk associated with lack of segregation of duties.

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.

2014-002 – 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 now being performed monthly. However, due to the unorganized and insufficient daily bookkeeping, the reconciliations are difficult to balance and often adjusted without reason in order to balance. 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 now being performed. However, staff members preparing daily entries into the system are performing their duties in a substandard method. This results in multiple entries for one transaction followed by multiple entries in an attempt to correct such transactions. The general ledger is incomplete and inaccurate.

Recommendation: We recommend that the 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 by an external CPA firm. 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 will explore their options for training and outsourcing during fiscal year 2016.

2015-001 – Authorization for Contract Execution

Criteria: Execution of a contract that involves the City of Nelson requires approval by Council and documentation of such approval in the minutes of an open meeting.

Condition/Context: At the beginning of the fiscal year 2015, a Memorandum of Understanding between the City of Nelson and Cherokee County for E911 services was signed on behalf of the City. There is no evidence of approval by Mayor and City Council in the minutes of the regular or called meetings during fiscal year 2014 or 2015.

Effect: Executing contracts without consent and approval of the governing body is against the City's policies and could cause the City to be committed to actions or services of which the majority of the governing body does not approve.

Cause: While the memorandum of understanding with Cherokee County was a renewal of a previous and similar contract, the approval to enter into a renewed contract was still required per the City's policies. In addition, there was an overall lack of adherence to financial policy regarding approval and authorization during fiscal year 2015.

Recommendation: It is our recommendation that all contracts and agreements be reviewed by the city attorney and then presented to the governing body for approval. Such presentation and approval should be documented in the signed copy of the minutes of the meeting.

Response: The City agrees with this finding, and management intends to include all authorizations pertaining to contracts and agreements in the minutes of the meetings of Council in the future.

2015-002 – Violation of Financial Policy Regarding Expenditures

Criteria: The City currently has a financial policy that requires three levels of approval for expenditures based on the amount to be expended. Purchases under $300 may be authorized by department supervisors without consent of the city manager or governing body. Purchases ranging from $300 to $1000 require two informal quotes from vendors and approval from city manager. Purchases ranging from $1,001 to $5,000 require three written quotes from vendors, approval for a budget amendment if necessary and approval by the

governing body. Purchases of more than $5,000 require formal competitive sealed bids and a bid opening and awarding process. These bids are tabulated and results presented to the governing body for approval and selection of vendor. The formal competitive bid process is outlined in the policy.

Condition/Context: Throughout the fiscal year, numerous items and services were purchased in violation of the purchasing policy. The violations of the policy occurred in both the General and SPLOST Funds. In addition, when the bid process was attempted for a transaction, the process did not follow the specifications of the policy. This condition has continued into the subsequent fiscal year based on our review of subsequent events.

Effect: The governing body established a policy that ensured their participation in purchases that were material to the budget so as to practice sound financial management. The governing body's ability to fiscally manage the City's finances is limited when this policy is circumvented.

Cause: During the fiscal year, purchases were made by management for projects and operations in violation of the financial policy stated. In the General Fund, it is estimated to include expenditures in the amount of $15,000. In the SPLOST Fund, it is estimated to include expenditures in the amount of $107,500. These totals are based on a large sample of transactions tested during fieldwork, and do not include a comprehensive review of all transactions throughout the year for both funds.

Recommendation: It is our recommendation that the City choose one of two solutions to this issue. First, the policy could be communicated to management and the governing body so that it can be followed to the full extent. Second, the governing body can revise the policy if it is determined that different thresholds or types of authorization are necessary to operate efficiently and effectively. Regardless, a policy should be set, communicated and followed so that the governing body and staff can manage the City's finances in a sound manner.

Response: The City agrees with this finding and plans to review and revise the financial policy to better mirror the operational needs of the City.

2015-003 – Discrepancies in Cash Deposits

Criteria: All cash receipts entered into the general ledger system should be included in the bank deposit.

Condition/Context: Upon review of the cash receipts for fiscal year 2015, it was noted that ten (10) cash receipts entered into the respective billing systems were not included in the deposit made to Regions Bank. Five (5) transactions related to sanitation bills, totaling $188; one (1) transaction related to property taxes in the amount of $275; and four (4) transactions related to municipal court fines in the amount of $492. The payments were not included in deposit in any bank accounts held by the City.

Effect: The cash receipts were received and included in revenue in the financial statements. The cash is correctly stated without these receipts included. The payments have been reported to the governing body as potentially embezzled. There is no evidence indicating otherwise, and no explanation as to where the receipts were deposited.

Cause: This is the result of risk associated with the absence of segregation of duties, combined with the poor condition of the general ledger when reconciled by a third party.

The missing receipts were not noted until a review of all cash receipts for the fiscal year during audit fieldwork.

Recommendation: It is our recommendation that internal controls are implemented that would segregate the duties related to handling payments and deposits. Personnel who receive payments should not prepare deposits. The deposits should be prepared by a different staff person who uses a report generated from the payment system to reconcile the amount of the bank deposit. The deposit should be taken by an independent person who returns to city hall with the original deposit summary and a validated remittance advice from the bank. Even with limited personnel, this process is possible and can be implemented to safeguard the assets of the City.

Response: The City agrees with this finding, and is in the process of hiring a new clerk. Upon hiring the clerk, the duties will be evaluated and controls redesigned.

2015-004 – Incomplete Records and Documentation

Criteria: All departments and related organizations operating for or on behalf of the City of Nelson should account for the financial activity of the operation or entity in a manner that adheres to the City financial policy or a similar policy agreeable to the governing body.

Condition/Context: During fiscal year 2015, the Nelson Reserve Association, Inc. was formed as an extension of the police department of the City of Nelson. The governance of the association was essentially the same as the police department in that the Police Chief of Nelson was ultimately responsible for the actions of both entities, and activities of the Association were included in the police report to the governing body at City Council meetings. The Association held fundraisers and solicited donations on behalf of the City of Nelson police department and the Nelson Reserve Association. There are incomplete records from the fundraisers, and there is no accounting for amounts raised, deposited in the bank account or expended as a part of the event. In addition, there have been monies spent on supplies and other items by the Association for which there is no documentation. There is no general ledger, check register of transactions or similar documents available for the financial activity of the account. Bank statements were used to ascertain the materiality of the known activity of the Association, and there is no method by which the actual activity of the Association can be determined without financial summary information such as a check register or general ledger.

Effect: Due to a lack of information, the activity shown on the bank statements was evaluated to determine the potential material effect of the financial transactions of the Association being omitted from the financial statements for the fiscal year ended June 30, 2015. The ending cash balance was $1,422 at June 30, 2015, which is comprised of five (5) deposits totaling $1,635 netted with three (3) cash disbursements totaling $233 and bank charges totaling $30. Omission of this information was not deemed to materially misstate the financial statements presented for this time period. However, the lack of documentation of activity is negligent and not compliant with the city's financial policies.

Cause: The financial policy of the City or a similar policy was not followed by the Association.

Recommendation: It is our recommendation that in the future, any department or related organization should be given all policies to which they are expected to adhere to alleviate the absence of documentation for financial activity. If it is not feasible for the staff of related

organizations to adhere to such policies, it is advisable to handle all financial transactions in City Hall as any other department of the City. This would prevent future issues in this area.

Response: The Nelson Reserve Association, Inc. has been dissolved by the governing body of the City subsequent to the fiscal year 2015. However, in the future, any related organization will be informed of the financial documentation requirements.

SIGNIFICANT DEFICIENCY:

2015-005 – Authorization for Bank Account Activity

Criteria: The financial policy states that any closure of bank accounts or opening of bank accounts must be presented for approval to the governing body. Upon approval by the governing body, the opening or closing of accounts is permissible. Action taken on these items should be included in the minutes of the meeting.

Condition/Context: During fiscal year 2015, certificates of deposit were redeemed in the amount of $100,000. These redemptions were not approved in the minutes of the meetings of the City Council. In addition, a checking account was opened at Regions Bank for which no approval was noted in the minutes of the Council meetings during the fiscal year.

Effect: The redemption of certificates of deposit was traced to legitimate deposit in City bank accounts and use in Council-approved transactions. The new checking account was related to a new SPLOST referendum that began during fiscal year 2015. Regardless of the nature of the activity, however, it is important that all bank activity related to custody of City funds is approved by Council in order to mitigate the risk of appropriation of funds.

Cause: The aforementioned bank activity was not presented to Council for approval and no documentation of approval in the minutes of Council meetings could be found.

Recommendation: All accounts being opened or closed at financial institutions should be authorized by the governing body before any action is taken. Such authorization should be included in the minutes of the Council meeting.

Response: The City agrees with this finding and will implement the recommendation.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW:

2015-006 – Material Violation of Finance-Related Legal Provisions

Criteria: OCGA 48-8-121 states that SPLOST (Special Local Option Sales Tax) proceeds shall be used exclusively for the purpose(s) specified in the resolution or ordinance calling for imposition of the tax.

Condition/Context: During the fiscal year ended June 30, 2015, there were expenditures totaling $15,681 that did not meet the requirements of the referendum approved for SPLOST expenditures and/or projects. This activity was reclassified during audit fieldwork as a liability to the General Fund for repayment of non-compliant expenditures. During a review of subsequent events, we noted that there are additional expenditures that do not meet the requirements of the approved referendums.

Effect: The use of SPLOST funds for expenditures other than those approved in the ordinance and referendum caused the City to be subject to noncompliance with state law.

Cause: There are two types of noncompliance noted in fiscal year 2015. The first instance was the use of SPLOST monies for the renovation of the building to which the police department relocated. There is no provision for public safety facilities or buildings included in any of the SPLOST referendums in place for City of Nelson. The second issue noted was the use of SPLOST monies for numerous non-capital items and transactions. Repairs and maintenance items and other related expenditures required to be paid from the general revenues of the City was paid out of the SPLOST accounts. The renovation of the building for the police department continued into the subsequent year, as did the payment of non-capital expenditures.

Recommendation: We recommend that care and diligence be taken when executing transactions on the City's behalf as it relates to SPLOST. In the future, any transactions should be verified as compliant with the applicable referendum before payment is made. Secondly, we recommend that the non-compliant expenditures be repaid to the SPLOST Fund by the General Fund during fiscal year 2016. The transactions executed during fiscal year 2016 should be reviewed as well, and any non-compliant amounts should also be repaid by the General Fund.

Response: The City agrees with this finding, and measures for repayment will be determined in the near future.

2015-007– Material Violation of Finance-Related Legal Provisions

Criteria: OCGA 48-8-122 states, "Not later than December 31 of each year, the governing authority of each local government receiving any proceeds from the tax under this part shall publish annually, in a newspaper of general circulation in the boundaries of such local government, a simple, nontechnical report which shows for each project or purpose in the resolution or ordinance calling for imposition of the tax the original estimated cost, the current estimated cost if it is not the original estimated cost, amounts expended in prior years, and amounts expended in the current year. In the case of road, street, and bridge purposes, such information shall be in the form of a consolidated schedule of the total original estimated cost, the total current estimated cost if it is not the original estimated cost, and the total amounts expended in prior years and the current year for all such projects and not a separate enumeration of such information with respect to each such individual road, street, or bridge project. The report shall also include a statement of what corrective action the local government intends to implement with respect to each project which is underfunded or behind schedule and a statement of any surplus funds which have not been expended for a project or purpose."

Condition/Context: The staff of the City could not produce documentation that this public notice was presented to a newspaper of either Cherokee or Pickens County before December 31, 2014, or any time subsequent to December 31, 2014 through the last day of fieldwork.

Effect: Failure to publish said schedule with pertinent information included is a violation of state law.

Cause: The information required to be published annually was not submitted to a newspaper of general circulation in either Pickens or Cherokee County before December 31, 2014.

Recommendation: It is our recommendation that the mandated information be submitted in a timely fashion to the appropriate newspapers so that compliance with state law is maintained.

Response: The City agrees with this finding and will submit this information in the future.

2015-008 – Material Violations of Finance-Related Legal Provisions

Criteria: The Local Maintenance & Improvement Grant program provided by Georgia Department of Transportation requires a 30% match by participating municipalities as well as a reporting requirement to close the grant.

Condition/Context: The City of Nelson has not completed the reporting requirement for the 2014 LMIG funds received, nor have they completed the match requirement and reporting requirement for the 2015 LMIG funds received.

Effect: Failure to meet requirements imposed by grantors could result in lost funding in future years.

Cause: Due to the unusual turnover in financial personnel over the last two years, this reporting and match requirement was overlooked by staff. The error was not found by the City Manager.

Recommendation: It is our recommendation that grant requirements be communicated to staff and management upon the application and notice of award of any grant funding for Nelson. Due diligence should be done to ensure that all requirements are completed in their entirety.

Response: The City of Nelson management agrees with this finding and will take the steps necessary to remedy the noncompliance with the LMIG program for 2014 and 2015, as well as ensure that the requirements are met in the future.