CITY OF NELSON, GEORGIA

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise the City of Nelson, Georgia'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, 2016, 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 require 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, which includes the General Fund Detailed Schedule of Revenues – Budget to Actual and General Fund Detailed Schedule of Expenditures – Budget to Actual are presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Projects Constructed with Special Local Option Sales Tax Proceeds is presented for purposes of additional analysis as required by OCGA 48-4-121, and is also not a required part of the basic financial statements. These schedules 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 – Budget to Actual, General Fund Detailed Schedule of Expenditures – Budget to Actual, and the Schedule of Projects Constructed with Special Local Option Sales Tax Proceeds 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 5, 2016, 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 5, 2016

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, 2016

	Governmental Activities
ASSETS	
Current Assets:	
Cash	$ 212,185
Cash equivalents	54,903
Restricted cash	594,783
Restricted cash equivalents	100,000
Fines receivable, net	2,909
Accounts receivable	4,550
Taxes receivable, net	12,404
Receivable from other governments	46,934
Prepaid items	21,350
Total Current Assets	1,050,018
Non-current assets:	
Capital assets, not being depreciated	194,653
Capital assets, net of accumulated depreciation	1,591,681
Total Non-current Assets	1,786,334
Total Assets	2,836,352
LIABILITIES	
Current Liabilities:	
Accounts payable	24,979
Total Liabilities	24,979
DEFERRED INFLOWS OF RESOURCES	
Unearned revenue	4,607
NET POSITION	
Investment in capital assets	1,786,334
Restricted for capital projects	725,715
Unrestricted	294,717
Total Net Position	$ 2,806,766

The accompanying notes are an integral part of this statement.

CITY OF NELSON, GEORGIA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

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	$ 218,030	$ -	$ -	$ -	$ (218,030)
Judicial	7,606	-	-	-	(7,606)
Public safety	87,140	15,382	-	-	(71,758)
Public works	214,545	34,708	-	250,833	70,996
Culture and recreation	27,893	150	-	-	(27,743)
Housing and development	985	1,220	-	-	235
Total Governmental Activities	$ 556,199	$ 51,460	$ -	$ 250,833	(253,906)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					105,924
General sales and use taxes					114,167
Franchise taxes					37,754
Business taxes					80,743
Intergovernmental revenues not restricted to specific programs					50,006
Unrestricted investment earnings					34
Miscellaneous					2,830
Total general revenues					391,458
Change in net position					137,552
Net position, beginning of year					2,669,214
Net position, end of year					$ 2,806,766

The accompanying notes are an integral part of this statement.

CITY OF NELSON, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	General Fund	SPLOST Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 267,088	$ -	$ 267,088
Restricted cash and cash equivalents	-	694,783	694,783
Taxes receivable, net	12,404	-	12,404
Fines receivable, net	2,909	-	2,909
Accounts receivable	4,550	-	4,550
Receivable from other governments	14,164	32,770	46,934
Due from other funds	-	18,507	18,507
Prepaid items	21,350	-	21,350
Total Assets	$ 322,465	$ 746,060	$ 1,068,525
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Liabilities:			
Accounts payable	$ 4,634	$ 20,345	$ 24,979
Due to other funds	18,507	-	18,507
Total Liabilities	23,141	20,345	43,486
Deferred Inflows of Resources:			
Unearned revenue	4,607	-	4,607
Deferred revenue	9,435	-	9,435
Total Deferred Inflows of Resources	14,042	-	14,042
Total Liabilities and Deferred Inflows of Resources	37,183	20,345	57,528
FUND BALANCE			
Nonspendable	21,350	-	21,350
Restricted for:			
Capital projects funds	-	725,715	725,715
Unassigned	263,932	-	263,932
Total Fund Balances	285,282	725,715	1,010,997
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 322,465	$ 746,060	$ 1,068,525

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, 2016

Total fund balance, governmental funds		$ 1,010,997
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	$ 3,019,047	
Less accumulated depreciation	(1,232,713)	
		1,786,334
Some of the City's 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.		9,435
Net Position of Governmental Activities in the Statement of Net Position		$ 2,806,766

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, 2016

	General Fund	SPLOST Fund	Total Governmental Funds
Revenues:			
Taxes	$ 241,914	$ -	$ 241,914
Intergovernmental	177,706	237,105	414,811
Licenses and permits	1,220	-	1,220
Fines and forfeitures	13,937	-	13,937
Charges for services	30,325	-	30,325
Investment earnings	34	195	229
Miscellaneous	2,980	-	2,980
Penalties and interest on delinquent taxes	661	-	661
Total Revenues	468,777	237,300	706,077
Expenditures:			
Current:			
General government	129,535	1,277	130,812
Judicial	7,606	-	7,606
Public safety	87,695	5,491	93,186
Public works	140,072	723	140,795
Culture and recreation	2,434	2,515	4,949
Housing and development	985	-	985
Capital Outlay:			
Public works	-	24,062	24,062
Culture and recreation	-	25,863	25,863
Intergovernmental	80,405	-	80,405
Total Expenditures	448,732	59,931	508,663
Net changes in fund balances	20,045	177,369	197,414
Fund balances, beginning of year	257,756	555,827	813,583
Restatement of prior period	7,481	(7,481)	-
Fund balances, end of year	$ 285,282	$ 725,715	$ 1,010,997

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, 2016

Net change in fund balances - total governmental funds:			$ 197,414
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 $67,914 are offset by $127,041 of depreciation.			(59,127)
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, 2015	$	(21,761)	
Deferred, as of June 30, 2016		3,607	(18,154)
Fines and forfeitures:			
Deferred, as of June 30, 2015	$	-	
Deferred, as of June 30, 2016		1,445	1,445
Sanitation fees:			
Deferred, as of June 30, 2015	$	-	
Deferred, as of June 30, 2016		4,383	4,383
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, 2015	$	11,591	
Liability, as of June 30, 2016		-	11,591
Change in net position of governmental activities in the Statement of Activities			$ 137,552

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, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final	(See Note 1. M.)	Final Budget
Budgetary fund balance, beginning of year	$ 257,756	$ 257,756	$ 257,756	$ -
Revenues (inflows):				
Property taxes	106,460	106,460	123,417	16,957
Franchise taxes	42,700	39,500	37,754	(1,746)
Business taxes	75,600	75,600	80,743	5,143
Licenses and permits	300	300	1,220	920
Intergovernmental	194,000	194,000	177,706	(16,294)
Charges for services	32,000	32,000	30,325	(1,675)
Fines and forfeitures	15,000	15,000	13,937	(1,063)
Investment earnings	20	20	34	14
Miscellaneous	5,300	5,300	2,980	(2,320)
Penalties and interest on delinquent taxes	500	500	661	161
Total Revenues	471,880	468,680	468,777	97
Changes to appropriations (outflows):				
General Government:				
Legislative/Executive	51,287	51,907	49,837	2,070
Elections	6,500	170	170	-
General administration	43,738	54,687	58,185	(3,498)
General government buildings	16,442	19,912	21,343	(1,431)
Judicial:				
Municipal court	7,700	8,700	7,606	1,094
Public Safety:				
Patrol	79,968	86,563	87,471	(908)
Fire	-	224	224	-
Public Works:				
Highways and streets	101,266	109,496	112,234	(2,738)
Solid waste collection	29,942	31,221	27,838	3,383
Culture and Recreation:				
Parks and recreation	12,000	2,700	2,434	266
Housing and Development:				
Protective inspection	1,100	1,700	985	715
Intergovernmental	76,000	76,000	80,405	(4,405)
Total Expenditures	425,943	443,280	448,732	(5,452)
Net change	45,937	25,400	20,045	(5,355)
Restatement of prior period equity	7,481	7,481	7,481	-
Fund balance, end of year	$ 311,174	$ 290,637	$ 285,282	$ (5,355)

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, 2016, 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 60 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, sanitation fees 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 always available soon enough in the subsequent year to finance current period obligations. Therefore, property tax receivables are recorded and the portion not received in the first 60 days of the subsequent fiscal year are 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.

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 in November 2015 for values that were assessed on January 1, 2015. Secured property tax payments are due on February 1, 2016; penalties and interest are applied on April 1, 2016. The City has not established a lien date for either county at June 30, 2016.

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, 2016 are recorded as prepaid items. Prepaid insurance and prepaid dues were $17,490 and $3,860, respectively, for total prepaid assets of $21,350 as of June 30, 2016.

I. COMPENSATED ABSENCES

The payment for compensated absences is recorded in the year such absences are taken by employees. It is the policy of the City that unused leave expires at the end of the year, and the unused time cannot carryforward to future periods. Therefore, no liability is recorded at June 30, 2016.

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 2016, the City exceeded the minimum fund balance requirement; 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 2016, 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 15 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. During the fiscal year ending June 30, 2016, the City did not materially exceed budgeted appropriations at the departmental level.

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, 2016, the

City's bank balances were fully collateralized in all material respects in compliance with State requirements.

3. INTERFUND BALANCES AND ACTIVITY

A. OPERATING TRANSFERS

There were no transfers between General and SPLOST Fund in fiscal year 2016.

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	$ 18,507	Repayment of unallowable expenditures based on related referendums (see Note 15).

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

4. ACCOUNTS RECEIVABLE

A. ACCOUNTS RECEIVABLE

Fines receivable for the fiscal year ended 2016 totaled, $5,073. The allowance for uncollectible fines was $2,164, resulting in net fines receivable of $2,909. This is attributable to a large outstanding balance of probation fines that are essentially uncollectible at the end of the fiscal year.

At June 30, 2016, 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 $12,404.

B. RECEIVABLE FROM OTHER GOVERNMENTS

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

General Fund:	Amount
Cherokee County	$ 2,193
Georgia Department of Revenue	10,186
Pickens County	1,785
	$ 14,164
SPLOST Fund:	
Cherokee County	$ 23,975
Pickens County	8,795
	$ 32,770

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balances	Additions	Disposals	Ending Balances
Governmental Activities:				
Non-depreciable capital assets:				
Land	$ 159,003	$ -	$ -	$ 159,003
Construction in progress	5,067	30,583	-	35,650
Total non-depreciable capital assets	164,070	30,583	-	194,653

Depreciable capital assets:				
Infrastructure	1,493,544	-	-	1,493,544
Buildings and improvements	575,825	5,062	-	580,887
Land improvements	183,961	-	-	183,961
Machinery and equipment	264,719	32,269	-	296,988
Vehicles	269,014	-	-	269,014
Total depreciable capital assets	2,787,063	37,331	-	2,824,394
Less accumulated depreciation:				
Infrastructure	(601,100)	(56,197)	-	(657,297)
Buildings and improvements	(105,385)	(13,544)	-	(118,929)
Land improvements	(61,814)	(12,224)	-	(74,038)
Machinery and equipment	(141,717)	(17,305)	-	(159,022)
Vehicles	(195,656)	(27,771)	-	(223,427)
Total accumulated depreciation	(1,105,672)	(127,041)	-	(1,232,713)
Total depreciable capital assets, net	1,681,391	(89,710)	-	1,591,681
Governmental activities capital assets, net	$ 1,845,461	$ (59,127)	$ -	$ 1,786,334

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	$ 6,813
Public safety	21,052
Public works	75,230
Culture and recreation	23,946
Total	$127,041

6. DEFERRED INFLOWS OF RESOURCES

Revenue received in advance for services not yet rendered or taxes not yet levied are depicted as unearned revenue on the fund-level and government-wide financial statements for the following revenue sources:

Property taxes paid, but not yet levied	$2,198
Sanitation fees paid in advance of service	2,409
Total unearned revenue	$4,607

Receivables recorded at the end of the fiscal year that will not be available within 60 days subsequent to year end for the payment of related current expenditures are shown for the following revenue sources in the fund financial statements:

Property taxes	$3,607
Sanitation fees	4,383
Fines and forfeitures	1,445
Total deferred revenue	$9,435

7. NONCANCELABLE OPERATING LEASE

In September 2014, the City entered into a lease agreement for the use of a multi-function Xerox machine. The total term of the lease is 63 months, with minimum monthly lease payments of $203. The lease is contingent on budget appropriations each year, and the contract has provisions for release from liability in the event the City cannot include the appropriation and has exhausted all options for payment. The

total of lease payments included in the General Fund expenditures for fiscal year 2016 is $2,442. Future payments for subsequent years through the expiration of the contract are as follows:

Fiscal Year	Minimum Rental Payment
2017	$2,442
2018	$2,442
2019	$2,442
2020	$1,218

8. RESTRICTED ASSETS AND NET POSITION

Cash of $594,783 and short-term certificates of deposit of $100,000 totaling $694,783 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 $725,715 in the government-wide financial statements is restricted by enabling legislation related to SPLOST funds. A corresponding amount of fund balance is also shown as restricted in the fund statements.

9. 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 $ 21,350

- ***Restricted*** -

  Capital Projects Fund:

  Special Purpose Local Option Sales Tax Fund (SPLOST) – Used to account for capital projects financed with SPLOST $ 725,715

10. RESTATEMENT OF FUND BALANCE FOR PRIOR PERIOD

In fiscal year 2015, non-compliant SPLOST expenditures totaling $15,681 were reported and reclassified as an interfund payable between General and SPLOST Funds. After further research and analysis, it was determined that $7,481 of the expenditures could be funded from the Cherokee County SPLOST 4 referendum. Therefore, a prior period entry was required to reclassify those expenditures from General Fund to SPLOST Fund. Because this prior period entry affected interfund transfers and capital outlay expenditures, the restatement is only appropriate for the fund statements.

11. 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, 2016. No provisions have been made in the financial statements for the year ended June 30, 2016 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.

12. 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.*

13. SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 5, 2016, the date which the financial statements were available to be issued. There were no items noted that required modification to or disclosure in the financial statements at June 30, 2016.

14. 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.

15. 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, 2016, there were expenditures totaling $16,986 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, 2016, and are included in the total amount shown as payable of $18,507. This total includes amounts not yet repaid from the prior year. The City made provisions to repay all non-compliant SPLOST expenditures from the General Fund during November 2016.

Municipalities must establish by ordinance a balanced budget for the General Fund. In fiscal year 2016, 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).

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, 2016

	Final Budget	Actual	Variance Over (Under)
TAXES			
General property taxes:			
Property	$ 104,000	$ 122,076	$ 18,076
Motor vehicle	1,300	831	(469)
Mobile home	60	4	(56)
Intangible	1,000	426	(574)
Railroad Tax	100	80	(20)
	106,460	123,417	16,957
Franchise taxes:			
Electric	30,000	29,697	(303)
Natural gas	3,000	3,966	966
Telephone	6,500	4,091	(2,409)
	39,500	37,754	(1,746)
Business taxes:			
Business occupation	4,600	4,405	(195)
Insurance premium	71,000	76,338	5,338
	75,600	80,743	5,143
LICENSES AND PERMITS			
Building permits and fees	300	1,220	920
	300	1,220	920
INTERGOVERNMENTAL REVENUE			
Local sales and use taxes	115,000	114,167	(833)
State capital grants	14,000	13,533	(467)
Title ad valorem tax	65,000	50,006	(14,994)
	194,000	177,706	(16,294)
CHARGES FOR SERVICES			
Sanitation	32,000	30,325	(1,675)
FINES AND FORFEITURES			
Municipal court fines	15,000	13,937	(1,063)
INVESTMENT EARNINGS			
Interest income	20	34	14
MISCELLANEOUS REVENUE			
Miscellaneous revenue	5,300	2,980	(2,320)
PENALTIES AND INTEREST ON DELINQUENT TAXES	500	661	161
Total Revenue	**$ 468,680**	**$ 468,777**	**$ 97**

CITY OF NELSON, GEORGIA
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual	Variance Over (Under)
GENERAL GOVERNMENT			
Legislative/Executive:			
Personal Services and Employee Benefits:			
Salaries and wages	$ 43,450	$ 42,139	$ 1,311
FICA	5,088	4,561	527
Workers compensation	135	88	47
Purchased/Contracted Services:			
Dues and fees	220	205	15
Supplies and materials	84	84	-
Travel	1,030	872	158
Education and training	1,900	1,888	12
	51,907	49,837	2,070
Elections:			
Purchased/Contracted Services:			
Contract Services	170	170	-
	170	170	-
General Administration:			
Purchased/Contracted Services:			
Legal fees	13,459	13,438	21
Payroll service fees	2,875	2,875	-
Audit fees	15,550	15,550	-
Bank charges	750	750	-
Rental of equipment and vehicles	3,010	3,248	(238)
Insurance and bonding	2,800	459	2,341
Advertising	2,269	1,966	303
Printing and Binding	200	196	4
Dues and fees	4,125	4,231	(106)
Other cost:			
Bad debt	-	7,239	(7,239)
Supplies:			
Supplies and materials	3,519	2,512	1,007
Small equipment	5,750	5,362	388
Miscellaneous	380	359	21
	54,687	58,185	(3,498)
General Government Buildings:			
Purchased/Contracted Services:			
Repairs and maintenance	5,432	5,205	227
Custodial services	-	100	(100)
Insurance	2,160	4,517	(2,357)
Communications	3,330	2,873	457
Supplies:			
Water and sewer	790	924	(134)
Natural gas	1,400	1,349	51
Electricity	6,800	6,375	425
	19,912	21,343	(1,431)
Total General Government	126,676	129,535	(2,859)

CITY OF NELSON, GEORGIA
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual	Variance Over (Under)
JUDICIAL			
Municipal Court			
Purchased/Contracted Services:			
Education and training	645	550	95
Travel	400	299	101
Dues and fees	3,605	2,779	826
Professional fees	2,850	2,785	65
Other Costs:			
Payments to other agencies	1,050	1,043	7
Supplies:			
General supplies	150	150	-
Total Judicial	8,700	7,606	1,094
PUBLIC SAFETY:			
Police:			
Personal Services and Employee Benefits:			
Salaries and wages	57,900	56,969	931
FICA	5,160	5,041	119
Workers compensation	3,312	2,191	1,121
Purchased/Contracted Services:			
Liability insurance	5,081	5,097	(16)
Communications	1,500	946	554
Dues and fees	550	311	239
Education and training	749	699	50
Repairs and maintenance	2,650	2,072	578
Custodial	85	85	-
Travel	800	636	164
Uniform service	1,972	1,972	-
Supplies:			
Gasoline	4,750	4,040	710
Small equipment, training aids	425	332	93
Water and sewer	200	193	7
Electricity	1,000	994	6
Books & Periodicals	78	67	11
Other supplies	340	307	33
Miscellaneous	-	457	(457)
Property:			
Building improvements	11	5,062	(5,051)
	86,563	87,471	(908)
Fire:			
Contributions	224	224	-
	224	224	-
Total Public Safety	86,787	87,695	(908)

CITY OF NELSON, GEORGIA
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual	Variance Over (Under)
PUBLIC WORKS			
Highway and Streets:			
Personal Services and Employee Benefits:			
Salaries and wages	51,000	49,557	1,443
FICA	5,500	4,550	950
Workers compensation	8,620	5,696	2,924
Garnishment	527	-	527
Contract labor	2,288	65	2,223
Purchased/Contracted Services:			
Liability insurance	2,132	4,489	(2,357)
Repairs and maintenance	5,829	5,665	164
Supplies:			
Street signs	750	611	139
Gasoline	2,900	2,373	527
Supplies and materials	1,100	1,016	84
Small equipment	800	577	223
Natural gas	1,500	1,620	(120)
Electricity	19,150	19,237	(87)
Road and street maintenance	7,400	4,854	2,546
Property:			
Equipment	-	11,924	(11,924)
	109,496	112,234	(2,738)
Solid Waste Collection:			
Personal Services and Employee Benefits:			
Salaries and wages	12,000	11,429	571
FICA	1,700	1,183	517
Workers compensation	1,193	789	404
Purchased/Contracted Services:			
Liability insurance	3,433	4,750	(1,317)
Repairs and maintenance	2,645	977	1,668
Landfill fees	7,000	6,812	188
Supplies:			
Supplies and materials	750	563	187
Gasoline	2,500	1,335	1,165
	31,221	27,838	3,383
Total Public Works	140,717	140,072	645
CULTURE AND RECREATION			
Parks and Recreation:			
Purchased/Contracted Services:			
Repairs and maintenance	2,526	1,257	1,269
Supplies:			
Electricity	174	174	-
Property:			
Site improvements	-	1,003	(1,003)
Total Culture and Recreation	2,700	2,434	266

CITY OF NELSON, GEORGIA
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL
For the Fiscal Year Ended June 30, 2016

	Final Budget	Actual	Variance Over (Under)
HOUSING AND DEVELOPMENT			
Protective Inspection:			
Purchased/Contracted Services:			
Professional services	1,600	985	615
Supplies and materials	100	-	100
Total Housing and Development	1,700	985	715
INTERGOVERNMENTAL			
Remittance of fire tax	76,000	80,405	(4,405)
Total Expenditures	**$ 443,280**	**$ 448,732**	**$ (5,452)**

CITY OF NELSON, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS
For the Fiscal Year Ended June 30, 2016

Project	Estimated Cost		Expenditures			Estimated % of
	Original	Current	Prior Years	Current Year	Total	Completion
CHEROKEE COUNTY, SPLOST #3						
Transportation facilities and equipment, parks and recreation facilities and public safety vehicles and equipment	$ 940,000	$ 940,000				
Roads/Transportation						
Facilities	-	-	$ 269,568	$ 426	$ 269,994	
Equipment	-	-	124,267	-	124,267	
Parks and Recreation facilities	-	-	109,183	-	109,183	
Public Safety:						
Vehicles	-	-	99,864	-	99,864	
Equipment	-	-	13,837	20,345	34,182	
	940,000	940,000	616,719	20,771	637,490	67.82%
CHEROKEE COUNTY, SPLOST #4						
Transportation facilities and equipment, parks and recreation facilities and public safety vehicles and equipment	720,000	720,000				
Roads/Transportation						
Facilities	-	-	6,281	2,290	8,571	
Equipment	-	-	2,714	723	3,437	
Parks and Recreation facilities	-	-	17,667	28,377	46,044	
Public Safety:						
Vehicles	-	-	29,657	-	29,657	
Equipment	-	-	-	5,491	5,491	
	720,000	720,000	56,319	36,881	93,200	12.94%
PICKENS COUNTY, SPLOST #2						
Road, street and bridge projects	729,000	729,000	-	2,279	2,279	0.31%
GRAND TOTALS	**$ 2,389,000**	**$ 2,389,000**	**$ 673,038**	**$ 59,931**	**$ 732,969**	

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.*

Note C: *A prior period adjustment was necessary to reclassify expenditures originally classified as non-compliant. The reclassified expenditures were deemed compliant during fiscal year 2016, and the funds are scheduled to be repaid in fiscal year 2017. The total reclassified was $7,481, and these expenditures have been adjusted in prior year totals reflected in the above schedule. Park facilities increased $1,200 and transportation increased $6,281.*

COMPLIANCE AND INTERNAL CONTROL

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& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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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 the City of Nelson, Georgia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Nelson, Georgia 's basic financial statements and have issued our report thereon dated December 5, 2016.

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 questioned costs, 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 responses to be material weaknesses. See findings 2012-001, 2014-002, 2015-002, 2016-001.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and responses to be significant deficiencies. See findings 2016-002 and 2016-003.

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 and 2016-004.

Other recommendations not significant enough to warrant inclusion in this report were communicated to the City of Nelson, Georgia, in a separate letter dated December 5, 2016.

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 5, 2016

CITY OF NELSON, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2016

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.

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

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

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. In an effort to mitigate risk, an external consultant was retained to perform monthly bank reconciliations and review cash receipts. 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. The reconciliation of cash account activity on the general ledger to the bank statements is now being performed monthly. However, reconciliation of other transaction classes, such as accounts payable and accounts receivable, are not being prepared monthly.

Cause: Routine reconciliation of all subsidiary ledgers within the general ledger is not being performed. Entries to convert the financial information from cash to modified accrual are not prepared when closing the books at the end of the fiscal year.

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.

Recommendation: We recommend that general ledger account balances be reconciled on a timely and routine basis by the external consultant in addition to the bank reconciliation and cash receipt review. 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 outsourcing during fiscal year 2017.

2015-002 – Violation of Financial Policy Regarding Expenditures

Criteria: The City currently has a purchasing 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, a bid opening, and an awarding process. These bids are to be tabulated and the 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 the SPLOST Fund.

Cause: During the fiscal year, purchases from July through October 2016 were made by management for projects and operations in violation of the purchasing policy as above outlined. In the SPLOST Fund, it is estimated that expenditures of $27,867 were not compliant with the terms of the policy in the current fiscal year. This total is 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.

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.

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. Due to this comment being made in the prior audit report, efforts have been made to adhere to the financial policy. This effort will be continued in the future.

CITY OF NELSON, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2016

2016-001 – Lack of Controls over Revenue Billing Process

Criteria: It is necessary to have full knowledge of the subsidiary ledgers and programs used for generation of property tax bills as well as other revenue sources such as the sanitation fees and court fines. In addition, it is necessary to have all exemptions approved by the legislative body and then properly reflected in taxpayer's accounts. Inability to properly bill and receive payments for such items results in misstated receivables and revenue in the general ledger.

Condition/Context: Due to lack of documentation on authorized exemptions for property tax bills for 2015, exemptions were improperly applied. This created confusion and caused 14 property tax bills in the amount of $2,268 to be billed in excess of amounts owed. In addition, the 2015 tax digest was duplicated on the software billing system. While this did not result in duplicate bills sent to taxpayers, it did create a posting issue that misstated revenues in the general ledger by $15,662. The receipting through modules in the software was not properly performed, causing $5,287 in non-existent sanitation accounts receivable to be written off as bad debt as well as $1,952 in non-existent fines and forfeitures.

Cause: During fiscal year 2016, there was no formal decision as to what exemptions would be given for each county. Therefore, exemptions were not correctly assessed all bills, and 14 bills were issued for property owners that did not in fact owe tax to the City of Nelson. In addition, the software was not properly utilized when billing occurred and tax bills were duplicated in the system. Payments received for all revenue billed, i.e., property taxes, sanitation fees, and municipal court fines, were not properly processed through the modules for cash receipts in the system, causing misstatements and incorrect accounts receivable balances.

Effect: The duplication of the digest was corrected by staff on the software billing system. However, when payments against these accounts were posted, it generated a misstatement between revenue accounts in the amount of $15,662. In addition, 14 property owners were assessed bills for properties that likely should have been exempt. For property tax, sanitation, and fine payments received, the subsidiary modules in the software did not appear to be consistently used, causing misstated revenues and receivables on the general ledger.

Recommendation: It is our recommendation that the exemptions granted for 2015 digest totals be given to staff and retroactively applied to the digest billed. This will assist staff in determining which property owners should receive a refund of overpaid property tax for the 14 bills in question. In addition, exemptions should be formally adopted when the millage rate and digest totals are issued each year. The staff receiving payments should be properly trained on the use of software. To aid in resolution of the matter, technical support should be involved in determining the cause and solution for discrepancies to date in the subsidiary ledgers.

Response: The City will further explore the discrepancies and determine not only the cause but the best solution for the billing issues that have occurred. In the future, all staff will be fully trained on the use of software modules.

CITY OF NELSON, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2016

SIGNIFICANT DEFICIENCY:

2016-002 – Lack of Documentation for Payroll-Related Items

Criteria: It is important that all employee related records be retained, including documentation of hours worked and paid. In addition, it is best if a record of time is kept for each employee for each pay period, and that such record show approval of hours to be paid by a direct supervisor.

Condition/Context: During tests of controls, it was noted that time cards were not consistently used to report employee hours during the fiscal year. Also, throughout the testing of payroll related transactions, there were time cards that could not be located.

Cause: It appears that time cards were not utilized for hourly employees before October 2015. At that time, the time cards were included in pay records by the City Manager. There were time cards for which employees had been paid that could not be located for testing purposes. In addition, time cards that could be located and observed did not show any approval of employee hours by a supervisor or manager.

Effect: While testing did not reveal any fraudulent paychecks in the sample chosen, the risk of fraudulent payroll activity is more likely when records are not retained and time submitted for payment is not approved by an individual with such knowledge to do so.

Recommendation: It is our recommendation that time cards are consistently utilized, and approved by a manager or supervisor. Such records should be retained with the payroll information for each pay period. Additionally, paychecks received from the payroll processing company should be delivered unopened to authorized check signers on Council for review and signature.

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

2016-003 – Lack of Documentation for Cash Disbursements

Criteria: It is customary procedure for the City staff to retain the following documentation for each cash disbursement – copy of check, check stub, invoice, and any other bid or pertinent related purchasing information.

Condition/Context: During tests of controls, it was noted that several invoices from July through October 2015 did not have a copy of the check attached to the invoice, and a major purchase in the amount of $20,345 was not documented by an invoice.

Cause: It was noted that the records for this time period of the fiscal year were either unorganized or lacking altogether. Therefore, it was most susceptible to risk of fraud or misstatement of financial records.

Effect: Financial activity during this time period as it pertains to cash disbursements required additional analysis to ascertain an accurate reporting of expenditures. The large purchase of $20,345, which was funded with SPLOST proceeds, was confirmed by the vendor. However, the transaction has never cleared the bank, and the cash remains in the bank account. Staff was unaware of this issue due to the lack of documentation and reconciliation during this time period.

Recommendation: It is our recommendation that the purchase of $20,345 be further researched by staff, as the payment has not actually been made to the vendor. Also, we recommend that a list of documents required to be retained be established by the accounting office, and that all such documentation be retained in an orderly fashion for all cash receipts.

Response: The City agrees with this finding and will research the issue to determine the solution.

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, 2016, there were expenditures totaling $16,986 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.

Cause: There is one project and one equipment purchase that are considered to be noncompliant in fiscal year 2016. 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 the purchase of a mower for the street department.

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.

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 2017.

Response: The City agrees with this finding, and provisions were made in November 2016 for repayment of non-compliant expenditures. The City has procedures in place now to closely monitor the use of such funding sources and the related compliance to related voter-approved referendums.

2016-004 – Violation of E-Verify and S.A.V.E Requirements

Criteria: In 2010, The State of Georgia mandated with the passage of two regulations, Georgia Regulation O.C.G.A. 13-10-90(2) and Georgia Department of Labor Rule 300-10-1-02, that municipalities not enter into a contract for the physical performance of services within the State of Georgia unless the contractor provides evidence on City-provided forms that the business and subcontractor of the business are registered and participating in the Federal Programs, known as E-verify and S.A.V.E. Also, Georgia Regulation O.C.G.A. 50-36-1, states in part, that no vendor may receive "Public Benefits" unless the terms of the above rules and regulations are met.

Condition/Context: It was noted during a test of controls over cash disbursements and review of SPLOST expenditures that the City of Nelson is not adhering to the mandated participation in the S.A.V.E. and E-verify programs.

Cause: Staff was not made aware of such requirements and no documentation or reporting was performed during fiscal year 2016.

Effect: The City of Nelson has violated the state mandate to participate in these programs.
Recommendation: It is our recommendation that staff receive training in this area and that participation is immediate. Also, any activity for the current fiscal year should be reviewed and the requirements be retroactively applied.

Response: The City agrees with this finding and will remedy this situation.