CITY OF NELSON, GEORGIA

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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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, 2017, 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, 2017, and the respective changes in financial position, and 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. Other supplementary information, which includes the General Fund Detailed Schedule of Revenues – Budget to Actual and the General Fund Detailed Schedule of Expenditures – Budget to 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 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, the 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 15, 2017, 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

Welch, Walker & Associates, P.C., CPAs East Ellijay, Georgia December 15, 2017

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, 2017

	Governmental Activities	
ASSETS		
Current Assets:		
Cash	\$ 344,854	
Cash equivalents	54,924	
Restricted cash	759,546	
Restricted cash equivalents	100,000	
Accounts receivable	2,049	
Taxes receivable, net	12,544	
Receivable from other governments	52,970	
Prepaid items	15,165	
Total Current Assets	1,342,052	
Non-current assets:		
Capital assets, not being depreciated	216,375	
Capital assets, net of accumulated depreciation	1,477,610	
Total Non-current Assets	1,693,985	
Total Assets	3,036,037	
LIABILITIES		
Current Liabilities:		
Accounts payable	12,243	
Total Liabilities	12,243	
	,	
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue	4,584	
NET POSITION		
Investment in capital assets	1,693,985	
Restricted for capital projects	949,649	
Unrestricted	375,576	
Total Net Position	\$ 3,019,210	

CITY OF NELSON, GEORGIA STATEMENT OF ACTIVITIES For the Year Ended June 30, 2017

Functions/Programs	I	Expenses		arges for ervices	Operatir	m Revenue ng Grants ributions	•	Grants and ributions	Re Cha Go	t (Expense) evenue and anges in Net Assets Total vernmental Activities
Governmental Activities: General government Judicial Public safety Public works Culture and recreation Housing and development Total Governmental Activities		231,459 947 37,007 223,616 25,733 7,438 526,200 al revenues:	\$ \$	113 22,696 800 17,055 40,664	\$	- - - - -	\$	20,345 266,604 - 286,949	\$	(231,459) (947) (16,549) 65,684 (24,933) <u>9,617</u> (198,587)
Taxes: Property General sales and use Franchise Business Unrestricted investment earnings Miscellaneous Total general revenues Change in net position Net position, beginning of year Net position, end of year							\$	162,416 121,363 38,683 85,816 30 2,723 411,031 212,444 2,806,766 3,019,210		

CITY OF NELSON, GEORGIA BALANCE SHEET GOVERNMENTAL FUNDS June 30, 2017

						Total
	General Fund				Go	vernmental
			SP	LOST Fund		Funds
ASSETS						
Cash and cash equivalents	\$	399,778	\$	-	\$	399,778
Restricted cash and cash equivalents		-		859,546		859,546
Taxes receivable, net		12,544		-		12,544
Accounts receivable		2,049		-		2,049
Receivable from other governments		19,457		33,513		52,970
Due from other funds		-		56,590		56,590
Prepaid items		15,165		-		15,165
Total Assets	\$	448,993	\$	949,649	\$	1,398,642
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES Liabilities:						
Accounts payable	\$	12,243	\$	_	\$	12,243
Due to other funds	Ψ	56,590	Ψ	_	Ψ	56,590
Total Liabilities	. <u> </u>	68,833		-		68,833
Deferred Inflows of Resources:						
Unearned revenue		4,584		-		4,584
Deferred revenue		14,483		-		14,483
Total Deferred Inflows of Resources		19,067		-		19,067
Total Liabilities and Deferred Inflows of Resources		87,900		-		87,900
FUND BALANCE						
Nonspendable Restricted for:		15,165		-		15,165
Capital projects funds		-		949,649		949,649
Unassigned		345,928		-		345,928
Total Fund Balances		361,093		949,649		1,310,742
Fotal Liabilities, Deferred Inflows of Resources and Fund		501,075		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		1,010,712
Balances	\$	448,993	\$	949,649	\$	1,398,642

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, 2017

Total fund balance, governmental funds	\$	1,310,742					
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 Less accumulated depreciation	\$ 3,053,269 (1,359,284)						
			1,693,985				
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.			14,483				
Net Position of Governmental Activities in the Statement of Net Position	1	\$	3,019,210				

CITY OF NELSON GEORGIA STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS For the Fiscal Year Ended June 30, 2017

				Total Governmental
	General Fund		SPLOST Fund	Funds
Revenues:				
Taxes	\$	232,129	\$-	\$ 232,129
Intergovernmental		184,770	248,751	433,521
Licenses and permits		17,055	-	17,055
Fines and forfeitures		1,558	-	1,558
Charges for services		25,030	-	25,030
Contributions		-	20,345	20,345
Investment earnings		30	237	267
Miscellaneous		3,523	-	3,523
Penalties and interest on delinquent taxes		168	-	168
Total Revenues		464,263	269,333	733,596
Expenditures:				
Current:				
General government		145,948	1,361	147,309
Judicial		947	-	947
Public safety		10,790	5,052	15,842
Public works		133,339	8,637	141,976
Culture and recreation		905	-	905
Housing and development		7,438	-	7,438
Capital Outlay:				
Public works		-	30,349	30,349
Intergovernmental		89,085		89,085
Total Expenditures		388,452	45,399	433,851
Net changes in fund balances		75,811	223,934	299,745
Fund balances, beginning of year		285,282	725,715	1,010,997
Fund balances, end of year	\$	361,093	\$ 949,649	\$ 1,310,742

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, 2017

Net change in fund balances - total governme	\$ 299,745		
Amounts reported for Governmental Activitie because:			
Governmental funds report outlays for capita outlays use current financial resources. In co only a portion of the outlay as expense. The useful lives as depreciation expense for the p offset by \$126,571 of depreciation.	ontrast, the outlay is allo	Statement of Activities reports ocated over the assets' estimated	
Revenues reported in the statement of activity resources are not reported as revenues at the Property taxes:	(90,621)		
Deferred, as of June 30, 2016 Deferred, as of June 30, 2017	\$	(3,607) 12,434	8,827
Fines and forfeitures:			,
Deferred, as of June 30, 2016 Deferred, as of June 30, 2017	\$	(1,445)	(1,445)
Sanitation fees:			
Deferred, as of June 30, 2016 Deferred, as of June 30, 2017	\$	(4,383) 2,049	(2,334)
Loss on disposal of capital asset			 (1,728)
Change in net position of governmental activ	ities in the S	Statement of Activities	\$ 212,444

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, 2017

		Dudaetee				al Amounts	Ver	::-:th
		Budgeted			(Budgetary Basis)		Variance with	
		Original		Final	<u>(See</u>	e Note 1. M.)	Fin	al Budget
Budgetary fund balance, beginning of year	\$	285,282	\$	285,282	\$	285,282	\$	-
Revenues (inflows):								
Property taxes		105,600		111,979		107,630		(4,349)
Franchise taxes		37,000		38,683		38,683		-
Business taxes		76,600		85,816		85,816		-
Licenses and permits		500		17,055		17,055		-
Intergovernmental		172,500		180,745		184,770		4,025
Charges for services		32,000		16,099		25,030		8,931
Fines and forfeitures		14,000		1,558		1,558		-
Investment earnings		-		30		30		-
Miscellaneous		3,000		3,523		3,523		-
Penalties and interest on delinquent taxes		500		168		168		-
Total Revenues		441,700		455,656		464,263		8,607
Changes to appropriations (outflows):								
General Government:								
Legislative/Executive		18,600		43,910		43,955		(45)
Elections		4,000		150		150		-
General administration		178,600		62,324		93,652		(31,328)
General government buildings		13,900		6,514		8,191		(1,677)
Judicial:		10,700		0,011		0,272		(1)077
Municipal court		8,800		891		947		(56)
Public Safety:		0,000		071				(00)
Patrol		56,150		5,321		10,790		(5,469)
Public Works:				-,		,		(=,==;)
Highways and streets		103,450		99,861		106,750		(6,889)
Solid waste collection		31,200		22,954		26,589		(3,635)
Culture and Recreation:		-,		,		-,		(-,)
Parks and recreation		9,500		876		905		(29)
Housing and Development:		,						
Building inspection		4,500		7,410		7,438		(28)
Intergovernmental		-		89,085		89,085		-
Contingencies		-		116,360		-		116,360
Total Expenditures		428,700		455,656		388,452		67,204
Net change		13,000				75,811		75,811
5	ď		¢	205 202	¢		¢	
Fund balance, end of year	<u>⊅</u>	298,282	\$	285,282	\$	361,093	\$	75,811

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," as amended by Statement No. 61 (GASB 61), 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, 2017, 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 2016 for values that were assessed on January 1, 2016. Secured property tax payments are due on February 1, 2017; penalties and interest are applied on April 1, 2017. The City has not established a lien date for either county at June 30, 2017.

G. CAPITAL ASSETS

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

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

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

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2017 are recorded as prepaid items. Prepaid insurance and prepaid dues were \$10,101 and \$5,064, respectively, for total prepaid assets of \$15,165 as of June 30, 2017.

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, 2017.

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 2017, 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.

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. See note 14 for material violations of budgeted appropriations for General Fund.

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, 2017, the cash amount held at the financial institution is \$1,255,192. The City's bank balances were fully collateralized in all material respects in compliance with State requirements for balances exceeding FDIC

coverage. The total amount collateralized by securities held by the pledging financial institution is \$755,192.

3. INTERFUND BALANCES AND ACTIVITY

A. OPERATING TRANSFERS

There were no transfers between General and SPLOST Fund in fiscal year 2017.

B. DUE TO/FROM OTHER FUNDS

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

Due from	<u>Due to</u>	<u>Amount</u>	<u>Purpose</u>
			Repayment of unallowable expenditures based on
General Fund	SPLOST Fund	<u>\$ 56,590</u>	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

Accounts receivable are stated at gross amounts receivable less an allowance for estimated uncollectible amounts, if material. Sanitation receivable for the fiscal year ended 2017 totaled \$2,049. This receivable balance is likely to be collected and no allowance for uncollectible sanitation has, therefore, been recorded.

At June 30, 2017, 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 \$12,544.

B. RECEIVABLE FROM OTHER GOVERNMENTS

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

<u>General Fund:</u>	A	<u>mount</u>
Cherokee County	\$	4,614
Georgia Department of Revenue		10,530
Pickens County		4,313
	\$	19,457
<u>SPLOST Fund:</u>		
Cherokee County	\$	24,461
Pickens County		<u>9,052</u>
	<u>\$</u>	33,513

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5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balances Additions		Disposals	Ending Balances
<u>Governmental Activities:</u>				
Non-depreciable capital assets:				
Land	\$ 159,003	\$ -	\$-	\$ 159,003
Construction in progress	35,650	23,450	(1,728)	<u> </u>
Total non-depreciable capital assets	194,653	23,450	(1,728)	216,375
Depreciable capital assets:				
Infrastructure	1,493,544	-	-	1,493,544
Buildings and improvements	580,887	-	-	580,887
Land improvements	183,961	-	-	183,961
Machinery and equipment	296,988	-	-	296,988
Vehicles	269,014	12,500		281,514
Total depreciable capital assets	2,824,394	12,500	<u> </u>	2,836,894
Less accumulated depreciation:				
Infrastructure	(657,297)	(56,197)	-	(713,494)
Buildings and improvements	(118,929)	(13,539)	-	(132,468)
Land improvements	(74,038)	(11,724)	-	(85,762)
Machinery and equipment	(159,022)	(16,298)	-	(175,320)
Vehicles	(223,427)	(28,813)		(252,240)
Total accumulated depreciation	(1,232,713)	(126,571)		(1,359,284)
Total depreciable capital assets, net	1,591,681	(114,071)		1,477,610
Governmental activities capital assets, net	<u>\$ 1,786,334</u>	<u>\$ (90,621)</u>	<u>\$ (1,728)</u>	<u>\$ 1,693,985</u>

Depreciation expense was charged to functions/programs as follows:

eclation expense was charged to functi	ons/programs
Governmental Activities:	
General government	\$ 7,565
Public safety	21,165
Public works	74,741
Culture and recreation	23,100
Total	<u>\$126,571</u>

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	\$ 2,353
Sanitation fees paid in advance of service	2,231
Total unearned revenue	<u>\$ 4,584</u>

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	\$12,434
Sanitation fees	2,049
Total deferred revenue	<u>\$14,483</u>

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 2017 is \$2,442. Future payments for subsequent years through the expiration of the contract are as follows:

Minimum
Rental
<u>Payment</u>
\$2,442
\$2,442
\$1,218

8. RESTRICTED ASSETS AND NET POSITION

Cash of \$759,546 and short-term certificates of deposit of \$100,000 totaling \$859,546 in the SPLOST Fund are restricted for the purposes specified in voter approved referendums. 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 \$949,649 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		<u>\$ 15,165</u>

• Restricted -

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

<u>\$ 949,649</u>

10. 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, 2017. No provisions have been made in the financial statements for the year ended June 30, 2017 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.

11. 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*.

12. SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 15, 2017, 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, 2017.

13. 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.

14. 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, 2017, there

were expenditures totaling \$50,583 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 respective funds as of June 30, 2017, and are included in the total amount shown as payable of \$56,590.

During the fiscal year ending June 30, 2017, the City materially exceeded budgeted appropriations for the following departments, as depicted on page 9 of the financial statements.

General Government:	
General administration	\$ 31,328
General government buildings	\$ 1,677
Public Safety:	
Patrol	\$ 5,469
Public Works:	
Solid waste collection	\$ 3,635

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, 2017

			Variance		
	Final Budget	Actual	Over (Under)		
TAXES					
General property taxes:					
Property	\$ 110,099	\$ 105,750	\$ (4,349)		
Motor vehicle	576	576	-		
Intangible	1,135	1,135	-		
Railroad Tax	169	169			
	111,979	107,630	(4,349)		
Franchise taxes:					
Television cable	3,923	3,923	-		
Electric	30,696	30,696	-		
Natural gas	3,801	3,801	-		
Telephone	263	263	-		
	38,683	38,683			
Business taxes:	00,000	00,000			
Business accupation	3,804	3,804	-		
Insurance premium	82,012	82,012	-		
	85,816	85,816			
	05,010	05,010	<u> </u>		
LICENSES AND PERMITS	17.055	17055			
Building permits and fees	17,055	17,055			
	17,055	17,055	-		
INTERGOVERNMENTAL REVENUE					
Local sales and use taxes	121,019	121,363	344		
State capital grants	17,616	17,616	-		
Title ad valorem tax	42,110	45,791	3,681		
	180,745	184,770	4,025		
CHARGES FOR SERVICES					
Sanitation	16,099	25,030	8,931		
FINES AND FORFEITURES					
Municipal court fines	1,558	1,558	-		
INVESTMENT EARNINGS					
Interest income	30	30	-		
MISCELLANEOUS REVENUE					
Miscellaneous revenue	3,523	3,523	-		
	0,020	0,020	. <u></u>		
PENALTIES AND INTEREST ON DELINQUENT TAXES	168	168	_		
I ENTETTES THE INTEREST ON DEDINGOENT TAKES	100	100			
Total Revenue	¢ .== .=.	¢ 474070	¢ 0.40=		
	<u>\$ 455,656</u>	<u>\$ 464,263</u>	<u>\$ 8,607</u>		

CITY OF NELSON, GEORGIA GENERAL FUND DETAILED SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL For the Fiscal Year Ended June 30, 2017

				Va	riance
	Fina	al Budget	Actual		(Under)
GENERAL GOVERNMENT		<u>a Buager</u>	 		()
	\$	35,957	\$ 35,957	\$	-
FICA		2,836	2,836		-
Workers compensation		-	45		(45)
Supplies and materials		37	37		-
Travel		3,015	3,015		-
Workers compensation Purchased/Contracted Services: Supplies and materials Travel Education and training		2,065	 2,065		-
5		43,910	 43,955		(45)
Elections:					
Purchased/Contracted Services:					
Contract Services		150	150		-
		150	 150		-
General Administration:					
Purchased/Contracted Services:					
Salaries and wages		3,685	3,685		-
FICA		334	334		-
Workers compensation		2,840	1,653		1,187
Legal fees		7,040	8,040		(1,000)
Payroll service fees		2,265	2,265		-
Audit fees		15,350	15,350		-
Bank charges		696	696		-
Repairs and maintenance		-	38,083		(38,083)
		3,051	3,016		35
		10,696	4,124		6,572
-		1,217	1,258		(41)
		327	327		-
		3,841	2,488		1,353
		-	1,464		(1,464)
		2,533	2,533		-
		287	287		-
		7,895	7,820		75
Miscellaneous		267	 229		38
		62,324	 93,652		(31,328)
General Government Buildings:					
Purchased/Contracted Services:					
Repairs and maintenance		106	106		-
Insurance		-	1,821		(1,821)
Communications		2,780	2,780		-
Supplies:					
Water and sewer		468	289		179

CITY OF NELSON, GEORGIA GENERAL FUND DETAILED SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL For the Fiscal Year Ended June 30, 2017

			Variance
	Final Budget	Actual	Over (Under)
Natural gas	980	815	165
Electricity	2,180	2,380	(200)
	6,514	8,191	(1,677)
Total General Government	112,898	145,948	(33,050)
JUDICIAL			
Municipal Court			
Purchased/Contracted Services:			
Dues and fees	43	99	(56)
Professional fees	570	570	-
Other Costs:			
Payments to other agencies	265	265	-
Supplies:			
General supplies	13	13	
Total Judicial	891	947	(56)
PUBLIC SAFETY:			
Police:			
Personal Services and Employee Benefits:			
Salaries and wages	3,692	3,692	-
FICA	282	282	-
Workers compensation	-	1,121	(1,121)
Purchased/Contracted Services:			
Liability insurance	-	4,162	(4,162)
Communications	456	431	25
Dues and fees	595	801	(206)
Education and training	73	73	-
Repairs and maintenance	133	138	(5)
Supplies:			
Gasoline	90	90	-
Total Public Safety	5,321	10,790	(5,469)
PUBLIC WORKS			
Highway and Streets:			
Personal Services and Employee Benefits:			
Salaries and wages	33,977	33,977	-
FICA	2,728	2,728	-
Workers compensation	-	2,915	(2,915)
Purchased/Contracted Services:			
Liability insurance	907	2,727	(1,820)
Repairs and maintenance	14,796	21,437	(6,641)
Supplies:			
Street signs	399	399	-
Gasoline	2,492	2,636	(144)
Supplies and materials	1,030	1,030	-
Small equipment	492	472	20
Natural gas	1,608	1,605	3
Water	39	39	-

CITY OF NELSON, GEORGIA GENERAL FUND DETAILED SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL For the Fiscal Year Ended June 30, 2017

			Variance
	Final Budget	Actual	Over (Under)
Electricity	22,173	23,252	(1,079)
Road and street maintenance	13,533	13,533	-
Property:			
Equipment	5,687	-	5,687
Equipment	99,861	106,750	(6,889)
Solid Waste Collection:		100,750	(0,007)
Personal Services and Employee Benefits:			
Salaries and wages	11,748	11,748	-
FICA	1,170	1,170	_
Workers compensation	-	404	(404)
Purchased/Contracted Services:		101	(101)
Liability insurance	_	2,861	(2,861)
Repairs and maintenance	2,355	2,355	(2,001)
Landfill fees	6,374	6,626	(252)
Supplies:	0,374	0,020	(232)
	434	434	
Supplies and materials	873	434 991	- (110)
Gasoline			(118)
	22,954	26,589	(3,635)
Total Public Works	122,815	133,339	(10,524)
CULTURE AND RECREATION			
Parks and Recreation:			
Purchased/Contracted Services:			
Repairs and maintenance	394	394	-
Supplies:			
Electricity	230	259	(29)
Water	252	252	-
Total Culture and Recreation	876	905	(29)
	070	705	(2)
HOUSING AND DEVELOPMENT			
Building Inspection:			
Professional services	2,395	2,395	-
Education and training	250	250	-
Supplies and materials	169	169	-
Economic Development and Assistance:			
Professional Services (Attorney)	808	808	-
Repairs and Maintenance	2,925	2,925	-
Water	376	376	-
Electricity	487	515	(28)
Total Housing and Development	7,410	7,438	(28)
INTERGOVERNMENTAL			
	89,085	89,085	
Remittance of fire tax	03,005	07,003	
CONTINGENCIES			
Contingencies	116,360	-	116,360
Total Expenditures	\$ 455,656 \$	\$ 388,452	\$ 67,204

CITY OF NELSON, GEORGIA SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS For the Fiscal Year Ended June 30, 2017

		Estimat	ed (Cost	Expenditures					Estimated % of	
Project		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		-		-	\$	269,994	\$	354	\$	270,348	
Equipment		-		-		124,267		13,250		137,517	
Parks and Recreation facilities		-		-		109,183		-		109,183	
Public Safety:										-	
Vehicles		-		-		99,864		-		99,864	
Equipment		-		-		34,182		-		34,182	
		940,000		940,000		637,490		13,604		651,094	69.27%
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 and improvements		-		-		12,008		9,039		21,047	
Parks and Recreation facilities		-		-		46,044		7,886		53,930	
Public Safety:										-	
Vehicles		-		-		29,657		-		29,657	
Equipment		-		-		5,491		5,052		10,543	
		720,000		720,000		93,200		21,977		115,177	16.00%
PICKENS COUNTY, SPLOST #1											
Road, street and bridge projects		16,571		16,571		-		669		669	4.04%
		<u> </u>									
PICKENS COUNTY, SPLOST #2											
Road, street and bridge projects		729,000		729,000		2,279		9,149		11,428	1.57%
GRAND TOTALS	\$	2,405,571	\$	2,405,571	\$	732,969	\$	45,399	\$	778,368	

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

540 N. MAIN STREET JASPER, GA 30143 PH (706) 253-3700 FAX (706) 253-5973 489 HIGHLAND CROSSING SUITE 208 EAST ELLIJAY, GA 30540 PH (706) 515-2000 FAX (706)515-2011

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

CERTIFIED PUBLIC ACCOUNTANTS

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, 2017, 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 15, 2017.

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 deficiency described in the accompanying schedule of findings and responses to be a material weakness. See finding 2012-001.

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 deficiency described in the accompany schedule of findings and responses to be a significant deficiency. See finding 2014-002.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2015-006.

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., CRAS

Welch, Walker & Associates, P.C., CPAs East Ellijay, Georgia December 15, 2017

CITY OF NELSON, GEORGIA SCHEDULE OF FINDINGS AND RESPONSES For the Fiscal Year Ended June 30, 2017

MATERIAL WEAKNESS:

<u> 2012-001 – Segregation of Duties</u>

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.

SIGNIFICANT DEFICIENCY:

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

CITY OF NELSON, GEORGIA SCHEDULE OF FINDINGS AND RESPONSES For the Fiscal Year Ended June 30, 2017

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 continue their efforts for accurate financial reporting in the future.

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, 2017, there were expenditures totaling \$50,583 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 or respective SPLOST Fund for repayment of non-compliant expenditures.

Cause: There is one equipment purchase and one project considered noncompliant in fiscal year 2017. The first instance was the use of SPLOST monies for the demolition of a building. There is no provision for park and recreation facilities or buildings included in the SPLOST referendums in place for the Cherokee County portion of City of Nelson. The building that was demolished for park and recreation purposes was located in the Pickens County portion of the City. The second issue noted was the use of SPLOST monies for the purchase of a vehicle for the street department. The vehicle was purchased out of the wrong SPLOST account.

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 respective funds during fiscal year 2018.

Response: The City agrees with this finding, and provisions were being made shortly after the end of our fieldwork for the 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.