

CITY OF NELSON, GEORGIA

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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, 2019, 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, 2019, 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 Supplementary 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 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 Schedule of Projects Constructed with 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 November 15, 2019, 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 solely 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 the effectiveness of the City of Nelson, Georgia's 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, PC, CPAs

Welch, Walker & Associates, P.C., CPAs
East Ellijay, Georgia
November 15, 2019

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, 2019

	Governmental Activities
ASSETS	
Current Assets:	
Cash	\$ 594,463
Restricted cash	1,321,171
Accounts receivable	4,578
Franchise taxes receivable	283
Taxes receivable, net	12,555
Receivable from other governments	46,025
Prepaid items	13,346
Total Current Assets	<u>1,992,421</u>
Non-current assets:	
Capital assets, not being depreciated	282,672
Capital assets, net of accumulated depreciation	<u>1,327,013</u>
Total Non-current Assets	<u>1,609,685</u>
Total Assets	<u>3,602,106</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	<u>14,421</u>
Total Liabilities	<u>14,421</u>
DEFERRED INFLOWS OF RESOURCES	
Unearned revenue	<u>7,593</u>
NET POSITION	
Investment in capital assets	1,609,685
Restricted for capital projects	1,347,199
Unrestricted	<u>623,208</u>
Total Net Position	<u>\$ 3,580,092</u>

The accompanying notes are an integral part of this statement.

CITY OF NELSON, GEORGIA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

<u>Functions/Programs</u>	Program Revenue				Net (Expense)
					Revenue and
					Changes in Net
	Expenses	Charges for	Operating Grants	Capital Grants and	Assets
		Services	and Contributions	Contributions	Total
					Governmental
					Activities
Governmental Activities:					
General government	\$ 293,903	\$ -	\$ -	\$ -	\$ (293,903)
Judicial	425	-	-	-	(425)
Public works	185,911	33,309	-	308,510	155,908
Culture and recreation	25,866	400	-	-	(25,466)
Housing and development	5,548	1,719	-	-	(3,829)
Total Governmental Activities	<u>\$ 511,653</u>	<u>\$ 35,428</u>	<u>\$ -</u>	<u>\$ 308,510</u>	<u>(167,715)</u>
General revenues:					
Taxes:					
Property					184,224
General sales and use					145,603
Franchise					43,729
Business					98,186
Unrestricted investment earnings					1,916
Miscellaneous					<u>1,735</u>
Total general revenues					<u>475,393</u>
Change in net position					307,678
Net position, beginning of year					<u>3,272,414</u>
Net position, end of year					<u>\$ 3,580,092</u>

The accompanying notes are an integral part of this statement.

CITY OF NELSON, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

	General Fund	SPLOST Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 594,463	\$ -	\$ 594,463
Restricted cash and cash equivalents	43,622	1,277,549	1,321,171
Taxes receivable, net	12,555	-	12,555
Accounts receivable	4,578	-	4,578
Franchise taxes receivable	283	-	283
Receivable from other governments	19,997	26,028	46,025
Due from other funds	-	43,622	43,622
Prepaid items	13,346	-	13,346
Total Assets	<u>\$ 688,844</u>	<u>\$ 1,347,199</u>	<u>\$ 2,036,043</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Liabilities:			
Accounts payable	\$ 14,421	\$ -	\$ 14,421
Unearned revenue	7,593	-	7,593
Due to other funds	43,622	-	43,622
Total Liabilities	<u>65,636</u>	<u>-</u>	<u>65,636</u>
Deferred Inflows of Resources:			
Deferred revenue	<u>19,180</u>	<u>-</u>	<u>19,180</u>
Total Deferred Inflows of Resources	<u>19,180</u>	<u>-</u>	<u>19,180</u>
Total Liabilities and Deferred Inflows of Resources	<u>84,816</u>	<u>-</u>	<u>84,816</u>
FUND BALANCES			
Nonspendable	13,346	-	13,346
Restricted for:			
Capital projects	-	1,347,199	1,347,199
Unassigned	<u>590,682</u>	<u>-</u>	<u>590,682</u>
Total Fund Balances	<u>604,028</u>	<u>1,347,199</u>	<u>1,951,227</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 688,844</u>	<u>\$ 1,347,199</u>	<u>\$ 2,036,043</u>

The accompanying notes are an integral part of this statement.

CITY OF NELSON, GEORGIA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2019

Total fund balance, governmental funds	\$	1,951,227
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Cost of capital assets	\$	3,037,533	
Less accumulated depreciation		<u>(1,427,848)</u>	
			1,609,685

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.

<u>19,180</u>

Net Position of Governmental Activities in the Statement of Net Position	\$	<u><u>3,580,092</u></u>
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The accompanying notes are an integral part of this statement.

CITY OF NELSON GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2019

	General Fund	SPLOST Fund	Total Governmental Funds
Revenues:			
Taxes	\$ 261,328	\$ -	\$ 261,328
Licenses and permits	1,719	-	1,719
Intergovernmental	230,192	285,275	515,467
Charges for services	31,647	-	31,647
Investment earnings	1,916	4,092	6,008
Miscellaneous	2,135	-	2,135
Total Revenues	<u>528,937</u>	<u>289,367</u>	<u>818,304</u>
Expenditures:			
Current:			
General government	163,893	823	164,716
Judicial	425	-	425
Public works	120,202	-	120,202
Culture and recreation	1,227	5,012	6,239
Housing and development	5,548	-	5,548
Capital Outlay:			
Public works	-	61,098	61,098
Culture and recreation	-	6,000	6,000
Intergovernmental	<u>91,858</u>	<u>-</u>	<u>91,858</u>
Total Expenditures	<u>383,153</u>	<u>72,933</u>	<u>456,086</u>
Excess of revenues over expenditures	145,784	216,434	362,218
Other financing sources:			
Proceeds from sale of capital assets	<u>12,700</u>	<u>-</u>	<u>12,700</u>
Total other financing sources	<u>12,700</u>	<u>-</u>	<u>12,700</u>
Net change in fund balances	158,484	216,434	374,918
Fund balances, beginning of year	<u>445,544</u>	<u>1,130,765</u>	<u>1,576,309</u>
Fund balances, end of year	<u>\$ 604,028</u>	<u>\$ 1,347,199</u>	<u>\$ 1,951,227</u>

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, 2019

Net change in fund balances - total governmental funds: \$ 374,918

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 \$89,052 are offset by \$94,292 of depreciation. (5,240)

Governmental funds do not report the loss on the disposal of a capital asset, as only the proceeds from the sale are recognized. The proceeds of \$12,700 are shown net of the net cost of the assets disposed of \$63,027 on the statement of activities. (63,027)

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, 2018	\$	(15,237)	
Deferred, as of June 30, 2019		14,603	(634)

Sanitation fees:

Deferred, as of June 30, 2018	\$	(2,916)	
Deferred, as of June 30, 2019		4,577	1,661

Change in net position of governmental activities in the Statement of Activities \$ 307,678

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, 2019

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note 1. M.)	Final Budget
Budgetary fund balance, beginning of year	\$ 445,544	\$ 445,544	\$ 445,544	\$ -
Revenues (inflows):				
Property taxes	111,235	111,660	119,413	7,753
Franchise taxes	35,175	37,050	43,729	6,679
Business taxes	90,500	91,800	98,186	6,386
Licenses and permits	1,780	1,000	1,719	719
Intergovernmental	188,825	180,000	230,192	50,192
Charges for services	27,000	26,000	31,647	5,647
Fines and forfeitures	-	5,500	-	(5,500)
Investment earnings	25	30	1,916	1,886
Miscellaneous	300	1,800	2,135	335
Penalties and interest on delinquent taxes	200	200	-	(200)
Proceeds from sale of capital assets	-	-	12,700	12,700
Total Revenues	455,040	455,040	541,637	86,597
Changes to appropriations (outflows):				
General Government:				
Legislative/Executive	58,542	75,600	39,605	35,995
Elections	-	6,793	-	6,793
General administration	98,772	73,373	81,309	(7,936)
General government buildings	32,670	15,000	42,979	(27,979)
Judicial:				
Municipal court	1,875	4,825	425	4,400
Public Safety:				
Patrol	-	8,355	-	8,355
Fire	-	520	-	520
Public Works:				
Maintenance	89,565	99,720	67,291	32,429
Highways and streets	20,000	22,000	20,657	1,343
Solid waste collection	37,350	36,000	32,254	3,746
Culture and Recreation:				
Parks and recreation	1,890	2,200	1,227	973
Housing and Development:				
Building inspection	22,376	14,400	5,548	8,852
Intergovernmental	92,000	92,000	91,858	142
Contingencies	-	4,254	-	4,254
Total Expenditures	455,040	455,040	383,153	71,887
Net change	-	-	158,484	158,484
Fund balance, end of year	\$ 445,544	\$ 445,544	\$ 604,028	\$ 158,484

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

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

CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

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, 2019, 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.

CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

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 a capital projects fund 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.

CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

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 within the City. The City geographically lies on the boundary lines for Pickens County, Georgia and Cherokee County, Georgia and property taxes are collected based on each county's digest. For both Pickens County and Cherokee County, the City levied property taxes in November 2018 for values that were assessed on January 1, 2018. Secured property tax payments are due on February 1, 2019; penalties and interest are applied on April 1, 2019. The City has not established a lien date for either county at June 30, 2019.

G. CAPITAL ASSETS

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

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

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

CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2019 are recorded as prepaid items. Prepaid insurance and prepaid dues were \$6,570 and \$6,776, respectively, for total prepaid assets of \$13,346 as of June 30, 2019.

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, 2019.

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

CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

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 2019, 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 information on noncompliance with state law regarding the General Fund budget.

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, 2019, the carrying value of cash was \$1,915,634, and the cash amount held at the financial institution is \$1,923,943. The City’s bank balances were fully collateralized in all material respects in compliance with State requirements for balances exceeding FDIC coverage.

CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

3. INTERFUND BALANCES AND ACTIVITY

A. OPERATING TRANSFERS

There were no transfers between General and SPLOST Fund in fiscal year 2019.

B. DUE TO/FROM OTHER FUNDS

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

<u>Due from</u>	<u>Due to</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	SPLOST Fund (SPLOST 3)	\$ 954	Operating expenditures paid from the SPLOST 3 checking account in error.
General Fund	SPLOST Fund (SPLOST 2)	<u>42,668</u>	Special local option sales tax deposited into the General Fund checking account in error.
		<u>\$ 43,622</u>	

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 2019 totaled \$4,578. This receivable balance is likely to be collected and no allowance for uncollectible sanitation has, therefore, been recorded.

At June 30, 2019, the City estimated that a small portion of taxes receivable was unlikely to be collected. Therefore, an allowance for uncollected taxes of \$1,183 was established, which resulted in a net tax receivable of \$12,555.

B. RECEIVABLE FROM OTHER GOVERNMENTS

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

<u>General Fund:</u>	<u>Amount</u>
Cherokee County	\$ 4,761
Georgia Department of Revenue	11,991
Pickens County	<u>3,245</u>
	<u>\$ 19,997</u>
<u>SPLOST Fund:</u>	
Cherokee County	\$ 15,631
Pickens County	<u>10,397</u>
	<u>\$ 26,028</u>

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CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	Beginning Balances	Additions	Disposals	Reclassifications	Ending Balances
<i>Governmental Activities:</i>					
<i>Non-depreciable capital assets:</i>					
Land	\$ 198,074	\$ -	\$ -	\$ 17,500	\$ 215,574
Construction in progress	<u>30,204</u>	<u>67,098</u>	<u>(12,704)</u>	<u>(17,500)</u>	<u>67,098</u>
<i>Total non-depreciable capital assets</i>	<u>228,278</u>	<u>67,098</u>	<u>(12,704)</u>	<u>-</u>	<u>282,672</u>
<i>Depreciable capital assets:</i>					
Infrastructure	1,577,825	21,954	-	-	1,599,779
Buildings and improvements	580,887	-	(62,283)	-	518,604
Land improvements	183,961	2,888	-	-	186,849
Machinery and equipment	261,116	-	(30,150)	-	230,966
Vehicles	<u>218,663</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>218,663</u>
<i>Total depreciable capital assets</i>	<u>2,822,452</u>	<u>24,842</u>	<u>(92,433)</u>	<u>-</u>	<u>2,754,861</u>
<i>Less accumulated depreciation:</i>					
Infrastructure	(769,924)	(59,067)	-	-	(828,991)
Buildings and improvements	(146,008)	(10,981)	9,073	-	(147,916)
Land improvements	(96,671)	(10,440)	-	-	(107,111)
Machinery and equipment	(151,163)	(10,612)	30,150	-	(131,625)
Vehicles	<u>(209,013)</u>	<u>(3,192)</u>	<u>-</u>	<u>-</u>	<u>(212,205)</u>
<i>Total accumulated depreciation</i>	<u>(1,372,779)</u>	<u>(94,292)</u>	<u>39,223</u>	<u>-</u>	<u>(1,427,848)</u>
<i>Total depreciable capital assets, net</i>	<u>1,449,673</u>	<u>(69,450)</u>	<u>(53,210)</u>	<u>-</u>	<u>1,327,013</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 1,667,951</u>	<u>\$(2,352)</u>	<u>\$ (65,914)</u>	<u>-</u>	<u>\$ 1,609,685</u>

Depreciation expense was charged to functions/programs as follows:

<i>Governmental Activities:</i>	
General government	\$ 8956
Public works	65,709
Culture and recreation	<u>19,627</u>
Total	<u>\$ 94,292</u>

6. DEFERRED INFLOWS OF RESOURCES AND UNEARNED REVENUE

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	\$ 2,096
Sanitation fees paid in advance of service	<u>5,497</u>
Total unearned revenue	<u>\$ 7,593</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 as deferred inflows of resources in the fund financial statements:

Property taxes	\$14,603
Sanitation fees	<u>4,577</u>
Total deferred revenue	<u>\$19,180</u>

CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

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 2019 is \$2,442. Future payments for subsequent years through the expiration of the contract are as follows:

<u>Fiscal Year</u>	<u>Minimum Rental Payment</u>
2020	\$1,218

8. RESTRICTED ASSETS AND NET POSITION

Cash of \$1,277,549 in the SPLOST Fund and \$43,622 due from the General Fund to 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 \$1,347,199 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>\$ 13,346</u>
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- ***Restricted*** -

Capital Projects Fund:

Special Purpose Local Option Sales Tax Fund (SPLOST) –

Used to account for capital projects financed with

SPLOST	<u>\$ 1,347,199</u>
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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

CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

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, 2019. No provisions have been made in the financial statements for the year ended June 30, 2019 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 November 15, 2019, 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, 2019.

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. VIOLATION OF FINANCE-RELATED LEGAL PROVISIONS AND STEWARDSHIP

Budget

In the fiscal year ended June 30, 2019, expenditures materially exceeded appropriations at the legal level of control for the following departments in the General Fund budget:

CITY OF NELSON, GEORGIA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

General administration	\$ 7,936
Government building	\$ 27,979

While the above department expenditures were materially over budget, the overall expenditures of the General Fund were below budgeted expectations by \$71,887. Revenues also exceeded budgeted expectations in an amount greater than overages in expenditures, creating an overall surplus for the fiscal year ending June 30, 2019.

SPLOST

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, 2019, there were expenditures totaling \$954 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, 2019, and are included in the total amount shown as payable of \$43,622. The remaining \$42,668 consists of special local option sales tax revenues which were deposited into the incorrect checking account. This error occurred during the City's transition to a new banking institution in fiscal year 2019. While these funds have not been spent in fiscal year 2019, a correcting transfer of funds was not made by the City before the fiscal year end. The City will make provisions to reimburse this amount in the upcoming fiscal year.

15. RELATED PARTIES

In fiscal year 2019, the City Council voted to utilize a council member to fill the vacated position of city clerk as a temporary employee. The council member was accordingly compensated for work performed totaling \$17,659.

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, 2019

	Final Budget	Actual	Variance Over (Under)
TAXES			
General property taxes:			
Property	\$ 110,000	\$ 117,743	\$ 7,743
Intangible	1,100	1,074	(26)
Motor vehicle	480	491	11
Railroad Tax	80	105	25
	<u>111,660</u>	<u>119,413</u>	<u>7,753</u>
Franchise taxes:			
Electric	30,000	30,683	683
Natural gas	2,800	5,601	2,801
Telephone	250	3,419	3,169
Television cable	4,000	4,026	26
	<u>37,050</u>	<u>43,729</u>	<u>6,679</u>
Business taxes:			
Business occupation	3,800	3,930	130
Insurance premium	88,000	94,256	6,256
	<u>91,800</u>	<u>98,186</u>	<u>6,386</u>
LICENSES AND PERMITS			
Building permits and fees	1,000	1,719	719
	<u>1,000</u>	<u>1,719</u>	<u>719</u>
INTERGOVERNMENTAL REVENUE			
Local sales and use taxes	120,000	145,603	25,603
State grants	20,000	19,143	(857)
Title ad valorem tax	40,000	65,446	25,446
	<u>180,000</u>	<u>230,192</u>	<u>50,192</u>
CHARGES FOR SERVICES			
Sanitation	26,000	31,647	5,647
	<u>26,000</u>	<u>31,647</u>	<u>5,647</u>
FINES AND FORFEITURES			
Municipal court fines	5,500	-	(5,500)
	<u>5,500</u>	<u>-</u>	<u>(5,500)</u>
INVESTMENT EARNINGS			
Interest income	30	1,916	1,886
	<u>30</u>	<u>1,916</u>	<u>1,886</u>
MISCELLANEOUS REVENUE			
Miscellaneous revenue	1,800	2,135	335
	<u>1,800</u>	<u>2,135</u>	<u>335</u>
PENALTIES AND INTEREST			
Penalties and interest on delinquent taxes	200	-	(200)
	<u>200</u>	<u>-</u>	<u>(200)</u>
PROCEEDS FROM SALE OF CAPITAL ASSETS			
Proceeds from sale of capital assets	-	12,700	12,700
	<u>-</u>	<u>12,700</u>	<u>12,700</u>
Total Revenue	<u>\$ 455,040</u>	<u>\$ 541,637</u>	<u>\$ 86,597</u>

CITY OF NELSON, GEORGIA
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL
For the Fiscal Year Ended June 30, 2019

	Final Budget	Actual	Variance Over (Under)
GENERAL GOVERNMENT			
Legislative/Executive:			
Personal Services and Employee Benefits:			
Salaries and wages	\$ 60,000	\$ 34,926	\$ 25,074
FICA	5,529	2,292	3,237
Purchased/Contracted Services:			
Communications	250	76	174
Dues and fees	-	50	(50)
Education and training	4,375	565	3,810
Travel	5,446	1,696	3,750
	<u>75,600</u>	<u>39,605</u>	<u>35,995</u>
Elections:			
Purchased/Contracted Services:			
Advertising	250	-	250
Contract Services	6,543	-	6,543
	<u>6,793</u>	<u>-</u>	<u>6,793</u>
General Administration:			
Personal Services and Employee Benefits:			
Salaries and wages	12,425	11,213	1,212
FICA	502	963	(461)
Workers compensation	2,977	1,500	1,477
Purchased/Contracted Services:			
Advertising	2,639	3,599	(960)
Audit fees	15,350	15,350	-
Bank charges	925	818	107
Communications	478	308	170
Dues and fees	3,078	3,457	(379)
Education and training	(570)	2,175	(2,745)
Insurance and bonding	10,200	7,166	3,034
Legal fees	9,307	7,148	2,159
Payroll service fees	2,300	2,575	(275)
Printing and Binding	1,050	235	815
Rental of equipment	2,876	3,921	(1,045)
Repairs and maintenance	(2,600)	342	(2,942)
Technical services	700	4,105	(3,405)
Other cost:			
Bad debt	200	-	200
Supplies:			
Computer equipment and maintenance	8,224	5,302	2,922
Books and periodicals	200	-	200
Supplies and materials	2,500	10,305	(7,805)
Miscellaneous	612	827	(215)
	<u>73,373</u>	<u>81,309</u>	<u>(7,936)</u>

CITY OF NELSON, GEORGIA
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL
For the Fiscal Year Ended June 30, 2019

	Final Budget	Actual	Variance Over (Under)
General Government Buildings:			
Purchased/Contracted Services:			
Communications	3,897	3,914	(17)
Custodial services	-	350	(350)
Repairs and maintenance	1,703	4,061	(2,358)
Supplies:			
Electricity	2,320	3,619	(1,299)
Natural gas	1,500	1,043	457
Water and sewer	500	584	(84)
Property:			
Equipment	5,080	29,408	(24,328)
	<u>15,000</u>	<u>42,979</u>	<u>(27,979)</u>
<i>Total General Government</i>	<u>170,766</u>	<u>163,893</u>	<u>6,873</u>
JUDICIAL			
Municipal Court			
Purchased/Contracted Services:			
Dues and fees	250	-	250
Education and training	650	325	325
Professional fees	1,750	100	1,650
Travel	250	-	250
Other Costs:			
Payments to other agencies	1,850	-	1,850
Supplies:			
General supplies	75	-	75
<i>Total Judicial</i>	<u>4,825</u>	<u>425</u>	<u>4,400</u>
PUBLIC SAFETY:			
Police:			
Personal Services and Employee Benefits:			
Salaries and wages	1,100	-	1,100
Purchased/Contracted Services:			
Communications	750	-	750
Dues and fees	150	-	150
Education and training	400	-	400
Repairs and maintenance	2,615	-	2,615
Travel	400	-	400
Uniform service	1,000	-	1,000
Supplies:			
Books & Periodicals	66	-	66
Gasoline	1,480	-	1,480
Other supplies	144	-	144
Small equipment, training aids	250	-	250
	<u>8,355</u>	<u>-</u>	<u>8,355</u>

CITY OF NELSON, GEORGIA
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL
For the Fiscal Year Ended June 30, 2019

	Final Budget	Actual	Variance Over (Under)
Fire:			
Supplies:			
Water and sewer	37	-	37
Natural gas	118	-	118
Electricity	365	-	365
	520	-	520
<i>Total Public Safety</i>	8,875	-	8,875
PUBLIC WORKS			
Maintenance:			
Personal Services and Employee Benefits:			
Salaries and wages	48,867	40,089	8,778
FICA	2,820	3,216	(396)
Workers compensation	-	112	(112)
Purchased/Contracted Services:			
Repairs and maintenance	10,000	9,179	821
Supplies:			
Electricity	1,400	955	445
Gasoline	3,086	2,911	175
Natural gas	2,300	1,419	881
Small equipment	1,500	1,251	249
Street signs	2,547	3,253	(706)
Supplies and materials	2,000	4,712	(2,712)
Water	200	194	6
Property:			
Equipment	25,000	-	25,000
	99,720	67,291	32,429
Highways and Streets:			
Supplies:			
Electricity	22,000	20,657	1,343
Solid Waste Collection:			
Personal Services and Employee Benefits:			
Salaries and wages	15,000	16,021	(1,021)
FICA	1,325	1,384	(59)
Workers compensation	156	90	66
Purchased/Contracted Services:			
Landfill fees	7,397	7,715	(318)
Rental of dumpster	3,500	3,385	115
Repairs and maintenance	7,122	1,897	5,225
Supplies:			
Supplies and materials	-	807	(807)
Gasoline	1,500	955	545
	36,000	32,254	3,746
<i>Total Public Works</i>	157,720	120,202	37,518

CITY OF NELSON, GEORGIA
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL
For the Fiscal Year Ended June 30, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
CULTURE AND RECREATION			
Parks and Recreation:			
Supplies:			
Electricity	1,000	260	740
Natural gas	500	-	500
Supplies and materials	-	529	(529)
Water and sewer	200	28	172
Miscellaneous	500	410	90
<i>Total Culture and Recreation</i>	<u>2,200</u>	<u>1,227</u>	<u>973</u>
HOUSING AND DEVELOPMENT			
Building Inspection:			
Professional services	5,000	670	4,330
Supplies and materials	200	-	200
Economic Development and Assistance:			
Advertising	200	-	200
Custodial services	700	-	700
Education and training	500	-	500
Electricity	600	883	(283)
Professional services (attorney)	2,500	-	2,500
Repairs and maintenance	3,954	2,126	1,828
Supplies and materials	231	1,470	(1,239)
Water	515	399	116
<i>Total Housing and Development</i>	<u>14,400</u>	<u>5,548</u>	<u>8,852</u>
INTERGOVERNMENTAL			
Remittance of fire tax	<u>92,000</u>	<u>91,858</u>	<u>142</u>
CONTINGENCIES			
Contingencies	<u>4,254</u>	<u>-</u>	<u>4,254</u>
Total Expenditures	<u>\$ 455,040</u>	<u>\$ 383,153</u>	<u>\$ 71,887</u>

CITY OF NELSON, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Project	Estimated Cost		Expenditures		Estimated % of Completion
	Original	Current	Prior Years	Current Year	Total
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	-	-	\$ 270,348	\$ -	\$ 270,348
Equipment	-	-	137,517	-	137,517
Parks and Recreation facilities	-	-	109,183	5,835	115,018
Public Safety:					
Vehicles	-	-	99,864	-	99,864
Equipment	-	-	34,552	-	34,552
	<u>940,000</u>	<u>940,000</u>	<u>651,464</u>	<u>5,835</u>	<u>657,299</u>
					69.93%
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	-	-	22,418	-	22,418
Parks and Recreation facilities	-	-	53,930	6,000	59,930
Public Safety:					
Vehicles	-	-	29,657	-	29,657
Equipment	-	-	14,793	-	14,793
	<u>720,000</u>	<u>720,000</u>	<u>120,798</u>	<u>6,000</u>	<u>126,798</u>
					17.61%
CHEROKEE COUNTY, SPLOST #5					
Transportation facilities and equipment, parks and recreation facilities and public safety vehicles and equipment					
Government buildings, facilities, vehicles, equipment and improvements	500,000	-	-	-	-
Emergency communications system improvements	32,043	-	-	-	-
Transportation facilities, vehicles, equipment and improvements	450,000		-		-
Parks and Recreation facilities, equipment, and improvements	52,786	-	-	-	-
	<u>1,034,829</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
					0.00%
PICKENS COUNTY, SPLOST #1					
Road, street and bridge projects	<u>16,571</u>	<u>16,571</u>	<u>16,046</u>	<u>-</u>	<u>16,046</u>
					96.83%
PICKENS COUNTY, SPLOST #2					
Road, street and bridge projects	<u>729,000</u>	<u>729,000</u>	<u>78,167</u>	<u>61,098</u>	<u>139,265</u>
					19.10%
GRAND TOTALS	\$ 3,440,400	\$ 2,405,571	\$ 866,475	\$ 72,933	\$ 939,408

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



CERTIFIED PUBLIC ACCOUNTANTS

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*

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, 2019, 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 November 15, 2019.

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 have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2012-001, 2014-002, 2019-001, and 2019-002 to be material weaknesses.

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 as items, 2019-003 and 2019-004 to be significant deficiencies.

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 2019-005.

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

Welch, Walker & Associates, P.C., CPAs
East Ellijay, Georgia
November 15, 2019

CITY OF NELSON, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2019

MATERIAL WEAKNESS:

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. In addition, the City operated without a paid City Clerk for half of the fiscal year.

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. Utilizing a Council Member to fill the vacated position of City Clerk further limits segregation of duties and limits the mitigating factor of Council oversight.

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.

CITY OF NELSON, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2019

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 continue their efforts for accurate financial reporting in the future.

2019 -001: Reconciliation of Cash

Criteria: Cash activity for all accounts held by the City at a financial banking institution should be maintained in ledger form and reconciled to cash receipts and disbursements on a consistent basis. Cash receipts should not be recognized prior to their receipt, but shown as a receivable.

Condition/Context: While bank reconciliations were consistently performed for the City's main operating account, several of the City's non-operating accounts were either not reconciled consistently, or were not reconciled correctly throughout the fiscal year. Two deposits were recognized as being received prior to their actual receipt date. These items were incorrectly shown as deposits in transit rather than receivables.

Cause: The Organization transferred cash accounts from one banking institution to another in January 2019, causing the reconciliation process to be more difficult than usual. As a result, several errors were made in the reconciliation process that were not discovered or resolved by management.

Effect: Overall cash balances for the General Fund were overstated by management in the amount of \$3,220 (net). Of this amount, \$3,245 relates to the premature recognition of cash not yet received by the City and \$(25) related to the net effect of bank reconciliation errors. Overall cash balances for the SPLOST Fund were overstated by \$6,181 (net). Of this amount, \$15,631 relates to the premature recognition of cash not yet received by the City and \$(9,450) related to the net effect of bank reconciliation errors. Reconciling cash activity ensures that amounts are accurate and complete. Such information is necessary to safeguard against the potential misappropriation or misuse of cash. By not reconciling all cash accounts on a consistent basis, the Organization is at risk, as timely information is not available should any loss or misuse of cash occur.

Recommendation: It is our recommendation that the Organization reconcile all inflows and outflows of cash as stated on the General Ledger to the monthly bank statements on a regular and consistent basis. A discrepancy between the ledger and the bank statements should be assessed for reasonableness and addressed if differences are not attributable to timing variances.

Response: The Organization agrees with this finding and will reconcile all cash accounts on the General Ledger to cash receipts and disbursements on a timely and consistent basis.

CITY OF NELSON, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2019

2019-002: Repayment of Interfund Balances

Criteria: Interfund balances should be repaid on a timely basis.

Condition/Context: In fiscal year 2019, \$42,668 of special purpose local option sales tax was deposited into the General Fund operating cash account in error. In addition, two bills, totaling \$954, were paid online using the SPLOST cash account instead of the General Fund operating cash account.

Cause: The transition in financial banking institutions in January 2019 caused some confusion and difficulties regarding the transfer of cash between accounts. While the majority of errors were resolved within the fiscal year, several errors, although identified by management, were not corrected.

Effect: While management noted that several errors had been made regarding deposits and expenditures between the SPLOST and General Fund, no reimbursement of the SPLOST Fund was made on a timely basis. As a result, the General Fund operating cash balance was overstated by \$43,622, and the SPLOST Fund cash balances were understated by \$43,622. As SPLOST cash is restricted by law, the repayment of these amounts on a timely basis is paramount.

Recommendation: Care must be exercised to ensure that activity related to restricted funds is handled properly and to ensure that no errors have occurred. It is our recommendation that the Organization correct all interfund errors on a timely basis as they are identified by management.

Response: The Organization agrees with this finding and will repay interfund balances on a timely and consistent basis.

SIGNIFICANT DEFICIENCY:

2019-003 – Billing Periods for Sanitation

Criteria: The City should establish and maintain a consistent billing period for the sanitation billings.

Condition/Context: Historically, the City bills for sanitation on a quarterly basis. However, in fiscal year 2019, the city did not bill on the same day or month in each quarter.

Cause: Sanitation billings were not consistent due to changes in financial management and difficulties with the sanitation software utilized by the City.

Effect: The City billed for five quarterly sanitation billings within the fiscal year 2019. This caused the City to have unearned revenue of \$5,497 at June 30, 2019 as the City collected revenue for the July – September, 2019 quarter in May of 2019.

Recommendation: We recommend that a schedule for sanitation billing be set and followed in order to provide consistency and prevent errors.

Response: The City agrees with this finding and will follow a set schedule for sanitation billings in the future.

CITY OF NELSON, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2019

2019-004 Approval of Payroll Rates

Criteria: Any changes regarding compensation of employees must be approved in the minutes in advance.

Condition/Context: In fiscal year 2019, employees received pay rate increases. In addition, the City utilized a council member as a temporary employee in fiscal year 2019 to perform the duties of the city clerk.

Cause: Although the rate increases were approved verbally by the Mayor and Council, approval was not documented in the minutes of the Council meetings or in written form. In addition, the compensation rate for the council member acting as city clerk was not documented in the minutes of the Council meetings or in written form.

Effect: Compensation amounts exceeded the approved amounts as previously indicated by the council minutes. Lack of written documentation leaves the City vulnerable to the potential for litigation and increases the opportunity for the misappropriation of City funds.

Recommendation: All changes regarding employee compensation should be approved by the Mayor and Council and be documented in meeting minutes and be documented in written form.

Response: The City agrees with this finding and will include approval for all changes to employee compensation in the council minutes.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW:

2019-005 – 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, and such monies shall not be commingled with other monies of the City.

Condition/Context: During the fiscal year ended June 30, 2019, there were expenditures totaling \$954 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. In addition, SPLOST receipts of \$42,668 were deposited into the incorrect checking account. Although the error was noted by management and these funds were not spent in fiscal year 2019, no correcting transfer of funds to the correct checking account was made by management.

Cause: The City transferred accounts from one banking institution to another in fiscal year 2019. SPLOST funds are received by the City via direct deposit, and the incorrect routing information was given to the administrator of the SPLOST funds, with the General Fund checking account information having been sent to the administrator rather than the SPLOST Fund checking account information. The \$42,668 consists of one monthly transfer as the routing number information was corrected in the subsequent month. In addition to this error, two bills were paid online using the SPLOST Fund checking account number instead of the General Fund checking account number. This error also occurred at the time of the City's transfer of accounts to another banking institution.

CITY OF NELSON, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2019

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. The deposit of SPLOST funds into the incorrect checking account caused SPLOST monies and General Fund monies to be commingled. State law requires all SPLOST funds be kept in a separate checking account designated for SPLOST activity.

Recommendation: We recommend that any potential SPLOST purchases be verified as compliant with the applicable referendum before payment is made and that corrections of any errors noted by management be made in a timely manner.

Response: The City agrees with this finding and will repay the noncompliant expenditures and correct the commingling of General Fund and SPLOST monies in fiscal year 2020.