FINANCIAL STATEMENTS

TOWN OF COHUTTA

COHUTTA, GEORGIA

FOR THE YEAR ENDED DECEMBER 31, 2014

Town of Cohutta
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For the Year Ended December 31, 2014

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FINANCIAL SECTION

ESTES & WALCOTT
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Honorable Mayor, Members of the Town Council,
Town of Cohutta

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Town of Cohutta as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Town of Cohutta'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 of 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.

201 N. THORNTON AVE | P.O. BOX 749 | DALTON, GA 30722 | PHONE 706.529.0749 | FAX 706.529.5549

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 the major fund of the Town of Cohutta as of December 31, 2014, and the respective changes in financial position and the budgetary information 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2015, on our consideration of the Town of Cohutta'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 the 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 Town of Cohutta's internal control over financial reporting and compliance.

Estes & Walcott

Dalton, Georgia
June 25, 2015

Town of Cohutta
Management's Discussion and Analysis
December 31, 2014
(Unaudited)

Within this section of the Town of Cohutta's ("Town") annual financial report, the Mayor is pleased to provide this narrative discussion and analysis of the financial activities of the Town for the calendar year ended December 31, 2014. The Town's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial highlights

- The Town's assets exceeded its liabilities by $903,437 (net position) for the calendar year reported.
- Total net position is comprised of the following:
  (1) Investment in capital assets of $654,911 includes property and equipment, net of accumulated depreciation.
  (2) Unrestricted net position of $248,526 represents the portion available to maintain the Town's continuing obligations to citizens and creditors.
- At the end of the current calendar year, unrestricted fund balance for the general fund was $248,526, or 70% of total general fund expenditures.

The above financial highlights are explained in more detail in the "financial analysis" section of this document.

Overview of the financial statements

This management discussion and analysis document introduces the Town's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. Comparative data is presented when available.

Government-wide financial statements

The Town's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the Town's overall financial status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and elimination or reclassification of activities between funds.

The first of these government-wide statements is the statement of net position. The statement of net position presents information that includes all of the Town's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town as a whole is improving or deteriorating. Evaluation of the overall health of the Town would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of Town infrastructure, in addition to the financial information provided in this report.

The second government-wide statement is the statement of activities, which reports how the Town's net position changed during the current calendar year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the Town's distinct activities or functions on revenues provided by the Town's taxpayers.

Governmental activities include general government, judicial, public safety, and public works.

The government-wide financial statements are presented on pages 9 and 10 of this report.

Fund financial statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Town uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the Town's most significant funds rather than the Town as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

The Town has one fund. All Town activity is reported in the general fund, a governmental type fund. The general fund is reported in the fund financial statements and encompasses the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different, as fund statements report short-term calendar accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the general fund balance sheet and the general fund operating statement provide a reconciliation to assist in understanding the differences between these two perspectives.

The basic fund financial statements are presented on pages 11 through 14 of this report.

Notes to the basic financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin on page 16.

Other supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's budget presentations. Budgetary comparison statements demonstrate compliance with the Town's adopted and final revised budget. Budgetary comparison statements for the general fund can be found on page 15 of this report.

Financial analysis of the Town as a whole

The Town's net position at year end is $903,437. The following table provides a summary of the Town's assets, liabilities, and net position:

	2014
Assets:	
Current assets	$ 257,606
Capital assets	654,911
Total assets	912,517
Liabilities:	
Current liabilities	9,080
Total liabilities	9,080
Net position:	
Investment in capital assets	654,911
Unrestricted	248,526
Total net position	$ 903,437

Current assets are primarily comprised of cash, and current liabilities consist of accrued payroll and related costs. The Town maintains a high current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities was 28 to 1 in 2014.

Note that approximately 72% of the governmental activities' net position is invested in capital assets. The Town uses these capital assets to provide services to its citizens. A significant portion of this amount is related to Town-owned land and buildings.

The following table provides a summary of the Town's change in net position:

	2014
Revenues:	
Program:	
Charges for services	$ 92,771
Operating grants and contributions	9,104
General:	
Taxes	185,360
Donations	6,250
Investment earnings	33
Other	5,338
Total revenues	298,856
Program expenses:	
General government	242,947
Judicial	19,982
Public safety	125,801
Public works	5,303
Total expenses	394,033
Change in net position	(95,177)
Beginning net position	998,614
Ending net position	$ 903,437

Governmental revenues are comprised of charges for services, tax revenues, and other general revenues. The Town's largest source of revenue is from their share of local option sales tax, which totaled $111,546 for 2014. The other significant revenue stream is revenue from fines and forfeitures, which totaled $51,547.

Program expenses are categorized by function. Expenses are primarily composed of personnel costs, which include salaries, payroll taxes, and insurance, and account for $189,028 (48%) of the total program expenses for the year. Other significant costs include depreciation expense ($58,832; 15%), repairs and maintenance expense ($26,484; 7%), utilities expense ($24,621; 6%), and general insurance expense ($20,355; 5%).

Governmental functional expenses

This table presents the cost of each of the Town's programs, including the net costs (i.e., total cost less revenues generated by the activities). The net costs illustrate the financial burden that was placed on the Town's taxpayers by each of these functions for the year ended December 31, 2014.

	Total cost of services	Net cost of services
General government	$ 242,947	$ 198,724
Judicial	19,982	19,982
Public safety	125,801	68,149
Public works	5,303	5,303
Total	$ 394,033	$ 292,158

The above table indicates that the revenues generated by each function do not cover the costs of those functions. The Town's general revenues, such as taxes, subsidize the activities of each of the functions.

Capital assets

The Town's investment in capital assets as of December 31, 2014 was $654,911. See Note 5 for additional information about changes in capital assets during the calendar year and outstanding at the end of the year. The following table provides a summary of capital asset activity.

	2014
Non-depreciable assets:	
Land	$ 410,115
Depreciable assets:	
Buildings and improvements	1,043,237
Vehicles	104,093
Total depreciable assets	1,147,330
Less accumulated depreciation	902,534
Book value - depreciable assets	$ 244,796
Percentage depreciated	79%
Book value - all assets	$ 654,911

Financial analysis of the Town's funds

General Fund

As discussed, the general fund is reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. The general fund reported an ending fund balance of $248,526.

The general fund is the Town's primary operating fund and the largest source of day-to-day service delivery.

Budgetary information

The Town of Cohutta adopts a budget each year for the general fund. The budget is approved by the Town Council, however, the Town did not adopt a detailed budget.

There were no budget amendments during the year.

The final budget figures varied significantly from the actual figures due to the lack of a detailed and amended budget. All of the government functions were over budget.

Economic conditions affecting the Town

The Town's annual budget relies heavily on the performance of the local economy. The revenues collected from certain revenue streams are somewhat predictable, but are subject to variation with the local economy. The Town will begin receiving benefit from a new 1% special purpose local option sales tax ("SPLOST") that was approved by voters in March 2015. The SPLOST will be effective for a period of four years, and will primarily be used to fund road and public safety projects.

Contacting the Town's financial management

This financial report is designed to provide a general overview of the Town's finances, comply with finance related laws and regulations, and demonstrate the Town's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the Town of Cohutta's Town Clerk Office at (706) 694-3170.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Town of Cohutta
Statement of Net Position
December 31, 2014

	Governmental Activities
Assets	
Current assets:	
Cash	$ 201,856
Receivables	
Taxes	22,817
Franchise fees	23,829
Intergovernmental	9,104
Total current assets	257,606
Capital assets:	
Nondepreciable capital assets	410,115
Depreciable capital assets, net	244,796
Total capital assets	654,911
Total assets	912,517
Liabilities	
Current liabilities:	
Accounts payable	1,321
Accrued expenses	7,669
Unearned revenue	90
Total current liabilities	9,080
Net Position	
Investment in capital assets	654,911
Unrestricted	248,526
Total net position	$ 903,437

The accompanying notes are an integral part of these financial statements.

Town of Cohutta
Statement of Activities
For the Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Position: Governmental Activities
Governmental activities:				
General government	$ 242,947	$ 41,224	$ 2,999	$ (198,724)
Judicial	19,982	-	-	(19,982)
Public safety	125,801	51,547	6,105	(68,149)
Public works	5,303	-	-	(5,303)
Total governmental activities	$ 394,033	$ 92,771	$ 9,104	$ (292,158)
General revenues:				
Intergovernmental - LOST				111,546
Insurance premium tax				35,651
Alcohol beverage tax				24,143
Title ad valorem tax				14,020
Donations				6,250
Investment earnings				33
Miscellaneous				5,338
Total general revenues				196,981
Change in net position				(95,177)
Net position - beginning				998,614
Net position - ending				$ 903,437

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

Town of Cohutta
Balance Sheet
December 31, 2014

	General Fund
Assets	
Current assets:	
Cash	$ 201,856
Receivables	
Taxes	22,817
Franchise fees	23,829
Intergovernmental	9,104
Total current assets	$ 257,606
Liabilities	
Current liabilities:	
Accounts payable	1,321
Accrued expenditures	7,669
Unearned revenue	90
Total current liabilities	9,080
Fund Balance	
Unrestricted:	
Unassigned	248,526
Total fund balance	248,526
Total liabilities and fund balance	$ 257,606

The accompanying notes are an integral part of these financial statements.

Town of Cohutta
Reconciliation of the Balance Sheet to the Statement of Net Position
December 31, 2014

Total governmental fund balances		$ 248,526
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Cost	1,557,445	
Less: accumulated depreciation	(902,534)	654,911
Net position of governmental activities		$ 903,437

The accompanying notes are an integral part of these financial statements.

Town of Cohutta
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2014

	General Fund
Revenues	
Intergovernmental - LOST	$ 111,546
Fines and forfeitures	51,547
Selective taxes	73,814
Franchise fees	34,451
Charges for services	3,040
Licenses and permits	3,733
Intergovernmental - Whitfield County	9,104
Donations	6,250
Investment earnings	33
Miscellaneous	5,338
Total revenues	298,856
Expenditures	
Current:	
General government	200,415
Judicial	19,982
Public safety	114,501
Public works	5,303
Capital outlay:	
General government	13,480
Total expenditures	353,681
Net change in fund balance	(54,825)
Fund balance - beginning	303,351
Fund balance - ending	$ 248,526

The accompanying notes are an integral part of these financial statements.

Town of Cohutta
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
to the Statement of Activities
For the Year Ended December 31, 2014

Net change in fund balance		$ (54,825)
Amounts reported for governmental activities in the statement of activities are different because:		
The general fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		
Depreciation expense	(53,832)	
Capital outlay	13,480	(40,352)
Change in net position		$ (95,177)

The accompanying notes are an integral part of these financial statements.

Town of Cohutta
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance
Revenues				
Intergovernmental - LOST	$ -	$ -	$ 111,546	$ 111,546
Fines and forfeitures	-	-	51,547	51,547
Selective taxes	-	-	73,814	73,814
Franchise fees	-	-	34,451	34,451
Charges for services	-	-	3,040	3,040
Licenses and permits	-	-	3,733	3,733
Intergovernmental	-	-	9,104	9,104
Donations	-	-	6,250	6,250
Investment earnings	-	-	33	33
Miscellaneous	-	-	5,338	5,338
Total revenues	-	-	298,856	298,856
Expenditures				
Current:				
General government	85,000	85,000	200,415	115,415
Judicial	-	-	19,982	19,982
Public safety	90,000	90,000	114,501	24,501
Public works	5,000	5,000	5,303	303
Capital outlay:				
General government	40,000	40,000	13,480	-
Total expenditures	220,000	220,000	353,681	160,201
Net change in fund balance	$ (220,000)	$ (220,000)	(54,825)	$ 138,655
Fund balance - beginning			303,351	
Fund balance - ending			$ 248,526	

The accompanying notes are an integral part of these financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The Town of Cohutta ("Town") operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety, culture and recreation, public improvements, and general administrative services.

The financial statements of the Town have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The reporting entity is comprised of the primary government and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Town consists of all funds, departments, boards, and agencies that are not legally separate from the Town. The entity includes the legal entity, the Town of Cohutta.

Component units are legally separate organizations for which the Town is financially accountable. The Town is financially accountable for an organization if the Town appoints a voting majority of the organization's governing board and (1) the Town is able to significantly influence the programs or services performed or provided by the organizations or (2) the Town is legally entitled to or can otherwise access the organization's resources; the Town is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Town is obligated for the debt of the organization. Component units also may include organizations that are fiscally dependent on the Town in that the Town approves the budget, levies their taxes or issues their debt. Based upon the application of these criteria no potential component units exist.

Under Georgia law, the Town, in conjunction with other cities and counties in the region, is a member of the Northwest Georgia Regional Commission ("NWGRC") and is required to pay annual dues thereto. The Town utilizes the NWGRC for projects such as performing planning and administrative services. During its year ended December 31, 2014, the Town paid $663 in dues to the NWGRC. Membership in a NWGRC is required by the Official Code of Georgia Annotated ("OCGA") Section 50-8-34 which provides for the organizational structure of the NWGRC in Georgia. The NWGRC Board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of the NWGRC. Separately issued financial statements may be obtained from the Northwest Georgia Regional Commission, PO Box 1798, Rome, Georgia 30162.

Note 1. Summary of Significant Accounting Policies - continued

Basis of Presentation

The Town's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide financial statements - The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the Town as a whole. Individual funds are not displayed at this financial reporting level. These statements present governmental activities, which are generally supported by Town general revenues.

The statement of net position presents the financial position of the governmental activities of the Town at year end.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a function and therefore are clearly identifiable to that particular function. The Town does not allocate indirect expenses to functions in the statement of activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services, which includes fees and other charges to users of the Town's services, (2) operating grants and contributions which finance annual operating activities including restricted investment income, and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. For identifying to which function program revenue pertains, the determining factor for charges for services is which function generates the revenue. For grants and contributions, the determining factor is to which functions the revenues are restricted.

Other revenue sources not properly included with program revenues are reported as general revenues of the Town. The comparison of direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenues of the Town.

Fund financial statements - During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. No functions or funds require separate funds, therefore all activity of the Town is reported in a single fund; the general fund. Fund financial statements are designed to present financial information of the Town at this more detailed level.

Note 1. Summary of Significant Accounting Policies - continued

Fund accounting - The Town uses funds to maintain its financial records during the year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The Town has one fund.

General fund - General funds are those through which most governmental functions typically are financed. General fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various general funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The Town reports the difference between general fund assets and liabilities as fund balance. The general fund is always a major fund.

Measurement Focus

Government-wide financial statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Town are included on the statement of net position. The statement of activities reports revenues and expenses.

Fund financial statements - The general fund is accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements.

Budgets and Budgetary Accounting

The Town adopts a budget each year for the general fund which is made public prior to enactment. The hearing date is posted at the local post office and the budget is made available for public inspection at Town Hall. The budget is enacted through a vote of the Town Council. The budget for the general fund is adopted on a basis consistent with GAAP. The budget is amended as necessary throughout the calendar year, as approved by the council. All annual appropriations lapse at year end. The legal level of budgetary control is at the department level.

The statements of revenues, expenditures, and changes in fund balance – budget and actual – general fund presents a comparison of budgetary data to actual results of operations for which annual operating budgets are legally adopted. The fund utilizes the same basis of accounting for both budgetary purposes and actual results.

Note 1. Summary of Significant Accounting Policies - continued

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, the general fund uses the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – exchange transactions - Revenue resulting from exchange transactions in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current calendar year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Town, the phrase "available for exchange transactions" means expected to be received within 60 days of year-end.

Revenues – nonexchange transactions – Nonexchange transactions in which the Town received value without directly giving equal value in return include grants and donations. On an accrual basis, revenue from sales tax is recognized in the period in which the taxable sale takes place. Revenue from grants and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Town must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions also must be available (i.e., collected within 60 days) before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: sales tax, interest, federal grants, and state grants.

Expenses and expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

Cash, Cash Equivalents, and Investments

Cash and cash equivalents include amounts in demand deposits, cash on hand, non-negotiable certificates of deposit, and short-term investments with a maturity date three months or less of the date acquired by the Town. State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements. Investments are stated at fair value.

Note 1. Summary of Significant Accounting Policies - continued

Prepaid Items

Payments made to vendors for goods and services that will benefit periods beyond the end of the calendar year and prepaid deposits are recorded as prepaid items. The expense is recognized during the benefiting period.

Capital Assets

General capital assets - These assets result from expenditures in general fund. The Town reports these assets in the governmental activities column of the government-wide statement of net position but does not report these assets in the general fund financial statements.

The Town has not officially adopted a capitalization policy for capital assets, but utilized the following guidelines for the year, which they intend to adopt in the future.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Town maintains a capitalization threshold of five thousand dollars. Improvements to capital assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed.

All reported capital assets are depreciated except for land, right-of-ways, and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. The Town has not recorded any infrastructure, such as streets, bridges, or like items, as those assets within the Town limits are maintained by Whitfield County, and are capitalized in their records. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated lives governmental activities
Buildings	20 - 40 years
Building improvements	20 - 40 years
Streets	25 years
Equipment	5 - 10 years
Furniture	5 - 10 years
Vehicles	5 - 7 years

Accrued Liabilities

All payables and accrued liabilities are reported in the government-wide financial statements. In general, payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the general fund.

Note 1. Summary of Significant Accounting Policies - continued

Net Position and Fund Balances

The Town's net position on the government-wide statement net position is classified as follows:

Investment in capital assets - This represents the Town's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets. The Town uses the term investment in capital assets rather than net investment in capital assets as they have no outstanding debt related to capital assets.

Unrestricted net position - Unrestricted net position represents resources derived from sales taxes, grants and contributions not restricted to specific programs, charges for services, and miscellaneous revenues. These resources are used for transactions relating to general operations of the Town, and may be used at the discretion of the Town Council to meet current expenses for those purposes.

The Town reports fund balance under the guidance of GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund equity at the fund reporting level is classified as "fund balance". Generally, fund balance represents the difference between the assets and liabilities under the current financial resources measurement focus of accounting. In the fund financial statements, the general fund reports fund balance classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The Town's fund balance is classified as follows:

1) Non-spendable fund balance - Non-cash assets such as inventories or prepaid items.

2) Restricted fund balance - Funds with limitations imposed on their use by external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

3) Committed fund balance - Amounts that can only be used for specific purposes pursuant to a majority vote of the Town Council, the Town's highest level of decision making authority, by resolution or contractual obligation. Commitments may only be modified or rescinded by a majority vote of the Council.

4) Assigned fund balance - Amounts intended by the Town Council for specific purposes may be assigned by the Town administrator under the authorization of the Town Council. Equity amounts reported in special revenue funds, capital projects funds, and debt service funds not otherwise classified as nonspendable, restricted, or committed shall constitute assignments of fund balance.

5) Unassigned fund balance - Residual spendable fund balance after subtracting all above amounts.

Note 1. Summary of Significant Accounting Policies - continued

Non-spendable fund balances and restricted fund balances are considered restricted net position on the statement of net position. Committed, assigned, non-spendable, and unassigned fund balances are considered unrestricted net position on the statement of net position.

The Town has not officially adopted a utilization policy for fund balance, but utilized the following guidelines for the year, which they intend to adopt in the future.

When expenditures are incurred by the Town that would qualify for payment with either restricted or unrestricted funds, it will be paid from restricted funds. When an expenditure is incurred that qualifies for payment from one of the three unrestricted fund balances categories, it will be applied in the following order: committed, assigned, then unassigned.

Deferred Outflows/Inflows of Resources

The Town reports financial information in accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. These standards establish accounting and financial reporting for deferred outflows/inflows of resources and the concept of net position as the residual of all other elements presented in a statement of financial position.

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. The government has no items that qualify for reporting in this category.

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. Estimates also affect the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Note 1. Summary of Significant Accounting Policies - continued

Subsequent Events

Management has evaluated subsequent events through June 25, 2015, the date the financial statements were available to be issued.

Note 2. Stewardship, Compliance, and Accountability

Budgetary Information

The Town adopts an annual operating budget for the general fund. The annual budget is adopted on a basis consistent with GAAP. The legal level of control (the level at which expenditures may not legally exceed appropriations) for the adopted annual operating budget is at the department level. All unexpended annual appropriations lapse at year-end.

Material Violations of Finance-Related Legal and Contractual Provisions

A detailed budget was not adopted for the 2014 year, and no amendments were made to the summarized budget. The final budget figures varied significantly from the actual figures, and each of the departments expenditures exceeded their respective budget.

Note 3. Cash

The Town does not have any formally adopted deposit and investment policies. At December 31, 2014, the Town held bank balances of $203,853, all of which was adequately insured by FDIC in compliance with state requirements.

Note 4. Receivables

Receivables at December 31, 2014 consisted of taxes, franchise fees, and intergovernmental revenues. Receivables and payables are recorded on the Town's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectability.

Note 5. Capital Assets

Governmental activities capital asset activity for the year ended December 31, 2014 was as follows:

	Balance at 12/31/2013	Additions	Disposals	Balance at 12/31/2014
Capital assets not being depreciatied:				
Land	$ 410,115	$ -	$ -	$ 410,115
Total capital assets not being depreciated	410,115	-	-	410,115
Other capital assets:				
Buildings and improvements	1,029,757	13,480	-	1,043,237
Vehicles	104,093	-	-	104,093
Total other capital assets	1,133,850	13,480	-	1,147,330
Total cost	1,543,965	13,480	-	1,557,445
Accumulated depreciation:				
Buildings and improvement	781,426	42,532	-	823,958
Vehicles	67,276	11,300	-	78,576
Total accumulated depreciation	848,702	53,832	-	902,534
Governmental activities capital assets, net	$ 695,263	$ (40,352)	$ -	$ 654,911

Governmental activities depreciation expense:	
General government	$ 42,532
Public safety	11,300
Total governmental activities depreciation expense	$ 53,832

Note 6. Risk Management

The Town is exposed to various risks of losses related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Agency Property and Liability Insurance Fund, public entity risk pool currently operating as a common risk management and insurance program for member local governments.

As part of these risk pools, the Town is obligated to pay all contributions and assessments as prescribed by the pools, to cooperate with the pool's agents and attorneys, to follow loss reduction procedures established by the funds, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss. The Town is also to allow the pool's agents and attorneys to represent the Town in investigation, settlement discussions and all levels of litigation arising out of any claim made against the Town within the scope of loss protection furnished by the funds.

The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member government contract and in accordance with the worker's compensation law of Georgia. The funds are to pay all cost taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense. There were no significant reductions in insurance coverage in relation to the prior year. For the years ended 2014, 2013, and 2012, there were no settlements in excess of insurance coverage.

SPECIAL REPORTS SECTION

INDEPENDENT AUDITORS' 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*

Honorable Mayor, Members of the Town Council,
and Town Administrator
Town of Cohutta

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Town of Cohutta as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Town of Cohutta's basic financial statements and have issued our report thereon dated June 25, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Cohutta'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 Town of Cohutta's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Cohutta's internal control.

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. 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 charges with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. (2014-001, 2014-002, 2014-003, 2014-004)

201 N. THORNTON AVE | P.O. BOX 749 | DALTON, GA 30722 | PHONE 706.529.0749 | FAX 706.529.5549

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Cohutta's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2014-005 and 2014-006.

Town of Cohutta's Response to Findings

The Town of Cohutta's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Town of Cohutta'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.

Estes & Walcott

Dalton, Georgia
June 25, 2015

Town of Cohutta
Schedule of Findings and Responses
December 31, 2014

Significant Deficiencies:

2014-001 Condition: Accounts receivable, accounts payable, and other accruals are not recorded.

Effect: Failure to record accounts receivable and other accounts on the modified accrual basis could lead to financial statement misstatement that is material to the basic financial statements.

Recommendation: The government should record receivables, payables, and like accounts on the modified accrual basis of accounting.

View of responsible officials and planned corrective actions: The Town agrees. We intend to record accounts receivable and other accruals in the future.

2014-002 Condition: Inadequate segregation of duties.

Effect: Inadequate segregation of duties makes the government more susceptible to fraud.

Recommendation: Since the Town is unable to hire more employees to increase segregation of duties, management oversight of accounting functions is imperative.

View of responsible officials and planned corrective actions: The Town agrees. Management does provide oversight of accounting function. The timeliness and promptness of such oversight will be improved.

2014-003 Condition: The Town has not adopted a deposit and investment policy, a capitalization policy, or a fund balance policy.

Effect: These policies exist to ensure Town compliance with Council intentions, and allow for monitoring and safeguarding.

Recommendation: The Town should create and implement policies for the noted areas.

View of responsible officials and planned corrective actions: The Town agrees. We will create and implement the policies noted.

Significant Deficiencies (continued):

2014-004 Condition: Numerous adjusting entries were required to reclassify postings and, in limited circumstances, record activity.

Effect: The Town's internal financial statements were not appropriately classified and reported, which does not allow for adequate oversight.

Recommendation: The Town should record all adjusting journal entries from the audit, should take steps to verify that all balance sheet accounts are reconciled on a monthly basis, and should review income and expense items monthly to ensure that all activity is appropriately posted.

View of responsible officials and planned corrective actions: The Town agrees. We will perform additional review procedures on an ongoing basis to ensure the financial information is reliable.

2014-005 Condition: The Town had significant expenditures in the current year related to prior year payroll taxes, interest, and penalties that were not remitted for years 2012 and 2013.

Effect: The Town was not in compliance with IRS requirements for reporting and payment of payroll taxes.

Recommendation: None, as the appropriate corrective and preventative actions have already been taken.

View of responsible officials and planned corrective actions: The Town agrees. We have paid all outstanding back taxes, and have remitted all reports. We have outsourced the preparation of payroll tax returns, and are taking all steps to ensure compliance in the future.

2014-006 Condition: The Town experienced material violations of the budget.

Effect: Failure to properly adopt and amend the budget during the year could cause data analysis to be inaccurate.

Recommendation: The Town should adopt a detailed budget in accordance with their legal level of budgetary compliance, and should amend it throughout the year as needed.

View of responsible officials and planned corrective actions: The Town agrees. A detailed budget will be prepared and adopted for 2015, and amendments will be made as necessary.