CITY OF NELSON, GEORGIA

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CITY OF NELSON, GEORGIA
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INTRODUCTORY SECTION

The introductory section includes a transmittal letter from the City Clerk, and a list of principal officials for the City of Nelson, Georgia.

Mayor Pro-Tem
Honorable Martha Tipton

City Clerk
Brandy Edwards

City Council
Mr. Jonathan Bishop
Mr. Duane Cronic
Mr. Jackie Jarrett
Mrs. Edith Portillo

City of Nelson

1985 Kennesaw Ave.
Post Office Box100
Nelson, Georgia 30151-0100
Tel 770-735-2211
Fax 770-735-3957

November 28, 2012

To the Honorable Mayor, Members of the City Council and
Citizens of Nelson, Georgia:

The Annual Financial Report of the City of Nelson, Georgia (the "City"), for the fiscal year ended June 30, 2012, is hereby submitted as mandated by both local and state government. These ordinances and statutes require that the City issue annually a report on its financial position and activity, and that this report be audited by an independent firm of certified public accountants. This report was prepared by the City's Finance Department. Responsibility for both the accuracy of the presented data and the completeness and fairness of presentation, including all disclosures, rest with the City. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain the maximum understanding of the City of Nelson, Georgia's financial affairs are included.

The City of Nelson, Georgia's financial statements have been audited by Welch, Walker & Associates, PC, and a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Nelson, Georgia for the fiscal year ended June 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements: assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Nelson, Georgia's financial statements for the fiscal year ended June 30, 2012, are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP). The independent auditor's report is presented as the first component of the financial section of the report.

The financial reporting entity for the City of Nelson, Georgia includes all funds of the primary government, the City of Nelson, Georgia. The City provides a full range of services including police, building inspections, zoning, code enforcement, municipal court, the construction and maintenance of streets and infrastructure, recreational activities and cultural events and sanitation.

Management's discussion and analysis immediately follows the independent auditor's report and provides a narrative and overview of the basic financial statements and should be read in conjunction with the transmittal letter.

GOVERNMENTAL STRUCTURE, LOCAL ECONOMIC CONDITION AND OUTLOOK

The City of Nelson, Georgia is governed by a Mayor and five council members. The City Council consists of five members elected at large for staggered four-year terms. The Mayor only votes to break a tie, who along with the remaining council members is elected on a non-partisan basis. Council provides responsive, progressive leadership and a vision for the community by setting policies, passing ordinances and adopting the budget.

The City provides a wide range of municipal services to citizens including public safety (police), public works, parks and recreation, planning and zoning, building inspection, code enforcement, municipal court services, sanitation and general administrative services.

The City of Nelson has maintained its population and tax base during the fiscal year even though the current economy, both statewide and nationwide, has hindered growth. We continue in the planning of an industrial park that would bring substantial growth back to the City as economic conditions improve.

FINANCIAL INFORMATION

Accounting System Internal Controls. The management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition, and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the evaluation of costs and benefits requires estimates and judgment by management.

Budgeting Controls. In addition to internal controls, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal

provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General Fund are included in the annual appropriated budget. Expenditures may not legally exceed appropriations at the department level, within each fund.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

Long-Term Financial Planning. The City of Nelson does not anticipate major changes in either revenue sources or expenditures in the future. The City has taken a conservative approach to budgeting and finance, with an emphasis on estimating expenses on the high-end and estimating revenues on the low-end.

ACKNOWLEDGEMENTS

The preparation of the annual financial report, on a timely basis, could not have been accomplished without the dedication and cooperation of the entire City staff. I would like to express our appreciation to each member who assisted and contributed to the preparation of this report. I also extend my appreciation to the independent auditors, Welch & Walker & Associates, PC, for the professional guidance and assistance in producing a technically sound document. **Most importantly, I express my appreciation to the Mayor and City Council for their dedication, leadership, vision, and support in planning and conducting the affairs of the City of Nelson in a responsible and progressive manner, which ensures that Nelson is a well-rounded, vibrant community to call home.**

Respectfully submitted,

Signed: Brandy Edwards
Title: City Clerk

City of Nelson, Georgia

Principal Officials
June 30, 2012

Mayor
Vacant

City Council
Martha Tipton, Mayor Pro-tem
Jonathan Bishop
Duane Cronic
Jackie Jarrett
Vacant Seat

City Clerk
Brandy Edwards

Police Chief
B. Heath Mitchell

City Attorney
Jeff Rusbridge

City Auditors
Welch, Walker & Associates , PCs, CPAs

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FINANCIAL SECTION

The financial section includes the independent auditor's report on the financial statement audit, the Management's Discussion and Analysis which provides a narrative introduction, overview and analysis of the financial statements, the basic financial statements including footnotes, and supplementary information.

WELCH WALKER
& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

489 HIGHLAND CROSSING SUITE #208
EAST ELLIJAY, GA 30540
PH (706) 515-2000 FAX (706) 515-2011

INDEPENDENT AUDITOR'S REPORT

Mayor and Members of the City Council
Nelson, Georgia

We have audited the accompanying financial statements of the governmental activities and each major fund of City of Nelson, Georgia as of and for the year ended June 30, 2012 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Nelson, Georgia's management. Our responsibility is to express an opinion 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2012, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2012 on our consideration of the City of Nelson's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 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

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Nelson's financial statements as a whole. The supplementary information consisting of detailed fund schedules of revenues and expenditures – budget to actual are presented for purposes of additional analysis and are not a required part of the financial statements. The Schedule of Projects Constructed with Special Purpose Local Option Sales Tax is presented for purposes of additional analysis as required by the Official Code of Georgia Section 48-4-121, and is also not a required part of the financial statements. The detailed fund schedules of revenues and expenditures – budget to actual and the Schedule of Projects Constructed with Special Purpose Local Option Sales Tax are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

East Ellijay, Georgia
November 28, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) is a narrative introduction, overview and analysis of the basic financial statements prepared by the City Clerk.

CITY OF NELSON, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

As management of the City of Nelson, we offer readers of the City's financial statements this narrative discussion and analysis of the financial activities for the fiscal year ended June 30, 2012. We encourage readers to consider this information presented herein, in conjunction with the additional information finished in the financial statements, and the notes to the financial statements.

Financial Highlights

- The City's assets exceeded its liabilities by $2,182,795 (net assets) for the fiscal year reported. Of this amount, $66,756 (unrestricted net assets) may be used to meet the City's ongoing obligation to citizens and creditors.
- The City's total net assets decreased $64,935 primarily due to the expenditure for mold in city hall.
- At the end of the fiscal year, unassigned fund balance for the General fund was $37,019, which was a decrease of $76,278 primarily due to the expenditure for mold in city hall and a decrease of revenues of fine and forfeitures and charges for services.
- General Fund revenues exceeded budgeted expectations by $1,014 for the fiscal year, while expenditures were less budgeted appropriations by $14,704.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

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

The first of these government-wide statements is the *Statement of Net Assets.* This is the City-wide statement of position presenting information that includes all of the City's assets and liabilities, with the difference reported as *net assets.* Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other non-financial factors such as diversification of the taxpayer base or the condition of the City 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 City's net assets changed during the current fiscal 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 City's distinct activities or functions on revenues provided by the City taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues. Governmental activities include general government, planning and zoning, public safety, and public works.

The government-wide financial statements can be found on pages 10 and 11 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 City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's financing requirements and the commitment of spendable resources for the near-term. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The City of Nelson maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Special Local Option Sales Tax ("SPLOST") Fund, both are presented as major funds.

The City of Nelson adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 12 through 16 of this report.

The City of Nelson does not have any Business-Type Funds.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Nelson, assets exceeded liabilities by $2,182,795 at the close of the most recent fiscal year.

The vast majority of the City of Nelson's net assets, reflects its investment in capital assets (e.g., land improvements, buildings and improvements, machinery and equipment, infrastructure and vehicles), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Nelson's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

Table 1 below presents the City's condensed Statement of Net Assets for Governmental Activities as of June 30, 2012 and June 30, 2011.

	Governmental Activities June 30, 2012	Governmental Activities June 30, 2011
Assets		
Current and other assets	$ 659,494	$ 620,541
Capital assets, net	1,613,708	1,717,105
Total Assets	**2,273,202**	**2,337,646**
Liabilities		
Current liabilities	90,407	88,381
Long term liabilities	-	1,535
Total Liabilities	**90,407**	**89,916**
Net Assets:		
Invested in capital assets	1,613,708	1,717,105
Restricted	502,331	389,789
Unrestricted	66,756	140,836
Total Net Assets	**$ 2,182,795**	**$ 2,247,730**

A portion of the City's net assets $502,331 represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net assets*, $66,756, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Nelson is able to report positive balances in net assets for the government as a whole. The same situation held true for the prior fiscal year.

Total net assets of the City's governmental activities decreased by $64,935 in fiscal year 2012 ($2,182,795 in FY12 versus $2,247,730 in FY11). The decrease is primarily due to the City having a mold issue in city hall.

Table 2 below presents the City's Condensed Statement of Activities for the year ended June 30, 2012 and June 30, 2011. Over time, increases and decreases in net assets measure whether the City's financial position is improving or deteriorating.

	Governmental Activities Year Ended June 30, 2012	Governmental Activities Year Ended June 30, 2011
Program Revenues:		
Charges for Services	$ 49,943	$ 48,195
Capital Grants and Contribution	123,048	240,327
General Revenues:		
Taxes	335,796	308,891
Unrestricted Investment Earnings	4,370	543
Miscellaneous	1,286	1,937
Total Revenue	**514,443**	**599,893**
General Expenditures:		
General Government	190,538	164,496
Judicial	9,293	9,124
Public Safety	169,773	185,688
Public Works	198,760	178,253
Housing and development	11,014	2,636
Culture and Recreation	-	8,469
Interest Expense	-	235
Total Expenses	**579,378**	**548,901**
Change in Net Assets	(64,935)	50,992
Beginning Net Assets*	2,247,730	2,196,738
Ending Net Assets	**$ 2,182,795**	**$ 2,247,730**

**Beginning net assets shown as restated for fiscal year ending 2011.*

Governmental Activities. The City of Nelson's net assets in the governmental activities decrease by $64,935 thereby accounting for 2.89% percent of the total shrinkage in net assets.

Total revenues for the City amounted to $514,443, of which property, franchise, business and sales and use tax provided 65.27%. Therefore, the general economy and local businesses have a major impact on the City's revenue stream and evidences that the City is heavily reliant on tax revenues to support governmental operations.

Program expenses for governmental activities totaled $579,378, which is a increase of $30,478 over the prior year. This increase is attributed to increases in operational expenditures.

Financial Analysis of the City's Funds

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of $558,147 with $502,331 of this balance being reported as restricted for specific purposes, as outlined in the SPLOST referendums from which these balances were derived. The total change in fund balance for governmental funds was an increase of $37,260.

The General Fund is the operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was $37,019. The governmental activities are made up of two funds, the General Fund and SPLOST Funds.

General Fund Budgetary Highlights

The City's budget utilized a conservative approach based on available information. Emphasis was placed on long-term stability by meeting financial priorities through disciplined spending. The City employs a budget process whereby appropriations are revisited and compared to actual in order to determine if significant, unexpected variances are present. At this point, any necessary budget amendments are approved by City Council.

Amendments:

The City Council made necessary budget amendments for the FY2012 budget. Listed below is a brief summary of amendments.

- General government buildings budget of $18,000 was increased to $57,100 due to a mold issue that was discovered in the city hall building.
- Public Safety budget of $93,000 was decreased to $75,390 due to the reduction of personnel .
- Highways and streets budget of $72,000 was increased to $88,500 due to increase need of contract labor.

Revenues:

Actual revenues exceeded budgeted amounts by $1,014. Listed below is a brief summary of factors that attributed to the budget during FY2012.

- Property taxes collected were $5,218 under budget due to a slower collection rate of delinquent tax amounts.
- Business taxes collected were $26,467 over budget due to the earning's from the insurance commission being more than anticipated during the fiscal year.
- Local option sales tax collected were $14,643 over budget due to the sales tax earning's being more than anticipated during the fiscal year.
- Licenses and permits were less than budgeted by $5,801 due to a decrease of building permits.
- Charges of services were less than budgeted by $8,050 due to a decrease of sanitation customers.
- Fines and forfeitures were less than budgeted by $17,406 due to a decrease of public safety officer's.

Expenditures:

Actual expenditures were less than budgeted by $14,704. A brief summary of these decreases are explained below:

- General administration expenditures were under budget by $3,412 due to cost saving measures made by management.
- General government buildings expenditures were less than budgeted by $1,510.
- Public Safety expenditures were under budget by $5,842 due to cost saving measures in personnel.
- Highways and streets expenditures were under budget by $1,609 due to the reduction personnel hours and repairs and maintenance expenditures.
- Over all, expenditures were less than budgeted due primarily to the City's management and staff's conscious effort to reduce spending in every area to compensate for any cost over runs and decline in revenues.

SPLOST Fund Highlights

Revenue totaled $123,048 for the fiscal year. The sales tax is used for various projects in the City including roads, streets and sidewalks, public safety projects and park improvements. The expenditures for fiscal year 2012 were $10,506 of which $9,006 was used for roads, streets, and sidewalks. In addition $1,500 was used for public safety expenditures.

Capital Asset and Debt Administration

Capital assets

City of Nelson's investment in capital assets for its governmental activities as of June 30, 2012 amounts to $1,613,708 (net of accumulated depreciation). Capital asset investments include land, construction in progress, land improvements, buildings, machinery and equipment, infrastructure and vehicles.

The City had no major additions of capital assets this fiscal year.

Table 3 below presents the City's capital assets, net of accumulated depreciation for the year ended June 30, 2012 and June 30, 2011.

	Governmental Activities	
	2012	2011
Land	$ 159,003	$ 159,003
Construction in progress	-	-
Buildings and improvements	379,518	388,697
Infrastructure	894,243	942,469
Machinery and equipments	65,633	78,427
Land improvements	5,782	6,928
Vehicles	109,529	141,581
Total	$1,613,708	$1,717,105

Refer to Note 4 in the notes to the financial statements for more detailed information relating to the City's capital assets.

Long-term debt

The City of Nelson paid off the capital lease in fiscal year 2011.

Table 4 below presents the City's long-term debt outstanding for the year ended June 30, 2012 and June 30, 2011.

	Governmental Activities	
	2012	2011
Compensated absences	$ 1,715	$ 1,535
Total	$ 1,715	$ 1,535

Refer to Note 6 in the notes to the financial statements for more detailed information relating to the City's long-term debt.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have any questions about this report or would like to request additional information, contact Brandy Edwards, City Clerk, City of Nelson, Georgia, Post Office Box 100, Nelson, GA 30151.

BASIC FINANCIAL STATEMENTS

The basic financial statements include the government-wide statement of net assets 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 ASSETS
June 30, 2012

	Governmental Activities
ASSETS	
Current Assets:	
Cash	$ 61,478
Certificates of deposit	50,000
Restricted cash	280,023
Restricted certificates of deposit	200,000
Accounts receivable, net	1,534
Taxes receivable, net	15,689
Receivable from other governments	31,973
Prepaid expenses	18,797
Total Current Assets	659,494
Non-current assests:	
Capital assets, not being depreciated	159,003
Capital assets, net of accumulated depreciation	1,454,705
Total Non-current assests	1,613,708
Total Assets	$ 2,273,202
LIABILITIES	
Current Liabilities:	
Accounts payable	$ 4,625
Intergovernmental payable	76,806
Accrued salaries	6,283
Deferred revenue	978
Compensated absences	1,715
Total current liabilities	90,407
Total Liabilities	90,407
Net Assets	
Invested in capital assets	1,613,708
Restricted for capital projects	502,331
Unrestricted	66,756
Total Net Assets	2,182,795
Total liabilities and net assets	$ 2,273,202

The accompanying notes are an integral part of this statement.

CITY OF NELSON, GEORGIA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Total Governmental Activities
Governmental Activities:					
General government	$ 190,538	$ -	$ -	$ -	$ (190,538)
Judicial	9,293	-	-	-	(9,293)
Public safety	169,773	12,594	-	-	(157,179)
Public works	198,760	36,950	-	123,048	(38,762)
Culture and recreation	8,274	-	-	-	($8,274)
Housing and development	2,740	399	-	-	($2,341)
Total Governmental Activities	$ 579,378	$ 49,943	$ -	$ 123,048	(406,387)

General revenues:	
Taxes:	
Property taxes, levied for general purposes	117,463
General sales and use taxes	114,643
Franchise taxes	36,223
Business taxes	67,467
Unrestricted investment earnings	4,370
Miscellaneous	1,286
Total general revenues	341,452
Change in net assets	(64,935)
Net assets, beginning of year	2,247,730
Net assets, end of year	$ 2,182,795

The accompanying notes are an integral part of this statement.

CITY OF NELSON, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	SPLOST Fund	Total Governmental Funds
ASSETS			
Cash	$ 61,478	$ -	$ 61,478
Certificates of deposit	50,000	-	50,000
Restricted cash	-	280,023	280,023
Restricted certificates of deposit	-	200,000	200,000
Taxes receivable	15,689	-	15,689
Fines receivable, net	-	-	-
Accounts receivable	1,534	-	1,534
Receivable from other governments	9,665	22,308	31,973
Prepaid items	18,797	-	18,797
Total Assets	$ 157,163	$ 502,331	$ 659,494
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 4,625	$ -	$ 4,625
Accrued liabilities	6,283	-	6,283
Due to other governments	76,806	-	76,806
Deferred revenue	13,633	-	13,633
Total Liabilities	101,347	-	101,347
Fund Balance:			
Nonspendable	18,797	-	18,797
Restricted	-	502,331	502,331
Unassigned	37,019	-	37,019
Total Fund Balances	55,816	502,331	558,147
Total Liabilities and Fund Balances	$ 157,163	$ 502,331	$ 659,494

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 ASSETS
June 30, 2012

Total fund balance, governmental funds		$ 558,147
Amounts reported for governmental activities in the Statement of Net Assets 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 Assets.		
Cost of capital assets	$ 2,508,660	
Less accumulated depreciation	(894,952)	
		1,613,708
Some of the City's tax revenues will be collected after the fiscal year end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred on the fund financial statements.		12,655
Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. These liabilities include the following:		
Compensated absences	(1,715)	(1,715)
Net Assets of Governmental Activities in the Statement of Net Assets		$ 2,182,795

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, 2012

	General Fund	SPLOST Fund	Total Governmental Funds
Revenues:			
Taxes	$ 334,415	$ -	$ 334,415
Intergovernmental	-	122,975	122,975
Licenses and permits	399	-	399
Fines and forfeitures	12,594	-	12,594
Charges for services	36,950	-	36,950
Investment earnings	96	73	169
Miscellaneous	1,286	-	1,286
Penalties and interest on delinquent taxes	4,274	-	4,274
Total Revenues	390,014	123,048	513,062
Expenditures:			
Current:			
General government	183,935	-	183,935
Judicial	9,293	-	9,293
Public safety	69,548	-	69,548
Public works	122,974	-	122,974
Housing and development	2,740	-	2,740
Intergovernmental	76,806		76,806
Capital Outlay:			
Public safety	-	1,500	1,500
Public works	-	9,006	9,006
Total Expenditures	465,296	10,506	475,802
Net changes in fund balances	(75,282)	112,542	37,260
Fund balances (deficit), beginning of year	131,098	389,789	520,887
Fund balances, end of year	$ 55,816	$ 502,331	$ 558,147

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, 2012

Net change in fund balances - total governmental funds:		$ 37,260
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 $1,500 are offset by $104,896 of depreciation.		(103,396)
Revenues reported in the statement of activites that do not provide current financial resources are not reported as revenues at the fund financial reporting level.		
Property Taxes		
Deferred @ 6/30/2011	(11,273)	
Deferred @ 6/30/2012	12,654	1,381
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:		
Compensated absences		
Liability @ 6/30/2011	1,535	
Liability @ 6/30/2012	(1,715)	(180)
Change in net assets of governmental activities in the Statement of Activities		$ (64,935)

The accompanying notes are an integral part of this statement.

CITY OF NELSON, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE--BUDGET TO ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance Final Budget
	Original	Final	(See Note 1L)	Over (Under)
Revenues:				
Property taxes	$ 121,300	$ 121,300	$ 116,082	$ (5,218)
Franchise taxes	36,000	36,000	36,223	223
Business taxes	41,000	41,000	67,467	26,467
Local option sales tax	100,000	100,000	114,643	14,643
Licenses and permits	6,200	6,200	399	(5,801)
Charges for services	45,000	45,000	36,950	(8,050)
Fines and forfeitures	30,000	30,000	12,594	(17,406)
Investment earnings	500	500	96	(404)
Miscellaneous	3,000	3,000	1,286	(1,714)
Penalties and interest on delinquent taxes	6,000	6,000	4,274	(1,726)
Total Revenues	389,000	389,000	390,014	1,014
Expenditures:				
General government:				
Legislative/Executive	56,750	57,665	57,434	(231)
General administration	71,950	70,745	67,333	(3,412)
Elections	4,000	3,600	3,578	(22)
General government buildings	18,000	57,100	55,590	(1,510)
Judicial:				-
Municipal court	10,250	9,700	9,293	(407)
Public Safety:				-
Patrol	93,000	75,390	69,548	(5,842)
Fire	500	-	-	-
Public works:				-
Highways and streets	72,000	88,500	86,891	(1,609)
Solid waste collection	33,400	37,200	36,083	(1,117)
Housing and development:				
Protective inspection	1,100	1,000	1,000	-
Planning and zoning	2,350	2,100	1,740	(360)
Culture and Recreation:				-
Museum	200	-	-	-
Parks	500	-	-	-
Intergovernmental	76,000	77,000	76,806	(194)
Total Expenditures	440,000	480,000	465,296	(14,704)
Excess (Deficiency) of Revenues Over Expenditures	(51,000)	(91,000)	(75,282)	(15,718)
Other Financing Sources (Uses)				
Proceeds from disposal of assets	1,000	1,000	-	(1,000)
Transfers in	50,000	50,000	-	(50,000)
Transfers in from reserve	-	40,000	-	(40,000)
Total Other Financing Sources and Uses	51,000	91,000	-	(91,000)
Net Change in fund balance	-	-	(75,282)	(75,282)
Fund balance, begininning of year	131,098	131,098	131,098	-
Fund balance, end of year	$ 131,098	$ 131,098	$ 55,816	$ (75,282)

The accompanying notes are an integral part of this statement.

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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.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES:

The financial statements of the City of Nelson, Georgia ("the City") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. THE REPORTING ENTITY

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The City's financial statements include the City's accounts of all operations. The criteria for including organizations within the City's reporting entity, as set forth in Governmental Accounting Standards Board's Statement No. 14 (GASB 14), "The Financial Reporting Entity", is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. As of June 30, 2012, 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. BASIS OF ACCOUNTING

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.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

The government-wide statement of activities presents a comparison between expenses and program revenues for each governmental program of the City. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the City.

Net assets should be reported as restricted when constraints placed on net asset 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 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.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Property taxes, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property tax receivables are recorded and deferred until they become available.

Other revenues, including licenses and permits, certain charges for services, income taxes other than those withheld by employers, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Fines receivable for the fiscal year ended 2012 totaled, $2,948. An allowance for uncollectible fines was established at $2,948, resulting in net fines receivable of $0. This is attributable to a large outstanding balance of probation fines that are essentially uncollectible at the end of the fiscal year.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on long-term debt, which has not matured, are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

The City reports the following major governmental funds:
General Fund: This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
SPLOST Fund: The SPLOST Fund is used to account for the revenues and expenditures relating to the special purpose local option sales tax as approved in voter referendums that are restricted to expenditures for specified capital projects.

D. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the 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

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

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

company organized under the laws of any state of the United States of America or any national banking association, repurchase agreements when collateralized by U.S. Government or agency obligations, and pooled investment programs sponsored by the State of Georgia for the investment of local government funds.

F. PROPERTY TAX CALENDAR

The City is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts with in the City. The City geographically lies on the boundary lines for Pickens County, Georgia and Cherokee County, Georgia and property taxes are collected based on each county's digest. For both Pickens County and Cherokee County, the City levies property taxes as of December 1, 2011 for values that were assessed in 2011. Secured property tax payments are due on February 1, 2012; penalties and interest are applied on March 8, 2012. The City has not established a lien date for either county at June 30, 2012.

G. CAPITAL ASSETS

All assets over the capitalization threshold of $5,000 for infrastructure and $1,500 for all other types of assets with a useful life extending beyond one year are capitalized and depreciated over time using the straight line method. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets include all roads and bridges and other infrastructure assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2012 are recorded as prepaid items. Prepaid insurance and prepaid dues were $16,325 and $2,472, respectively, for total prepaid assets of $18,797 as of June 30, 2012.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

I. COMPENSATED ABSENCES

The liability for compensated absences in the government-wide statements consists of unpaid, accumulated vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

J. FUND EQUITY

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net assets."

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.
- ***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 Assets – Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (CONCLUDED)

used (i.e., the amount that the City has spent) for the acquisition, construction or improvement of those assets. Net assets are reported as restricted as described in the fund balance section above. All other net assets are reported as unrestricted.

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. 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 legally 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.

For the year ended June 30, 2012, no expenditures exceeded budget in the General Fund.

NOTE 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, 2012, the City's bank balances were fully collateralized in compliance with State requirements.

NOTE 3 - DUE TO/FROM OTHER GOVERNMENTS

The following amounts are due from other governments at June 30, 2012:

General Fund:	
Georgia Department of Revenue	$ 9,665
SPLOST Fund:	
Georgia Department of Revenue	22,308
Total	$ 31,973

Intergovernmental payables at June 30, 2012 consist of $76,806 due to Cherokee County that represents the City's collection of fire tax on the County's behalf.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balances	Additions	Disposals	Ending Balances
Governmental Activities:				
Non-depreciable capital assets:				
Land	$ 159,003	$ -	$ -	$ 159,003
Construction in progress	-	-	-	-
Total non-depreciable capital assets	159,003	$ -	$ -	159,003
Depreciable capital assets:				
Infrastructure	1,334,868	-	-	1,334,868
Buildings and improvements	454,697	-	-	454,697
Land improvements	12,862	-	-	12,862
Machinery and equipment	236,119	1,500	-	237,619
Vehicles	309,611	-	-	309,611
Total depreciable capital assets	2,348,157	1,500	-	2,349,657
Less accumulated depreciation:				
Infrastructure	(392,399)	(48,226)	-	(440,625)
Buildings and improvements	(66,000)	(9,179)	-	(75,179)
Land improvements	(5,934)	(1,146)	-	(7,080)
Machinery and equipment	(157,692)	(14,294)	-	(171,986)
Vehicles	(168,030)	(32,052)	-	(200,082)
Total accumulated depreciation	(790,055)	(104,897)	-	(894,952)
Total depreciable capital assets, net	1,558,102	(103,397)	-	1,454,705
Governmental activities capital assets, net	$ 1,717,105	$(103,397)	$ -	$1,613,708

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	$ 6,423
Public safety	23,419
Public works	66,780
Culture and recreation	8,274
Total	$104,896

NOTE 5 - RESTRICTED ASSETS / NET ASSETS

Cash of $280,023 and certificates of deposit of $200,000 totaling $480,023 in the SPLOST Fund are restricted for the purpose of constructing, maintaining and improving roads and bridges in the City, in addition to other specific projects outlined in the referendum. The source of these funds consists of proceeds from a special one percent local option sales tax levied by Cherokee County. Net assets totaling $502,331 in the government-wide financial statements are restricted by enabling legislation related to SPLOST funds. This amount includes receivables from other governments of $22,308.

NOTE 6 - LONG-TERM DEBT

Changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	Beginning Balances	Additions	Disposals	Ending Balances	Amounts Due in One year
Compensated absences	$ 1,535	$ 180	$ -	$ 1,715	$ 1,715
Total long-term liabilities	$ 1,535	$ 180	$ -	$ 1,715	$ 1,715

Compensated absences are generally liquidated by the general fund.

NOTE 7 – FUND EQUITY

Fund balances are classified as follows:

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

  General Fund:

  Prepaid items $ 18,797

- ***Restricted*** -

  Capital Projects Fund:

  Special Purpose Local Option Sales Tax Fund (SPLOST) – Used to account for capital projects financed with SPLOST $ 502,331

NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers compensation for which the City carries the following insurance coverage.

There were no significant reductions of insurance coverage compared to the prior year. Settled claims have not exceeded the commercial excess coverage in any of the past three fiscal years.

Risk Pools

The City is a member of the Georgia Interlocal Risk Management Agency (GIRMA). Insurance coverage and deductible options for property, casualty and crime under the policy are selected by City's management based on the anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed by GIRMA, as well as following loss reduction and prevention procedures established by GIRMA. GIRMA's responsibility includes paying claims, and representing the City in defense and settlement of claims. GIRMA's basis for estimating the liabilities for unpaid claims is "IBNR" established by an actuary. The City has not compiled a record of the claims paid up to the applicable deductible for the prior year or the current fiscal year. The City is unaware of any claims that the City is liable (up to the applicable deductible) which were outstanding and unpaid at June 30, 2012. No provisions have been made in the financial statements for the year ended June 30, 2012 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.

NOTE 9 - JOINT VENTURE

The City, in conjunction with cities and counties in a fifteen (15) county area, is a member of the Northwest Georgia Regional Commission (RC). Membership in an RC is automatic for each municipality and county in the state. The official Code of Georgia Section 50-8-34 (Georgia Planning Act of 1989 and House Bill 1216) provides for the organizational structure of the RCs. Each county and municipality in the state is required by law to pay minimum annual dues to the RC. The RC Board membership includes the chief elected official of each County and the chief elected official of each municipality. The County board members and municipal board members from the same County elect one member

of the Board who is a resident (but not an elected or appointed official or employee of the County or municipality) to serve as the non-public Board member from a County.

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RCs as public agencies and instrumentalities of their members. Georgia law also provides that the member government 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.*

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 AND OTHER FINANCING SOURCES - BUDGET TO ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	2012		
	Final Budget	Actual	Variance Over (Under)
TAXES			
General property taxes:			
Property	$ 116,000	$ 113,213	$ (2,787)
Motor vehicle	2,000	2,322	322
Mobile home	200	16	(184)
Intangible	3,000	442	(2,558)
Railroad Tax	100	89	(11)
	121,300	116,082	(5,218)
Franchise taxes:			
Television cable	3,000	3,041	41
Electric	27,000	28,833	1,833
Natural gas	4,000	3,978	(22)
Telephone	2,000	371	(1,629)
	36,000	36,223	223
Business taxes:			
Business occupation	6,000	5,835	(165)
Insurance premium	35,000	61,632	26,632
	41,000	67,467	26,467
Public service taxes:			
Local sales and use taxes	100,000	114,643	14,643
LICENSES AND PERMITS			
Building permits and fees	5,000	399	(4,601)
Zoning and land use fees	800	-	(800)
Sign permit fee	400	-	(400)
	6,200	399	(5,801)
CHARGES FOR SERVICES			
Sanitation	45,000	36,950	(8,050)
FINES AND FORFEITURES			
Municipal court fines	30,000	12,594	(17,406)
INVESTMENT EARNINGS			
Interest income	500	96	(404)
MISCELLANEOUS REVENUE			
Miscellaneous revenue	3,000	1,286	(1,714)
PENALTIES AND INTEREST ON DELINQUENT TAXES	6,000	4,274	(1,726)
PROCEEDS FROM DISPOSAL OF ASSETS	1,000	-	(1,000)
TRANSFERS IN			
SPLOST Fund transfer	50,000	-	(50,000)
From Reserve	40,000	-	(40,000)
	90,000	-	(90,000)
Total Revenue and Other Financing Sources	**$ 480,000**	**$ 390,014**	**$ (89,986)**

CITY OF NELSON, GEORGIA
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES AND OTHER FINANCING SOURCES - BUDGET TO ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	2012		
	Final Budget	Actual	Variance Over (Under)
GENERAL GOVERNMENT			
Legislative/Executive:			
Personal Services and Employee Benefits:			
Salaries and wages	$ 48,200	$ 48,168	$ (32)
Group Insurance	140	138	(2)
FICA	3,700	3,684	(16)
Workers compensation	250	244	(6)
Purchased/Contracted Services:			
Dues and fees	175	172	(3)
Travel	2,600	2,500	(100)
Education and training	2,600	2,528	(72)
	57,665	57,434	(231)
General Administration:			
Personal Services and Employee Benefits:			
Salaries and wages	20,000	19,850	(150)
FICA	1,550	1,515	(35)
Workers compensation and unemployment	800	766	(34)
Purchased/Contracted Services:			
Professional fees	6,000	5,960	(40)
ADP fees	2,500	2,321	(179)
Audit fees	15,700	15,695	(5)
Rental of equipment and vehicles	3,600	3,577	(23)
Insurance and bonding	3,250	3,239	(11)
Advertising	500	486	(14)
Dues and fees	3,000	2,791	(209)
Other cost:			
Abatement	1,000	-	(1,000)
Contingencies	1,000	-	(1,000)
Supplies:			
Supplies and materials	3,000	2,994	(6)
Small equipment	5,000	4,721	(279)
Miscellaneous	3,845	3,418	(427)
	70,745	67,333	(3,412)
Elections:			
Purchased/Contracted Services:			
Contract Services	3,600	3,578	(22)
	3,600	3,578	(22)
General Government Buildings:			
Purchased/Contracted Services;			
Repairs and maintenance	41,000	39,835	(1,165)
Custodial services	2,000	2,000	-
Insurance	1,200	1,189	(11)
Communications	3,700	3,639	(61)
Supplies:			
Water and sewer	500	446	(54)
Natural gas	3,700	3,673	(27)
Electricity	5,000	4,808	(192)
	57,100	55,590	(1,510)
Total General Government	189,110	183,935	(5,175)

CITY OF NELSON, GEORGIA
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES AND OTHER FINANCING SOURCES - BUDGET TO ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	2012		
	Budget	Actual	Variance Over (Under)
JUDICIAL			
Municipal Court			
Purchased/Contracted Services:			
Education and training	500	475	(25)
Travel	900	873	(27)
Dues and fees	4,800	4,602	(198)
Professional fees	3,250	3,120	(130)
Supplies:			
General supplies	250	223	(27)
Total Judical	9,700	9,293	(407)
PUBLIC SAFETY:			
Police:			
Personal Services and Employee Benefits:			
Salaries and wages	50,000	45,047	(4,953)
Group Insurance	140	139	(1)
FICA	3,500	3,457	(43)
Workers compensation	3,700	3,694	(6)
Purchased/Contracted Services:			-
Liability insurance	4,500	4,330	(170)
Communications	2,000	1,938	(62)
Advertising	-	-	-
Dues and fees	250	220	(30)
Education and training	400	365	(35)
Repairs and maintenance	1,500	1,297	(203)
Printing and binding	200	189	(11)
Travel	1,300	1,210	(90)
Supplies:			
Gasoline	7,000	6,924	(76)
Small equipment, training aids	900	738	(162)
Total Public Safety	75,390	69,548	(5,842)
PUBLIC WORKS			
Highway and Streets:			
Personal Services and Employee Benefits:			
Salaries and wages	35,000	34,394	(606)
FICA	2,700	2,645	(55)
Workers compensation	4,800	4,797	(3)
Purchased/Contracted Services:			-
Contract labor	15,000	14,780	(220)
Liability insurance	2,700	2,643	(57)
Vehicle repairs	4,000	3,646	(354)
Supplies:			-
Street signs	1,000	906	(94)
Gasoline	4,500	4,358	(142)
Supplies and materials	400	363	(37)
Small equipment	400	374	(26)

CITY OF NELSON, GEORGIA
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES AND OTHER FINANCING SOURCES - BUDGET TO ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	2012		
	Budget	Actual	Variance Over (Under)
PUBLIC WORKS (continued)			
Electricity	18,000	17,985	(15)
Maintenance	-	-	-
	88,500	86,891	(1,609)
Solid Waste Collection:			
Personal Services and Employee Benefits:			
Salaries and wages	17,200	17,095	(105)
FICA	1,300	1,286	(14)
Workers compensation	1,400	1,400	-
Purchased/Contracted Services:			-
Liability insurance	1,600	1,588	(12)
Dues and fees	700	612	(88)
Vehicle repairs	500	241	(259)
Other Services	8,000	7,806	(194)
Supplies:			-
Supplies and materials	2,500	2,303	(197)
Gasoline	4,000	3,752	(248)
	37,200	36,083	(1,117)
Total Public Works	125,700	122,975	(2,726)
HOUSING AND DEVELOPMENT			
Protective Inspection:			
Purchased/Contracted Services:			
Professional services	1,000	1,000	-
Planning and Zoning:			
Purchased/Contracted Services:			
Professional services	2,000	1,720	(280)
Advertising	100	20	(80)
Education and training	-	-	-
	2,100	1,740	(360)
Total Housing and Development	3,100	2,740	(360)
INTERGOVERNMENTAL			
Remittance of fire tax	77,000	76,806	(194)
Total Expenditures and Other Financing Uses	**$ 480,000**	**$ 465,297**	**$ (14,704)**

CITY OF NELSON, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Project	Estimated Cost		Expenditures			Estimated % of Completion
	Original	Current	Prior Years	Current Year	Total	
SPLOST #1						
Street construction	$ 79,740	$ 312,847	$ 400,233	$ -	$ 400,233	100.00%
Projects utilizing excess funds:						
Street construction	103,606.00	366,507.00	401,923.00	-	401,923.00	109.66%
	183,346.00	679,354.00	802,156.00	-	802,156.00	
SPLOST #2						
General street repairs and maintenance, parks and recreation, public safety, and building	1,035,000.00	982,482.00				
Roads/Transportation and Maintenance			737,336.00	-	737,336.00	
Parks and Recreation			256,930.00	-	256,930.00	
Public Safety:						
Vehicles			130,986.00	-	130,986.00	
Equipment			40,229.00	1,500.00	41,729.00	
New City Hall/Storage Facility			312,493.00		312,493.00	
	1,035,000.00	982,482.00	1,477,974.00	1,500.00	1,479,474.00	150.59%
SPLOST #3						
Transportation facilities and equipment, parks and recreation facilities and public safety vehicles and equipment	940,000.00	940,000.00				
Roads/Transportation						
Facilities			136,595.00	9,006.00	145,601.00	
Equipment			1,355.00	-	1,355.00	
Parks and Recreation facilities			21,718.00	-	21,718.00	
Public Safety:						
Vehicles			33,194.00	-	33,194.00	
Equipment			11,890.00	-	11,890.00	
	940,000.00	940,000.00	204,752.00	9,006.00	213,758.00	22.74%
GRAND TOTALS	**$ 2,158,346**	**$ 2,601,836**	**$ 2,484,882**	**$ 10,506**	**$ 2,495,388**	

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

COMPLIANCE AND INTERNAL CONTROL

WELCH WALKER
& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

489 HIGHLAND CROSSING SUITE #208
EAST ELLIJAY, GA 30540
PH (706) 515-2000 FAX (706) 515-2011

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*

Mayor and Members of the City Council
City of Nelson, Georgia

We have audited the financial statements of the governmental activities and each major fund of City of Nelson, Georgia, as of and for the year ended June 30, 2012, which collectively comprise the City Nelson, Georgia's basic financial statements and have issued our report thereon dated November 28, 2012. 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.

Internal Control Over Financial Reporting

Management of City of Nelson, Georgia is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Nelson Georgia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Nelson Georgia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Nelson Georgia's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (Item 2012-01).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Nelson, Georgia's financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of City of Nelson, Georgia in a separate letter dated November 28, 2012.

City of Nelson, Georgia's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City of Nelson Georgia's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

East Ellijay, Georgia
November 28, 2012

CITY OF NELSON, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

2012-01 – Segregation of Duties

Criteria: Segregation of employees' duties is a common practice in an effective internal control structure. Policies should be in place requiring the segregation of certain duties.

Condition/Context: During the course of our testing procedures, we noted several areas in which the segregation of duties could be improved. Ideally, the duties of cash handling and bookkeeping should be segregated in order to prevent those handling cash from having access to the accounting records. Also, the duties of posting detailed transactions to the general ledger system should be segregated from other functions, such as cash reconciliation, accounts receivable, accounts payable and/or purchasing.

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

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

Recommendation: We recommend the City continue their efforts in the design of their internal controls in order to operate with effective segregation of duties. Having adequate segregation of duties will ensure the proper recording and recognition of accounting transactions and will lessen the potential for misappropriation of City assets.

Response: This is a reoccurring item. Due to the size of the City's administration, total segregation of duties is not practical at this time. The City Council will continue to be closely involved in financial reporting and will continue to provide oversight as practical in order to mitigate risk of misappropriation of assets.