FINANCIAL STATEMENTS

CITY OF TUNNEL HILL

TUNNEL HILL, GEORGIA

FOR THE YEAR ENDED DECEMBER 31, 2010

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For the Year Ended December 31, 2010

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FINANCIAL SECTION

ESTES & WILLIAMS
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
City of Tunnel Hill, Georgia

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Tunnel Hill, Georgia, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Tunnel Hill, Georgia's management. 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 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Tunnel Hill, Georgia, as of December 31, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund and the Major Special Revenue Funds 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 June 30, 2011, on our consideration of the City of Tunnel Hill, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* and should be considered in assessing the results of our audit.

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The management's discussion and analysis found on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Tunnel Hill, Georgia's basic financial statements. The supplementary individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Estes & Williams

Dalton, Georgia
June 30, 2011

City of Tunnel Hill, Georgia
Management's Discussion and Analysis
December 31, 2010
(Unaudited)

Within this section of the City of Tunnel Hill, Georgia's (the City) annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City for the calendar year ended December 31, 2010. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights

- The City's assets exceeded its liabilities by $1,512,469 (net assets) for the calendar year reported.

- Total net assets are comprised of the following:

(1) Net Assets invested in capital assets of $1,027,996 includes property and equipment, net of accumulated depreciation.
(2) Restricted net assets of $122,569 represent donations received that were restricted by the donor to be used for upkeep on a cemetery.
(3) Unrestricted net assets of $361,904 represent the portion available to maintain the City's continuing obligations to citizens and creditors.

- At the end of the current calendar year, unreserved fund balance for the General Fund was $249,556, or 42% 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 City'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. The City also includes in this report additional information to supplement the basic financial statements. Comparative data is presented when available.

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 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 Assets. This is the government-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 or 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 health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of 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 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 City's distinct activities or functions on revenues provided by the City's taxpayers.

Governmental activities include general government and administration, public safety, streets and sanitation, and culture and recreation.

The government-wide financial statements are presented 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. Major funds are separately reported while all others are combined into a single, aggregated presentation.

The City has only governmental funds. Governmental funds are reported in the fund financial statements and encompass the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These 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 governmental fund balance sheet and the governmental fund operating statement provide a reconciliation to assist in understanding the differences between these two perspectives.

The basic governmental fund financial statements are presented on pages 12 through 16 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 20.

Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget presentations. Budgetary comparison statements are included as "required supplementary information" for the General Fund, Major Culture and Recreation Special Revenue Fund, and Major Confiscated Assets Special Revenue Fund. These statements and schedules demonstrate compliance with the City's adopted and final revised budget. Required supplementary information can be found on pages 17-19 of this report.

Financial Analysis of the City as a Whole

The City's net assets at year-end are $1,512,469. The following table provides a summary of the City's net assets:

	Governmental Activities	
	2010	2009
Assets:		
Current assets	$ 522,811	$ 560,431
Capital assets	1,027,996	1,033,253
Total assets	1,550,807	1,593,684
Liabilities:		
Current liabilities	32,450	33,894
Noncurrent liabilities	5,888	23,548
Total liabilities	38,338	57,442
Net assets:		
Invested in capital assets, net of debt	1,027,996	1,033,253
Restricted	122,569	121,662
Unrestricted	361,904	381,327
Total net assets	$ 1,512,469	$ 1,536,242

The City 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 decreased to 16 to 1, as compared to 17 to 1 for 2009.

Note that approximately 68% of the governmental activities' net assets are invested in capital assets. The City uses these capital assets to provide services to its citizens. A significant portion of this amount is related to streets and other infrastructure within the City.

The following table provides a summary of the City's changes in net assets:

	Governmental Activities		
	2010	2009	Increase (Decrease)
Revenues:			
Program:			
Charges for services	$ 337,775	$ 402,365	$ (64,590)
Operating grants and contributions	72,650	63,469	9,181
General:			
Taxes	224,540	227,239	(2,699)
Donations	3,817	4,212	(395)
Investment earnings	4,454	4,771	(317)
Other	23,976	10,182	13,794
Total revenues	667,212	712,238	(45,026)
Program Expenses:			
General government	280,932	267,798	13,134
Public safety	291,769	262,994	28,775
Streets and sanitation	73,591	63,245	10,346
Culture and recreation	42,602	33,603	8,999
Interest on debt	2,091	-	2,091
Total expenses	690,985	627,640	63,345
Change in net assets	(23,773)	84,598	(108,371)
Beginning net assets	1,536,242	1,451,644	84,598
Ending net assets	$ 1,512,469	$ 1,536,242	$ (23,773)

Governmental Revenues

Taxes comprise 34% and 32% of the City's revenues for the years ended 2010 and 2009, respectively. Taxes include local option sales tax, insurance premium tax, alcohol beverage tax, and bank tax. Revenues generated from services of the government, such as public safety, comprise 51% and 56% of the City's revenues for the years ended 2010 and 2009, respectively. Operating grants and contributions comprise 11% and 9% of total revenues for each year. Operating grants and contributions revenue consists primarily of nonexchange revenue resulting from services performed by Whitfield County in accordance with a LOST agreement. Donations comprise 1% of the City's revenues for the years ended 2010 and 2009, respectively. Also, note that program revenues alone cover 59% (74% for 2009) of governmental activities expenses. This means that the government's taxpayers and the City's other general revenues fund the other 41% of the governmental activities expenses.

Governmental Functional Expenses

This table presents the cost of each of the City'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 City's taxpayers by each of these functions for the year ended December 31, 2010.

For Governmental Activities		
	Total Cost of Services	Net Cost of Services
General government	$ 280,932	$ (175,358)
Public safety	291,769	(73,040)
Streets and sanitation	73,591	(941)
Culture and recreation	42,602	(29,130)
Interest on debt	2,091	(2,091)
Total	$ 690,985	$ (280,560)

Financial Analysis of the City's Funds

Governmental Funds

As discussed, governmental funds are 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. Governmental funds reported ending fund balances of $508,021.

The total ending fund balances of governmental funds show a net decrease of $35,169, or a 6% decrease from the prior year.

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The General Fund's fund balance decreased by $9,087. The City has two major special revenue funds. The Culture and Recreation Special Revenue Fund's fund balance increased by $1,159. The Confiscated Assets Special Revenue Fund's fund balance decreased by $27,241.

Capital Assets

The City's investment in capital assets, net of accumulated depreciation, as of December 31, 2010 was $1,027,996. See Note 4 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.

	Governmental Activities	
	2010	2009
Depreciable assets:		
Buildings and improvements	$ 479,374	$ 471,564
Streets	6,010,752	6,010,752
Equipment/furniture	94,842	79,491
Vehicles	154,996	122,698
Total depreciable assets	6,739,964	6,684,505
Less accumulated depreciation	5,994,208	5,933,492
Book value - depreciable assets	$ 745,756	$ 751,013
Percentage depreciated	89%	89%
Non-depreciable assets:		
Land	$ 282,240	$ 282,240
Book value - all assets	$ 1,027,996	$ 1,033,253

Budgetary Information

The City of Tunnel Hill adopts a budget each year for the General Fund and the special revenue funds. The budget is amended as necessary throughout the calendar year, as approved by the council.

There were no material variances between the original adopted budget and the final budget for the City.

The final budget figures varied from the actual figures in several areas. The General Fund's debt service function expenditures were over budget by $18,744. The budget overage occurred due to the City failing to budget for the 2010 principle payment for the purchase of two vehicles. The General Fund's streets and sanitation function expenditures were over budget by $12,865. The budget overages occurred due to the City failing to budget for nonexchange expense as a result of a nonexchange transaction agreement with another local government. The General Fund's culture and recreation function expenditures were over budget by $4,237 due to the purchase of a utility vehicle. The Major Culture and Recreation Special Revenue Fund intergovernmental revenue was over budget by $8,448, and the expenditures of the culture and revenue function of the same fund were over budget by $4,899. The budget overages occurred due to the City failing to budget for nonexchange revenue and expense as a result of a nonexchange transaction agreement with another local government. The Major Confiscated Assets Special Revenue Fund expenditures were over budget by $27,241 due to the City failing to budget for the purchase of a vehicle.

Economic Conditions Affecting the City

The City's annual budget relies heavily on the performance of the local economy. The revenues collected from services (such as public safety) are fairly consistent and predictable; however, taxes are the product of a strong, or weak, economy. Moreover, the City's citizens have enjoyed a zero millage rate since the implementation of our Local Option Sales Tax agreement in late 2002. The purpose of a Local Option Sales Tax is to reduce property taxes. In spite of a weak economy, the millage rate has been rolled back to zero (due to conservative budgeting practices.)

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 questions about this report or would like to request additional information, contact the City of Tunnel Hill City Hall at (706) 673-2355.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Tunnel Hill, Georgia
Statement of Net Assets
December 31, 2010

	Governmental Activities
Assets	
Current assets:	
Cash	$ 440,207
Receivables	
Taxes	28,639
Franchise fees	50,483
Fines and forfeitures	3,482
Total current assets	522,811
Capital assets:	
Nondepreciable capital assets	282,240
Depreciable capital assets, net	745,756
Total capital assets	1,027,996
Total assets	1,550,807
Liabilities	
Current liabilities:	
Accounts payable	2,415
Accrued expenses	11,425
Unearned revenue	950
Current portion of note payable	17,660
Total current liabilities	32,450
Noncurrent liabilities:	
Deferred portion of accrued compensated absences	5,888
Total noncurrent liabilities	5,888
Total liabilities	38,338
Net Assets	
Invested in capital assets	1,027,996
Restricted for cemetery	122,569
Unrestricted	361,904
Total net assets	$ 1,512,469

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

City of Tunnel Hill, Georgia
Statement of Activities
For the Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Assets: Governmental Activities
Governmental activities:				
General government	$ 280,932	$ 105,574	$ -	$ (175,358)
Public safety	291,769	218,729	-	(73,040)
Streets and sanitation	73,591	-	72,650	(941)
Culture and recreation	42,602	13,472	-	(29,130)
Interest on debt	2,091	-	-	(2,091)
Total governmental activities	$ 690,985	$ 337,775	$ 72,650	$ (280,560)
General revenues:				
Intergovernmental - LOST				117,952
Insurance premium tax				65,083
Alcohol beverage tax				34,585
Bank tax				6,920
Donations				3,817
Investment earnings				4,454
Miscellaneous				23,976
Total general revenues				256,787
Change in net assets				(23,773)
Net assets - beginning				1,536,242
Net assets - ending				$ 1,512,469

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

FUND FINANCIAL STATEMENTS

City of Tunnel Hill, Georgia
Balance Sheet
Governmental Funds
December 31, 2010

	General	Culture and Recreation	Confiscated Assets	Total Governmental Funds
Assets				
Current assets:				
Cash	$ 304,311	$ 40,925	$ 94,971	$ 440,207
Receivables				
Taxes	28,639	-	-	28,639
Franchise fees	50,483	-	-	50,483
Fines and forfeitures	3,482	-	-	3,482
Total current assets	386,915	40,925	94,971	522,811
Total assets	$ 386,915	$ 40,925	$ 94,971	$ 522,811
Liabilities				
Current liabilities:				
Accounts payable	2,415	-	-	2,415
Accrued expenses	11,425	-	-	11,425
Deferred revenue	950	-	-	950
Total current liabilities	14,790	-	-	14,790
Fund Balance				
Reserved for cemetery	122,569	-	-	122,569
Unreserved, undesignated, reported in:				
General fund	249,556	-	-	249,556
Special revenue funds	-	40,925	94,971	135,896
Total fund balance	372,125	40,925	94,971	508,021
Total liabilities and fund balance	$ 386,915	$ 40,925	$ 94,971	$ 522,811

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

City of Tunnel Hill, Georgia
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
December 31, 2010

Total Governmental Fund Balances		$ 508,021
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Liabilities incurred in governmental activities, including accrued compensated absences and notes payable are not due and payable in the current period and therefore are not reported in the funds:		
Note payable		(17,660)
Compensated absences		(5,888)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Cost	7,022,204	
Less: accumulated depreciation	(5,994,208)	1,027,996
Net Assets of Governmental Activities		$ 1,512,469

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

City of Tunnel Hill, Georgia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2010

	General	Culture and Recreation	Confiscated Assets	Total Governmental Funds
Revenues				
Intergovernmental - LOST	$ 109,504	$ 8,448	$ -	$ 117,952
Fines and forfeitures	157,190	-	61,539	218,729
Selective taxes	106,588	-	-	106,588
Franchise fees	95,314	-	-	95,314
Charges for services	-	13,472	-	13,472
Licenses and permits	10,260	-	-	10,260
Intergovernmental - Whitfield Co.	66,970	-	-	66,970
Intergovernmental grant	5,680	-	-	5,680
Donations	3,817	-	-	3,817
Investment earnings	4,454	-	-	4,454
Miscellaneous	23,976	-	-	23,976
Total revenues	583,753	21,920	61,539	667,212
Expenditures				
Current:				
General government	269,803	-	-	269,803
Public safety	221,492	-	54,676	276,168
Streets and sanitation	49,429	-	-	49,429
Culture and recreation	15,566	17,212	-	32,778
Capital outlay:				
General government	14,257	-	-	14,257
Public safety	-	-	34,104	34,104
Streets and sanitation	-	-	-	-
Culture and recreation	7,098	-	-	7,098
Debt service:				
Principal	16,653	-	-	16,653
Interest	2,091	-	-	2,091
Total expenditures	596,389	17,212	88,780	702,381
Excess of expenditures over revenues	(12,636)	4,708	(27,241)	(35,169)

(continued)

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

City of Tunnel Hill, Georgia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2010

	General	Culture and Recreation	Confiscated Assets	Total Governmental Funds
Other financing sources (uses)				
Transfers in	3,549	-	-	3,549
Transfers out	-	(3,549)	-	(3,549)
Total other financing sources (uses)	3,549	(3,549)	-	-
Net change in fund balances	(9,087)	1,159	(27,241)	(35,169)
Fund balance - beginning	381,212	39,766	122,212	543,190
Fund balance - ending	$ 372,125	$ 40,925	$ 94,971	$ 508,021

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

City of Tunnel Hill, Georgia
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2010

Net change in fund balances		$ (35,169)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report 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 capital outlay exceeded depreciation expense in the current period.		
Depreciation expense	(60,716)	
Capital outlay, net	55,459	(5,257)
Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		16,653
Change in net assets		$ (23,773)

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

City of Tunnel Hill, Georgia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended December 31, 2010

	Original Budget	Final Budget	Actual	Variance
Revenues				
Intergovernmental - LOST	$ 102,355	$ 109,179	$ 109,504	$ 325
Fines and forfeitures	157,000	159,230	157,190	(2,040)
Selective taxes	110,827	104,561	106,588	2,027
Franchise fees	75,968	93,149	95,314	2,165
Licenses and permits	8,810	8,185	10,260	2,075
Intergovernmental	54,105	59,786	72,650	12,864
Donations	1,700	3,817	3,817	-
Investment earnings	3,900	4,454	4,454	-
Miscellaneous	2,498	23,974	23,976	2
Total revenues	517,163	566,335	583,753	17,418
Expenditures				
Current:				
General government	276,850	294,558	269,803	24,755
Public safety	254,950	258,122	221,492	36,630
Streets and sanitation	31,525	36,564	49,429	(12,865)
Culture and recreation	12,353	18,427	15,566	2,861
Capital outlay:				
General government	-	-	14,257	(14,257)
Culture and recreation	-	-	7,098	(7,098)
Debt service:				
Principal payments	-	-	16,653	(16,653)
Interest payments	-	-	2,091	(2,091)
Total expenditures	575,678	607,671	596,389	11,282
Excess (deficiency) of revenues over expenditures	(58,515)	(41,336)	(12,636)	6,136
Other financing sources				
Transfers in	-	-	3,549	3,549
Net change in fund balances	$ (58,515)	$ (41,336)	(9,087)	$ 9,685
Fund balance - beginning			381,212	
Fund balance - ending			$ 372,125	

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

City of Tunnel Hill, Georgia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Major Culture and Recreation Special Revenue Fund
For the Year Ended December 31, 2010

	Original Budget	Final Budget	Actual	Variance
Revenues				
Charges for services	$ 8,000	$ 13,472	$ 13,472	$ -
Concession revenue	-	-	-	-
Intergovernmental - LOST	-	-	8,448	8,448
Total revenues	8,000	13,472	21,920	8,448
Expenditures				
Current:				
Culture and recreation	8,000	12,313	17,212	(4,899)
Capital outlay:				
Culture and recreation	-	-	-	-
Total expenditures	8,000	12,313	17,212	(4,899)
Excess of revenues over expenditures	-	1,159	4,708	3,549
Other financing uses				
Transfers out	-	-	3,549	(3,549)
Net change in fund balances	$ -	$ 1,159	1,159	$ -
Fund balance - beginning			39,766	
Fund balance - ending			$ 40,925	

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

City of Tunnel Hill, Georgia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Major Confiscated Assets Special Revenue Fund
For the Year Ended December 31, 2010

	Original Budget	Final Budget	Actual	Variance
Revenues				
Confiscations	$ -	$ 61,539	$ 61,539	$ -
Total revenues	-	61,539	61,539	-
Expenditures				
Current:				
Public safety	-	61,539	54,676	6,863
Capital outlay:				
Public safety	-	-	34,104	(34,104)
Total expenditures	-	61,539	88,780	(27,241)
Net change in fund balances	$ -	$ -	(27,241)	$ (27,241)
Fund balance - beginning			122,212	
Fund balance - ending			$ 94,971	

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 City of Tunnel Hill, Georgia operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety, streets and sanitation, culture and recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City of Tunnel Hill, Georgia 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 City consists of all funds, departments, boards, and agencies that are not legally separate from the City. The entity includes the legal entity, the City of Tunnel Hill, Georgia.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organizations; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units also may include organizations that are fiscally dependent on the City in that the City 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 City, 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 City was formerly a member of the North Georgia Regional Development Center ("RDC") through June 2010, but changed to the NWGRC. The City utilizes the NWGRC for projects such as performing planning and administrative services. During its year ended December 31, 2010, the City paid $1,169 in dues to the NWGRC and the RDC. 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 City's basic financial statements consist of government-wide statements, including a statement of net assets 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 assets and the statement of activities. These statements report financial information for the City as a whole. Individual funds are not displayed at this financial reporting level. These statements present governmental activities, which are generally supported by grants and City general revenues.

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a function and therefore are clearly identifiable to that particular function. The City 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 City'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 City. 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 City.

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Fund financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns.

Note 1. Summary of Significant Accounting Policies - continued

Fund Accounting - The City 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 City has three governmental funds.

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental 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 City reports the difference between governmental fund assets and liabilities as fund balance. The City's governmental funds include three major funds.

Major Governmental Funds - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The Culture and Recreation Special Revenue Fund is used to account for the activity of the park and recreation area. The Confiscated Assets Special Revenue Fund is used to account for confiscation revenue and related police expenditures.

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 City are included on the statement of net assets. The statement of activities reports revenues and expenses.

Fund Financial Statements - The governmental 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 balances 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. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

Note 1. Summary of Significant Accounting Policies - continued

Budgets and Budgetary Accounting

The City of Tunnel Hill adopts a budget each year for the General Fund and the special revenue funds which are made public prior to enactment and prior to December 1st. The hearing date is published and the budgets are made available for public inspection at City Hall. They are enacted through passage of an ordinance. The budgets for the General Fund and the special revenue funds are adopted on a basis consistent with generally accepted accounting principles (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 Balances – Budget and Actual for the General Fund, Major Culture and Recreation Special Revenue Fund, and Major Confiscated Assets Special Revenue Fund present a comparison of budgetary data to actual results of operations for which annual operating budgets are legally adopted. These funds utilize the same basis of accounting for both budgetary purposes and actual results.

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 governmental 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 City, the phrase “available for exchange transactions” means expected to be received within 60 days of year-end.

Note 1. Summary of Significant Accounting Policies - continued

Revenues – Nonexchange Transactions – Nonexchange transactions in which the City 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 City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City 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.
Deferred/Unearned Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

On governmental fund financial statements, which are reported using the modified accrual basis, receivables that will not be collected within the available period have been reported as deferred revenue (they are measurable but not available) rather than as revenue. Grants and entitlements received before the eligibility requirements are met also are recorded as deferred revenue. Deferred revenue is classified as unearned revenue on the government-wide Statement of Net Assets.

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, and short-term investments with a maturity date within one year of the date acquired by the City. 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 cost, which approximates fair value.

Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as interfund receivables and interfund payables. These amounts are eliminated in the governmental columns of the statement of net assets.

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.

Note 1. Summary of Significant Accounting Policies - continued

Capital Assets

General Capital Assets - These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column of the government-wide statement of net assets but does not report these assets in the governmental fund financial statements.

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 City maintains a capitalization threshold of five thousand dollars. The City's infrastructure consists primarily of roads. 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. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Infrastructure acquired prior to June 30, 1980 is reported. 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

At the inception of capital leases at the governmental fund reporting level, expenditures and an "other financing source" of an equal amount are reported at the net present value of future minimum lease payments. The City is not obligated under any capital leases as of December 31, 2010.

Accrued Liabilities

All payables and accrued liabilities are reported in the government-wide financial statements. In general, governmental fund 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 these funds.

Note 1. Summary of Significant Accounting Policies - continued

Compensated Absences

Employees of the City of Tunnel Hill are entitled to paid vacations and sick days depending on the length of service. As of January 1, 2003, employees are no longer entitled to accumulate vacation and sick days. The total compensated absence liability is reported on the government-wide financial statements. Governmental funds report the compensated absence liability only when due. This liability is generally relieved from the General Fund.

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. The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available, spendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance that is available for appropriation in future periods. Designations are management's intent to set aside these resources for specific services.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. This amount is shown as net assets invested in capital assets on the Statement of Net Assets, as the government has no outstanding debt. Net assets 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. All other net assets are reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Currently, the City has fund balance/net assets that are reserved for maintenance of certain cemeteries within City limits.

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 2. Stewardship, Compliance, and Accountability

Budgetary Information

The City adopts an annual operating budget for the General Fund and the special revenue funds. The annual budgets are adopted on a basis consistent with GAAP. The legal level of control (the level at which expenditures may not legally exceed appropriations) for each adopted annual operating budget is at the department/function level within each individual fund. All unexpended annual appropriations lapse at year-end.

Material Violations of Finance-Related Legal and Contractual Provisions

The City had material expenditures in excess of budgeted appropriations. The General Fund's debt service function expenditures were over budget by $18,744. The budget overage occurred due to the City failing to budget for the 2010 principal payment for the purchase of two vehicles. The General Fund's streets and sanitation function expenditures were over budget by $12,865. The budget overages occurred due to the City failing to budget for nonexchange expense as a result of a nonexchange transaction agreement with another local government. The General Fund's culture and recreation function expenditures were over budget by $4,237 due to the purchase of a utility vehicle. The Major Culture and Recreation Special Revenue Fund intergovernmental revenue was over budget by $8,448, and the expenditures of the culture and revenue function of the same fund were over budget by $4,899. The budget overages occurred due to the City failing to budget for nonexchange revenue and expense as a result of a nonexchange transaction agreement with another local government. The Major Confiscated Assets Special Revenue Fund expenditures were over budget by $27,241 due to the City failing to budget for the purchase of a vehicle.

Note 3. Cash

The City does not have a formally adopted deposit and investment policy that limits the government's allowable deposits or investments and addresses the specific types of risk to which the government is exposed. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk, but is bound by State of Georgia law that requires collateralization of 110% of the fair value of the deposits in excess of federal depository insurance for governmental entities. As of December 31, 2010, the City had a bank balance composed of demand and time deposits of $441,708, all of which was adequately insured and collateralized by securities held by the pledging financial institution.

Note 4. Receivables

Receivables at December 31, 2010 consist of taxes, franchise fees, and fines and forfeitures. Receivables and payables are recorded on the City'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, 2010 was as follows:

	Balance at 12/31/2008	Additions	Disposals	Balance at 12/31/2009
Capital assets not being depreciatied:				
Land	$ 282,240	$ -	$ -	$ 282,240
Total capital assets not being depreciated	282,240	-	-	282,240
Other capital assets:				
Buildings and improvements	471,564	7,810	-	479,374
Streets	6,010,752	-	-	6,010,752
Equipment/furniture	79,491	15,351	-	94,842
Vehicles	122,698	32,298	-	154,996
Total other capital assets	6,684,505	55,459	-	6,739,964
Total cost	6,966,745	55,459	-	7,022,204
Accumulated depreciation:				
Buildings and improvement	122,985	15,267	-	138,252
Streets	5,680,181	24,161	-	5,704,342
Equipment/furniture	72,621	1,650	-	74,271
Vehicles	57,705	19,638	-	77,343
Total accumulated depreciation	5,933,492	60,716	-	5,994,208
Governmental activities capital assets, net	$ 1,033,253	$ (5,257)	$ -	$1,027,996

Governmental activities depreciation expense:	
General government	$ 11,129
Public safety	15,601
Streets and sanitation	24,161
Culture and recreation	9,824
Total governmental activities depreciation expense	$ 60,715

Note 6. Compensated Absences

Employees of the City of Tunnel Hill are entitled to paid vacations and sick days depending on the length of service. As of January 1, 2003, employees are no longer entitled to accumulate vacation and sick days. The accrued compensated absence liability of $5,888 relates to one employee who has accumulated vacation and sick days prior to January 1, 2003. The General Fund will be used to liquidate this long-term liability.

Note 7. Long-Term Debt

The City financed the purchase of two vehicles through a note payable with Ford Motor Credit Company. The principal sum of the note is $53,041 and is due in three annual installments plus interest at 5.88%. Note payable debt service requirements to maturity are as follows:

	Principal	Interest	Total
2011	$ 17,660	$ 1,065	$ 18,725

The City's long-term obligations consisted of the following at December 31, 2010:

	Outstanding at 12/31/2009	Additions	Reductions	Outstanding at 12/31/2010	Due in One Year
Notes payable	$ 34,313	$ -	$ (16,653)	$ 17,660	$ 17,660
Compensated absences	5,888	-	-	5,888	-
Total	$ 40,201	$ -	$ (16,653)	$ 23,548	$ 17,660

Note 8. Defined Contribution Plan

The City maintains the City of Tunnel Hill defined contribution plan. This is a 408(p) salary reduction agreement that is available to all employees upon employment with the City. The City will match up to 3% of employee compensation. The Mayor and Council of the City of Tunnel Hill administer the plan and the plan can be amended at the discretion of the Mayor and Council. For the year ended December 31, 2010, employer contributions totaled $3,400 and employee contributions totaled $12,000.

Note 9. Risk Management

The City 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 City has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Agency Property and Liability Insurance Fund and the Georgia Municipal Association Group Self-insurance Workers Compensation Fund, public entity risk pool currently operating as a common risk management and insurance program for member local governments.

Note 9. Risk Management – continued

As part of these risk pools, the City 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 City is also to allow the pool's agents and attorneys to represent the City in investigation, settlement discussions and all levels of litigation arising out of any claim made against the City 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 2010, 2009, and 2008, there were no settlements in excess of insurance coverage.

SUPPLEMENTARY INDIVIDUAL FUND FINANCIAL

STATEMENTS AND SCHEDULES

General Fund
Major Culture and Recreation Special Revenue Fund
Major Confiscated Assets Special Revenue Fund

These supplementary statements and schedules are included to provide management additional information for financial analysis.

City of Tunnel Hill, Georgia
Comparative Balance Sheet
General Fund
December 31, 2010

	2010	2009
Assets		
Current assets:		
Cash	$ 304,311	$ 318,328
Receivables		
Taxes	28,639	26,287
Franchise fees	50,483	48,316
Fines and forfeitures	3,482	5,522
Total current assets	386,915	398,453
Total assets	386,915	398,453
Liabilities		
Current liabilities:		
Accounts payable	2,415	3,074
Accrued expenses	11,425	11,142
Deferred revenue	950	3,025
Total current liabilities	14,790	17,241
Total liabilities	14,790	17,241
Fund Balance		
Reserved for cemetery	122,569	121,662
Unreserved	249,556	259,550
Total fund balance	372,125	381,212
Total liabilities and fund balance	$ 386,915	$ 398,453

City of Tunnel Hill, Georgia
Schedule of Revenues - Budget and Actual - General Fund
For the Year Ended December 31, 2010

	2010				2009
	Original Budget	Final Budget	Actual	Variance	Actual
Revenues					
Taxes					
Local option sales tax	$ 102,355	$ 109,179	$ 109,504	$ 325	$ 110,901
Insurance premium tax	66,370	65,083	65,083	-	67,031
Alcohol beverage tax	34,900	34,289	34,585	296	36,111
Bank tax	9,557	5,189	6,920	1,731	5,189
Total selective taxes	213,182	213,740	216,092	2,352	219,232
Fines and forfeitures					
Court fines	149,000	144,333	142,293	(2,040)	154,533
Penalty assessments	8,000	14,897	14,897	-	8,408
Total fines and forfeitures	157,000	159,230	157,190	(2,040)	162,941
Franchise fees					
Electric franchise	30,816	32,058	33,851	1,793	32,058
Cable franchise	21,337	32,560	32,112	(448)	24,433
Telephone franchise	23,815	28,531	29,351	820	24,586
Total franchise fees	75,968	93,149	95,314	2,165	81,077
Licenses and permits					
Alcohol beverage license	3,250	2,500	3,750	1,250	3,750
Insurance license	4,560	5,285	5,510	225	5,748
Garbage license	1,000	400	1,000	600	1,000
Total licenses and permits	8,810	8,185	10,260	2,075	10,498
Intergovernmental revenue					
Intergovernmental-Whitfield Co.	54,105	54,106	66,970	12,864	63,469
Intergovernmental grant	-	5,680	5,680	-	-
Total intergovernmental revenue	54,105	59,786	72,650	12,864	63,469
Miscellaneous					
Investment earnings	3,900	4,454	4,454	-	4,771
Donations	1,700	3,817	3,817	-	4,212
Cemetary fees	-	2,100	2,100	-	900
Miscellaneous	2,498	21,874	21,876	2	9,282
Total miscellaneous	8,098	32,245	32,247	2	19,165
Total revenues	$ 517,163	$ 566,335	$ 583,753	$ 17,418	$ 556,382

City of Tunnel Hill, Georgia
Schedule of Expenditures - Budget and Actual - General Fund
For the Year Ended December 31, 2010

	2010				2009
	Original Budget	Final Budget	Actual	Variance	Actual
Expenditures					
General government					
Personal services and benefits	$ 143,659	$ 143,982	$ 143,063	$ 919	$ 144,014
Other	133,191	150,576	126,740	23,836	113,418
Capital outlay	-	-	14,257	(14,257)	29,355
Total general government	276,850	294,558	284,060	10,498	286,787
Public safety					
Personal services and benefits	182,120	187,383	187,817	(434)	181,339
Other	72,830	70,739	33,675	37,064	104,069
Capital outlay	-	-	-	-	-
Total public safety	254,950	258,122	221,492	36,630	285,408
Streets and sanitation					
Personal services and benefits	-	-	-	-	-
Other	31,525	36,564	49,429	(12,865)	39,084
Capital outlay	-	-	-	-	-
Total streets and sanitation	31,525	36,564	49,429	(12,865)	39,084
Culture and recreation					
Personal services and benefits	-	2,153	2,840	(687)	-
Other	12,353	16,274	12,726	3,548	13,243
Capital outlay	-	-	7,098	(7,098)	6,900
Total culture and recreation	12,353	18,427	22,664	(4,237)	20,143
Total expenditures	$ 575,678	$ 607,671	$ 577,645	$ 30,026	$ 631,422

City of Tunnel Hill, Georgia
Schedule of Expenditures - Budget and Actual - General Fund (continued)
General Government Sub-Budget
For the Year Ended December 31, 2010

	2010				2009
	Original Budget	Final Budget	Actual	Variance	Actual
Expenditures					
Executive					
Personal services and benefits	$ 66,215	$ 66,650	$ 66,697	$ (47)	$ 65,431
Other	3,274	4,557	4,557	-	3,859
Capital outlay	-	-	-	-	-
Total executive	69,489	71,207	71,254	(47)	69,290
Legislative					
Personal services and benefits	7,191	6,117	6,117	-	7,108
Other	7,106	7,935	7,935	-	7,675
Capital outlay	-	-	-	-	-
Total legislative	14,297	14,052	14,052	-	14,783
Financial administration					
Personal services and benefits	29,030	28,816	28,781	35	28,869
Other	51,034	55,029	55,014	15	43,118
Capital outlay	-	-	-	-	-
Total financial administration	80,064	83,845	83,795	50	71,987
Building and maintenance					
Personal services and benefits	34,020	35,584	34,732	852	35,569
Other	26,747	40,743	17,582	23,161	11,383
Capital outlay	-	-	14,257	(14,257)	29,355
Total building and maintenance	60,767	76,327	66,571	9,756	76,307
Judicial					
Personal services and benefits	7,203	6,815	6,736	79	7,037
Other	45,030	42,312	41,652	660	47,383
Capital outlay	-	-	-	-	-
Total judicial	52,233	49,127	48,388	739	54,420
Total general government	$ 276,850	$ 294,558	$ 284,060	$ 10,498	$ 286,787

City of Tunnel Hill, Georgia
Comparative Balance Sheet
Major Culture and Recreation Special Revenue Fund
December 31, 2010

	2010	2009
Assets		
Current assets:		
Cash	$ 40,925	$ 39,766
Total current assets	40,925	39,766
Total assets	40,925	39,766
Fund Balance		
Unreserved	40,925	39,766
Total fund balance	40,925	39,766
Total liabilities and fund balance	$ 40,925	$ 39,766

City of Tunnel Hill, Georgia
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Major Culture and Recreation Special Revenue Fund
For the Year Ended December 31, 2010

	2010				2009
	Original Budget	Final Budget	Actual	Variance	Actual
Revenues					
Charges for services	$ 8,000	$ 13,472	$ 13,472	$ -	$ 8,407
Concession revenue	-	-	-	-	6,016
Intergovernmental - LOST	-	-	8,448	8,448	8,007
Donations	-	-	-	-	-
Total revenues	8,000	13,472	21,920	8,448	22,430
Expenditures					
Personal services and benefits	-	-	-	-	-
Other	8,000	12,313	17,212	(4,899)	9,937
Capital outlay	-	-	-	-	8,810
Total expenditures	8,000	12,313	17,212	(4,899)	18,747
Excess of revenues over expenditures	-	1,159	4,708	3,549	3,683
Other financing uses					
Transfers out	-	-	3,549	(3,549)	-
Net change in fund balances	$ -	$ 1,159	1,159	$ -	$ 3,683
Fund balance - beginning			39,766		
Fund balance - ending			$ 40,925		

City of Tunnel Hill, Georgia
Comparative Balance Sheet
Major Confiscated Assets Special Revenue Fund
December 31, 2010

	2010	2009
Assets		
Current assets:		
Cash	$ 94,971	$ 122,212
Total current assets	94,971	122,212
Total assets	94,971	122,212
Fund Balance		
Unreserved	94,971	122,212
Total fund balance	$ 94,971	$ 122,212

City of Tunnel Hill, Georgia
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Major Confiscated Assets Special Revenue Fund
For the Year Ended December 31, 2010

	2010				2009
	Original Budget	Final Budget	Actual	Variance	Actual
Revenues					
Confiscations	$ -	$ 61,539	$ 61,539	$ -	$ 133,426
Total revenues	-	61,539	61,539	-	133,426
Expenditures					
Other	-	61,539	54,676	6,863	13,418
Capital outlay	-	-	34,104	(34,104)	-
Total expenditures	-	61,539	88,780	(27,241)	13,418
Net change in fund balances	$ -	$ -	(27,241)	$ (27,241)	$ 120,008
Fund balance - beginning			122,212		
Fund balance - ending			$ 94,971		

SPECIAL REPORTS SECTION

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 City Council,
and City Administrator
City of Tunnel Hill, Georgia

We have audited the financial statements of the governmental activities and each major fund of the City of Tunnel Hill, Georgia, as of and for the year ended December 31, 2010, which collectively comprise the City of Tunnel Hill, Georgia's basic financial statements and have issued our report thereon dated June 30, 2011. 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

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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. FS10-1, FS10-2, and FS10-3. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 City of Tunnel Hill, 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 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 FS10-4 and FS10-5.

The City of Tunnel Hill, Georgia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City of Tunnel Hill, 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.

Estes & Williams

Dalton, Georgia
June 30, 2011

City of Tunnel Hill, Georgia
Schedule of Findings and Responses
December 31, 2010

Significant Deficiencies:

FS10-1 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 City agrees. We intend to record accounts receivable and other accruals in the future.

FS10-2 Condition: Nonexchange revenues and expenditures are not recorded.

Effect: Failure to record nonexchange revenues and expenditures could lead to financial statement misstatement that is material to the basic financial statements and could lead to the government not properly amending their budget.

Recommendation: The City should record all nonexchange revenues and expenditures.

View of responsible officials and planned corrective actions: The City agrees. City staff will learn proper procedures to record nonexchange revenues in the future.

FS10-3 Condition: Inadequate segregation of duties.

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

Recommendation: Since the City 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 City agrees. Management does provide oversight of accounting function. The timeliness and promptness of such oversight will be improved.

FS10-4 Condition: The City experienced material violations of the budget.

Effect: Failure to properly amend the budget could cause data analysis to be inaccurate.

Recommendation: The City should amend the budget for nonexchange revenues and expenditures recorded.

View of responsible officials and planned corrective actions: The City agrees. City staff will learn proper procedures to handle nonexchange transactions.

Significant Deficiencies - continued:

FS10-5 Condition: 1099 forms were not prepared in accordance with IRS reporting requirements.

Effect: The City failed to comply with federal regulations regarding contract laborers.

Recommendation: The government should issue 1099 forms for contract workers earning over $600.

View of responsible officials and planned corrective actions: The City agrees. City staff will prepare 1099 forms for contract workers earning over $600 in the future.