FINANCIAL STATEMENTS

CITY OF TUNNEL HILL

TUNNEL HILL, GEORGIA

FOR THE YEAR ENDED DECEMBER 31, 2012

City of Tunnel Hill, Georgia
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For the Year Ended December 31, 2012

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FINANCIAL SECTION

ESTES & WILLIAMS
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Tunnel Hill, Georgia as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Tunnel Hill, Georgia's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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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, 2012, and the respective changes in financial position and the respective budgetary information for the General Fund and the Major Confiscated Assets Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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 individual fund financial schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The individual fund financial schedules 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2013, 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* in considering the City of Tunnel Hill, Georgia's internal control over financial reporting and compliance.

Estes & Williams

Dalton, Georgia
May 27, 2013

City of Tunnel Hill, Georgia
Management's Discussion and Analysis
December 31, 2012
(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, 2012. 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 $1,576,285 (net position) for the calendar year reported.

- Total net position is comprised of the following:

(1) Net investment in capital assets of $956,421 includes property and equipment, net of accumulated depreciation and related debt.
(2) Restricted net position of $125,419 represents donations received that were restricted by the donor to be used for upkeep on a cemetery.
(3) Restricted net position of $178,010 represents funds received from confiscated assets that were restricted for public safety purposes.
(4) Unrestricted net position of $316,435 represents 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 $322,323, or 52% 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 Position. 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 position. Over time, increases or decreases in net position 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 position changed during the current calendar year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the 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 11 and 12 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 13 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 19.

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 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 and 18 of this report.

Financial Analysis of the City as a Whole

The City's net position at year-end is $1,576,285. The following table provides a summary of the City's net position:

	Governmental Activities	
	2012	2011
Assets:		
Current assets	$ 635,501	$ 591,379
Capital assets	967,943	1,036,419
Total assets	1,603,444	1,627,798
Liabilities:		
Current liabilities	21,271	78,347
Noncurrent liabilities	5,888	17,410
Total liabilities	27,159	95,757
Net position:		
Investment in capital assets	956,421	1,014,078
Restricted	303,429	121,267
Unrestricted	316,435	396,696
Total net position	$ 1,576,285	$ 1,532,041

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 increased to 30 to 1, as compared to 8 to 1 for 2011. The primary reason for the increase in the current ratio was a decrease in accounts payable. The 2011 payable was higher than normal because of an amount due to another government for their share of a large confiscation.

Note that approximately 61% of the governmental activities' net position is 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 position:

	2012	2011	Increase (Decrease)
Revenues:			
Program:			
Charges for services	$ 504,507	$ 446,293	$ 58,214
Operating grants and contributions	93,276	73,047	20,229
General:			
Taxes	198,311	203,326	(5,015)
Donations	7,612	16,462	(8,850)
Investment earnings	1,419	2,219	(800)
Other	6,917	9,662	(2,745)
Total revenues	812,042	751,009	61,033
Program Expenses:			
General government	300,853	300,591	262
Public safety	307,706	302,827	4,879
Streets and sanitation	75,783	67,934	7,849
Culture and recreation	74,992	59,017	15,975
Health and welfare	7,000	-	7,000
Interest on debt	1,464	1,068	396
Total expenses	767,798	731,437	36,361
Change in net position	44,244	19,572	24,672
Beginning net position	1,532,041	1,512,469	19,572
Ending net position	$ 1,576,285	$ 1,532,041	$ 44,244

Governmental Revenues

Taxes comprise 24% and 27% of the City's revenues for the years ended 2012 and 2011, respectively. Taxes include local option sales tax, insurance premium tax, alcohol beverage tax, and bank tax. Revenues generated from services of the government, primarily from fines and forfeitures and from franchise fees, comprise 62% and 59% of the City's revenues for the years ended 2012 and 2011, respectively. Operating grants and contributions comprise 11% and 10% of total revenues for the years ended 2012 and 2011, respectively. Operating grants and contributions revenue consists primarily of nonexchange revenue resulting from services performed by Whitfield County in accordance with a LOST agreement. Program revenues alone cover 78% (69% for 2011) of governmental activities expenses. This means that the government's taxpayers and the City's other general revenues fund the other 22% 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, 2012.

For Governmental Activities		
	Total Cost of Services	Net Cost of Services
General government	$ 300,853	$ (192,854)
Public safety	307,706	50,300
Streets and sanitation	75,783	8,313
Culture and recreation	74,992	(36,490)
Health and welfare	7,000	2,180
Interest on debt	1,464	(1,464)
Total	$ 767,798	$ (170,015)

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 $625,752.

The total ending fund balances of governmental funds show a net increase of $101,901, a 19% increase 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 increased by $21,944. The City has one major special revenue fund. The Confiscated Assets Special Revenue Fund's fund balance increased by $79,957.

Capital Assets

The City's investment in capital assets as of December 31, 2012 was $967,943. See Note 5 for additional information about changes in capital assets during the calendar year and outstanding at the end of the year. The following table provides a summary of capital asset activity.

	Governmental Activities	
	2012	2011
Depreciable assets:		
Buildings and improvements	$ 499,257	$ 499,257
Streets	6,010,752	6,010,752
Equipment/furniture	113,640	113,640
Vehicles	189,608	189,608
Total depreciable assets	6,813,257	6,813,257
Less accumulated depreciation	6,127,554	6,059,078
Book value - depreciable assets	$ 685,703	$ 754,179
Percentage depreciated	90%	89%
Non-depreciable assets:		
Land	$ 282,240	$ 282,240
Book value - all assets	$ 967,943	$ 1,036,419

Long -Term Debt

At the end of the calendar year, the City had total notes outstanding totaling $11,522. The City has one note on a police vehicle, which they are paying over a period of three years. The principal payment made during 2012 was $10,819. Refer to Note 8 on page 29 for additional information regarding the City's long-term debt.

	Governmental Activities	
	2012	2011
Notes payable	$ 11,522	$ 22,341

Budgetary Information

The City of Tunnel Hill adopts a budget each year for the General Fund and the special revenue fund. 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 General Fund. Confiscations revenue in the Special Revenue Fund and the related expenses are not included in the original budget because the amount is unknown and management feels it is not appropriate to estimate.

The final budget figures varied from the actual figures in several areas. The General Fund's culture and recreation function expenditures were over budget by $4,019. The budget overage 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 General Fund's health and welfare function expenditures were over budget by $7,000. The budget overage occurred due to the City failing to budget for the expenditure of donations received in connection with a fundraiser for a local policeman. The Confiscated Assets Special Revenue Fund's debt service function expenditures were over budget by $12,283. The budget overage occurred due to the City failing to budget for principal payments in the amount of $10,819 and $1,464 in interest for a vehicle purchased in 2011.

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 Position
December 31, 2012

	Governmental Activities
Assets	
Current assets:	
Cash	$ 546,127
Receivables	
Taxes	28,672
Franchise fees	53,885
Fines and forfeitures	6,817
Total current assets	635,501
Capital assets:	
Nondepreciable capital assets	282,240
Depreciable capital assets, net	685,703
Total capital assets	967,943
Total assets	1,603,444
Liabilities	
Current liabilities:	
Accounts payable	3,358
Accrued expenses	6,096
Unearned revenue	295
Current portion of note payable	11,522
Total current liabilities	21,271
Noncurrent liabilities:	
Deferred portion of accrued compensated absences	5,888
Total noncurrent liabilities	5,888
Total liabilities	27,159
Net Position	
Net investment in capital assets	956,421
Restricted for cemetery	125,419
Restricted for public safety	178,010
Unrestricted	316,435
Total net position	$ 1,576,285

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, 2012

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	$ 300,853	$ 107,999	$ -	$ (192,854)
Public safety	307,706	358,006	-	50,300
Streets and sanitation	75,783	-	84,096	8,313
Culture and recreation	74,992	38,502	-	(36,490)
Health and welfare	7,000	-	9,180	2,180
Interest on debt	1,464	-	-	(1,464)
Total governmental activities	$ 767,798	$ 504,507	$ 93,276	$ (170,015)
General revenues:				
Intergovernmental - LOST				117,734
Insurance premium tax				42,646
Alcohol beverage tax				31,609
Bank tax				6,322
Donations				7,612
Investment earnings				1,419
Miscellaneous				6,917
Total general revenues				214,259
Change in net position				44,244
Net position - beginning				1,532,041
Net position - ending				$ 1,576,285

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, 2012

	General	Confiscated Assets	Total Governmental Funds
Assets			
Current assets:			
Cash	$ 435,033	$ 111,094	$ 546,127
Receivables			
Due from general fund	-	66,916	66,916
Taxes	28,672	-	28,672
Franchise fees	53,885	-	53,885
Fines and forfeitures	6,817	-	6,817
Total current assets	524,407	178,010	702,417
Total assets	$ 524,407	$ 178,010	$ 702,417
Liabilities			
Current liabilities:			
Due to confiscation fund	66,916	-	66,916
Accounts payable	3,358	-	3,358
Accrued expenses	6,096	-	6,096
Deferred revenue	295	-	295
Total current liabilities	76,665	-	76,665
Fund Balance			
Restricted for:			
Cemetary	125,419	-	125,419
Public safety	-	178,010	178,010
Unrestricted:			
Unassigned	322,323	-	322,323
Total fund balance	447,742	178,010	625,752
Total liabilities and fund balance	$ 524,407	$ 178,010	$ 702,417

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 Position
December 31, 2012

Total Governmental Fund Balances		$ 625,752
Amounts reported for governmental activities in the Statement of Net Position 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		(11,522)
Compensated absences		(5,888)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Cost	7,095,497	
Less: accumulated depreciation	(6,127,554)	967,943
Net Position of Governmental Activities		$ 1,576,285

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, 2012

	General	Confiscated Assets	Total Governmental Funds
Revenues			
Intergovernmental - LOST	$ 117,734	$ -	$ 117,734
Fines and forfeitures	188,650	169,356	358,006
Selective taxes	80,577	-	80,577
Franchise fees	97,859	-	97,859
Charges for services	38,502	-	38,502
Licenses and permits	10,140	-	10,140
Intergovernmental - Whitfield Co.	65,554	-	65,554
Intergovernmental grant	18,542	-	18,542
Donations	16,792	-	16,792
Investment earnings	1,419	-	1,419
Miscellaneous	6,917	-	6,917
Total revenues	642,686	169,356	812,042
Expenditures			
Current:			
General government	287,841	-	287,841
Public safety	208,143	77,116	285,259
Streets and sanitation	51,622	-	51,622
Culture and recreation	66,136	-	66,136
Health and welfare	7,000	-	7,000
Debt service:			
Principal	-	10,819	10,819
Interest	-	1,464	1,464
Total expenditures	620,742	89,399	710,141
Net change in fund balances	21,944	79,957	101,901
Fund balance - beginning, restated	425,798	98,053	523,851
Fund balance - ending	$ 447,742	$ 178,010	$ 625,752

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, 2012

Net change in fund balances		$ 101,901
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 depreciation expense exceeded capital outlays in the current period.		
Depreciation expense	(68,476)	
Capital outlay	-	(68,476)
Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		10,819
Change in net position		$ 44,244

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, 2012

	Original Budget	Final Budget	Actual	Variance
Revenues				
Intergovernmental - LOST	$ 114,908	$ 118,731	$ 117,734	$ (997)
Fines and forfeitures	176,880	190,179	188,650	(1,529)
Selective taxes	81,673	79,657	80,577	920
Franchise fees	93,289	98,753	97,859	(894)
Charges for services	22,500	38,502	38,502	-
Licenses and permits	7,040	10,060	10,140	80
Intergovernmental	74,106	73,156	84,096	10,940
Donations	2,700	16,792	16,792	-
Investment earnings	525	1,068	1,419	351
Miscellaneous	5,747	10,647	6,917	(3,730)
Total revenues	579,368	637,545	642,686	5,141
Expenditures				
Current:				
General government	267,148	292,500	287,841	4,659
Public safety	275,627	302,813	208,143	94,670
Streets and sanitation	55,209	51,622	51,622	-
Culture and recreation	39,812	62,117	66,136	(4,019)
Health and welfare	-	-	7,000	(7,000)
Total expenditures	637,796	709,052	620,742	88,310
Net change in fund balances	$ (58,428)	$ (71,507)	21,944	$ (83,169)
Fund balance - beginning, restated			425,798	
Fund balance - ending			$ 447,742	

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, 2012

	Original Budget	Final Budget	Actual	Variance
Revenues				
Confiscations	$ -	$ 191,498	$ 169,356	$ (22,142)
Total revenues	-	191,498	169,356	(22,142)
Expenditures				
Current:				
Public safety	-	77,116	77,116	-
Debt service:				
Principal	-	-	10,819	(10,819)
Interest	-	-	1,464	(1,464)
Total expenditures	-	77,116	89,399	(12,283)
Net change in fund balances	$ -	$ 114,382	79,957	$ (34,425)
Fund balance - beginning			98,053	
Fund balance - ending			$ 178,010	

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 utilizes the NWGRC for projects such as performing planning and administrative services. During its year ended December 31, 2012, the City paid $861 in dues to the NWGRC. Membership in a NWGRC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the NWGRC in Georgia. The NWGRC Board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of the NWGRC. Separately issued financial statements may be obtained from the Northwest Georgia Regional Commission, PO Box 1798, Rome, Georgia 30162.

Note 1. Summary of Significant Accounting Policies - continued

Basis of Presentation

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

Government-wide Financial Statements - The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the 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 position 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 two 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 two 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 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 position. 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 fund 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 fund 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 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 Position.

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 three months or less 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 position.

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 position 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, 2012.

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.

Net Position and Fund Balances

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

Investment in capital assets - This represents the City's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net position - These represent resources for which the City is legally or contractually obligated to spend resources for continuation of federal programs, debt service, and capital projects in accordance with restrictions imposed by external third parties.

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

The City implemented Government Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions as of December 31, 2012. This new standard changed the overall definitions and classifications of governmental fund balance. Fund equity at the governmental fund financial reporting level is classified as "fund balance". Generally, fund balance represents the difference between the assets and liabilities under the current financial resources measurement focus of accounting. In the fund financial statements, 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. The City's fund balances are classified as follows:

1) Non-spendable Fund Balance - Non-cash assets such as inventories or prepaid items.

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

Note 1. Summary of Significant Accounting Policies - continued

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

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

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

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

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

Deferred Outflows/Inflows of Resources

The City implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and No. 65, Items Previously Reported as Assets and Liabilities, as of January 1, 2012. These new standards establish accounting and financial reporting for deferred outflows/inflows of resources and the concept of net position as the residual of all other elements presented in a statement of financial position.

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

Note 1. Summary of Significant Accounting Policies - continued

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Note 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 final budget figures varied from the actual figures in several areas. The General Fund's culture and recreation function expenditures were over budget by $4,019. The budget overage 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 General Fund's health and welfare function expenditures were over budget by $7,000. The budget overage occurred due to the City failing to budget for the expenditure of certain donations. The Confiscated Assets Special Revenue Fund's debt service function expenditures were over budget by $12,283. The budget overage occurred due to the City failing to budget for principal payments in the amount of $10,819 and $1,452 in interest for a vehicle purchased in 2011.

Note 3. Fund Balance Restatement

In prior years, the City reported the Recreation Fund as a separate special revenue fund. Upon examination in the current year, the City determined that the Recreation Fund no longer meets the definition of a special revenue fund as defined in GASB 54. The City has restated beginning fund balance to properly reflect the consolidation of the former Recreation Fund into the General Fund.

The details of the restatements are as follows:

General Fund		
Ending fund balance at December 31, 2011, as originally reported	$	398,691
Recreation fund balance separately stated at December 31, 2011		27,107
Ending fund balance at December 31, 2011, as restated	$	425,798
Recreation Fund		
Ending fund balance at December 31, 2011, as originally reported	$	27,107
Recreation fund balance reclassified to General Fund		(27,107)
Ending fund balance at December 31, 2011, as restated	$	-

Note 4. 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, 2012, the City held bank balances of $553,293, all of which was adequately insured and collateralized by securities held by the pledging financial institution.

Note 5. Receivables

Receivables at December 31, 2012 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 6. Capital Assets

Governmental activities capital asset activity for the year ended December 31, 2012 was as follows:

	Balance at 12/31/2011	Additions	Disposals	Balance at 12/31/2012
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	499,257	-	-	499,257
Streets	6,010,752	-	-	6,010,752
Equipment/furniture	113,640	-	-	113,640
Vehicles	189,608	-	-	189,608
Total other capital assets	6,813,257	-	-	6,813,257
Total cost	7,095,497	-	-	7,095,497
Accumulated depreciation:				
Buildings and improvement	154,347	16,261	-	170,608
Streets	5,728,504	24,161	-	5,752,665
Equipment/furniture	78,539	5,251	-	83,790
Vehicles	97,688	22,803	-	120,491
Total accumulated depreciation	6,059,078	68,476	-	6,127,554
Governmental activities capital assets, net	$ 1,036,419	$ (68,476)	$ -	$ 967,943

Governmental activities depreciation expense:	
General government	$ 13,012
Public safety	22,447
Streets and sanitation	24,161
Culture and recreation	8,856
Total governmental activities depreciation expense	$ 68,476

Note 7. 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 8. Long-Term Debt

The City financed the purchase of a vehicle through a note payable with Ford Motor Credit Company. The principal sum of the note is $34,612 and is due in three annual installments plus interest at 6.5%. Note payable debt service requirements to maturity are as follows:

	Principal	Interest	Total
2013	$ 11,522	$ 749	$ 12,271

The City's long-term obligations consisted of the following at December 31, 2012:

	Outstanding at 12/31/2011	Additions	Reductions	Outstanding at 12/31/2012	Due in One Year
Notes payable	$ 22,341	$ -	$ (10,819)	$ 11,522	$ 11,522
Compensated absences	5,888	-	-	5,888	-
Total	$ 28,229	$ -	$ (10,819)	$ 17,410	$ 11,522

Note 9. 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, 2012, employer contributions totaled $3,319 and employee contributions totaled $12,500.

Note 10. 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.

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 2012, 2011, and 2010, there were no settlements in excess of insurance coverage.

SUPPLEMENTARY INDIVIDUAL FUND

FINANCIAL SCHEDULES

General 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, 2012

	2012	2011
Assets		
Current assets:		
Cash	$ 435,033	$ 468,886
Receivables		
Taxes	28,672	28,749
Franchise fees	53,885	54,779
Fines and forfeitures	6,817	8,346
Total current assets	524,407	560,760
Total assets	$ 524,407	$ 560,760
Liabilities		
Current liabilities:		
Due to confiscation fund	$ 66,916	$ 122,868
Accounts payable	3,358	52
Accrued expenses	6,096	11,667
Deferred revenue	295	375
Total current liabilities	76,665	134,962
Total liabilities	76,665	134,962
Fund Balance		
Restricted for cemetary	125,419	121,267
Unrestricted, unassigned	322,323	304,531
Total fund balance	447,742	425,798
Total liabilities and fund balance	$ 524,407	$ 560,760

City of Tunnel Hill, Georgia
Schedule of Revenues - Budget and Actual - General Fund
For the Year Ended December 31, 2012

	2012				2011
	Original Budget	Final Budget	Actual	Variance	Actual
Revenues					
Taxes					
Local option sales tax	$ 114,908	$ 118,731	$ 117,734	$ (997)	$ 124,072
Insurance premium tax	39,563	42,646	42,646	-	40,150
Alcohol beverage tax	34,325	31,799	31,609	(190)	33,892
Bank tax	7,785	5,212	6,322	1,110	5,212
Total selective taxes	196,581	198,388	198,311	(77)	203,326
Fines and forfeitures					
Court fines	162,080	178,901	177,372	(1,529)	189,744
Penalty assessments	14,800	11,278	11,278	-	15,393
Total fines and forfeitures	176,880	190,179	188,650	(1,529)	205,137
Franchise fees					
Electric franchise	33,851	38,778	37,205	(1,573)	38,778
Cable franchise	30,185	31,135	31,819	684	31,093
Telephone franchise	29,253	28,840	28,835	(5)	28,893
Total franchise fees	93,289	98,753	97,859	(894)	98,764
Licenses and permits					
Alcohol beverage license	3,250	4,500	4,500	-	3,750
Insurance license	2,790	4,560	4,640	80	4,020
Garbage license	1,000	1,000	1,000	-	1,000
Total licenses and permits	7,040	10,060	10,140	80	8,770
Intergovernmental revenue					
Intergovernmental-Whitfield Co.	54,106	54,614	65,554	10,940	63,047
Intergovernmental grant	20,000	18,542	18,542	-	4,000
Total intergovernmental revenue	74,106	73,156	84,096	10,940	67,047
Miscellaneous					
Investment earnings	525	1,068	1,419	351	2,219
Donations	2,700	16,792	16,792	-	3,962
Recreation fees	22,500	38,502	38,502	-	26,269
Cemetary fees	600	2,525	2,525	-	1,350
Miscellaneous	5,147	8,122	4,392	(3,730)	5,512
Total miscellaneous	31,472	67,009	63,630	(3,379)	39,312
Total revenues	$ 579,368	$ 637,545	$ 642,686	$ 5,141	$ 622,356

City of Tunnel Hill, Georgia
Schedule of Expenditures - Budget and Actual - General Fund
For the Year Ended December 31, 2012

	2012				2011
	Original Budget	Final Budget	Actual	Variance	Actual
Expenditures					
Current:					
General government					
Personal services and benefits	$ 155,570	$ 154,719	$ 152,688	$ 2,031	$ 151,647
Other	111,578	137,781	135,153	2,628	135,933
Capital outlay	-	-	-	-	4,960
Total general government	267,148	292,500	287,841	4,659	292,540
Public safety					
Personal services and benefits	178,777	204,039	199,216	4,823	187,817
Other	96,850	98,774	8,927	89,847	52,419
Total public safety	275,627	302,813	208,143	94,670	240,236
Streets and sanitation					
Other	55,209	51,622	51,622	-	49,429
Total streets and sanitation	55,209	51,622	51,622	-	49,429
Culture and recreation					
Personal services and benefits	5,598	9,808	9,692	116	2,840
Other	34,214	52,309	56,444	(4,135)	39,002
Capital outlay	-	-	-	-	26,981
Total culture and recreation	39,812	62,117	66,136	(4,019)	68,823
Health and welfare					
Other	-	-	7,000	(7,000)	-
Total health and welfare	-	-	7,000	(7,000)	-
Total expenditures	$ 637,796	$ 709,052	$ 620,742	$ 88,310	$ 651,028

City of Tunnel Hill, Georgia
Schedule of Expenditures - Budget and Actual - General Fund (continued)
General Government Sub-Budget
For the Year Ended December 31, 2012

	2012				2011
	Original Budget	Final Budget	Actual	Variance	Actual
Expenditures					
General government expenditures:					
Executive					
Personal services and benefits	$ 73,194	$ 74,082	$ 72,758	$ 1,324	$ 68,487
Other	3,003	5,049	7,110	(2,061)	3,701
Total executive	76,197	79,131	79,868	(737)	72,188
Legislative					
Personal services and benefits	7,028	7,074	7,074	-	8,075
Other	9,600	8,969	8,969	-	9,476
Total legislative	16,628	16,043	16,043	-	17,551
Financial administration					
Personal services and benefits	29,475	28,058	27,496	562	30,212
Other	52,868	70,490	62,495	7,995	64,335
Total financial administration	82,343	98,548	89,991	8,557	94,547
Building and maintenance					
Personal services and benefits	37,352	34,687	34,430	257	37,415
Other	7,482	10,021	10,021	-	7,493
Capital outlay	-	-	-	-	4,960
Total building and maintenance	44,834	44,708	44,451	257	49,868
Judicial					
Personal services and benefits	8,521	10,818	10,930	(112)	7,458
Other	38,625	43,252	46,558	(3,306)	50,928
Total judicial	47,146	54,070	57,488	(3,418)	58,386

City of Tunnel Hill, Georgia
Comparative Balance Sheet
Major Confiscated Assets Special Revenue Fund
December 31, 2012

	2012	2011
Assets		
Current assets:		
Cash	$ 111,094	$ 30,619
Due from general fund	66,916	122,868
Total current assets	178,010	153,487
Total assets	$ 178,010	$ 153,487
Liabilities		
Current liabilities:		
Accounts payable	$ -	$ 55,434
Total current liabilities	-	55,434
Fund Balance		
Restricted for public safety	178,010	98,053
Total fund balance	$ 178,010	$ 98,053

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, 2012

	2012				2011
	Original Budget	Final Budget	Actual	Variance	Actual
Revenues					
Confiscations	$ -	$ 191,498	$ 169,356	$ (22,142)	$ 110,153
Donation	-	-	-	-	12,500
Intergovernmental revenue	-	-	-	-	6,000
Total revenues	-	191,498	169,356	(22,142)	128,653
Expenditures					
Public safety:					
Other	-	77,116	77,116	-	58,377
Capital outlay	-	-	-	-	48,450
Total public safety	-	77,116	77,116	-	106,827
Debt service:					
Principal	-	-	10,819	(10,819)	16,653
Interest	-	-	1,464	(1,464)	2,091
Total debt service	-	-	12,283	(12,283)	18,744
Total expenditures	-	77,116	89,399	(12,283)	125,571
Net change in fund balances	$ -	$ 114,382	79,957	$ (34,425)	3,082
Fund balance - beginning			98,053		94,971
Fund balance - ending			$ 178,010		$ 98,053

SPECIAL REPORTS SECTION

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the City of Tunnel Hill, Georgia as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Tunnel Hill, Georgia's basic financial statements and have issued our report thereon dated May 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Tunnel Hill, Georgia's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Tunnel Hill, Georgia's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Tunnel Hill, Georgia's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charges with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. (FS12-1, FS12-2, FS12-3)

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Tunnel Hill, Georgia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as item FS12-4.

City of Tunnel Hill, Georgia's Response to Findings

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. City of Tunnel Hill, Georgia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Estes & Williams

Dalton, Georgia
May 27, 2013

City of Tunnel Hill, Georgia
Schedule of Findings and Responses
December 31, 2012

Significant Deficiencies:

FS12-1 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.

FS12-2 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.

FS12-3 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.

FS12-4 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.