FINANCIAL STATEMENTS

CITY OF TUNNEL HILL

TUNNEL HILL, GEORGIA

FOR THE YEAR ENDED DECEMBER 31, 2014

City of Tunnel Hill, Georgia
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For the Year Ended December 31, 2014

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FINANCIAL SECTION

ESTES & WALCOTT
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Honorable Mayor, Members of the 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, 2014, 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, 2014, 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 basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 statements 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 15, 2015, 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 & Walcott

Dalton, Georgia
May 15, 2015

City of Tunnel Hill, Georgia
Management's Discussion and Analysis
December 31, 2014
(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, 2014. 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 $1,392,925 (net position) for the calendar year reported.

- Total net position is comprised of the following:
  (1) Investment in capital assets of $869,445 includes property and equipment, net of accumulated depreciation.
  (2) Restricted net position of $124,798 represents donations received that were restricted by the donor to be used for upkeep on a cemetery.
  (3) Restricted net position of $150,092 represents funds received from confiscated assets that were restricted for public safety purposes.
  (4) Unrestricted net position of $248,590 represents the portion available to maintain the City's continuing obligations to citizens and creditors.

- At the end of the current calendar year, unrestricted fund balance for the general fund was $254,478 or 45% 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, culture and recreation, and health and welfare.

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 demonstrate compliance with the City's adopted and final revised budget. Budgetary comparison statements for the general fund and major confiscated assets special revenue fund 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 $1,392,925. The following table provides a summary of the City's net position:

	Governmental activities	
	2014	2013
Assets:		
Current assets	$ 541,077	$ 501,382
Capital assets	869,445	935,792
Total assets	1,410,522	1,437,174
Liabilities:		
Current liabilities	11,709	13,333
Noncurrent liabilities	5,888	5,888
Total liabilities	17,597	19,221
Net position:		
Investment in capital assets	869,445	935,792
Restricted	274,890	209,118
Unrestricted	248,590	273,043
Total net position	$ 1,392,925	$ 1,417,953

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 46 to 1 in 2014.

Note that approximately 62% 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:

	Governmental activities		
	2014	2013	Increase (Decrease)
Revenues:			
Program:			
Charges for services	$ 393,640	$ 334,194	$ 59,446
Operating grants and contributions	27,453	15,467	11,986
General:			
Taxes	240,240	228,944	11,296
Donations	800	1,415	(615)
Investment earnings	694	854	(160)
Other	2,634	3,536	(902)
Total revenues	665,461	584,410	81,051
Program expenses:			
General government	303,269	299,149	4,120
Public safety	294,231	339,836	(45,605)
Streets and sanitation	55,638	57,484	(1,846)
Culture and recreation	37,351	45,524	(8,173)
Interest on debt	-	749	(749)
Total expenses	690,489	742,742	(52,253)
Change in net position	(25,028)	(158,332)	133,304
Beginning net position	1,417,953	1,576,285	(158,332)
Ending net position	$ 1,392,925	$ 1,417,953	$ (25,028)

Governmental revenues

Governmental revenues were up $81,051 (14%) from the prior year. Several revenue streams had significant changes that caused this increase.

Charges for services increased by $59,446 (18%). The increase is primarily due to an increase in the confiscated assets fund confiscations revenue of $81,018 (204%). Confiscations revenue is not an estimable revenue stream and the revenues collected in one year have no bearing on other years. Park revenue decreased $4,482 (26%) and general court fines and forfeitures decreased $23,934 (14%). Like confiscations revenue, general fines and forfeitures are not an estimable revenue stream and vary from year to year depending on cases that the courts oversees.

Tax revenues increased by $11,296 (5%). The City received an increased share of LOST proceeds. Effective March 2013, a new LOST distribution agreement between Whitfield County, Georgia and the cities within the county began. The new agreement specifies that Tunnel Hill will receive an increased percentage of LOST revenues, to gradually increase over the next ten years.

Program expenses decreased by $52,253 (7%). Approximately $45,000 of the decrease is due to capital outlay expenditures during 2013. Culture and recreation function expenses decreased as well, related to the dip in park revenues noted above.

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, 2014.

	Governmental activities	
	Total cost of services	Net cost of services
General government	$ 303,269	$ (194,278)
Public safety	294,231	(22,955)
Streets and sanitation	55,638	(32,985)
Culture and recreation	37,351	(19,178)
Total	$ 690,489	$ (269,396)

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 $529,368.

The total ending fund balances of governmental funds show a net increase of $41,319 (8%) 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 $22,253. The City has one major special revenue fund. The confiscated assets special revenue fund's fund balance increased by $63,572.

Capital assets

The City's investment in capital assets as of December 31, 2014 was $869,445. 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	
	2014	2013
Non-depreciable assets:		
Land	$ 282,240	$ 282,240
Depreciable assets:		
Buildings and improvements	499,257	499,257
Streets	6,010,752	6,010,752
Equipment/furniture	113,640	113,640
Vehicles	209,497	209,497
Total depreciable assets	6,833,146	6,833,146
Less accumulated depreciation	6,245,941	6,179,594
Book value - depreciable assets	$ 587,205	$ 653,552
Percentage depreciated	91%	90%
Book value - all assets	$ 869,445	$ 935,792

Budgetary information

The City of Tunnel Hill adopts a consolidated budget each year for the general fund and 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. Confiscations revenue 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 this revenue.

The final budget figures varied from the actual figures in one area. The general fund's culture and recreation function expenditures were over budget by $7,123. 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 Whitfield County.

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 2002. 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, 2014

	Governmental Activities
Assets	
Current assets:	
Cash	$ 450,023
Receivables	
Taxes	32,627
Franchise fees	51,969
Fines and forfeitures	5,475
Employee	983
Total current assets	541,077
Capital assets:	
Nondepreciable capital assets	282,240
Depreciable capital assets, net	587,205
Total capital assets	869,445
Total assets	1,410,522
Liabilities	
Current liabilities:	
Accounts payable	3,236
Accrued expenses	8,008
Unearned revenue	465
Total current liabilities	11,709
Noncurrent liabilities:	
Accrued compensated absences	5,888
Total liabilities	17,597
Net Position	
Investment in capital assets	869,445
Restricted for cemetery	124,798
Restricted for public safety	150,092
Unrestricted	248,590
Total net position	$ 1,392,925

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, 2014

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Position: Governmental Activities
Governmental activities:				
General government	$ 303,269	$ 108,991	$ -	$ (194,278)
Public safety	294,231	271,276	-	(22,955)
Streets and sanitation	55,638	900	21,753	(32,985)
Culture and recreation	37,351	12,473	5,700	(19,178)
Total governmental activities	$ 690,489	$ 393,640	$ 27,453	$ (269,396)
General revenues:				
Intergovernmental - LOST				143,897
Insurance premium tax				46,168
Alcohol beverage tax				29,019
Title ad valorem tax				18,094
Bank tax				3,062
Donations				800
Investment earnings				694
Miscellaneous				2,634
Total general revenues				244,368
Change in net position				(25,028)
Net position - beginning				1,417,953
Net position - ending				$ 1,392,925

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, 2014

	General	Confiscated Assets	Total Governmental Funds
Assets			
Current assets:			
Cash	$ 303,081	$ 146,942	$ 450,023
Receivables			
Due from general fund	-	3,150	3,150
Taxes	32,627	-	32,627
Franchise fees	51,969	-	51,969
Fines and forfeitures	5,475	-	5,475
Employee	983	-	983
Total current assets	$ 394,135	$ 150,092	$ 544,227
Liabilities			
Current liabilities:			
Due to confiscated assets fund	$ 3,150	$ -	3,150
Accounts payable	3,236	-	3,236
Accrued expenditures	8,008	-	8,008
Unearned revenue	465	-	465
Total current liabilities	14,859	-	14,859
Fund Balance			
Restricted for:			
Cemetery	124,798	-	124,798
Public safety	-	150,092	150,092
Unrestricted:			
Unassigned	254,478	-	254,478
Total fund balance	379,276	150,092	529,368
Total liabilities and fund balance	$ 394,135	$ 150,092	$ 544,227

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, 2014

Total governmental fund balances		$ 529,368
Amounts reported for governmental activities in the statement of net position are different because:		
Elimination of interfund balances between funds:		
Interfund receivables	(3,150)	
Interfund payables	3,150	-
Liabilities incurred in governmental activities, specifically accrued compensated absences, are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences		(5,888)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Cost	7,115,386	
Less: accumulated depreciation	(6,245,941)	869,445
Net position of governmental activities		$ 1,392,925

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
Governmental Funds
For the Year Ended December 31, 2014

	General	Confiscated Assets	Total Governmental Funds
Revenues			
Intergovernmental - LOST	$ 143,897	$ -	$ 143,897
Fines and forfeitures	150,580	120,696	271,276
Selective taxes	96,343	-	96,343
Franchise fees	102,696	-	102,696
Charges for services	13,373	-	13,373
Licenses and permits	6,295	-	6,295
Intergovernmental - Whitfield Co.	17,158	-	17,158
Donations	11,095	-	11,095
Investment earnings	694	-	694
Miscellaneous	2,634	-	2,634
Total revenues	544,765	120,696	665,461
Expenditures			
Current:			
General government	286,990	-	286,990
Public safety	220,056	57,124	277,180
Streets and sanitation	31,477	-	31,477
Culture and recreation	28,495	-	28,495
Total expenditures	567,018	57,124	624,142
Net change in fund balances	(22,253)	63,572	41,319
Fund balance - beginning	401,529	86,520	488,049
Fund balance - ending	$ 379,276	$ 150,092	$ 529,368

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, 2014

Net change in fund balances		$ 41,319
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	(66,347)	
Capital outlay	-	(66,347)
Change in net position		$ (25,028)

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, 2014

	Original Budget	Final Budget	Actual	Variance
Revenues				
Intergovernmental - LOST	$ 133,000	$ 142,221	$ 143,897	$ 1,676
Fines and forfeitures	191,530	148,678	150,580	1,902
Selective taxes	98,393	97,523	96,343	(1,180)
Franchise fees	103,711	95,895	102,696	6,801
Charges for services	4,260	12,473	13,373	900
Licenses and permits	6,765	6,715	6,295	(420)
Intergovernmental	6,106	6,614	17,158	10,544
Donations	1,800	5,395	11,095	5,700
Investment earnings	480	342	694	352
Miscellaneous	550	3,534	2,634	(900)
Total revenues	546,595	519,390	544,765	25,375
Expenditures				
Current:				
General government	284,036	281,853	286,990	5,137
Public safety	279,938	221,538	220,056	(1,482)
Streets and sanitation	34,265	31,477	31,477	-
Culture and recreation	12,690	21,372	28,495	7,123
Total expenditures	610,929	556,240	567,018	10,778
Net change in fund balances	$ (64,334)	$ (36,850)	(22,253)	$ 14,597
Fund balance - beginning			401,529	
Fund balance - ending			$ 379,276	

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, 2014

	Original Budget	Final Budget	Actual	Variance
Revenues				
Confiscations	$ -	$ 120,696	$ 120,696	$ -
Expenditures				
Current:				
Public safety	-	57,124	57,124	-
Total expenditures	-	57,124	57,124	-
Net change in fund balances	$ -	$ 63,572	63,572	$ -
Fund balance - beginning			86,520	
Fund balance - ending			$ 150,092	

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 (City) 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 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, 2014, the City paid $860 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 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.

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, 2014.

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 net investment in capital assets. The City uses the term investment in capital assets rather than net investment in capital assets as they have no outstanding debt related to capital assets.

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

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.

Subsequent Events

Management has evaluated subsequent events through May 15, 2015, the date the financial statements were available to be issued.

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 final budget figures varied from the actual figures in one area. The general fund's culture and recreation function expenditures were over budget by $7,123. 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 Whitfield County.

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. At December 31, 2014, the City held bank balances of $456,247, all of which was adequately insured and collateralized by securities held by the pledging financial institution.

Note 4. Receivables

Receivables at December 31, 2014 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, 2014 was as follows:

	Balance at 12/31/2013	Additions	Disposals	Balance at 12/31/2014
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	209,497	-	-	209,497
Total other capital assets	6,833,146	-	-	6,833,146
Total cost	7,115,386	-	-	7,115,386
Accumulated depreciation:				
Buildings and improvement	186,868	16,261	-	203,129
Streets	5,776,826	24,161	-	5,800,987
Equipment/furniture	89,041	5,251	-	94,292
Vehicles	126,859	20,674	-	147,533
Total accumulated depreciation	6,179,594	66,347	-	6,245,941
Governmental activities capital assets, net	$ 935,792	$ (66,347)	$ -	$ 869,445

Governmental activities depreciation expense:	
General government	$ 16,279
Public safety	17,051
Streets and sanitation	24,161
Culture and recreation	8,856
Total governmental activities depreciation expense	$ 66,347

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's long-term obligations consisted of the following at December 31, 2014:

	Outstanding at 12/31/2013	Additions	Reductions	Outstanding at 12/31/2014	Due in One Year
Compensated absences	$ 5,888	$ -	$ -	$ 5,888	$ -
Total	$ 5,888	$ -	$ -	$ 5,888	$ -

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, 2014, employer contributions totaled $3,465 and employee contributions totaled $15,919.

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.

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 2014, 2013, and 2012, 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, 2014

	2014	2013
Assets		
Current assets:		
Cash	$ 303,081	$ 333,992
Receivables		
Taxes	32,627	32,131
Franchise fees	51,969	45,166
Fines and forfeitures	5,475	3,573
Employee	983	-
Total current assets	$ 394,135	$ 414,862
Liabilities		
Current liabilities:		
Due to confiscated assets fund	$ 3,150	$ -
Accounts payable	3,236	2,553
Accrued expenditures	8,008	10,735
Unearned revenue	465	45
Total current liabilities	14,859	13,333
Fund Balance		
Restricted for cemetery	124,798	122,598
Unrestricted, unassigned	254,478	278,931
Total fund balance	379,276	401,529
Total liabilities and fund balance	$ 394,135	$ 414,862

City of Tunnel Hill, Georgia
Schedule of Revenues - Budget and Actual - General Fund
For the Year Ended December 31, 2014

	2014				2013
	Original Budget	Final Budget	Actual	Variance	Actual
Revenues					
Taxes					
Local option sales tax	$ 133,000	$ 142,221	$ 143,897	$ 1,676	$ 133,417
Insurance premium tax	44,271	46,168	46,168	-	44,156
Alcohol beverage tax	29,405	29,130	29,019	(111)	29,368
Title ad valorem tax	21,000	17,862	18,094	232	17,640
Bank tax	3,717	4,363	3,062	(1,301)	4,363
Total selective taxes	231,393	239,744	240,240	496	228,944
Fines and forfeitures					
Court fines	186,630	145,243	147,145	1,902	170,024
Penalty assessments	4,900	3,435	3,435	-	4,490
Total fines and forfeitures	191,530	148,678	150,580	1,902	174,514
Franchise fees					
Electric franchise	37,650	31,057	36,981	5,924	31,057
Cable franchise	33,677	36,072	37,080	1,008	34,135
Telephone franchise	32,384	28,766	28,635	(131)	29,172
Total franchise fees	103,711	95,895	102,696	6,801	94,364
Licenses and permits					
Alcohol beverage license	3,000	2,250	2,250	-	4,250
Insurance license	2,765	3,465	3,045	(420)	3,433
Garbage license	1,000	1,000	1,000	-	1,000
Total licenses and permits	6,765	6,715	6,295	(420)	8,683
Intergovernmental revenue					
Intergovernmental-Whitfield Co.	6,106	6,614	17,158	10,544	14,967
Intergovernmental grant	-	-	-	-	-
Total intergovernmental revenue	6,106	6,614	17,158	10,544	14,967
Miscellaneous					
Investment earnings	480	342	694	352	854
Donations	1,800	5,395	11,095	5,700	1,915
Recreation fees	4,260	12,473	12,473	-	16,955
Cemetary fees	-	900	900	-	225
Miscellaneous	550	2,634	2,634	-	3,311
Total miscellaneous	7,090	21,744	27,796	6,052	23,260
Total revenues	$ 546,595	$ 519,390	$ 544,765	$ 25,375	$ 544,732

City of Tunnel Hill, Georgia
Schedule of Expenditures - Budget and Actual - General Fund
For the Year Ended December 31, 2014

	2014				2013
	Original Budget	Final Budget	Actual	Variance	Actual
Expenditures					
Current:					
General government					
Personal services and benefits	$ 177,728	$ 174,799	$ 173,554	$ 1,245	$ 171,236
Other	106,308	107,054	113,436	(6,382)	114,357
Capital outlay	-	-	-	-	19,602
Total general government	284,036	281,853	286,990	(5,137)	305,195
Public safety					
Personal services and benefits	211,750	212,793	211,311	1,482	207,411
Other	68,188	8,745	8,745	-	8,348
Total public safety	279,938	221,538	220,056	1,482	215,759
Streets and sanitation					
Other	34,265	31,477	31,477	-	33,323
Total streets and sanitation	34,265	31,477	31,477	-	33,323
Culture and recreation					
Personal services and benefits	-	-	-	-	1,622
Other	12,690	21,372	28,495	(7,123)	35,046
Total culture and recreation	12,690	21,372	28,495	(7,123)	36,668
Total expenditures	$ 610,929	$ 556,240	$ 567,018	$ (10,778)	$ 590,945

City of Tunnel Hill, Georgia
Schedule of Expenditures - Budget and Actual - General Fund (continued)
General Government Sub-Budget
For the Year Ended December 31, 2014

	2014				2013
	Original Budget	Final Budget	Actual	Variance	Actual
Expenditures					
General government expenditures:					
Executive					
Personal services and benefits	$ 75,027	$ 74,421	$ 74,661	$ (240)	$ 73,955
Other	2,640	2,060	2,060	-	3,988
Capital outlay	-	-	-	-	19,602
Total executive	77,667	76,481	76,721	(240)	97,545
Legislative					
Personal services and benefits	11,286	12,717	11,287	1,430	8,372
Other	8,579	9,139	9,139	-	8,615
Total legislative	19,865	21,856	20,426	1,430	16,987
Financial administration					
Personal services and benefits	35,570	32,180	32,446	(266)	33,519
Other	48,793	58,309	58,309	-	53,789
Total financial administration	84,363	90,489	90,755	(266)	87,308
Building and maintenance					
Personal services and benefits	40,322	40,262	39,931	331	39,817
Other	4,451	1,202	6,901	(5,699)	4,555
Total building and maintenance	44,773	41,464	46,832	(5,368)	44,372
Judicial					
Personal services and benefits	15,523	15,219	15,229	(10)	15,573
Other	41,845	36,344	37,027	(683)	43,410
Total judicial	57,368	51,563	52,256	(693)	58,983
Total general government	$ 284,036	$ 281,853	$ 286,990	$ (5,137)	$ 305,195

City of Tunnel Hill, Georgia
Comparative Balance Sheet
Major Confiscated Assets Special Revenue Fund
December 31, 2014

	2014	2013
Assets		
Current assets:		
Cash	$ 146,942	$ 86,520
Due from general fund	3,150	-
Total current assets	$ 150,092	$ 86,520
Fund Balance		
Restricted for public safety	$ 150,092	$ 86,520

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, 2014

	2014				2013
	Original Budget	Final Budget	Actual	Variance	Actual
Revenues					
Confiscations	$ -	$ 120,696	$ 120,696	$ -	$ 39,678
Expenditures					
Public safety:					
Other	-	57,124	57,124	-	103,560
Capital outlay	-	-	-	-	15,337
Total public safety	-	57,124	57,124	-	118,897
Debt service:					
Principal	-	-	-	-	11,522
Interest	-	-	-	-	749
Total debt service	-	-	-	-	12,271
Total expenditures	-	57,124	57,124	-	131,168
Net change in fund balances	$ -	$ 63,572	63,572	$ -	(91,490)
Fund balance - beginning			86,520		178,010
Fund balance - ending			$ 150,092		$ 86,520

SPECIAL REPORTS SECTION

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

Honorable Mayor, Members of the 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, 2014, 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 15, 2015.

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 (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. (2014-001, 2014-002, 2014-003)

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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 which is described in the accompanying schedule of findings and responses as item 2014-004.

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 & Walcott

Dalton, Georgia
May 15, 2015

City of Tunnel Hill, Georgia
Schedule of Findings and Responses
December 31, 2014

Significant Deficiencies:

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

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

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

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

2014-002 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.

2014-003 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.

2014-004 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.