FINANCIAL STATEMENTS

CITY OF TUNNEL HILL

TUNNEL HILL, GEORGIA

FOR THE YEAR ENDED DECEMBER 31, 2015

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For the Year Ended December 31, 2015

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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, 2015, 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, 2015, and the respective changes in financial position and the respective budgetary information for the general fund, the confiscated assets special revenue fund, and the SPLOST capital projects 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 basic 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 June 15, 2016, 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
June 15, 2016

City of Tunnel Hill, Georgia
Management's Discussion and Analysis
December 31, 2015
(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, 2015. 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 $2,182,005 (net position) for the calendar year reported.

- Total net position is comprised of the following:
  (1) Investment in capital assets of $840,091 includes property and equipment, net of accumulated depreciation.
  (2) Restricted net position of $123,060 represents donations received that were restricted by the donor to be used for upkeep on a cemetery.
  (3) Restricted net position of $227,043 represents funds received from confiscated assets that were restricted for public safety purposes.
  (4) Restricted net position of $687,507 represents SPLOST funds that were restricted for capital projects.
  (5) Unrestricted net position of $304,304 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 $310,192 or 54% 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 20.

Other supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget presentations. Budgetary comparison statements demonstrate compliance with the City's adopted and final revised budget. Budgetary comparison statements for the general fund, confiscated assets special revenue fund, and SPLOST capital projects fund can be found on pages 17 through 19 of this report.

Financial analysis of the City as a whole

The City's net position at year-end is $2,182,005. The following table provides a summary of the City's net position:

	Governmental activities	
	2015	2014
Assets:		
Current assets	$ 1,360,558	$ 541,077
Capital assets	840,091	869,445
Total assets	2,200,649	1,410,522
Liabilities:		
Current liabilities	12,756	11,709
Noncurrent liabilities	5,888	5,888
Total liabilities	18,644	17,597
Net position:		
Investment in capital assets	840,091	869,445
Restricted	1,037,610	274,890
Unrestricted	304,304	248,590
Total net position	$ 2,182,005	$ 1,392,925

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 107 to 1 in 2015.

Note that approximately 39% 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		
	2015	2014	Increase (Decrease)
Revenues:			
Program:			
Charges for services	$ 480,029	$ 393,640	$ 86,389
Operating grants and contributions	17,696	27,453	(9,757)
General:			
Taxes	949,339	240,240	709,099
Donations	300	800	(500)
Investment earnings	577	694	(117)
Other	17,515	2,634	14,881
Total revenues	1,465,456	665,461	799,995
Program expenses:			
General government	297,878	303,269	(5,391)
Public safety	286,649	294,231	(7,582)
Streets and sanitation	56,883	55,638	1,245
Culture and recreation	34,966	37,351	(2,385)
Total expenses	676,376	690,489	(14,113)
Change in net position	789,080	(25,028)	814,108
Beginning net position	1,392,925	1,417,953	(25,028)
Ending net position	$ 2,182,005	$ 1,392,925	$ 789,080

Governmental revenues

Governmental revenues were up $811,928 (122%) from the prior year. Several revenue streams had significant changes that caused this increase.

The increase in tax is primarily attributable to a new special purpose local option sales tax (SPLOST), which began in July 2015. The City entered into an intergovernmental agreement with Whitfield County, Georgia and the other cities within Whitfield County. It was agreed that the smaller cities, the City included, would receive SPLOST proceeds up front, while Whitfield County and the City of Dalton, Georgia would receive theirs over the five year SPLOST period. The City received their full share of $700,000 in SPLOST proceeds in 2015, and this amount will be spent over the next several years on two projects: Depot restoration and sewer expansion. The City also receives revenues from local option sales tax (LOST). The City's allocable share of those proceeds increases slightly every year, based upon an intergovernmental agreement with Whitfield County and the other cities within Whitfield County.

Charges for services increased by $86,389 (22%). The increase is primarily due to an increase in the confiscated assets fund confiscations revenue of $19,156 (16%). Confiscations revenue is not an estimable revenue stream and the revenues collected in one year have no bearing on other years. General court fines and forfeitures increased $63,309 (42%). 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 oversee.

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, 2015.

	Governmental activities	
	Total cost of services	Net cost of services
General government	$ 297,878	$ (184,925)
Public safety	286,649	67,092
Streets and sanitation	56,883	(36,787)
Culture and recreation	34,966	(24,031)
Total	$ 676,376	$ (178,651)

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 $1,347,802.

The total ending fund balances of governmental funds show a net increase of $818,434 (155%) 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 $53,976. The confiscated assets special revenue fund's fund balance increased by $76,951. The City also has a new SPLOST Capital Projects Fund which had a balance of $687,507 at year end.

Capital assets

The City's investment in capital assets as of December 31, 2015 was $840,091. 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	
	2015	2014
Non-depreciable assets:		
Land	$ 282,240	$ 282,240
Construction in progress	12,457	-
Total non-depreciable assets	294,697	282,240
Depreciable assets:		
Buildings and improvements	499,257	499,257
Streets	6,010,752	6,010,752
Equipment/furniture	100,481	113,640
Vehicles	199,917	209,497
Total depreciable assets	6,810,407	6,833,146
Less accumulated depreciation	6,265,013	6,245,941
Book value - depreciable assets	$ 545,394	$ 587,205
Percentage depreciated	92%	91%
Book value - all assets	$ 840,091	$ 869,445

Budgetary information

The City of Tunnel Hill adopts a consolidated budget each year for the general fund, special revenue fund, and capital projects fund. The budget is amended as necessary throughout the calendar year, as approved by the council.

There were 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 SPLOST revenue was not included in the original budget since the referendum was not held until March 17, 2015 to approve the tax.

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 $10,280. 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, 2015

	Governmental Activities
Assets	
Current assets:	
Cash	$ 1,267,867
Receivables	
Taxes	34,935
Franchise fees	54,323
Fines and forfeitures	2,916
Employee	517
Total current assets	1,360,558
Capital assets:	
Nondepreciable capital assets	294,697
Depreciable capital assets, net	545,394
Total capital assets	840,091
Total assets	2,200,649
Liabilities	
Current liabilities:	
Accounts payable	3,129
Accrued expenses	9,627
Total current liabilities	12,756
Noncurrent liabilities:	
Accrued compensated absences	5,888
Total liabilities	18,644
Net Position	
Investment in capital assets	840,091
Restricted for cemetery	123,060
Restricted for public safety	227,043
Restricted for capital projects	687,507
Unrestricted	304,304
Total net position	$ 2,182,005

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, 2015

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	$ 297,878	$ 112,953	$ -	$ (184,925)
Public safety	286,649	353,741	-	67,092
Streets and sanitation	56,883	2,400	17,696	(36,787)
Culture and recreation	34,966	10,935	-	(24,031)
Total governmental activities	$ 676,376	$ 480,029	$ 17,696	$ (178,651)
General revenues:				
Intergovernmental - SPLOST				700,000
Intergovernmental - LOST				139,268
Insurance premium tax				49,611
Alcohol beverage tax				33,240
Title ad valorem tax				21,356
Bank tax				5,864
Donations				300
Investment earnings				577
Miscellaneous				17,515
Total general revenues				967,731
Change in net position				789,080
Net position - beginning				1,392,925
Net position - ending				$ 2,182,005

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, 2015

	General	Confiscated Assets	SPLOST	Total Governmental Funds
Assets				
Current assets:				
Cash	$ 353,317	$ 227,043	$ 687,507	$ 1,267,867
Receivables:				
Taxes	34,935	-	-	34,935
Franchise fees	54,323	-	-	54,323
Fines and forfeitures	2,916	-	-	2,916
Employee	517	-	-	517
Total current assets	$ 446,008	$ 227,043	$ 687,507	$ 1,360,558
Liabilities				
Current liabilities:				
Accounts payable	$ 3,129	$ -	$ -	$ 3,129
Accrued expenditures	9,627	-	-	9,627
Total current liabilities	12,756	-	-	12,756
Fund Balance				
Restricted for:				
Cemetery	123,060	-	-	123,060
Public safety	-	227,043	-	227,043
Capital projects	-	-	687,507	687,507
Unrestricted:				
Unassigned	310,192	-	-	310,192
Total fund balance	433,252	227,043	687,507	1,347,802
Total liabilities and fund balance	$ 446,008	$ 227,043	$ 687,507	$ 1,360,558

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, 2015

Total governmental fund balances		$ 1,347,802
Amounts reported for governmental activities in the statement of net position are different because:		
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	7,105,104	
Less: accumulated depreciation	(6,265,013)	840,091
Net position of governmental activities		$ 2,182,005

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, 2015

	General	Confiscated Assets	SPLOST	Total Governmental Funds
Revenues				
Intergovernmental - LOST	$ 139,268	$ -	$ -	$ 139,268
Intergovernmental - SPLOST	-	-	700,000	700,000
Fines and forfeitures	213,889	139,852	-	353,741
Selective taxes	110,071	-	-	110,071
Franchise fees	105,655	-	-	105,655
Charges for services	13,335	-	-	13,335
Licenses and permits	7,298	-	-	7,298
Intergovernmental - Whitfield County	16,386	-	-	16,386
Donations	1,610	-	-	1,610
Investment earnings	577	-	-	577
Miscellaneous	17,515	-	-	17,515
Total revenues	625,604	139,852	700,000	1,465,456
Expenditures				
Current:				
General government	281,563	-	36	281,599
Public safety	219,719	57,301	-	277,020
Streets and sanitation	32,722	-	-	32,722
Culture and recreation	28,200	-	-	28,200
Capital outlay:				
Public safety	-	5,600	-	5,600
Streets and sanitation	-	-	12,457	12,457
Culture and recreation	9,424	-	-	9,424
Total expenditures	571,628	62,901	12,493	647,022
Net change in fund balances	53,976	76,951	687,507	818,434
Fund balance - beginning	379,276	150,092	-	529,368
Fund balance - ending	$ 433,252	$ 227,043	$ 687,507	$ 1,347,802

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, 2015

Net change in fund balances		$ 818,434
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	(56,835)	
Capital outlay	27,481	(29,354)
Change in net position		$ 789,080

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, 2015

	Original Budget	Final Budget	Actual	Variance
Revenues				
Intergovernmental - LOST	$ 147,500	$ 140,662	$ 139,268	$ (1,394)
Fines and forfeitures	177,246	209,943	213,889	3,946
Selective taxes	96,895	106,371	110,071	3,700
Franchise fees	92,505	103,300	105,655	2,355
Charges for services	9,000	10,920	13,335	2,415
Licenses and permits	6,700	6,833	7,298	465
Intergovernmental - Whitfield County	6,105	6,106	16,386	10,280
Donations	1,500	1,610	1,610	-
Investment earnings	241	577	577	-
Miscellaneous	520	19,915	17,515	(2,400)
Total revenues	538,212	606,237	625,604	19,367
Expenditures				
Current:				
General government	277,619	274,432	281,563	7,131
Public safety	277,551	218,780	219,719	939
Streets and sanitation	32,775	32,722	32,722	-
Culture and recreation	17,815	17,920	28,200	10,280
Capital outlay:				
Culture and recreation	-	9,424	9,424	-
Total expenditures	605,760	553,278	571,628	18,350
Net change in fund balances	$ (67,548)	$ 52,959	53,976	$ 1,017
Fund balance - beginning			379,276	
Fund balance - ending			$ 433,252	

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 - Confiscated Assets Special Revenue Fund
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance
Revenues				
Confiscations	$ -	$ 139,852	$ 139,852	$ -
Expenditures				
Current:				
Public safety	-	57,301	57,301	-
Capital outlay:				
Public safety	-	5,600	5,600	-
Total expenditures	-	62,901	62,901	-
Net change in fund balances	$ -	$ 76,951	76,951	$ -
Fund balance - beginning			150,092	
Fund balance - ending			$ 227,043	

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 - SPLOST Capital Projects Fund
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance
Revenues				
Special purpose local option sales tax	$ -	$ 700,000	$ 700,000	$ -
Expenditures				
Current:				
General government	-	36	36	-
Capital outlay:				
Streets and sanitation	-	12,457	12,457	-
Total expenditures	-	12,493	12,493	-
Net change in fund balances	$ -	$ 687,507	687,507	$ -
Fund balance - beginning			-	
Fund balance - ending			$ 687,507	

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, 2015, the City paid $872 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 three governmental funds.

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

Major governmental funds - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The confiscated assets special revenue fund is used to account for confiscation revenue and related police expenditures. The SPLOST capital projects fund is used to account for SPLOST revenue and the related expenditures for capital projects.

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.

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.

Note 1. Summary of Significant Accounting Policies - continued

The statements of revenues, expenditures, and changes in fund balances – budget and actual for the general fund, the confiscated assets special revenue fund, and the SPLOST capital projects 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.

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.

Note 1. Summary of Significant Accounting Policies - continued

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.

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.

Note 1. Summary of Significant Accounting Policies - continued

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, 2015.

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.

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.

Note 1. Summary of Significant Accounting Policies - continued

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.

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.

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.

Note 1. Summary of Significant Accounting Policies - continued

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

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

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

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

Use of Estimates

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

Subsequent Events

Management has evaluated subsequent events through June 15, 2016, 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.

Note 2. Stewardship, Compliance, and Accountability - continued

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 $10,280. The budget overage occurred due to the City failing to budget for nonexchange revenue and expense as a result of a nonexchange transaction agreements 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, 2015, the City held bank balances of $1,273,618, all of which was adequately insured and collateralized by securities held by the pledging financial institution.

Note 4. Receivables

Receivables at December 31, 2015 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, 2015 was as follows:

	Balance at 12/31/2014	Additions	Disposals	Balance at 12/31/2015
Capital assets not being depreciatied:				
Land	$ 282,240	$ -	$ -	$ 282,240
Construction in progress	-	12,457	-	12,457
Total capital assets not being depreciated	282,240	12,457	-	294,697
Other capital assets:				
Buildings and improvements	499,257	-	-	499,257
Streets	6,010,752	-	-	6,010,752
Equipment/furniture	113,640	9,424	(22,583)	100,481
Vehicles	209,497	5,600	(15,180)	199,917
Total other capital assets	6,833,146	15,024	(37,763)	6,810,407
Total cost	7,115,386	27,481	(37,763)	7,105,104
Accumulated depreciation:				
Buildings and improvement	203,129	16,261	-	219,390
Streets	5,800,987	24,161	-	5,825,148
Equipment/furniture	94,292	4,215	(22,583)	75,924
Vehicles	147,533	12,198	(15,180)	144,551
Total accumulated depreciation	6,245,941	56,835	(37,763)	6,265,013
Governmental activities capital assets, net	$ 869,445	$ (29,354)	$ -	$ 840,091

Governmental activities depreciation expense:	
General government	$ 16,279
Public safety	9,629
Streets and sanitation	24,161
Culture and recreation	6,766
Total governmental activities depreciation expense	$ 56,835

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, 2015:

	Outstanding at 12/31/2014	Additions	Reductions	Outstanding at 12/31/2015	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, 2015, employer contributions totaled $3,196 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 2015, 2014, and 2013, there were no settlements in excess of insurance coverage.

SUPPLEMENTARY INDIVIDUAL FUND

FINANCIAL SCHEDULES

General Fund
Confiscated Assets Special Revenue Fund
SPLOST Capital Projects 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, 2015

	2015	2014
Assets		
Current assets:		
Cash	$ 353,317	$ 303,081
Receivables		
Taxes	34,935	32,627
Franchise fees	54,323	51,969
Fines and forfeitures	2,916	5,475
Employee	517	983
Total current assets	$ 446,008	$ 394,135
Liabilities		
Current liabilities:		
Due to confiscated assets fund	$ -	$ 3,150
Accounts payable	3,129	3,236
Accrued expenditures	9,627	8,008
Unearned revenue	-	465
Total current liabilities	12,756	14,859
Fund Balance		
Restricted for cemetery	123,060	124,798
Unrestricted, unassigned	310,192	254,478
Total fund balance	433,252	379,276
Total liabilities and fund balance	$ 446,008	$ 394,135

City of Tunnel Hill, Georgia
Schedule of Revenues - Budget and Actual - General Fund
For the Year Ended December 31, 2015

	2015				2014
	Original Budget	Final Budget	Actual	Variance	Actual
Revenues					
Taxes					
Local option sales tax	$ 147,500	$ 140,662	$ 139,268	$ (1,394)	$ 143,897
Insurance premium tax	47,180	49,611	49,611	-	46,168
Alcohol beverage tax	33,135	32,829	33,240	411	29,019
Title ad valorem tax	13,200	20,869	21,356	487	18,094
Bank tax	3,380	3,062	5,864	2,802	3,062
Total selective taxes	244,395	247,033	249,339	2,306	240,240
Fines and forfeitures					
Court fines	173,523	198,543	202,489	3,946	147,145
Penalty assessments	3,723	11,400	11,400	-	3,435
Total fines and forfeitures	177,246	209,943	213,889	3,946	150,580
Franchise fees					
Electric franchise	28,850	36,981	39,025	2,044	36,981
Cable franchise	36,695	38,080	38,581	501	37,080
Telephone franchise	26,960	28,239	28,049	(190)	28,635
Total franchise fees	92,505	103,300	105,655	2,355	102,696
Licenses and permits					
Alcohol beverage license	3,000	3,000	3,000	-	2,250
Insurance license	2,700	2,833	3,298	465	3,045
Garbage license	1,000	1,000	1,000	-	1,000
Total licenses and permits	6,700	6,833	7,298	465	6,295
Intergovernmental revenue					
Intergovernmental-Whitfield Co.	6,105	6,106	16,386	10,280	17,158
Miscellaneous					
Investment earnings	241	577	577	-	694
Donations	1,500	1,610	1,610	-	11,095
Recreation fees	9,000	10,920	10,935	15	12,473
Cemetery fees	-	2,400	2,400	-	900
Miscellaneous	520	17,515	17,515	-	2,634
Total miscellaneous	11,261	33,022	33,037	15	27,796
Total revenues	$ 538,212	$ 606,237	$ 625,604	$ 19,367	$ 544,765

City of Tunnel Hill, Georgia
Schedule of Expenditures - Budget and Actual - General Fund
For the Year Ended December 31, 2015

	2015				2014
	Original Budget	Final Budget	Actual	Variance	Actual
Expenditures					
Current:					
General government					
Personal services and benefits	$ 158,825	$ 151,689	$ 152,424	$ (735)	$ 173,554
Other	118,794	122,743	129,139	(6,396)	113,436
Total general government	277,619	274,432	281,563	(7,131)	286,990
Public safety					
Personal services and benefits	208,242	206,850	207,789	(939)	211,311
Other	69,309	11,930	11,930	-	8,745
Total public safety	277,551	218,780	219,719	(939)	220,056
Streets and sanitation					
Other	32,775	32,722	32,722	-	31,477
Total streets and sanitation	32,775	32,722	32,722	-	31,477
Culture and recreation					
Other	17,815	17,920	28,200	(10,280)	28,495
Capital outlay	-	9,424	9,424	-	-
Total culture and recreation	17,815	27,344	37,624	(10,280)	28,495
Total expenditures	$ 605,760	$ 553,278	$ 571,628	$ (18,350)	$ 567,018

City of Tunnel Hill, Georgia
Schedule of Expenditures - Budget and Actual - General Fund (continued)
General Government Sub-Budget
For the Year Ended December 31, 2015

	2015				2014
	Original Budget	Final Budget	Actual	Variance	Actual
Expenditures					
General government expenditures:					
Executive					
Personal services and benefits	$ 72,858	$ 74,071	$ 74,605	$ (534)	$ 74,661
Other	2,245	2,469	2,475	(6)	2,060
Total executive	75,103	76,540	77,080	(540)	76,721
Legislative					
Personal services and benefits	11,287	11,287	11,287	-	11,287
Other	7,635	6,774	6,774	-	9,139
Total legislative	18,922	18,061	18,061	-	20,426
Financial administration					
Personal services and benefits	32,075	28,115	28,101	14	32,446
Other	58,055	56,409	56,403	6	58,309
Total financial administration	90,130	84,524	84,504	20	90,755
Building and maintenance					
Personal services and benefits	26,400	22,182	22,254	(72)	39,931
Other	5,770	12,062	12,062	-	6,901
Total building and maintenance	32,170	34,244	34,316	(72)	46,832
Judicial					
Personal services and benefits	16,205	16,034	16,177	(143)	15,229
Other	45,089	45,029	51,425	(6,396)	37,027
Total judicial	61,294	61,063	67,602	(6,539)	52,256
Total general government	$ 277,619	$ 274,432	$ 281,563	$ (7,131)	$ 286,990

City of Tunnel Hill, Georgia
Comparative Balance Sheet
Confiscated Assets Special Revenue Fund
December 31, 2015

	2015	2014
Assets		
Current assets:		
Cash	$ 227,043	$ 146,942
Due from general fund	-	3,150
Total current assets	$ 227,043	$ 150,092
Fund Balance		
Restricted for public safety	$ 227,043	$ 150,092

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, 2015

	2015				2014
	Original Budget	Final Budget	Actual	Variance	Actual
Revenues					
Confiscations	$ -	$ 139,852	$ 139,852	$ -	$ 120,696
Expenditures					
Public safety:					
Other	-	57,301	57,301	-	57,124
Capital outlay	-	5,600	5,600	-	-
Total public safety	-	62,901	62,901	-	57,124
Total expenditures	-	62,901	62,901	-	57,124
Net change in fund balances	$ -	$ 76,951	76,951	$ -	63,572
Fund balance - beginning			150,092		86,520
Fund balance - ending			$ 227,043		$ 150,092

City of Tunnel Hill, Georgia
Comparative Balance Sheet
SPLOST Capital Projects Fund
December 31, 2015

	2015	2014
Assets		
Current assets:		
Cash	$ 687,507	$ -
Fund Balance		
Restricted for capital projects	$ 687,507	$ -

City of Tunnel Hill, Georgia
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
SPLOST Capital Projects Fund
For the Year Ended December 31, 2015

	2015				2014
	Original Budget	Final Budget	Actual	Variance	Actual
Revenues					
Special purpose local option sales tax	$ -	$ 700,000	$ 700,000	$ -	$ -
Expenditures					
General government:					
Other	-	36	36	-	-
Streets and sanitation:					
Capital outlay	-	12,457	12,457	-	-
Total expenditures	-	36	12,493	-	-
Net change in fund balances	$ -	$ 699,964	687,507	$ -	-
Fund balance - beginning			-		-
Fund balance - ending			$ 687,507		$ -

SPECIAL REPORTS SECTION

ESTES & WALCOTT
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON SPECIAL PURPOSE LOCAL OPTION SALES TAX

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying schedule of projects constructed with special purpose local option sales tax as of December 31, 2015. The schedule of projects constructed with special purpose local option sales tax is prepared using the accrual basis of accounting. This schedule of projects constructed with special purpose local option sales tax is the responsibility of the City of Tunnel Hill, Georgia's management. Our responsibility is to express an opinion on the schedule of projects constructed with special purpose local option sales tax based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of projects constructed with special purpose local option sales tax is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of projects constructed with special purpose local option sales tax. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the schedule of projects constructed with special purpose local option sales tax. We believe that our audit provides a reasonable basis for our opinion.

The accompanying schedule of projects constructed with special purpose local option sales tax is prepared for the purpose of demonstrating compliance with the rules and regulations identified in the resolution or ordinance calling for imposition of the special sales and use tax authorized by Section 48-8-110 OCGA.

In our opinion, the schedule of projects constructed with special purpose local option sales tax referred to above presents fairly, in all material respects, the financial progress of the two projects being constructed using the Special Purpose Local Option Sales Tax for the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

Estes & Walcott

Dalton Georgia
June 15, 2016

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

City of Tunnel Hill, Georgia
Schedule of Projects Constructed with Special Purpose Local Option Sales Tax
For the Year Ended December 31, 2015

Project Name	Original Estimated Project Cost	Revised Estimated Project Cost	Prior Years	Current Year	Total	Estimated Percentage Complete
SPLOST 2015:						
Depot restoration project	$ 600,000	$ 600,000	$ -	$ 36	$ 36	0%
Sewer expansion project	100,000	100,000	-	12,457	12,457	12%
	$ 700,000	$ 700,000	$ -	$ 12,493	$ 12,493	

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, 2015, 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 June 15, 2016.

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. (2015-001, 2015-002, 2015-003)

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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 2015-004.

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
June 15, 2016

City of Tunnel Hill, Georgia
Schedule of Findings and Responses
December 31, 2015

Significant Deficiencies:

2015-001 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.

2015-002 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.

2015-003 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.

2015-004 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.