City of Varnell, Georgia
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For the Year Ended December 31, 2013

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FINANCIAL SECTION

BRC

B. RODNEY CROWE, CPA, P.C.
Certified Public Accountant

187 LAFAYETTE STREET
P.O. BOX 1056
RINGGOLD, GA 30736-1056
PHONE 706 / 965-2738
706 / 965-6100
FAX 706 / 965-4503
brcrowe@catt.com

B. RODNEY CROWE, CPA,CFP

Members
American Institute of Certified Public Accountants
Georgia and Tennessee Societies of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Varnell, 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 Varnell, Georgia as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City of Varnell, 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.

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 Varnell, Georgia as of December 31, 2013, and the respective changes in financial position and the respective budgetary information for the General 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 Varnell, Georgia's basic financial statements. The individual fund financial schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated October 29, 2014 on our consideration of the City of Varnell, 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 the 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 Varnell, Georgia's internal control over financial reporting and compliance.

B. Rodney Crowe CPA

Ringgold, Georgia
October 29, 2014

City of Varnell, Georgia
Management's Discussion and Analysis
December 31, 2013
(Unaudited)

Within this section of the City of Varnell, 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, 2013. 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 $2,686,642 (net position) for the calendar year reported.
- Total net position is comprised of the following:
    1) Net investment in capital assets of $2,516,019 includes property and equipment, net of accumulated depreciation and related debt.
    2) Restricted net position of $4,333 represents funds received from confiscated assets that were restricted for public safety purposes.
    3) Unrestricted net position of $166,290 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 $176,120, or 16% 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, judicial, public safety, streets and sanitation, and culture and recreation.

The government-wide financial statements are presented on pages 12 and 13 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 the 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 14 through17 of this report.

Notes to the Basic Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin on page 19.

Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget presentations. Budgetary comparison statements are included as "required supplementary information" for the General Fund. These statements and schedules demonstrate compliance with the City's adopted and final revised budget. Required supplementary information can be found on page 18 of this report.

Financial Analysis of the City as a Whole.

The City's net position at year-end is $2,686,642. The following table provides a summary of the City's net position:

	Governmental Activities	
	2013	2012
Assets:		
Current assets	$ 249,168	$ 471,249
Capital assets	$ 3,090,150	$ 3,115,361
Total assets	$ 3,339, 318	$ 3,586,610
Liabilities:		
Current liabilities	$ 192,151	$ 301,053
Noncurrent liabilities	$ 460,525	$ 565,970
Total liabilities	$ 652,676	$ 867,023
Net position:		
Net investment in capital assets	$ 2,516,019	$ 2,411,761
Restricted	4,333	$ 12,952
Unrestricted	$ 166,290	$ 294,874
Total net position	$ 2,686,642	$ 2,719,587

Cash decreased $232,463 while our total receivables increased $1,333. Capital assets increased due to capital additions and improvements with addition of the new City Hall.

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

	Governmental Activities		
	2013	2012	Increase (Decrease)
Revenues:			
Program:			
Charges for services	$397,401	$321,653	75,748
Operating grants and contributions		150,003	(150,003)
General:			
Taxes	541,185	463,066	78,119
Donations	10,950	11,090	(140)
Investment earnings	47	243	(196)
Other	3,140	4,814	(1,674)
Total revenues	952,723	950,869	1,854
Program Expenses:			
General government	492,788	517,565	(24,777)
Judicial	78,164	65,893	12,271
Public Safety	296,158	306,583	(10,425)
Streets and sanitation	49,338	67,160	(17,822)
Culture and recreation	42,929	51,663	(8,734)
Interest on debt	26,291	17,538	8,753
Total expenses	985,668	1,026,402	40,734
Change in net position	(32945)	(75,533)	42,588
Beginning net position	2,719,587	2,795,120	(75,533)
Ending net position	2,686,642	$2,719,587	(32,945)

Governmental Revenues

Taxes comprise 57 % and 49 % of the City's revenues for the years ended 2013 and 2012, respectively. Taxes include local option sales tax, property tax, insurance premium tax, alcohol beverage tax and intangibles tax. Revenues generated from services of the government, primarily from fines and forfeitures, franchise fees, licenses, and recreation revenues comprise 42 % and 34% of the City's revenues for the years ended 2013 and 2012, respectively. Operating grants and contributions comprise 0% and 16 % of total revenues for the years ended 2013 and 2012, respectively. Operating grants and contributions revenue consists primarily of grants received to build the Senior Center and amounts provided by Whitfield County in accordance with a LOST agreement to supplement officer pay and to share in utility expense for the local gym. Program revenues alone cover 40 % (46 % for 2013) of governmental activities expenses. This means that the government's taxpayers and the City's other general revenues fund the other 60 % of the governmental activities expenses for 2013.

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, 2013.

For Governmental Activities

	Total Cost of Services	Net Cost of Services
General government	492,788	(364,041)
Judicial	78,134	(78,164)
Public safety	296,158	(49,047)
Streets and sanitation	49,338	(47,563)
Culture and recreation	42,929	(23,161)
Interest on debt	26,291	(26,291)
Total	985,668	(588,267)

Financial Analysis of the City's Funds

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 $ 180,453.

The total ending fund balances of governmental funds show a net decrease of $161,842 a 47% decrease from the prior year.

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The General Fund's fund balance decreased by $ 162,723. The City has one major special revenue fund. The Confiscated Assets Special Revenue Fund's fund balance increased by $ 881.

Capital Assets

The City's investment in capital assets as of December 31, 2013 was $3,090,150. See Note 6 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	
	2013	2012
Depreciable assets:		
Buildings and improvements	2,011,247	$ 1,537,955
Streets	16,516,102	16,506,212
Equipment/furniture	40,353	40,353
Vehicles	455,732	455,732
Total depreciable assets	19,023,434	18,540,252
Less accumulated depreciation	16,362.872	16,128,430
Book value – depreciable assets	2,660,562	$ 2,411,822
Percentage depreciated	86%	87%
Non –depreciable le assets:		
Land	429,588	$ 429,588
Construction in progress		273,951
Total non-depreciable assets	429,588	$ 703,539
Book value – all assets	3,090,150	$ 3,115,361

Long-Term Debt

At the end of the calendar year, the City had total capital leases and notes outstanding totaling $574,131. Refer to Note 9 for additional information regarding the City's long-term debt.

	Governmental Activities	
	2013	2012
Long- term debt	574,131	$703,600

Budgetary Information

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

There were no material variances between the original adopted budget and the final budget for the General Fund. Confiscated revenue in the Special Revenue Fund and the related expenses are not included in the original budget because the amount is unknown and management feels it is not appropriate to estimate.

The final budget figures varied from the actual figures in several areas. The General Fund's general government function expenditures were $227,184 over budget. This was mainly due to the City failing to budget for the construction of the new City Hall. The General Fund's judicial function expenditures were over budget by $22,714, which was due to addition of personnel and increased court services. The General Fund's culture and recreation function expenditures were over budget by $10,394. The General Fund's debt service function expenditures were over budget by $72,760. The budget overage occurred due to the City failing to budget for principal and interest payments for the purchase of the property for the current City Hall facility.

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.

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 Varnell City Hall at (706) 694-8500.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Varnell, Georgia
Statement of Net Position
For the Year Ended December 31, 2013

	Governmental Activities
Assets	
Current assets:	
Cash	119,145
Taxes receivable	14,047
Intergovernmental receivables	39,831
Other receivables	59,863
Prepaid expenses	16,282
Total current assets	249,168
Capital assets:	
Nondepreciable capital assets	429,588
Depreciable capital assets, net	2,660,562
Total capital assets	3,090,150
Total assets	3,339,318
Liabilities	
Current liabilities	
Accounts payable	49,757
Accrued expenses	8,546
Unearned revenue	10,412
Current portion of capital leases	54,640
Current portion of note payable	68,796
Total current liabilities	192,151
Noncurrent liabilities:	
Deferred portion of capital leases	3,800
Deferred portion of note payable	446,895
Deferred portion of accrued compensated absences	9,830
Total noncurrent liabilities	460,525
Total liabilities	652,676
Net Position	
Net investment in capital assets	2,516,019
Restricted for public safety	4,333
Unrestricted	166,290
Total net position	2,686,642

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

City of Varnell, Georgia
Statement of Activities
For the Year Ended December 31, 2013

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	$ 492,788	$ 128,747	$ -	$ (364,401)
Judicial	$ 78,164	$ -	$ -	$ (78,164)
Public Safety	$ 296,158	$ 247,111	$ -	$ (49,047)
Streets and Sanitation	$ 49,338	$ 1,775	$ -	$ (47,563)
Culture and recreation	$ 42,929	$ 19,768	$ -	$ (23,161)
Interest on debt	$ 26,291	$ -	$ -	$ (26,291)
Total governmental activities	$ 985,668	$ 397,401	$ -	$ (588,267)
General revenues:				
Property tax				$ 93,769
Selective taxes				$ 447,416
Donations				$ 10,950
Investment Earnings				$ 47
Miscellaneous				$ 3,140
Total general revenues				$ 555,322
Change in net position				$ (32,945)
Beginning net position				$ 2,719,587
Ending net position				$ 2,686,642

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

FUND FINANCIAL STATEMENTS

City of Varnell, Georgia
Balance Sheet
Governmental Funds
December 31, 2013

Assets:	General	Confiscated Assets	Total Governmental Funds
Current assets:			
Cash	$ 114,812	$ 4,333	$ 119,145
Receivables	$ -	$ -	$ -
Intergovernmental	$ 39,831	$ -	$ 39,831
Property taxes	$ 14,047	$ -	$ 14,047
Sales taxes	$ 26,589	$ -	$ 26,589
Franchise fees	$ 30,569	$ -	$ 30,569
Fines and forfeitures	$ 2,705	$ -	$ 2,705
Other	$ -	$ -	$ -
Prepaid expenditures	$ 16,282	$ -	$ 16,282
Total current assets	$ 244,835	$ 4,333	$ 249,168
Total assets	$ 244,835	$ 4,333	$ 249,168
Liabilities			
Current liabilities:			
Account payable	$ 49,757	$ -	$ 49,757
Accrued expenses	$ 8,546	$ -	$ 8,546
Deferred revenue	$ 10,412	$ -	$ 10,412
Total current liabilities	$ 68,715	$ -	$ 68,715
Fund Balance			
Restricted for:			
Public safety - police supplies and equipment	$ -	$ 4,333	$ 4,333
Unrestricted:			
Unassigned	$ 176,120	$ -	$ 176,120
			$ -
Total fund balance	$ 176,120	$ 4,333	$ 180,453
Total liabilities and fund balance	$ 244,835	$ 4,333	$ 249,168

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

City of Varnell, Georgia
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position
December 31, 2013

Total governmental fund balances		$ 180,453
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Cost	$ 19,453,022	
Less: accumulated depreciation	$ 16,362,872	$ 3,090,150
Liabilities incurred in governmental activities, including accrued compensated absences and notes payable are not due and payable in the current period and therefore are not reported in the funds:		
Capital leases		$ (58,440)
Note payable		$ (515,691)
Compensated absences		$ (9,830)
Net position of govenrmental activities		$ 2,686,642

The accompanying notes are an integral part of these financial statements

City of Varnell, Georgia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2013

Revenues	General	Confiscated Assets	Total Governmental Funds
Taxes	$ 541,185	$ -	$ 541,185
Intergovernmental	$ 27,836	$ -	$ 27,836
Fines and forfeitures	$ 246,230	$ 881	$ 247,111
Franchise fees	$ 86,253	$ -	$ 86,253
Licenses and permits	$ 14,658	$ -	$ 14,658
Charges for services	$ 21,542	$ -	$ 21,542
Miscellaneous	$ 14,137	$ -	$ 14,137
Total Revenues	$ 951,841	$ 881	$ 952,722
Other financing sources			
Proceeds from loans	$ -	$ -	$ -
Total revenues and other financing sources	$ 951,841	$ 881	$ 952,722
Expenditures			
Current:			
General government	$ 355,904	$ -	$ 355,904
Judicial	$ 78,164	$ -	$ 78,164
Public safety	$ 275,766	$ -	$ 275,766
Public works	$ 23,746	$ -	$ 23,746
Culture and recreation	$ 15,994	$ -	$ 15,994
Capital outlay:			
General government	$ 209,230	$ -	$ 209,230
Debt service:			
Principal	$ 129,469	$ -	$ 129,469
Interest	$ 26,291	$ -	$ 26,291
Total expenditures	$ 1,114,564	$ -	$ 1,114,564
Net change in fund balances	$ (162,723)	$ 881	$ (161,842)
Fund balance - beginning	$ 338,843	$ 3,452	$ 342,295
Fund balance - ending	$ 176,120	$ 4,333	$ 180,453

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

City of Varnell, 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, 2013

Net change in fund balances		(161,842)
Amount reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.		
Depreciation expense	(234,442)	
Capital outlay, net	209,230	(25,212)
Disposals of capital assets are nor reported at the fund level, but the resulting gain or loss on the disposal is reported in the government-wide statements.		
Repayment of capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position		60,376
Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		69,093
Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
net change in accrued liability		24,639
Change in net position		(32,946)

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

City of Varnell, Georgia

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended December 31, 2013

Revenues	Original Budget	Final Budget	Actual	Variance
Property Taxes	$ 97,500	$ 97,500	$ 93,769	$ (3,731)
Sales tax	$ 260,000	$ 260,000	$ 273,465	$ 13,465
Motor vehicle tax	$ 3,290	$ 3,290	$ 38,551	$ 35,261
Insurance premium tax	$ 90,000	$ 90,000	$ 93,362	$ 3,362
Alcohol beverage tax	$ 44,000	$ 44,000	$ 42,038	$ (1,962)
Intangibles tax	$ -	$ -	$ -	$ -
Fines and forfeitures	$ 240,000	$ 240,000	$ 247,111	$ 7,111
Intergovermental	$ 7,000	$ 7,000	$ 27,836	$ 20,836
Franchise fees	$ 79,460	$ 79,460	$ 86,253	$ 6,793
Licenses and permits	$ 22,000	$ 22,000	$ 14,658	$ (7,342)
Charges for services	$ 27,800	$ 27,800	$ 21,542	$ (6,258)
Donations	$ -	$ -	$ 10,950	$ 10,950
Miscellaneous	$ 3,800	$ 3,800	$ 3,187	$ (613)
Total Revenues	$ 874,850	$ 874,850	$ 952,722	$ 77,872
Other financing sources				
Proceeds from loans	$ -	$ -	$ -	$ -
Total revenues and other financing sou	$ 874,850	$ 874,850	$ 952,722	$ 77,872
Expenditures				
Current:				
General government	$ 322,950	$ 322,950	$ 355,904	$ (32,954)
Judicial	$ 55,450	$ 55,450	$ 78,164	$ (22,714)
Public safety	$ 283,750	$ 283,750	$ 275,766	$ 7,984
Public works	$ 67,700	$ 67,700	$ 23,746	$ 43,954
Culture and recreation	$ 5,600	$ 5,600	$ 15,994	$ (10,394)
Capital outlay:		$ -		
General government	$ 15,000	$ 15,000	$ 209,230	$ (194,230)
Debt service:		$ -		
Principal	$ 83,000	$ 83,000	$ 130,735	$ (47,735)
Interest	$ -	$ -	$ 25,025	$ (25,025)
Total expenditures	$ 833,450	$ 833,450	$ 1,114,564	$ (281,114)
Net change in fund balances	$ 41,400	$ 41,400	$ (161,842)	$ (203,242)
Fund balance - beginning	$ 338,843	$ 338,843	$ 338,843	$ 380,243
Fund balance - ending	$ 380,243	$ 380,243	$ 177,001	$ 177,001

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

The financial statements of the City of Varnell, Georgia have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The reporting entity is comprised of the primary government and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. The entity includes the legal entity, the City of Varnell, Georgia.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an 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, 2013, the City paid $0 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 taxes, fines and intergovernmental 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 financial 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 programs uses. For identifying to which function program revenue pertains, the determining factor for charges for services is which the 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 and 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.

Nonmajor Governmental Funds – The City's nonmajor governmental funds include one special revenue fund – confiscated asset fund. Although this fund is considered nonmajor, it is presented as a major fund as it is considered significant to financial statement users.

Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net position. The statement of activities reports revenues and expenses.

Fund Financial Statements – The governmental fund is accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

Note 1. Summary of Significant Accounting Policies – continued

Budgets and Budgetary Accounting

The City of Varnell adopts a budget each year for the General Fund and the special revenue funds which are made public prior to enactment and prior to December 1st. The hearing date is published and the budgets are made available for public inspection at City Hall. They are enacted through passage of an ordinance. The budgets for the General Fund and the special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). The budget is amended as necessary throughout the calendar year, as approved by the council. All annual appropriations lapse at year end. The legal level of budgetary control is at the department level.

The Statements of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual for the General Fund 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.

Note 1. Summary of Significant Accounting Policies – continued

Basis of Accounting – continued

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: property taxes, municipal court fines and state grants.

Deferred/Unearned Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

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

Expenses/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 statuses 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 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 benefitting 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 does not maintain a capitalization threshold. 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. 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	20 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.

Accrued Liabilities and Long-term Obligations

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. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year.

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:

Net 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 extended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

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

The City implemented Government Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions as of December 31, 2012. This new standard changed the overall definitions and classifications of governmental fund balance. Fund equity at the governmental fund financial reporting level is classified as "fund balance". Generally, fund balance represents the difference between the assets and liabilities under the current financial resources measurement focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The City's fund balances are classified as follows:

1) Non-spendable Fund Balance – Non-cash assets such as inventories or prepaid items.
2) Restricted Fund Balance – Funds with limitations imposed on their use by external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
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 ambassador under the authorization of the City Council. Equity amounts reported in special revenue funds, and debt service funds not otherwise classified as nonspendable, restricted, or committed shall constitute assignments of fund balance.

Note 1. Summary of Significant Accounting Policies – continued

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

Non-spendable fund balances and restricted fund balances are considered restricted net assets on the statement of net position. Committed, assigned, 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 inflows 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 not will 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.

Reclassifications

Certain reclassifications have been made to prior year amounts in order to the current year presentation. The reclassifications do not have a material effect on the financial statements.

Note 2. Stewardship, Compliance, and Accountability

Budgetary Information

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

Material Violations of Finance-Related Legal and Contractual Provisions

The City had material expenditures in excess of budgeted applications. The final budget figures varied from the actual figures in several areas. The general government function of the General Fund was over budget by $227,184. This was primarily due to not budgeting for the cost of construction of the new City Hall. The judicial function of the General Fund was over budget by $22,714, which was primarily due to the addition of personnel, and increased court services. The culture and recreation function of the General Fund was over budget by $10,394. This was primarily due to not budgeting for Senior Center/Community Center expenditures that were subsidized by the General Fund. The debt service function of the General Fund was over budget by $72,760 primarily due to not budgeting principal and interest payments on new debt incurred. The City plans to adequately amend their budget as circumstances change in coming years.

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 may not be returned to it. The City does not have a deposit policy for custodial credit risk, but is bound by State of Georgia law that requires collateralization of 110% of the fair value of the deposits in excess of federal depository insurance for governmental entities. As of December 31, 2013, the City held bank balances of $151,262, all of which was adequately insured and collateralized by securities held by the pledging financial institution.

Note 4. Receivables

Receivables at December 31, 2013 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. Property Tax and Taxes Receivable

Whitfield County tax assessor's office assesses property values, bills and collects property taxes. Tax revenues are recognized when levied to the extent they result in current receivables.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax bills are mailed on October 20 and are considered due upon receipt by the taxpayer; however, the actual due date is based on a period ending sixty days after the tax billing. After December 20, the bill becomes delinquent and penalties and interest may be assessed by the government. If the tax is unpaid after ninety days from due date, a lien is placed against the property.

Note 5 (continued)

Taxes receivable at December 31, 2013 consists of property taxes collected within sixty days of year end. Uncollected taxes for the current year levy have been deferred to the extent that they were not collected within sixty days of year end. The total received within sixty days of year end was $3,635.

Note 6. Capital Assets

Governmental activities capital asset activity for the year ended December 31, 2013 was as follows:

	Balance at 12/31/2012	Additions	Reclass-ifications	Disposals	Balance at 12/31/2013
Capital assets not being depreciated:					
Land	$ 429,588	$ -	$ -	$ -	$ 429,588
Construction in progress	$ 273,951	$ -	$ (273,951)	$ -	$ -
Total capital assets not being depreciated	$ 703,539	$ -	$ (273,951)	$ -	$ 429,588
Other capital assets:					
Buildings and improvements	$ 1,537,955	$ 199,341	$ 273,951	$ -	$ 2,011,247
Streets	$ 16,506,212	$ 9,890	$ -	$ -	$ 16,516,102
Equipment/furniture	$ 40,353	$ -	$ -	$ -	$ 40,353
Vehicles	$ 455,732	$ -	$ -	$ -	$ 455,732
Total other capital assets	$ 18,540,252	$ 209,231	$ 273,951	$ -	$ 19,023,434
Total cost	$ 19,243,791	$ 209,231	$ -	$ -	$ 19,453,022
Accumulated depreciation:					
Buildings and improvements	$ 364,791	$ 39,960	$ -	$ -	$ 404,751
Streets	$ 15,414,986	$ 150,983	$ -	$ -	$ 15,565,969
Equipment/Furniture	$ 35,670	$ 1,268	$ -	$ -	$ 36,938
Vehicles	$ 312,983	$ 42,231	$ -	$ -	$ 355,214
Total accumulated depreciation:	$ 16,128,430	$ 234,442	$ -	$ -	$ 16,362,872
Governmental activities capital assets, net	$ 3,115,361	$ (25,211)	$ -	$ -	$ 3,090,150

Government activities depreciation expense:	
General government	$ 161,523
Public safety	$ 20,392
Streets and sanitation	$ 25,592
Culture and recreation	$ 26,935
Total governmental activities depreciation expense	$ 234,442

Note 7. Compensated Absences

Employees of the City of Varnell are entitled to paid vacations and sick days depending on the length of the service. Therefore, employees are entitled to accumulate vacation and sick days. The accrued compensated absence liability at December 31, 2013 was $9,830. The liability will be liquidated by the General Fund.

Note 8. Operating Leases

The City has no operating leases at December 31, 2013 whose terms extend beyond one year.

Note 9. Long-Term Debt

Capital Leases

The City of Varnell has entered into three lease agreements as lessee for financing the acquisition of police and sanitation vehicles. These lease agreements qualify as a capital leases for accounting purposes and therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The interest rates associated with the leases are 3.34%, 3.77%, and 3.7%. The leases will be satisfied in March 2015, March 2014, and October 2014. The leases are collateralized by the leased assets. All cost and related amortization expense reported on the leased assets are included in depreciation expense, as disclosed in Note 7. The following is an analysis of leased assets under the capital leases as of December 31, 2013:

	Governmental Activities
Vehicles	$ 238,830
Less: Accumulated depreciation	$ (143,164)
	$ 95,666

The future minimum, lease obligations and the net present value of the minimum lease payments as of December 31, 2013, were as follows:

Year Ending December 31,	Governmental Activities
2014	$ 56,789
2015	$ 3,542
Total minimum lease payments	$ 60,331
Less: amount representing interest	$ (1,891)
Present value of minimum lease payments	$ 58,440

Note 9. Long-Term debt – continued

Notes Payable

The City financed the construction of the new City Hall through a note payable. The principal sum of the note is $500,000 and is due in monthly installments of $3,537, including interest at 3.3%, through December 2027. The note is secured by an interest in the City Hall facility and land. Note payable debt service requirements to maturity are as follows:

	Principal	Interest	Total
2014	$ 26,996	$ 15,444	$ 42,440
2015	$ 27,913	$ 14,527	$ 42,440
2016	$ 28,861	$ 13,579	$ 42,440
2017	$ 29,842	$ 12,598	$ 42,440
2018	$ 30,856	$ 11,584	$ 42,440
2019-2023	$ 170,737	$ 41,465	$ 212,202
2024-2027	$ 158,684	$ 13,076	$ 171,760

Line of Credit

The City maintains a line of credit with a bank. The line was increased to $150,000 from $100,000 in October 2012. The line is unsecured. Interest expense is paid monthly. The line expired on November 14, 2013 and the City was granted an extension of time to pay off the balance, and the line was paid off effective October 14, 2014. The interest is calculated at prime rate plus 3.75%. The line of credit balance was $41,800 at December 31, 2013.

The City's long-term obligations consisted of the following at December 31, 2013

	Outstanding at 12/31/2012	Additions	Reductions	Outstanding at 12/31/2013	Due in one Year
Notes payable	$ 500,000		$ (27,375)	$ 472,625	$ 26,996
Capital leases	$ 118,816		$ (60,376)	$ 58,440	$ 54,640
Line of credit	$ 84,784		$ (42,984)	$ 41,800	$ 41,800
Compensated absences	$ 34,469		$ (24,639)	$ 9,830	$ -
Total	$ 738,069	$ -	$ (155,374)	$ 582,695	$ 123,436

Note 10. Risk Management

The City is exposed to various risks of losses related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Agency Property and Liability Insurance Fund and the Georgia Municipal Association Group Self-insurance Workers Compensation Fund, public entity risk pool currently operating as a common risk management and insurance program for member local governments.

As part of these risk pools, the City is obligated to pay all contributions and assessments as prescribed by the pools, to cooperate with the pool's agents and attorneys, to follow loss reduction procedures established by the funds, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss. The City is also to allow the pool's agents and attorneys to represent the City in investigation, settlement discussions and all levels of litigation arising out of any claim made against the City within the scope of loss protection furnished by the funds.

The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member government contract and in accordance with the worker's compensation law of Georgia. The funds are to pay all cost taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense. There were no significant reductions in insurance coverage in relation to the prior year. For the years ended 2013, 2012, 2011, and 2010, there were no settlements in excess of insurance coverage.

SPECIAL REPORTS SECTION

BRC

B. RODNEY CROWE, CPA, P.C.
Certified Public Accountant

187 LAFAYETTE STREET
P.O. BOX 1056
RINGGOLD, GA 30736-1056
PHONE 706 / 965-2738
706 / 965-6100
FAX 706 / 965-4503
brcrowe@catt.com

B. RODNEY CROWE, CPA,CFP

Members
American Institute of Certified Public Accountants
Georgia and Tennessee Societies of Certified Public Accountants

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

Honorable Mayor and Members of the City Council
City of Varnell, 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 Varnell, Georgia as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City of Varnell, Georgia's basic financial statements and have issued our report thereon dated October 29,2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies that we considered material weaknesses.

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 charge with governance. We consider the deficiencies described in the accompany schedule of findings and responses to be significant deficiencies. (2013-001, 2013-002, 2013-003, 2013-004, 2013-005)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Varnell, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses as items 2013-006.

City of Varnell, Georgia's Response to Findings

The City of Varnell, Georgia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Varnell, 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.

B. Rodney Crowe, CPA

Ringgold, Georgia
October 29, 2014

City of Varnell, Georgia
Schedule of Findings and Responses
December 31, 2013

Findings

2013-001 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.

2013-002 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.

2013-003 Condition: No capitalization policy has been adopted by the Council

Effect: Failure to maintain official policies regarding capitalization could result in the City not recording and tracking capital assets appropriately.

Recommendation: The Council should adopt an official capitalization policy.

View of responsible officials and planned corrective actions: The City agrees. We will explore policies and pursue implementation.

2013-004 Condition: No deposit, investment, or other related policies have been adopted by the Council.

Effect: Failure to maintain official policies regarding deposits and investments could result in the City obtaining deposits in vehicles not approved by the state and not earning appropriate returns.

Recommendation: The Council should adopt official deposit and investment policies.

View of responsible officials and planned corrective actions: The City agrees. We will explore policies and pursue implementation.

2013-005 Condition: Accounts are not reconciled to supporting Courtware software system.

Effect: Not reconciling the municipal fines received to the general ledger affords greater risk of misappropriation or material misstatement.

Recommendation: Periodic reconciliations of the Courtware system should be made to the general ledger.

View of responsible officials and planned corrective actions: The City agrees. Reconciliations will be performed on a timely basis.

Findings – continued

2013-006 Condition: The City experienced material violations of the budget.

Effect: Failure to properly amend the budget does not comply with state requirements and does not allow for sufficient management oversight.

Recommendation: The City should establish a policy for budget amendments.

View of responsible officials and planned corrective actions: The City agrees. City staff will learn to present current, updated financial information to the Council so that necessary budget amendments might be discussed.