

CITY OF PENDERGRASS, GEORGIA

**ANNUAL FINANCIAL REPORT
(WITH INDEPENDENT AUDITORS' REPORT)**

Year Ended December 31, 2012

CITY OF PENDERGRASS, GEORGIA

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December 31, 2012**

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INDEPENDENT AUDITORS' REPORT

June 20, 2014

City Council
CITY OF PENDERGRASS, GEORGIA
Pendergrass, 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 PENDERGRASS, GEORGIA as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City'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.

Auditors' 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 from 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 CITY OF PENDERGRASS, GEORGIA, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof 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 Budgetary Comparison Schedule-General Fund listed in the table of contents 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.

The CITY OF PENDERGRASS, GEORGIA has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CITY OF PENDERGRASS, GEORGIA's basic financial statements. The accompanying Schedule of Projects Constructed with Special Sales Tax Proceeds which is presented for purposes of additional analysis as required by Official Code of Georgia 48-8-12 and is not a required part of the basic financial statements.

The supplementary information identified above is the responsibility of management and was derived from and relates 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 supplementary information identified above is 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 20, 2014 on our consideration of the CITY OF PENDERGRASS, 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 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 CITY OF PENDERGRASS, GEORGIA's internal control over financial reporting and compliance.

Bates Carter : Co; LLP

CITY OF PENDERGRASS, GEORGIA
STATEMENT OF NET POSITION
December 31, 2012

	PRIMARY GOVERNMENT
	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash	\$ 95,563
Receivables (net of allowance for uncollectibles)	155,579
Prepaid items	9,546
Capital assets:	
Capital assets not being depreciated	55,572
Capital assets being depreciated	268,949
Less: accumulated depreciation	<u>(180,772)</u>
Capital assets, net of depreciation	<u>143,749</u>
TOTAL ASSETS	<u>404,437</u>
LIABILITIES	
Accounts payable	252,483
Unearned revenue	60,022
Noncurrent liabilities:	
Due within one year	
Notes payable	132,059
Due in more than one year	
Notes payable	<u>8,161</u>
TOTAL LIABILITIES	<u>452,725</u>
NET POSITION	
Net investment in capital assets	3,529
Restricted for:	
Capital outlay projects	129,089
Unrestricted	<u>(180,906)</u>
TOTAL NET POSITION	<u><u>\$ (48,288)</u></u>

The accompanying notes are an integral part of this statement.

CITY OF PENDERGRASS, GEORGIA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

FUNCTIONS/PROGRAMSPROGRAM REVENUES.....				NET (EXPENSE) AND CHANGES IN NET POSITION
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT
PRIMARY GOVERNMENT					
GOVERNMENTAL ACTIVITIES					
General government	\$ 227,117	\$ 95,570	\$ 95,927	\$ -	\$ (35,620)
Judicial	2,697	-	-	-	(2,697)
Public safety	69,005	-	-	-	(69,005)
Public works	57,019	9,958	-	78,450	31,389
Interest	8,440	-	-	-	(8,440)
Total Governmental Activities	<u>364,278</u>	<u>105,528</u>	<u>95,927</u>	<u>78,450</u>	<u>(84,373)</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 364,278</u>	<u>\$ 105,528</u>	<u>\$ 95,927</u>	<u>\$ 78,450</u>	<u>(84,373)</u>
GENERAL REVENUES					
Property taxes					86,838
Insurance premium taxes					21,024
Financial institutions taxes					-
Franchise taxes					70,943
Alcohol beverage taxes					37,181
Total taxes					<u>215,986</u>
Unrestricted investment earnings					32
TOTAL GENERAL REVENUES AND TRANSFERS					<u>216,018</u>
CHANGES IN NET POSITION					<u>131,645</u>
NET POSITION, Beginning					877,096
PRIOR PERIOD ADJUSTMENT					<u>(1,057,029)</u>
NET POSITION, Beginning as restated					<u>(179,933)</u>
NET POSITION, Ending					<u>\$ (48,288)</u>

The accompanying notes are an integral part of this statement.

CITY OF PENDERGRASS, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012

	GENERAL	SPLOST	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash	\$ 39,032	\$ 56,531	\$ 95,563
Receivables (net of allowance for uncollectibles)	149,618	5,961	155,579
Interfund receivables	-	66,597	66,597
Prepaid items	9,546	-	9,546
TOTAL ASSETS	<u>\$ 198,196</u>	<u>\$ 129,089</u>	<u>\$ 327,285</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 252,484	\$ -	\$ 252,484
Interfund payables	66,597	-	66,597
Unearned revenue	60,022	-	60,022
TOTAL LIABILITIES	379,103	-	379,103
DEFERRED INFLOWS OF RESOURCE			
Unavailable revenue - property taxes	4,421	-	4,421
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>383,524</u>	<u>-</u>	<u>383,524</u>
FUND BALANCES			
Nonspendable:			
Prepaid expenditure	9,546	-	9,546
Restricted:			
Capital outlay projects	-	129,089	129,089
Unassigned:	(194,874)	-	(194,874)
TOTAL FUND BALANCES	<u>(185,328)</u>	<u>129,089</u>	<u>(56,239)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 198,196</u>	<u>\$ 129,089</u>	<u>\$ 327,285</u>

The accompanying notes are an integral part of this statement.

CITY OF PENDERGRASS, GEORGIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
For the Year Ended December 31, 2012

Total Fund Balances for Governmental Funds (page 3)	\$ (56,239)
Total net position reported for governmental activities in the statement of net position is different because:	
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds.	143,749
Revenues in the statement of activities that do not provide current financial resources are reported as deferred revenues in the funds.	
Property Taxes	4,421
	4,421
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Notes payable	(140,220)
	(140,220)
Rounding	1
Total net position of governmental activities (page 1)	\$ (48,288)

The accompanying notes are an integral part of this statement.

CITY OF PENDERGRASS, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

			TOTAL GOVERNMENTAL FUNDS
REVENUES	GENERAL	SPLOST	
Property tax	\$ 82,416	\$ -	\$ 82,416
Insurance premium tax	21,024	-	21,024
Franchise taxes	70,943	-	70,943
Alcohol beverage taxes	37,181	-	37,181
Licenses and permits	8,525	-	8,525
Intergovernmental	95,927	78,434	174,361
Charges for services	18,656	-	18,656
Fines and forfeitures	75,066	-	75,066
Interest income	33	16	49
Miscellaneous	3,280	-	3,280
	<u>413,051</u>	<u>78,450</u>	<u>491,501</u>
TOTAL REVENUES			
EXPENDITURES			
Current Expenditures			
General government	223,150	-	223,150
Judicial	2,697	-	2,697
Public safety	64,605	-	64,605
Public works	21,933	30,502	52,435
Capital outlay	22,000	-	22,000
Debt service			
Principal	12,478	-	12,478
Interest	8,440	-	8,440
	<u>355,303</u>	<u>30,502</u>	<u>385,805</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	<u>57,748</u>	<u>47,948</u>	<u>105,696</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from notes payable	<u>22,000</u>	<u>-</u>	<u>22,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>22,000</u>	<u>-</u>	<u>22,000</u>
NET CHANGE IN FUND BALANCES	<u>79,748</u>	<u>47,948</u>	<u>127,696</u>
FUND BALANCES, Beginning of year	12,464	81,141	93,605
PRIOR PERIOD ADJUSTMENT	<u>(277,540)</u>	<u>-</u>	<u>(277,540)</u>
FUND BALANCES, Beginning, as restated	<u>(265,076)</u>	<u>81,141</u>	<u>(183,935)</u>
FUND BALANCES, End of year	<u>\$ (185,328)</u>	<u>\$ 129,089</u>	<u>\$ (56,239)</u>

The accompanying notes are an integral part of this statement.

CITY OF PENDERGRASS, GEORGIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

Net change in fund balances (page 5) \$ 127,696

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 and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	22,000	
Depreciation expense	(12,951)	
	9,049	9,049

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	4,421	
	4,421	4,421

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, where as these amounts are deferred and amortized in the statement of activities. This adjustment combines the net change of two balances.

Issuance of debt	(22,000)	
Principal payments on long-term debt	12,478	
	(9,522)	(9,522)

Changes in net position of governmental activities (page 2) \$ 131,645

The accompanying notes are an integral part of this statement.

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the CITY OF PENDERGRASS, 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. The more significant of the government's accounting policies are described below.

(A) REPORTING ENTITY

The reporting entity consists of the following:

- The primary government;
- Organizations for which the primary government is financially accountable;
- Other organizations that, because of the nature and significance of their relationship with the primary government, may not be excluded from the financial reporting entity;

For financial reporting purposes, management has considered all potential component units. The decision whether to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. There are no component units.

(B) GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City has no enterprise funds to report.

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

(C) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenues susceptible to accrual are considered available if they are collected within 60 days of the end of the current fiscal period for which they are imposed. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, Sales tax, franchise taxes, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources, except those accounted for in another fund.

The *SPLOST Capital Projects Fund* accounts for funds received from a local 1% sales tax reserved for construction of various capital projects.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

(D) ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS, AND NET POSITION OR FUND BALANCE

1. *Deposits and Investments*

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U.S. Treasury and its agencies and instrumentalities; bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; and certificates of deposits of banks insured by FDIC.

Investments are recorded at fair value based on quoted market prices as of the balance sheet date. Increases or decreases in fair value during the year are recognized as part of interest income.

2. *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "interfund receivables/payables." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and tax receivables are shown net of an allowance of uncollectibles.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are normally levied by October of each year. The taxes were payable on or before December. Interest and penalties are assessed on taxes not paid by this date. The City's property taxes were levied on the assessed values of all real property with utilities including mobile homes located in the City limits

3. *Inventories and Prepaid Items*

Inventories, consisting of expendable supplies, not held for resale are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, culverts, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 and an estimated useful life in excess of two years.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Streets, bridges and culverts acquired prior to January 1, 2003 have not been reported.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the assets constructed. No interest was capitalized during 2012.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings	40
Machinery and equipment	5-20
Vehicles	3-10
Infrastructure	30

5. 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.

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

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 that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in the category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

6. *Compensated Absences*

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. In accordance with the provisions of Statement of Governmental Accounting Standards No. 16, "Accounting for Compensated Absences," no liability is reported for unpaid accumulated sick leave because the benefits are paid only upon illness of an employee, and the amount of such payments cannot be reasonably estimated. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. *Long-term Obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, or proprietary fund type statement of net position.

8. *Fund Equity*

Fund equity at the governmental fund financial reporting level is classified as "fund balance."
Fund equity for all other reporting is classified as "net position."

Fund balance - Generally, fund balance represents the difference between the current assets and current liabilities. 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. Fund balances are classified as follows:

- *Nonspendable* - Fund balances are reported as nonspendable when the amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash like inventories and prepaid items) or (b) legally or contractually required to be maintained intact.
- *Restricted* - Fund balances are reported as restricted when there are limitations imposed

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

- *Committed* - Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the adoption of a resolution prior to the end of the fiscal year. In order to modify or rescind the commitment, the City Council must adopt another resolution.
- *Assigned* - Fund balances are reported as assigned when amounts are constrained by the County's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City's finance director to assign fund balances.
- *Unassigned* - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all other governmental funds.

Net Position - Net position represent the difference between assets, liabilities and deferred outflows/inflows of resources. Net position net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt used for the acquisition, construction, or improvement of those assets. In determining the outstanding balance of any borrowing, proceeds of that debt which has not been spent is deducted. Accounts payable for costs related to acquisition, construction, or improvement of those capital assets is considered debt for this calculation. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then committed, assigned, and unassigned (or unrestricted) resources as they are needed.

9. *Management 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(A) BUDGETARY INFORMATION

Prior to January 1, the department heads submit to the City Council a proposed operating budget for each department for the fiscal year commencing January 1. The operating budget includes proposed expenditures and the means of financing them. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Council holds a public hearing on the budget.
2. The budget is then revised and adopted or amended by the City Council at a public meeting.
3. The budget may be amended during the year only by formal action of the city council at a regular meeting.

The budget is adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund. Budget amounts are as originally adopted, or as amended by the Council. Project length budgets are adopted for the capital projects funds. Annual operating budgets are prepared for each enterprise fund for planning, control and evaluation purposes. Budgetary amounts are not formally integrated into proprietary fund general ledgers.

The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the department level.

(B) DEFICIT FUND BALANCE

At June 30, 2012, the General Fund had a fund balance deficit of \$(185,328), which resulted from unexpected legal fees a prior year. In 2013, the City will continue to control spending to eliminate the fund deficit.

NOTE 3 - DEPOSITS AND INVESTMENTS

Custodial credit risk - deposits. In case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned. The City's policy permits the City to exceed the FDIC insured limit in making deposits in commercial banks and savings and loans institutions if the funds are otherwise adequately secured. As of December 31, 2012, all deposits of the City were adequately insured or collateralized. At year end, the City's carrying amount of deposits was \$95,563 and the bank balance was \$109,458.

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 4 - RECEIVABLES

Receivables as of year-end for the City's individual major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	SPLOST
Receivables:		
Taxes	\$ 64,443	\$ -
Other	75,551	-
Intergovernmental	9,624	5,961
Total Gross Receivables	149,618	5,961
Less: Allowance for Uncollectibles	-	-
Total Net Receivables	<u>\$ 149,618</u>	<u>\$ 5,961</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Prior Period Adjustment	Adjusted Beginning Balance	Additions	Retirements	Adjustments and Transfers	Ending Balance
Governmental Activities:							
Non-Depreciable Assets:							
Land and improvements	\$ 447,000	\$ (391,428)	\$ 55,572	\$ -	\$ -	\$ -	\$ 55,572
Total non-depreciable capital assets	<u>447,000</u>	<u>(391,428)</u>	<u>55,572</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,572</u>
Depreciable Assets:							
Buildings and improvements	233,886	(83,037)	150,849	-	-	-	150,849
Machinery and equipment	284,952	(188,852)	96,100	22,000	-	-	118,100
Infrastructure	367,320	(367,320)	-	-	-	-	-
Total depreciable capital assets	<u>886,158</u>	<u>(639,209)</u>	<u>246,949</u>	<u>22,000</u>	<u>-</u>	<u>-</u>	<u>268,949</u>
Less Accumulated Depreciation for:							
Buildings and improvements	69,617	6,687	76,304	3,968	-	-	80,272
Machinery and equipment	269,741	(178,224)	91,517	8,983	-	-	100,500
Infrastructure	79,611	(79,611)	-	-	-	-	-
Total accumulated depreciation	<u>418,969</u>	<u>(251,148)</u>	<u>167,821</u>	<u>12,951</u>	<u>-</u>	<u>-</u>	<u>180,772</u>
Total depreciable capital assets, net	<u>467,189</u>	<u>(388,061)</u>	<u>79,128</u>	<u>9,049</u>	<u>-</u>	<u>-</u>	<u>88,177</u>
Governmental activities capital assets, net	<u>\$ 914,189</u>	<u>\$ (779,489)</u>	<u>\$ 134,700</u>	<u>\$ 9,049</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 143,749</u>

Additions to governmental activities capital assets for fiscal year ending December 31, 2012 consist of the following:

Capital Outlay	\$ 22,000
Total	<u>\$ 22,000</u>
Non-depreciable capital assets additions	\$ -
Depreciable capital assets additions	22,000
Total	<u>\$ 22,000</u>

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General Government	\$ 3,968
Public Safety	4,400
Public Works	4,583
Total depreciation expense-governmental activities	<u>\$ 12,951</u>

NOTE 6 - LONG-TERM DEBT

Long-term liability activity for the year ended December 31, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Due After One Year</u>
Governmental Activities:						
Notes payable	\$ 130,698	\$ 22,000	\$ (12,478)	\$ 140,220	\$ 132,059	\$ 8,161
Governmental activities long-term liabilities	<u>\$ 130,698</u>	<u>\$ 22,000</u>	<u>\$ (12,478)</u>	<u>\$ 140,220</u>	<u>\$ 132,059</u>	<u>\$ 8,161</u>

Notes Payable

The City issued an installment note in the amount of \$130,698 with Hometown Community Bank with monthly principal and interest payable at 6.00% per annum in the amount of \$1,217 and a balloon payment in the amount of \$124,653 due December 31, 2012. The City issued this note payable to finance the City Hall/Library. The amount outstanding as of December 31, 2012 is \$124,653.

The City has an installment note with the Hometown Community Bank with monthly principal and interest payable at 6.00% per annum in the amount of \$678 maturing December 16, 2014. The City issued this note payable to finance a vehicle. The amount outstanding as of December 31, 2012 is \$15,567.

The annual requirements to amortize notes payable outstanding as of December 31, 2012 are as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 132,059	\$ 733	\$ 132,792
2014	8,161	276	8,437
Total	<u>\$ 140,220</u>	<u>\$ 1,009</u>	<u>\$ 141,229</u>

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 7 - CONTINGENT LIABILITIES / RISK MANAGEMENT

The City receives grants from various granting agencies, which are subject to audit and adjustment by these agencies. The City is not aware of any adjustments or expenditures, which may be disallowed and restitution, if any, is not determinable at this time.

Pursuant to Title 34, Chapter 9, Article 5 of the Official Code of Georgia Annotated, the City became a member of the Georgia Municipal Association Workers' Compensation Self Insurance Fund. As part of this risk pool, the City is obligated to pay all contributions and assessments; to cooperate with the pool's agents and attorneys; to follow loss reduction procedures established by the fund, and to report as promptly as possible, in accordance with any coverage descriptions issued, all incidents that could require the fund to pay any type loss. The City is also to allow all the pool's agents and attorneys to represent the City in investigations settlement discussions and all level of litigation arising out of any claim made against the City.

The fund is 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 workers' compensation law of Georgia. The fund is to pay all cost taxed against the members in any legal proceedings defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

The City is a member of the Georgia Interlocal Risk Management Agency which allows the City to share liability, crime, motor vehicle and property damage risks. Chapter 85, Title 36, of the Official Code of Georgia Annotated authorizes Georgia municipalities to form interlocal risk management agencies. The Georgia Interlocal Risk Management Agency (GIRMA) is a municipal interlocal risk management agency to function as an unincorporated nonprofit instrumentality of its member municipalities- GIRMA establishes and administers one or more group self insurance funds and a risk management service to prevent or lessen the incidence and severity of causality and property losses occurring in the operation of municipal government. GIRMA is to defend and protect in accordance with the member government contract and related coverage descriptions and any member of GIRMA against liability or loss.

As part of this risk pool, the City is obligated to pay all contributions and assessments; to cooperate with the pool's agents and attorneys; to follow loss reduction procedures established by the fund, and to report as promptly as possible, in accordance with any coverage descriptions issued, all incidents that could require the fund to pay any type loss. The City is also to allow all the pool's agents and attorneys to represent the City in investigations settlement discussions and all level of litigation arising out of any claim made against the City. The City must participate at all times in at least one fund which is established by GIRMA.

The City retains the first \$1,000 of each risk of loss in the form of a deductible. The City files all claims with GIRMA. GIRMA bills the City for any risk of loss up to the \$1,000 deductible. The basis for estimating the liabilities for unpaid claim is "IBNR" established by an actuary.

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

During the year ended December 31, 2012, the City did not incur claims. The City has not compiled a record of the claims paid up to the \$1,000 deductible for the prior years. The City is not aware of any claims which the City is liable for (up to the \$1,000) which were outstanding and unpaid at December 31, 2012. No provisions have been made in the financial statements for the year ended December 31, 2012 for any estimate of potential unpaid claims.

The City is exposed to various risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

City management feels the above coverage is adequate. There has not been any significant reduction in coverage from the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Balances due to/from other funds at December 31, 2012 , consist of the following:

<u>\$ 66,597</u>	Due to SPLOST from General Fund for prior year expenditures
<u>\$ 66,597</u>	Total Due from Other Funds

NOTE 9 - NORTHEAST GEORGIA REGIONAL COMMISSION

Under Georgia law, the City in conjunction with other cities and counties in the area are members of the Northeast Georgia Regional Commission (NEGRC) and is required to pay annual dues there to. During the year ended December 31, 2012, the City paid \$- in such dues. Membership in the NEGRC is required by the official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the NEGRC in Georgia. The NEGRC 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 an NEGRC. Separate financial statements may be obtained from:

Northeast Georgia Regional Commission
305 Research Dr.
Athens, Georgia 30503-1720

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 15 - PRIOR PERIOD ADJUSTMENTS

As of January 1, 2012, this City restated its financial statements for the fiscal year ended December 31, 2011. The restatement resulted in a net decrease to General Fund fund balance in the amount of \$277,540 and a net decrease to net position in Governmental Activities in the amount of \$1,057,029. The restatement was a result of the follow:

General Fund

Restate franchise tax receivable	\$ 57,676
Restate Local Option Sales Tax receivable	(7,066)
Restate unearned property taxes	(55,612)
Restate accounts payable due to litigation from prior year	(272,538)
Net decrease in General Fund balance	<u>(277,540)</u>

Governmental Activities

Remove donated land not owned by the City	(427,000)
Remove cost associated with road improvements that does not meet capitalization threshold	(287,709)
Remove assets less than \$5,000 threshold requirement	(64,780)
Net decrease in net position	<u><u>\$ (1,057,029)</u></u>

CITY OF PENDERGRASS, GEORGIA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2012
(Required Supplementary Information)

	BUDGET AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
FUND BALANCE, Beginning of year	\$ (265,076)	\$ (265,076)	\$ (265,076)	\$ -
RESOURCES (INFLOWS)				
Property tax	26,000	43,000	82,416	39,416
Insurance premium taxes	-	21,000	21,024	24
Franchise taxes	75,200	75,200	70,943	(4,257)
Alcohol beverage taxes	55,000	34,000	37,181	3,181
Licenses and permits	-	-	8,525	8,525
Intergovernmental	84,000	84,000	95,927	11,927
Charges for services	4,000	4,000	18,656	14,656
Fines and forfeitures	50,000	75,000	75,066	66
Interest income	-	-	33	33
Miscellaneous	5,000	5,000	3,280	(1,720)
Proceeds from notes payable	-	22,000	22,000	-
Total Resources (Inflows)	299,200	363,200	435,051	71,851
AMOUNTS AVAILABLE FOR APPROPRIATION	34,124	98,124	169,975	71,851
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Current Expenditures				
General Government				
Administration	205,225	237,225	236,540	685
Total General Government	205,225	237,225	236,540	685
Judicial				
Municipal court	-	3,000	2,697	303
Total Judicial	-	3,000	2,697	303
Public Safety				
Police	78,376	100,376	94,133	6,243
Total Public Safety	78,376	100,376	94,133	6,243
Public Works				
Highways and streets	15,600	22,600	21,933	667
Total Public Works	15,600	22,600	21,933	667
TOTAL CHARGES TO APPROPRIATIONS	299,201	363,201	355,303	7,898
CHANGE IN FUND BALANCE	(1)	(1)	79,748	79,749
FUND BALANCE, End of year	\$ (265,077)	\$ (265,077)	\$ (185,328)	\$ 79,749

NOTES TO THE BUDGETARY COMPARISON SCHEDULE

1. The budgetary basis of accounting used in this schedule is the same as GAAP.

CITY OF PENDERGRASS, GEORGIA
SUPPLEMENTARY INFORMATION
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAXES
For the Year Ended December 31, 2012

PROJECT	ORIGINAL ESTIMATED COSTS	CURRENT ESTIMATED COSTS	PRIOR YEARS	EXPENDITURES CURRENT YEAR
Jackson County, Georgia SPLOST #4 - Commenced July 1, 2005				
Recreation	\$ 334,490	\$ 390,368	\$ 219,847	\$ -
Library Construction	-	260,134	-	-
Roads	83,374	139,252	152,976	30,502
Totals	<u>\$ 417,864</u>	<u>\$ 789,754</u>	<u>\$ 372,823</u>	<u>\$ 30,502</u>
Total of SPLOST above				<u><u>\$ 30,502</u></u>

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (page 5)

Expenditures	\$ 30,502
Total	<u><u>\$ 30,502</u></u>



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 GAINESVILLE, GEORGIA 30503
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**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***

June 20, 2014

City Council
 CITY OF PENDERGRASS, GEORGIA
 PENDERGRASS, 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 *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the CITY OF PENDERGRASS, GEORGIA, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the CITY OF PENDERGRASS, GEORGIA's basic financial statements and have issued our report thereon dated June 20, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered CITY OF PENDERGRASS, 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 CITY OF PENDERGRASS, GEORGIA's internal control. Accordingly, we do not express an opinion on the effectiveness of the CITY OF PENDERGRASS, 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 charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, as defined above. However, given these limitations, during our audit we did identify deficiencies in internal control described below that we consider to be material weaknesses. Material weaknesses may also exist that have not been identified.

Statement of Condition 1:

During our audit, we noted that many accounts had not been reconciled back to the audited balances at December 31, 2011, and adjusted accordingly for current year activity. We found data that had been carried forward in the accounting software since 2007.

Criteria:

Any necessary adjustments should be made so that the book balances agree to the audited balances. All current year activity should be maintained in the City's accounting software.

Effect of Condition:

The City's reporting is inaccurate and ineffective.

Cause of Condition:

Cause Unknown.

Recommendation:

We recommend that the Finance department make all journal entries given to the City to bring the books to agree with the audited financial statements and that all activity should be entered into the accounting software.

Response:

Accounting software shall be used to reconcile all accounts the City has at the end of each month.

Statement of Condition 2:

The City of Pendergrass does not maintain a detailed budget for its operations in its accounting software.

Criteria:

A balanced, approved, detailed line item budget should be maintained in the City's accounting software.

Effect of Condition:

The budget does not agree with the accounting records; therefore, managing the budget can be very difficult.

Cause of Condition:

Cause Unknown.

Recommendation:

We recommend that a detailed budget, broken down by line items, be presented to the City Council, and after approval, a final budget should be inputted and maintained in the accounting software.

Response:

Beginning immediately, the City shall use accounting software to monitor the budget. The budget

shall be broken down by line items when it is presented to the City Council for a vote. The Budget shall then be inputted and maintained in the accounting software.

Statement of Condition 3:

During our audit, we noted that cash is not being submitted to the Bookkeeper on a timely basis. At the present time, cash is accumulated primarily at City Hall by the City Clerk and in some instances, cash collected for court is being held for extensive periods of time until after the court hearing has occurred. Cash is not being submitted to the Bookkeeper on a timely basis. At the present time, cash is accumulated primarily at City Hall by the City Clerk and in some instances, cash collected for court is being held for extensive periods of time until after the court hearing has occurred.

Criteria:

To insure proper internal controls, money collected should be recorded and given to the Bookkeeper on a daily basis.

Effect of Condition:

As a result, the risk of loss from misplacement or misappropriation increases when money is held for long periods of time.

Cause of Condition:

Cause Unknown.

Recommendation:

We recommend that cash collections be submitted to the Bookkeeper on a daily basis. For situations where money is held for court, a separate bank account should be opened and these monies need to be held in this account to ensure proper security of this money.

Response:

The City will immediately begin submitting cash collections to the bookkeeper on a daily basis. A separate account will immediately be opened for money to be held for court, and transferred to the general fund when this money is forfeited as cash bond/payments after the proper court date has passed.

Statement of Condition 4:

Deposits are not made on a consistent and timely basis.

Criteria:

To insure proper internal controls, deposits should be made on a daily basis or at a minimum of two to three days after collecting.

Effect of Condition:

Not only is there a risk of loss from misplacement or misappropriation, but cash is not available for expenditures or investment.

Cause of Condition:

Cause Unknown.

Recommendation:

We recommend that cash collections be submitted to the Bookkeeper on a daily basis and deposits be made at least on a weekly basis both to improve cash flow and to reduce the risk of loss. If it is inconvenient for an employee to make daily trips to the bank, use of a lockbox system might be considered, whereby customer payments are sent to a post office box and collected by the bank each day.

Response:

Beginning immediately, cash collections shall be submitted to the Bookkeeper on a daily basis and deposits will be made on at the very least a weekly basis.

Statement of Condition 5:

The bank reconciliation has not properly been reconciled on a month to month basis and consists of many errors.

Criteria:

The bank account should be reconciled on a monthly basis and the only reconciling items on the bank reconciliation should be the outstanding items from that month.

Effect of Condition:

The cash book balance was overstated by \$5,391.

Cause of Condition:

Cause Unknown.

Recommendation:

Each bank account should be reconciled on a monthly basis, and the outstanding checks and deposits in transit from the previous month should be followed-up on to determine if they have cleared the bank in the current month. If so, these items should be removed from the bank reconciliation, so the only reconciling items left on the bank reconciliation are current and the correct book balance is reached.

Response:

Beginning immediately, each bank account shall be reconciled on a monthly basis and any outstanding checks or deposits in transit from previously months shall be followed up to ensure they have cleared the bank. Proper bank reconciliations shall be conducted each month for each account the City has.

Statement of Condition 6:

The SPLOST bank account is not reconciled in the accounting software. The balance of \$12,315 that was recorded had not been updated since 2007.

Criteria:

To ensure that all cash accounts are accounted for properly and to ensure that the City has control of these accounts, all bank accounts should be recorded in the accounting software and reconciled on a monthly basis.

Effect of Condition:

The cash book balance was understated by \$44,215.

Cause of Condition:

Cause unknown.

Recommendation:

We recommend that all bank accounts be entered into the accounting software and the Bookkeeper reconcile all bank accounts on a monthly basis.

Response:

SPLOST shall be recorded and reconciled with accounting software beginning immediately.

Statement of Condition 7:

Throughout testing, several instances were found where sufficient support for deposits did not exist. For example, while testing Fines and Forfeiture revenue, some of the receipts were incorrectly dated and the support for the cash deposited did not match what the deposit slip indicated.

Criteria:

To insure proper internal controls, the exact support for each deposits should be filed and accessible to review.

Effect of Condition:

The risk of loss from misplacement or misappropriation exists.

Cause of Condition:

Cause Unknown.

Recommendation:

We recommend that cash collections be submitted to the Bookkeeper on a daily basis with a log of collections for the day that agrees to the amount given to the Bookkeeper. When deposits are made, the deposit confirmation should be filed with copies of the receipts that make up the deposit and a copy of the log of money collected from the City Clerk to employ important internal control procedures to help reduce the risk of misplacement or misappropriation.

Response:

Beginning immediately, all cash collections will be submitted to the City Bookkeeper on a daily basis and shall be logged to note the collections and reconciled by the Bookkeeper on a daily basis.

Statement of Condition 8:

Some invoices do not have appropriate documentation that the goods or services were received.

Criteria:

To ensure proper internal controls and expenditures are paid correctly, goods or services should be documented as received before invoices are paid.

Effect of Condition:

Invoices may be paid when goods or services are not actually received.

Cause of Condition:

Cause Unknown.

Recommendation:

To ensure proper internal controls and that items purchased are received and billed correctly we recommend that all goods or services received should be signed and dated as received and any packing slips, also signed and dated, should be attached with the corresponding invoices before invoices are paid.

Response:

The City is putting in an control point that no invoices are to be paid until the goods or services are received and dated, and any additional packing slips or correspondence will be attached to the paid bill.

Statement of Condition 9:

Accounts Payable staff do not properly cancel invoices after entering the invoices for payment.

Criteria:

To ensure proper internal controls, Accounts Payable staff should stamp the invoices "paid" or signify on the invoice in another manner that the invoice has been entered for payment.

Effect of Condition:

If there is no indication on the face of the invoice that the invoice has been entered for payment, the invoice may be re-entered and paid twice.

Cause of Condition:

Cause unknown.

Recommendation:

We recommend that the Accounts Payable staff cancel the invoices by stamping the invoice "paid" or otherwise signify that the invoice was entered for payment.

Response:

All invoices will be stamped "paid" when entered for payment.

Statement of Condition 10:

Transactions are frequently being posted to incorrect account codes or coded inconsistently.

Criteria:

Consistent coding should be used to ensure that expenditure accounts reflect accurate balances at all times.

Effect of Condition:

Year to year and budgetary comparisons are ineffectual and inaccurate.

Cause of Condition:

Cause unknown.

Recommendation:

We recommend that consistent coding be used for all expenditures. To help ensure procedural accuracy, the account number that the payment is posted to can be written on the invoice to help increase consistency.

Response:

The City is beginning training on the correct use of account codes and will begin using these codes correctly and consistently.

Statement of Condition 11:

Invoices are not always paid on time. During expenditure testing, several instances were noted where late payment fees were included on the invoice for payments that were over 60 days or greater past due.

Criteria:

Internal controls should be in place to ensure that all invoices received are paid on time and in full.

Effect of Condition:

The City incurs late fees and loses the advantage of utilizing discounts for timely payment.

Cause of Condition:

Cause Unknown.

Recommendation:

We recommend the City carefully review all expenditure/expense and related liabilities to ensure all necessary transactions are reported in the proper period. All invoices should be approved by the City Administrator before payment. After the payment has been made, the invoice should be closed by indication that the bill has been paid.

Response:

Invoices will be paid in a timely manner. The City Administrator shall review all bills due each week and ensure proper, timely payment. All paid invoices shall be stamped "paid."

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether CITY OF PENDERGRASS, GEORGIA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters described below that are required to be reported under *Government Auditing Standards*.

Statement of Condition 12:

The City of Pendergrass does not follow the DCA Uniform Chart of Accounts in the City's basic account structure. Specifically, the City does not account for cost by department.

Criteria:

All of Georgia's municipal governments are required to comply with the provisions set forth in the Uniform Chart of Accounts.

Effect of Condition:

If the Uniform Chart of Accounts is not followed, the comparability of financial information provided to DCA and other users is not reliable and accounting and reporting practices of financial information is not consistent and in uniform format.

Cause of Condition:

Cause Unknown.

Recommendation:

We recommend that the City alter the current basic account structure to follow the Uniform Chart of Accounts, including a fund, department, account class, and object code.

Response:

The City will begin following the Uniform Chart of Accounts basic account structure.

Statement of Condition 13:

The General Fund owes the SPLOST Fund \$66,597.

Criteria:

SPLOST proceeds shall be used exclusively for the purpose or purpose specified in the resolution or ordinance calling for imposition of the tax. Such proceeds shall be kept in a separate account from other funds of such county and each qualified municipality receiving proceeds of the sales and use tax and shall not in any manner be commingled with other funds of such county and each qualified municipality received proceeds of the sales and use tax prior to the expenditure.

Effect of Condition:

Violation of State Law.

Cause of Condition:

Cause Unknown.

Recommendation:

We recommend the City establish a plan to reimburse the SPLOST Fund money.

Response:

The City Mayor and Council shall make a plan to make monthly payments from the General Fund account to the SPLOST Account until such time as all of this money is returned to the SPLOST account.

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.

Bates, Carter: Co, LLP