

**CITY OF PENDERGRASS, GEORGIA**

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

**Year Ended**  
**December 31, 2014**

**CITY OF PENDERGRASS, GEORGIA**

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December 31, 2014**

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## INDEPENDENT AUDITORS' REPORT

October 15, 2015

Mayor and 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, 2014, 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 of the CITY OF PENDERGRASS, GEORGIA, as of December 31, 2014, 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.

Management has omitted the Management's Discussion and Analysis that the accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 operations, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

## **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 is



presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The Schedule of Projects Constructed with Special Sales Tax Proceeds 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 Schedule of Projects Constructed with Special Sales Tax Proceeds 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 October 15, 2015 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 the CITY OF PENDERGRASS, GEORGIA's internal control over financial reporting and compliance.

*Bates, Laster Co, LLP*

**CITY OF PENDERGRASS, GEORGIA**  
**STATEMENT OF NET POSITION**  
**December 31, 2014**

	PRIMARY GOVERNMENT
	<b>GOVERNMENTAL ACTIVITIES</b>
ASSETS	
Cash	\$ 53,738
Receivables	122,931
Prepaid items	16,266
Capital assets:	
Capital assets not being depreciated	233,432
Capital assets being depreciated	295,599
Less: accumulated depreciation	<u>(198,733)</u>
Capital assets, net of depreciation	<u>330,298</u>
TOTAL ASSETS	<u>523,233</u>
LIABILITIES	
Accounts payable	324,734
Unearned revenue	43,610
Noncurrent liabilities:	
Due within one year	
Notes payable	115,853
Capital leases payable	<u>18,735</u>
TOTAL LIABILITIES	<u>502,932</u>
NET POSITION	
Net investment in capital assets	195,710
Restricted for:	
Capital outlay projects	59,683
Unrestricted	<u>(235,092)</u>
TOTAL NET POSITION	<u><u>\$ 20,301</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, 2014**

FUNCTIONS/PROGRAMS	.....PROGRAM REVENUES.....				NET (EXPENSE) AND CHANGES IN NET POSITION PRIMARY GOVERNMENT
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
PRIMARY GOVERNMENT					
GOVERNMENTAL ACTIVITIES					
General government	\$ 252,772	\$ 125,161	\$ 66,787	\$ -	\$ (60,824)
Judicial	2,586	-	-	-	(2,586)
Public safety	85,970	-	-	-	(85,970)
Public works	21,885	10,851	-	74,433	63,399
Interest	7,309	-	-	-	(7,309)
Total Governmental Activities	<u>370,522</u>	<u>136,012</u>	<u>66,787</u>	<u>74,433</u>	<u>(93,290)</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 370,522</u>	<u>\$ 136,012</u>	<u>\$ 66,787</u>	<u>\$ 74,433</u>	<u>(93,290)</u>
GENERAL REVENUES					
Property taxes					72,536
Insurance premium taxes					23,084
Franchise taxes					55,257
Alcohol beverage taxes					<u>47,239</u>
Total taxes					198,116
Unrestricted investment earnings					-
TOTAL GENERAL REVENUES AND TRANSFERS					<u>198,116</u>
CHANGES IN NET POSITION					<u>104,826</u>
NET POSITION, Beginning					<u>(84,525)</u>
NET POSITION, Ending					<u>\$ 20,301</u>

The accompanying notes are an integral part of this statement.



**CITY OF PENDERGRASS, GEORGIA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**December 31, 2014**

	<b>GENERAL</b>	<b>SPLOST</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>
<b>ASSETS</b>			
Cash	\$ 40,729	\$ 13,009	\$ 53,738
Receivables (net of allowance for uncollectibles)	116,458	6,473	122,931
Interfund receivables	-	40,201	40,201
Prepaid items	16,266	-	16,266
	<u>173,453</u>	<u>59,683</u>	<u>233,136</u>
<b>TOTAL ASSETS</b>	<b>\$ 173,453</b>	<b>\$ 59,683</b>	<b>\$ 233,136</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 324,734	\$ -	\$ 324,734
Interfund payables	40,201	-	40,201
Unearned revenue	43,610	-	43,610
	<u>408,545</u>	<u>-</u>	<u>408,545</u>
<b>TOTAL LIABILITIES</b>	<b>408,545</b>	<b>-</b>	<b>408,545</b>
<b>DEFERRED INFLOWS OF RESOURCE</b>			
Unavailable revenue - property taxes	9,401	-	9,401
	<u>9,401</u>	<u>-</u>	<u>9,401</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>417,946</b>	<b>-</b>	<b>417,946</b>
<b>FUND BALANCES</b>			
Nonspendable:			
Prepaid expenditure	16,266	-	16,266
Restricted:			
Capital outlay projects	-	59,683	59,683
Unassigned:	(260,759)	-	(260,759)
	<u>(244,493)</u>	<u>59,683</u>	<u>(184,810)</u>
<b>TOTAL FUND BALANCES</b>	<b>(244,493)</b>	<b>59,683</b>	<b>(184,810)</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 173,453</b>	<b>\$ 59,683</b>	<b>\$ 233,136</b>

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, 2014**

<b>Total Fund Balances for Governmental Funds (page 3)</b>		<b>\$ (184,810)</b>
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.		330,298
Revenues in the statement of activities that do not provide current financial resources are reported as deferred revenues in the funds.		
Property taxes	<u>9,401</u>	9,401
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Capital leases	(18,735)	
Notes payable	<u>(115,853)</u>	
		<u>(134,588)</u>
<b>Total net position of governmental activities (page 1)</b>		<b><u>\$ 20,301</u></b>

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, 2014**

	GENERAL	SPLOST	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Property tax	\$ 69,534	\$ -	\$ 69,534
Insurance premium tax	23,084	-	23,084
Franchise taxes	55,257	-	55,257
Alcohol beverage taxes	47,239	-	47,239
Licenses and permits	32,961	-	32,961
Intergovernmental	66,787	74,433	141,220
Charges for services	22,837	-	22,837
Fines and forfeitures	78,677	-	78,677
Miscellaneous	1,537	-	1,537
TOTAL REVENUES	<u>397,913</u>	<u>74,433</u>	<u>472,346</u>
EXPENDITURES			
Current Expenditures			
General government	249,007	-	249,007
Judicial	2,586	-	2,586
Public safety	81,322	-	81,322
Public works	9,163	11,894	21,057
Capital outlay	20,850	177,860	198,710
Debt service			
Principal	6,031	-	6,031
Interest	7,309	-	7,309
TOTAL EXPENDITURES	<u>376,268</u>	<u>189,754</u>	<u>566,022</u>
EXCESS (DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	<u>21,645</u>	<u>(115,321)</u>	<u>(93,676)</u>
OTHER FINANCING SOURCES (USES)			
Capital lease proceeds	20,850	-	20,850
TOTAL OTHER FINANCING SOURCES (USES)	<u>20,850</u>	<u>-</u>	<u>20,850</u>
NET CHANGE IN FUND BALANCES	<u>42,495</u>	<u>(115,321)</u>	<u>(72,826)</u>
FUND BALANCES, Beginning of year	<u>(286,988)</u>	<u>175,004</u>	<u>(111,984)</u>
FUND BALANCES, End of year	<u>\$ (244,493)</u>	<u>\$ 59,683</u>	<u>\$ (184,810)</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, 2014**

Net change in fund balances (page 5) \$ (72,826)

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	198,710	
Depreciation expense	<u>(9,241)</u>	
		189,469

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

Property taxes	<u>9,401</u>	
		9,401

Revenues reported in the funds that relate to prior years are not reported as revenue in the statement of activities.

Property taxes	<u>(6,398)</u>	
		(6,398)

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 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	(20,850)	
Principal payments on long-term debt	<u>6,031</u>	
		(14,819)

Rounding

Changes in net position of governmental activities (page 2)

	<u>(1)</u>	
		<u>\$ 104,826</u>

The accompanying notes are an integral part of this statement.

**CITY OF PENDERGRASS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**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 City'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.

**CITY OF PENDERGRASS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

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.

**(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 City.

The City 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.



**CITY OF PENDERGRASS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

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

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

***Deposits and Investments***

The City'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 City 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.

***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.

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

**CITY OF PENDERGRASS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

***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.

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.

***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 2014.

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

**CITY OF PENDERGRASS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

***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.

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.

***Compensated Absences***

At this time, the City does not provide for compensated absences.

***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.

***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:



**CITY OF PENDERGRASS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

- *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 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 City'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 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 City's policy to use restricted resources first, then committed, assigned, and unassigned (or unrestricted) resources as they are needed.

**CITY OF PENDERGRASS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

***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.

**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 City'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.

**CITY OF PENDERGRASS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**(B) DEFICIT FUND BALANCE**

At December 31, 2014, the General Fund had a fund balance deficit of \$(244,493), which resulted from unexpected legal fees from a prior year. In 2015, 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 City'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, 2014, all deposits of the City were adequately insured or collateralized. At year end, the City's carrying amount of deposits was \$53,738 and the bank balance was \$65,086.

**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:

	<u>General Fund</u>	<u>SPLOST</u>
Receivables:		
Taxes	\$ 37,951	\$ -
Other	71,854	-
Intergovernmental	<u>6,653</u>	<u>6,473</u>
Total Gross Receivables	116,458	6,473
Less: Allowance for Uncollectibles	<u>-</u>	<u>-</u>
Total Net Receivables	<u><u>\$ 116,458</u></u>	<u><u>\$ 6,473</u></u>



**CITY OF PENDERGRASS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments and Transfers</u>	<u>Ending Balance</u>
Governmental Activities:					
Non-Depreciable Assets:					
Land and improvements	\$ 55,572	\$ -	\$ -	\$ -	\$ 55,572
Construction in progress	-	177,860	-	-	177,860
Total non-depreciable capital assets	<u>55,572</u>	<u>177,860</u>	<u>-</u>	<u>-</u>	<u>233,432</u>
Depreciable Assets:					
Buildings and improvements	150,849	-	-	-	150,849
Machinery and equipment	5,800	20,850	-	-	26,650
Vehicles	118,100	-	-	-	118,100
Total depreciable capital assets	<u>274,749</u>	<u>20,850</u>	<u>-</u>	<u>-</u>	<u>295,599</u>
Less Accumulated Depreciation for:					
Buildings and improvements	84,040	(3,764)	-	7,528	87,804
Machinery and equipment	552	(1,077)	-	2,154	1,629
Vehicles	104,900	(4,400)	-	8,800	109,300
Total accumulated depreciation	<u>189,492</u>	<u>(9,241)</u>	<u>-</u>	<u>18,482</u>	<u>198,733</u>
Total depreciable capital assets, net	<u>85,257</u>	<u>30,091</u>	<u>-</u>	<u>(18,482)</u>	<u>96,866</u>
Governmental activities capital assets, net	<u>\$ 140,829</u>	<u>\$ 207,951</u>	<u>\$ -</u>	<u>\$ (18,482)</u>	<u>\$ 330,298</u>

Additions to governmental activities capital assets for fiscal year ending December 31, 2014, consist of the following:

Capital Outlay	<u>\$ 198,710</u>
Total	<u>\$ 198,710</u>
Non-depreciable capital assets additions	<u>\$ 177,860</u>
Depreciable capital assets additions	<u>20,850</u>
Total	<u>\$ 198,710</u>



**CITY OF PENDERGRASS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

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

**Governmental Activities:**

General Government	\$ 3,764
Public Safety	4,648
Public Works	829
Total depreciation expense-governmental activities	<u>\$ 9,241</u>

The City has authorized construction projects. The remaining costs are split between the portion of the contracts that have been entered into for which the work had not been done prior to December 31, 2014, and the remainder of the authorized project expenditure for which contracts have not been entered into as of year end. The source of financing for the remaining project cost is noted below:

<u>Project</u>	<u>Project Authorization</u>	<u>Expended to Date</u>	<u>Contracts in Progress</u>	<u>Authorized Not Obligated</u>	<u>Funding Source</u>
Library	\$ 248,580	\$ 177,860	\$ -	\$ 70,720	SPLOST
Total Governmental Activities:	<u>\$ 248,580</u>	<u>\$ 177,860</u>	<u>\$ -</u>	<u>\$ 70,720</u>	

**NOTE 6 - LONG-TERM DEBT**

Long-term liability activity for the year ended December 31, 2014, 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>
<b>Governmental Activities:</b>						
Capital leases	-	20,850	(2,115)	18,735	-	18,735
Notes payable	\$ 119,769	\$ -	\$ (3,916)	\$ 115,853	\$ 115,853	\$ -
Governmental activities long-term liabilities	<u>\$ 119,769</u>	<u>\$ 20,850</u>	<u>\$ (6,031)</u>	<u>\$ 134,588</u>	<u>\$ 115,853</u>	<u>\$ 18,735</u>

**CITY OF PENDERGRASS, GEORGIA**  
**STATISTICAL INFORMATION**  
**December 31, 2014**

**CAPITAL LEASES**

The City leases certain equipment under a non-cancelable capital lease. Ownership of the related assets will be transferred to the City at the end of the lease terms. The asset acquired through the capital lease are as follows:

	Governmental Activities
Machinery and Equipment	\$ 20,850
Less accumulated depreciation	(248)
	<u>\$ 20,602</u>

Minimum future lease obligations for these leases, as of December 31, 2014, are as follows:

<u>Year Ending December 31,</u>	Governmental Activities
2015	\$ -
2016	5,351
2017	5,351
2018	5,351
2019	5,351
Total minimum lease payments	\$ 21,404
Less: amount representing interest (5.5%)	(2,669)
Present value of minimum lease payments	<u>\$ 18,735</u>

**Notes Payable**

The City issued an installment note in the amount of \$119,769 with Certus Bank with interest payable at 6.00% per annum. Per the terms of the note agreement, principle payments were not required on a monthly basis. For the year ending December 31, 2014, the City made \$3,916 in principal payments. A balloon payment in the amount of \$115,853 is due December 31, 2014, with the opportunity for loan renewal in January 2015 pending bank approval. The City issued this note payable to finance the City Hall/Library. The amount outstanding as of December 31, 2014 is \$115,853.

In February 2013, the City paid in full an installment note early with the Hometown Community Bank. The City issued this note payable to finance a vehicle. The note originally had a maturing date of December 16, 2014.

**CITY OF PENDERGRASS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

The annual requirements to amortize notes payable outstanding as of December 31, 2014, are as follows:

<u>Year ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 115,853	\$ 7,309	\$ 123,162
Total	<u>\$ 115,853</u>	<u>\$ 7,309</u>	<u>\$ 123,162</u>

**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.

**CITY OF PENDERGRASS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

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.

During the year ended December 31, 2014, 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, 2014. No provisions have been made in the financial statements for the year ended December 31, 2014, 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, 2014, consist of the following:

<u>\$ 40,201</u>	Due to SPLOST from General Fund for prior year expenditures
<u>\$ 40,201</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, 2014, the City paid \$- in such dues. Membership in the NEGRC is required by the official Code of Georgia Annotated (OCGA)



**CITY OF PENDERGRASS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

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  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

**For the Year Ended December 31, 2014  
(Required Supplementary Information)**

	BUDGET AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
FUND BALANCE, Beginning of year	\$ (286,988)	\$ (286,988)	\$ (286,988)	\$ -
RESOURCES (INFLOWS)				
Property tax	64,000	96,000	69,534	(26,466)
Insurance premium taxes	-	21,000	23,084	2,084
Franchise taxes	74,000	49,200	55,257	6,057
Alcohol beverage taxes	55,000	40,000	47,239	7,239
Licenses and permits	-	3,000	32,961	29,961
Intergovernmental	62,000	65,000	66,787	1,787
Charges for services	2,000	19,100	22,837	3,737
Fines and forfeitures	40,000	82,000	78,677	(3,323)
Miscellaneous	2,000	2,000	1,537	(463)
Capital lease proceeds	-	-	20,850	20,850
Total Resources (Inflows)	299,000	377,300	418,763	41,463
AMOUNTS AVAILABLE FOR APPROPRIATION	12,012	90,312	131,775	41,463
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Current Expenditures				
General Government				
Administration	209,555	260,650	260,232	418
Total General Government	209,555	260,650	260,232	418
Judicial				
Municipal court	2,700	2,600	2,586	14
Total Judicial	2,700	2,600	2,586	14
Public Safety				
Police	71,145	84,000	83,437	563
Total Public Safety	71,145	84,000	83,437	563
Public Works				
Highways and streets	15,600	30,050	30,013	37
Total Public Works	15,600	30,050	30,013	37
TOTAL CHARGES TO APPROPRIATIONS	299,000	377,300	376,268	1,032
CHANGE IN FUND BALANCE	-	-	42,495	42,495
FUND BALANCE, End of year	\$ (286,988)	\$ (286,988)	\$ (244,493)	\$ 42,495

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, 2014**

PROJECT	ORIGINAL ESTIMATED COSTS		CURRENT ESTIMATED COSTS		EXPENDITURES	
					PRIOR YEARS	CURRENT YEAR
Jackson County, Georgia SPLOST #4 - Commenced July 1, 2005						
Recreational Facilities	\$	333,490	\$	349,052	\$	349,052
Roads, Streets, and Bridges		83,374		87,265		20,668
Totals	\$	416,864	\$	436,317	\$	369,720
						11,880
						11,880

Total of SPLOST above \$ 11,880

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

Expenditures	\$	11,880
<b>Total</b>	<b>\$</b>	<b>11,880</b>

**CITY OF PENDERGRASS, GEORGIA**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAXES**  
**For the Year Ended December 31, 2014**

PROJECT	ORIGINAL ESTIMATED COSTS	CURRENT ESTIMATED COSTS	PRIOR YEARS	EXPENDITURES	
					CURRENT YEAR
Jackson County, Georgia SPLOST #5 - Commenced July 1, 2011					
Construction of Library	\$ 260,134	\$ 260,134	\$ -	\$	177,874
Parks and Recreation	55,878	55,878	-		-
Roads, Streets, and Bridges	55,878	55,878		55,546	-
Totals	<u>\$ 371,890</u>	<u>\$ 371,890</u>	<u>\$ 55,546</u>	<u>\$</u>	<u>177,874</u>

Total of SPLOST above \$ 177,874

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

Expenditures	\$ 177,874
<b>Total</b>	<b>\$ 177,874</b>



**CITY OF PENDERGRASS, GEORGIA**  
**Reconciliation of Expenditures for SPLOST**  
**For the Year Ended December 31, 2014**

**Statement of Revenues, Expenditures and Changes in Fund Balance (page 5)**

	Expenditures	\$ 189,754
Subtotal		<u>\$ 189,754</u>
Less items not included as expenditures on SPLOST schedule below:		
Miscellaneous income used for expenditures first before SPLOST funds		<u>-</u>
Subtotal of adjustments		<u>-</u>
<b>Expenditures reported on SPLOST schedule below</b>		<b><u>\$ 189,754</u></b>

**Schedule of Projects Constructed With Special Purpose Local Option Sales Tax (pages 22-23)**

	Splost #4	\$ 11,880
	Splost #5	<u>177,874</u>
<b>Total</b>		<b><u>\$ 189,754</u></b>



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

October 15, 2015

Mayor and 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 and each major fund of the CITY OF PENDERGRASS, GEORGIA, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the CITY OF PENDERGRASS, GEORGIA's basic financial statements and have issued our report thereon dated October 15, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies.

***Statement of Condition 1:***

At the present time, cash bonds are not being deposited until the case goes to court. 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, cash collected to be held until court should be deposited immediately into a separate bank account.

***Effect of Condition:***

The risk of loss from misplacement or misappropriation increases when cash is held for long periods of time.

***Cause of Condition:***

Cause unknown.

***Recommendation:***

We recommend that for situations where cash is held for court, a separate bank account should be opened and the cash should be deposited in this account to ensure proper security of funds. A ledger should be maintained to track cash being held by case number in this account.

***Response:***

A separate bank account will be opened at the City's financial institution to deposit these payments into and a journal of these payments shall be maintained by the City Clerk.

***Statement of Condition 2:***

The bank reconciliation is not properly being reconciled 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. The reconciled balance should agree to the general ledger balance at the end of each month.

***Effect of Condition:***

The cash book balance was understated as of year end.

***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 marked cleared in the City's software and thus 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, during the reconciliation process, all outstanding checks and deposits in transit from the previous months will be followed-up on to verify whether or not they have cleared the bank in the current month. Once the reconciliation is complete, the bookkeeper will verify that the reconciliation bank balance agrees to the book balance each month.

***Statement of Condition 3:***

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 4:***

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 5:***

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 has put in a control so no invoices are 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 6:***

A lack of segregation of duties exists. The same individual prepares the bank deposits, reconciles the bank accounts, and signs checks on all accounts.

***Criteria:***

To ensure proper controls over cash, no one individual should be able to receive funds, maintain the related accounting records, and maintain custody of the cash.

***Effect of Condition:***

The lack of segregation of duties creates opportunities for undetected errors and fraud.

***Cause of Condition:***

Accounting assignments were not redistributed as accounting procedures evolved or positions changed.

***Recommendation:***

We recommend the person who prepares the bank reconciliation have no deposit responsibilities or check signing authority. A person other than the bookkeeper who receives funds and maintains the accounting records should reconcile the bank statements. We recommend that the City Manager receive the unopened bank statement, open and review each statement before giving to the person responsible for reconciling the bank account. If staff shortages prohibit this, then a person not involved in those duties should review and sign the bank reconciliation as written evidence of that review.

***Response:***

The City will have an independent person reconcile the monthly bank statement for each account.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the CITY OF PENDERGRASS, 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 below.

***Statement of Condition 12:***

The General Fund owes the SPLOST Fund \$40,201.

***Criteria:***

SPLOST proceeds shall be used exclusively for the purpose specified in the resolution or ordinance calling for imposition of the tax. Such proceeds shall be kept in a separate account from other City funds and each qualified municipality receiving proceeds of the sales and use tax and shall not, in any manner, be commingled with other City funds 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:**

As of the report date, the City Mayor and Council have developed a plan to make monthly payments from the General Fund to the SPLOST Fund until the SPLOST Fund is paid back in full.

**Response to Findings**

The CITY OF PENDERGRASS, GEORGIA's response to the findings identified in our audit is described above. The CITY OF PENDERGRASS, 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.

*Bates, Carter Co, LLP*