

**CITY OF PENDERGRASS, GEORGIA**

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

**Year Ended**  
**December 31, 2015**



# **CITY OF PENDERGRASS, GEORGIA**

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## INDEPENDENT AUDITORS' REPORT

July 10, 2017

To the 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, 2015, 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, 2015, 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 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 July 10, 2017 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, Carter & Co, LLP*

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**CITY OF PENDERGRASS, GEORGIA**  
**STATEMENT OF NET POSITION**  
**December 31, 2015**

	PRIMARY GOVERNMENT
	<b>GOVERNMENTAL ACTIVITIES</b>
ASSETS	
Cash	\$ 26,731
Receivables	160,453
Capital assets:	
Capital assets not being depreciated	329,796
Capital assets being depreciated	295,599
Less: accumulated depreciation	<u>(209,560)</u>
Capital assets, net of depreciation	<u>415,835</u>
TOTAL ASSETS	<u>603,019</u>
LIABILITIES	
Accounts payable	17,307
Unearned revenue	63,377
Noncurrent liabilities:	
Due within one year	
Notes payable	139,853
Capital leases payable	4,551
Due in more than one year	
Notes payable	309,499
Capital leases payable	<u>9,873</u>
TOTAL LIABILITIES	<u>544,460</u>
NET POSITION	
Net investment in capital assets	285,558
Restricted for:	
Capital outlay projects	41,203
Unrestricted	<u>(268,202)</u>
TOTAL NET POSITION	<u><u>\$ 58,559</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, 2015**

FUNCTIONS/PROGRAMS	.....PROGRAM 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
GOVERNMENTAL ACTIVITIES					
General government	\$ 328,880	\$ 130,415	\$ 65,147	-	\$ (133,318)
Judicial	3,864	-	-	-	(3,864)
Public safety	75,001	-	-	-	(75,001)
Public works	15,676	7,860	-	-	65,522
Interest	2,092	-	-	-	(2,092)
Total Governmental Activities	425,513	138,275	65,147	73,338	(148,753)
TOTAL PRIMARY GOVERNMENT	\$ 425,513	\$ 138,275	\$ 65,147	\$ 73,338	(148,753)
GENERAL REVENUES					61,843
Property taxes					24,677
Insurance premium taxes					57,038
Franchise taxes					43,453
Alcohol beverage taxes					187,011
Total taxes					187,011
TOTAL GENERAL REVENUES AND TRANSFERS					38,258
CHANGES IN NET POSITION					20,301
NET POSITION, Beginning					\$ 58,559
NET POSITION, Ending					

The accompanying notes are an integral part of this statement.

**CITY OF PENDERGRASS, GEORGIA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**December 31, 2015**

	GENERAL	SPLOST	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash	\$ 20,068	\$ 6,663	\$ 26,731
Receivables (net of allowance for uncollectibles)	154,474	5,979	160,453
Interfund receivables	-	28,561	28,561
	<u>174,542</u>	<u>41,203</u>	<u>215,745</u>
TOTAL ASSETS	<u>\$ 174,542</u>	<u>\$ 41,203</u>	<u>\$ 215,745</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 16,643	\$ -	\$ 16,643
Other accrued items	664	-	664
Interfund payables	28,561	-	28,561
Unearned revenue	63,377	-	63,377
	<u>109,245</u>	<u>-</u>	<u>109,245</u>
TOTAL LIABILITIES	<u>109,245</u>	<u>-</u>	<u>109,245</u>
DEFERRED INFLOWS OF RESOURCE			
Unavailable revenue - property taxes	10,541	-	10,541
	<u>10,541</u>	<u>-</u>	<u>10,541</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>119,786</u>	<u>-</u>	<u>119,786</u>
FUND BALANCES			
Restricted:			
Capital outlay projects	-	41,203	41,203
Unassigned:	54,756	-	54,756
	<u>54,756</u>	<u>41,203</u>	<u>95,959</u>
TOTAL FUND BALANCES	<u>54,756</u>	<u>41,203</u>	<u>95,959</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 174,542</u>	<u>\$ 41,203</u>	<u>\$ 215,745</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, 2015**

Total Fund Balances for Governmental Funds (page 3)	\$	95,959
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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.		415,835
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Revenues in the statement of activities that do not provide current financial resources are reported as deferred revenues in the funds.

Property taxes	10,541	10,541
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Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Capital leases	(14,424)	
Notes payable	(449,352)	(463,776)

Total net position of governmental activities (page 1)	\$	58,559
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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, 2015**

	GENERAL	SPLOST	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Property tax	\$ 60,703	\$ -	\$ 60,703
Insurance premium tax	24,677	-	24,677
Franchise taxes	57,038	-	57,038
Alcohol beverage taxes	43,453	-	43,453
Licenses and permits	30,505	-	30,505
Intergovernmental	65,147	73,339	138,486
Charges for services	18,962	-	18,962
Fines and forfeitures	64,249	-	64,249
Miscellaneous	24,457	100	24,557
TOTAL REVENUES	<u>389,191</u>	<u>73,439</u>	<u>462,630</u>
EXPENDITURES			
Current Expenditures			
General government	326,260	-	326,260
Judicial	3,864	-	3,864
Public safety	67,622	-	67,622
Public works	14,847	-	14,847
Capital outlay	4,445	91,919	96,364
Debt service			
Principal	4,311	-	4,311
Interest	2,092	-	2,092
TOTAL EXPENDITURES	<u>423,441</u>	<u>91,919</u>	<u>515,360</u>
EXCESS (DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	<u>(34,250)</u>	<u>(18,480)</u>	<u>(52,730)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from notes payable	22,256	-	22,256
TOTAL OTHER FINANCING SOURCES (USES)	<u>22,256</u>	<u>-</u>	<u>22,256</u>
NET CHANGE IN FUND BALANCES	<u>(11,994)</u>	<u>(18,480)</u>	<u>(30,474)</u>
FUND BALANCES, Beginning of year	(244,493)	59,683	(184,810)
PRIOR PERIOD ADJUSTMENT	311,243	-	311,243
FUND BALANCES, Beginning, as restated	<u>66,750</u>	<u>59,683</u>	<u>126,433</u>
FUND BALANCES, End of year	<u>\$ 54,756</u>	<u>\$ 41,203</u>	<u>\$ 95,959</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, 2015**

Net change in fund balances (page 5) \$ (30,474)

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	96,364	
Depreciation expense	<u>(10,827)</u>	
		85,537

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

Property taxes	<u>10,541</u>	
		10,541

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

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

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	(22,256)	
Principal payments on long-term debt	<u>4,311</u>	
		(17,945)

Changes in net position of governmental activities (page 2)		<u><u>\$ 38,258</u></u>
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**CITY OF PENDERGRASS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**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, 2015**

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, 2015**

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, 2015**

***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 2015.

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, 2015**

***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, 2015**

- *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, 2015**

***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, 2015**

**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, 2015, all deposits of the City were adequately insured or collateralized. At year end, the City's carrying amount of deposits was \$26,731 and the bank balance was \$28,165.

**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	\$ 66,946	\$ -
Other	76,038	-
Intergovernmental	<u>11,491</u>	<u>5,979</u>
Total Gross Receivables	154,475	5,979
Less: Allowance for Uncollectibles	-	-
Total Net Receivables	<u><u>\$ 154,475</u></u>	<u><u>\$ 5,979</u></u>

**CITY OF PENDERGRASS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2015, 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	<u>177,860</u>	<u>96,364</u>	<u>-</u>	<u>-</u>	<u>274,224</u>
Total non-depreciable capital assets	<u>233,432</u>	<u>96,364</u>	<u>-</u>	<u>-</u>	<u>329,796</u>
Depreciable Assets:					
Buildings and improvements	150,849	-	-	-	150,849
Machinery and equipment	26,650	-	-	-	26,650
Vehicles	<u>118,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>118,100</u>
Total depreciable capital assets	<u>295,599</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>295,599</u>
Less Accumulated Depreciation for:					
Buildings and improvements	87,804	2,620	-	-	90,424
Machinery and equipment	1,629	3,807	-	-	5,436
Vehicles	<u>109,300</u>	<u>4,400</u>	<u>-</u>	<u>-</u>	<u>113,700</u>
Total accumulated depreciation	<u>198,733</u>	<u>10,827</u>	<u>-</u>	<u>-</u>	<u>209,560</u>
Total depreciable capital assets, net	<u>96,866</u>	<u>(10,827)</u>	<u>-</u>	<u>-</u>	<u>86,039</u>
Governmental activities capital assets, net	<u>\$ 330,298</u>	<u>\$ 85,537</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 415,835</u>

Additions to governmental activities capital assets for fiscal year ending December 31, 2015, consist of the following:

Capital Outlay	<u>\$ 96,364</u>
Total	<u>\$ 96,364</u>
Non-depreciable capital assets additions	<u>\$ 96,364</u>
Total	<u>\$ 96,364</u>



**CITY OF PENDERGRASS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

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, 2015, consist of the following:

<u>\$ 28,561</u>	Due to SPLOST from General Fund for prior year expenditures
<u>\$ 28,561</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, 2015, the City paid no 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  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

**For the Year Ended December 31, 2015  
(Required Supplementary Information)**

	BUDGET AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
FUND BALANCE, Beginning of year	\$ 66,750	\$ 66,750	\$ 66,750	\$ -
RESOURCES (INFLOWS)				
Property tax	74,000	96,000	60,703	(35,297)
Insurance premium taxes	20,000	25,000	24,677	(323)
Franchise taxes	74,000	56,000	57,038	1,038
Alcohol beverage taxes	55,000	43,000	43,453	453
Licenses and permits	-	31,500	30,505	(995)
Intergovernmental	62,000	65,500	65,147	(353)
Charges for services	2,000	19,000	18,962	(38)
Fines and forfeitures	50,000	66,000	64,249	(1,751)
Miscellaneous	2,000	26,000	24,457	(1,543)
Proceeds from notes payable	-	-	22,256	22,256
Total Resources (Inflows)	339,000	428,000	411,447	(16,553)
AMOUNTS AVAILABLE FOR APPROPRIATION	405,750	494,750	478,197	(16,553)
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Current Expenditures				
General Government				
Administration	229,555	327,555	327,313	242
Total General Government	229,555	327,555	327,313	242
Judicial				
Municipal court	2,700	3,900	3,864	36
Total Judicial	2,700	3,900	3,864	36
Public Safety				
Police	81,145	76,645	72,973	3,672
Total Public Safety	81,145	76,645	72,973	3,672
Public Works				
Highways and streets	25,600	19,900	19,291	609
Total Public Works	25,600	19,900	19,291	609
TOTAL CHARGES TO APPROPRIATIONS	339,000	428,000	423,441	4,559
CHANGE IN FUND BALANCE	-	-	(11,994)	(11,994)
FUND BALANCE, End of year	\$ 66,750	\$ 66,750	\$ 54,756	\$ (11,994)

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, 2015**

PROJECT	COSTS		COSTS		EXPENDITURES	
	ORIGINAL ESTIMATED	CURRENT ESTIMATED	PRIOR YEARS	CURRENT YEAR		
<b>Jackson County, Georgia SPLOST #4 - Commenced July 1, 2005</b>						
Recreational Facilities	\$ 333,490	\$ 349,052		\$ 349,052	\$ -	
Roads, Streets, and Bridges	83,374	87,265		32,548	-	
Totals	\$ 416,864	\$ 436,317		\$ 381,600	\$ -	
<b>Jackson County, Georgia SPLOST #5 - Commenced July 1, 2011</b>						
Construction of Library	\$ 260,134	\$ 260,134		\$ 177,874	\$ 79,022	
Parks and Recreation	55,878	55,878	-	-	12,897	
Roads, Streets, and Bridges	55,878	55,878	-	-	-	
Totals	\$ 371,890	\$ 371,890		\$ 177,874	\$ 91,919	
Total of SPLOST above					\$	91,919
<b>STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (page 5)</b>						
Expenditures					\$	91,919
Total					\$	91,919

**CITY OF PENDERGRASS, GEORGIA**  
**Reconciliation of Expenditures for SPLOST**  
**For the Year Ended December 31, 2015**

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

Expenditures \$ 91,919

**Expenditures reported on SPLOST schedule below**

**\$ 91,919**

**Schedule of Projects Constructed With Special Purpose Local Option Sales Tax (page 22)**

SPLOST #4 \$ -

SPLOST #5 91,919

**Total**

**\$ 91,919**

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GAINESVILLE, GEORGIA 30503  
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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***

July 10, 2017

To the 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, 2015, 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 July 10, 2017.

**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 2015-01:***

Cash receipts are not being deposited on a timely basis.

***Criteria:***

To insure proper internal controls, deposits should be made on a daily basis.

***Effect of Condition:***

There a risk of loss from burglary, misplacement or misappropriation and cash is not available for expenditures or investment.

***Cause of Condition:***

Cause unknown.

***Recommendation:***

If it is impractical 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:***

We are a very small city. Our bank is not in our city limits. There are no banks inside our city limits. It is not practical to make daily deposits for us. We put any money that has not been deposited in a safe at night to secure. The Police department is next door to city hall.

***Statement of Condition 2015-02:***

The December 2015 bank reconciliations are not properly being reconciled and contain many errors.

***Criteria:***

Although the City has shown great improvement in this area, it was noted that there were errors with the December 2015 reconciliations. 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 at 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:***

We hired an auditor to assist us with this. We properly reconciled 11 months, and had trouble with the December – year ending reconciliation. We have addressed with an auditor to monitor us monthly.

***Statement of Condition 2015-03:***

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:***

Due to the many previous employees that had the position of clerk/ finance personnel and the different audit companies used by the city over the past 10 years, there are numerous account codes, some incorrect, in our QuickBooks. We have hired an independent auditor to assist us in getting rid of these incorrect account codes and to monitor our posting monthly.

***Statement of Condition 2015-04:***

A lack of segregation of duties exists. The same individual prepares the bank deposits and reconciles the bank 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:***

We have delegated reconciliation duties to a part time employee. The city manager does receive and open the bank statements. He will then give it to the person responsible for the reconciliation.

***Statement of Condition 2015-05:***

There are two checking accounts that are not maintained in the city's general ledger accounting software. These SPLOST accounts are used for depositing receipts and in writing checks.

***Criteria:***

The transactions for these accounts should be recorded and reconciled in the City general ledger.

***Effect of Condition:***

The City has cash accounts that are not reported on their books. Additionally, the accounting records required for the annual financial report are not included on a timely basis.

***Cause of Condition:***

Cause unknown.

***Recommendation:***

We recommend that the Finance Department record all cash accounts on their books.

***Response:***

These SPLOST accounts are now in Quickbooks.

***Statement of Condition 2015-06:***

While the City approves all legal work before it is performed, they are not reviewing the expenses after they are incurred, keeping track of total legal fees, or recording them in the accounting system.

***Criteria:***

The transactions should be approved and recorded in the City general ledger.

***Effect of Condition:***

The City has legal expenditures that are not reported on their books.

***Cause of Condition:***

Cause unknown.

***Recommendation:***

We recommend that the Finance Department review, approve and record all legal fees on their books.

***Response:***

The attorneys are going to send monthly invoices which will be reviewed and recorded.

**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 2015-07:***

The General Fund owes the SPLOST Fund \$28,561.

***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.

The CITY OF PENDERGRASS, GEORGIA's responses to the findings identified in our audit are described above. The CITY OF PENDERGRASS, GEORGIA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**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*