

CITY OF PENDERGRASS, GEORGIA

ANNUAL FINANCIAL REPORT
(WITH INDEPENDENT AUDITOR'S REPORT)

Year Ended
December 31, 2017

CITY OF PENDERGRASS, GEORGIA

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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, 2017, and the respective changes in financial position 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

INDEPENDENT AUDITOR'S REPORT

September 13, 2019

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, 2017, 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

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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 September 13, 2019 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

CITY OF PENDERGRASS, GEORGIA
STATEMENT OF NET POSITION
December 31, 2017

	PRIMARY GOVERNMENT
ASSETS	
Cash	
Receivables	\$ 67,494
Capital assets:	166,538
Capital assets not being depreciated	
Capital assets being depreciated	91,411
Less: accumulated depreciation	659,631
	<u>(228,416)</u>
Capital assets, net of depreciation	<u>522,626</u>
TOTAL ASSETS	<u>756,658</u>
LIABILITIES	
Accounts payable	12,761
Other accrued items	1,535
Unearned revenue	83,441
Noncurrent liabilities:	
Due within one year	
Notes payable	
Capital leases payable	46,568
Due in more than one year	5,070
Notes payable	752,658
Legal judgment payable	<u>1,222,270</u>
TOTAL LIABILITIES	<u>2,124,303</u>
NET POSITION	
Net investment in capital assets	402,968
Restricted for:	
Capital outlay projects	82,434
Unrestricted	<u>(1,853,047)</u>
TOTAL NET POSITION	<u>\$ (1,367,645)</u>

The accompanying notes are an integral part of this statement.

CITY OF PENDERGRASS, GEORGIA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

FUNCTIONS/PROGRAMS PRIMARY GOVERNMENTPROGRAM REVENUES.....				NET (EXPENSE) AND CHANGES IN NET POSITION
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES
General government	\$ 468,525	\$ 147,137	\$ 76,315	\$ -	\$ (245,073)
Judicial	15,676	-	-	-	(15,676)
Public safety	91,165	-	-	-	(91,165)
Public works	24,233	12,001	-	90,416	78,184
Interest	6,939	-	-	-	(6,939)
Total Governmental Activities	606,538	159,138	76,315	90,416	(280,669)
TOTAL PRIMARY GOVERNMENT	\$ 606,538	\$ 159,138	\$ 76,315	\$ 90,416	(280,669)
GENERAL REVENUES					
Property taxes					81,483
Insurance premium taxes					28,445
Franchise taxes					65,104
Alcohol beverage taxes					48,133
Total taxes					223,165
Loss on legal judgment					(1,222,270)
TOTAL GENERAL REVENUES AND LOSSES					(999,105)
CHANGES IN NET POSITION					
NET POSITION, Beginning					(1,279,774)
NET POSITION, Ending					(87,871)
					\$ (1,367,645)

The accompanying notes are an integral part of this statement.

CITY OF PENDERGRASS, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017

	GENERAL	SPLOST	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash	\$ 18,290	\$ 49,204	\$ 67,494
Receivables (net of allowance for uncollectibles)	157,906	8,633	166,539
Interfund receivables	<u>-</u>	<u>24,597</u>	<u>24,597</u>
TOTAL ASSETS	<u>\$ 176,196</u>	<u>\$ 82,434</u>	<u>\$ 258,630</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 12,762	\$ -	\$ 12,762
Other accrued items	1,535	-	1,535
Interfund payables	24,597	-	24,597
Unearned revenue	<u>83,441</u>	<u>-</u>	<u>83,441</u>
TOTAL LIABILITIES	<u>122,335</u>	<u>-</u>	<u>122,335</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	<u>2,574</u>	<u>-</u>	<u>2,574</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>124,909</u>	<u>-</u>	<u>124,909</u>
FUND BALANCES			
Restricted:			
Capital outlay projects	-	82,434	82,434
Unassigned	<u>51,287</u>	<u>-</u>	<u>51,287</u>
TOTAL FUND BALANCES	<u>51,287</u>	<u>82,434</u>	<u>133,721</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 176,196</u>	<u>\$ 82,434</u>	<u>\$ 258,630</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, 2017

Total Fund Balances for Governmental Funds (page 3)		\$ 133,721
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.		522,626
Revenues in the statement of activities that do not provide current financial resources are reported as deferred revenues in the funds.		
Property taxes	<u>2,574</u>	2,574
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Capital leases	(5,070)	
Notes payable	(799,226)	
Legal judgment payable	<u>(1,222,270)</u>	
		<u>(2,026,566)</u>
Total net position of governmental activities (page 1)		\$ <u>(1,367,645)</u>

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, 2017

	GENERAL	SPLOST	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Property tax	\$ 92,409	\$ -	\$ 92,409
Insurance premium tax	28,445	-	28,445
Franchise taxes	65,104	-	65,104
Alcohol beverage taxes	48,133	-	48,133
Licenses and permits	29,840	-	29,840
Intergovernmental	76,315	90,416	166,731
Charges for services	20,363	-	20,363
Fines and forfeitures	99,899	-	99,899
Miscellaneous	9,035	-	9,035
TOTAL REVENUES	<u>469,543</u>	<u>90,416</u>	<u>559,959</u>
EXPENDITURES			
Current Expenditures			
General government	284,062	-	284,062
Judicial	15,676	-	15,676
Public safety	87,635	-	87,635
Public works	23,329	-	23,329
Capital outlay	-	77,898	77,898
Debt service			
Principal	40,021	4,803	44,824
Interest	6,390	548	6,938
TOTAL EXPENDITURES	<u>457,113</u>	<u>83,249</u>	<u>540,362</u>
EXCESS (DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	<u>12,430</u>	<u>7,167</u>	<u>19,597</u>
NET CHANGE IN FUND BALANCES	<u>12,430</u>	<u>7,167</u>	<u>19,597</u>
FUND BALANCES, Beginning of year	<u>38,857</u>	<u>75,267</u>	<u>114,124</u>
FUND BALANCES, End of year	<u>\$ 51,287</u>	<u>\$ 82,434</u>	<u>\$ 133,721</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, 2017

Net change in fund balances (page 5)		\$ 19,597
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	77,898	
Depreciation expense	<u>(8,029)</u>	69,869
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	<u>2,574</u>	2,574
Revenues reported in the funds that relate to prior years are not reported as revenue in the statement of activities.		
Property taxes	<u>(13,499)</u>	(13,499)
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	(180,868)	
Principal payments on long-term debt	44,824	
Legal judgment	<u>(1,222,270)</u>	(1,358,314)
Rounding		(1)
Changes in net position of governmental activities (page 2)		<u>\$ (1,279,774)</u>

The accompanying notes are an integral part of this statement.

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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, 2017

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, 2017

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, 2017

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 2017.

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
Improvements	10-30
Infrastructure	30

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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.

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Fund balances are classified as follows:

- *Nonspendable* - Fund balances are reported as nonspendable when the amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash like inventories and prepaid items) or (b) legally or contractually required to be maintained intact.
- *Restricted* - Fund balances are reported as restricted when there are limitations imposed 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, 2017

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, 2017

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, 2017, all deposits of the City were adequately insured or collateralized. At year end, the City's carrying amount of deposits was \$67,494 and the bank balance was \$69,240.

NOTE 4 - RECEIVABLES

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

	General <u>Fund</u>	<u>SPLOST</u>
Receivables:		
Taxes	\$ 86,247	\$ -
Other	63,994	-
Intergovernmental	<u>7,665</u>	<u>8,633</u>
Total Gross Receivables	157,906	8,633
Less: Allowance for Uncollectibles	-	-
Total Net Receivables	<u><u>\$ 157,906</u></u>	<u><u>\$ 8,633</u></u>

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, 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	321,973	21,154	-	(307,288)	35,839
Total non-depreciable capital assets	<u>377,545</u>	<u>21,154</u>	<u>-</u>	<u>(307,288)</u>	<u>91,411</u>
Depreciable Assets:					
Buildings	150,849	-	-	-	150,849
Machinery and equipment	26,650	9,000	-	-	35,650
Vehicles	118,100	33,114	-	-	151,214
Improvements	-	14,630	-	307,288	321,918
Total depreciable capital assets	<u>295,599</u>	<u>56,744</u>	<u>-</u>	<u>307,288</u>	<u>659,631</u>
Less Accumulated Depreciation for:					
Buildings	93,044	2,619	-	-	95,663
Machinery and equipment	9,243	3,883	-	-	13,126
Vehicles	118,100	552	-	-	118,652
Improvements	-	975	-	-	975
Total accumulated depreciation	<u>220,387</u>	<u>8,029</u>	<u>-</u>	<u>-</u>	<u>228,416</u>
Total depreciable capital assets, net	<u>75,212</u>	<u>48,715</u>	<u>-</u>	<u>307,288</u>	<u>431,215</u>
Governmental activities capital assets, net	<u>\$ 452,757</u>	<u>\$ 69,869</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 522,626</u>

Additions to governmental activities capital assets for fiscal year ending December 31, 2017, consist of the following:

Capital Outlay	\$ 77,898
Total	<u>\$ 77,898</u>
Non-depreciable capital assets additions	\$ 21,154
Depreciable capital assets additions	<u>56,744</u>
Total	<u>\$ 77,898</u>

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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

Governmental Activities:

General Government	\$ 3,595
Public Safety	3,530
Public Works	904
Total depreciation expense-governmental activities	<u>\$ 8,029</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, 2017, 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>
Parks and Recreation	\$ 55,878	\$ 35,839	\$ -	\$ 20,039	SPLOST
Total Governmental Activities:	<u>\$ 55,878</u>	<u>\$ 35,839</u>	<u>\$ -</u>	<u>\$ 20,039</u>	

NOTE 6 - LONG-TERM DEBT

Long-term liability activity for the year ended December 31, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Due After One Year</u>
Governmental Activities:						
Capital leases	\$ 9,873	\$ -	\$ (4,803)	\$ 5,070	\$ 5,070	\$ -
Legal judgment payable	-	1,222,270	-	1,222,270	-	1,222,270
Notes payable	658,379	180,868	(40,021)	799,226	46,568	752,658
Governmental activities long-term liabilities	<u>\$ 668,252</u>	<u>\$ 1,403,138</u>	<u>\$ (44,824)</u>	<u>\$ 2,026,566</u>	<u>\$ 51,638</u>	<u>\$ 1,974,928</u>

CITY OF PENDERGRASS, GEORGIA
STATISTICAL INFORMATION
December 31, 2017

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	<u>(9,184)</u>
	<u>\$ 11,666</u>

Minimum future lease obligations for these leases, as of December 31, 2017, are as follows:

<u>Year Ending December 31,</u> 2018	Governmental Activities
Total minimum lease payments	\$ 5,351
Less: amount representing interest (5.5%)	\$ 5,351
Present value of minimum lease payments	<u>\$ (281)</u>
	<u>\$ 5,070</u>

Notes Payable

The City refinanced an installment note dated August 30, 2016 in the amount of \$127,000 (\$115,852.97 representing outstanding principal plus \$11,147.03 representing accrued interest) with Mountain Valley Bank with interest payable at 5.25% per annum. Per the terms of the note agreement, principle payments are required on a monthly basis. The installment agreement shall end on September 1, 2026, subject to the City's right to terminate this agreement. This agreement shall renew automatically from year to year until the event of default or the event of non-appropriation. For the year ending December 31, 2017, the City made principal payments in the amount of \$10,021. The City issued this note payable to finance the City Hall/Library. The amount outstanding as of December 31, 2017 is \$114,589.

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

The annual requirements to amortize notes payable outstanding on the installment note as of December 31, 2017, are as follows:

<u>Year ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 10,568	\$ 5,844	\$ 16,412
2019	11,144	5,267	16,411
2020	11,739	4,673	16,412
2021	12,393	4,019	16,412
2022	13,069	3,343	16,412
2023-2026	55,676	5,868	61,544
Total	<u>\$ 114,589</u>	<u>\$ 29,014</u>	<u>\$ 143,603</u>

The City issued an installment note in the amount of \$311,243 with Michael Caldwell for legal fees incurred. Per the terms of the note agreement, principle payments of \$2,000 are remitted on a monthly basis, with no interest fees. The City increased principle payments to \$3,000 per month in September 1, 2017 and going forward. For the year ending December 31, 2017, the City paid \$27,000 in principal payments and incurred an additional \$180,868 in legal fees. Payments on the note will be completed on January 31, 2032. The amount outstanding as of December 31, 2017 is \$684,637.

The annual requirements to amortize notes payable outstanding on the note to Michael Caldwell as of December 31, 2017, are as follows:

<u>Year ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 36,000	\$ -	\$ 36,000
2019	36,000	-	36,000
2020	36,000	-	36,000
2021	36,000	-	36,000
2022	36,000	-	36,000
2023-2027	180,000	-	180,000
2028-2032	180,000	-	180,000
2033-2037	144,637	-	144,637
Total	<u>\$ 684,637</u>	<u>\$ -</u>	<u>\$ 684,637</u>

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 7 - LOSS CONTINGENCY

The City is occasionally a defendant in various lawsuits. On January 30, 2018, the Georgia Superior Court entered judgments in favor of two Plaintiffs, former employees of the City, in the amounts of \$518,000 and \$547,600, and their attorney's fees of \$156,670. As a result, the City has recorded a legal judgment liability in the amount of \$1,222,270 at December 31, 2017. The City filed its Notice of Appeal on March 1, 2018. The city believes that the trial court committed substantial reversible errors throughout the trial and that the evidence did not support the verdicts. The City intends to contest that trial court's judgement vigorously through the appellate court of Georgia. Until such time that the verdict is overturned or reduced, the legal judgement liability will remain on the Government-Wide Statement of Net Position.

NOTE 8 - 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

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

group self insurance funds and a risk management service to prevent or lessen the incidence and severity of causality and property losses occurring in the operation of municipal government. GIRMA is to defend and protect in accordance with the member government contract and related coverage descriptions and any member of GIRMA against liability or loss.

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

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

During the year ended December 31, 2017, 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, 2017. No provisions have been made in the financial statements for the year ended December 31, 2017, 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 9 - INTERFUND RECEIVABLES AND PAYABLES

Balances due to/from other funds at December 31, 2017, consist of the following:

<u>\$ 24,597</u>	Due to SPLOST from General Fund for prior year expenditures
<u>\$ 24,597</u>	Total Due from Other Funds

CITY OF PENDERGRASS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 10 - 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, 2017, 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, 2017
(Required Supplementary Information)

	BUDGET AMOUNTS			VARIANCE WITH
	ORIGINAL	FINAL	ACTUAL	FINAL BUDGET POSITIVE (NEGATIVE)
FUND BALANCE, Beginning of year	\$ 38,857	\$ 38,857	\$ 38,857	\$ -
RESOURCES (INFLOWS)				
Property tax	74,000	94,000	92,409	(1,591)
Insurance premium taxes	20,000	28,000	28,445	445
Franchise taxes	74,000	74,000	65,104	(8,896)
Alcohol beverage taxes	55,000	55,000	48,133	(6,867)
Licenses and permits	-	30,000	29,840	(160)
Intergovernmental	62,000	62,000	76,315	14,315
Charges for services	2,000	12,000	20,363	8,363
Fines and forfeitures	50,000	100,000	99,899	(101)
Miscellaneous	2,000	2,000	9,035	7,035
Total Resources (Inflows)	339,000	457,000	469,543	12,543
AMOUNTS AVAILABLE FOR APPROPRIATION	377,857	495,857	508,400	12,543
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Current Expenditures				
General Government				
Administration	229,555	327,555	330,474	(2,919)
Total General Government	229,555	327,555	330,474	(2,919)
Judicial				
Municipal court	2,700	15,700	15,676	24
Total Judicial	2,700	15,700	15,676	24
Public Safety				
Police	81,145	88,145	87,635	510
Total Public Safety	81,145	88,145	87,635	510
Public Works				
Highways and streets	25,600	25,600	23,328	2,272
Total Public Works	25,600	25,600	23,328	2,272
TOTAL CHARGES TO APPROPRIATIONS	339,000	457,000	457,113	(113)
CHANGE IN FUND BALANCE	-	-	12,430	12,430
FUND BALANCE, End of year	\$ 38,857	\$ 38,857	\$ 51,287	\$ 12,430

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, 2017

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	32,548	-
Totals	<u>\$ 416,864</u>	<u>\$ 436,317</u>	<u>\$ 381,600</u>	<u>\$ -</u>
Jackson County, Georgia SPLOST #5 - Commenced July 1, 2011				
Construction of Library	\$ 260,134	\$ 260,134	\$ 280,030	\$ 17,284
Parks and Recreation	55,878	55,878	31,970	12,869
Roads, Streets, and Bridges	55,878	55,878	-	14,630
Totals	<u>\$ 371,890</u>	<u>\$ 371,890</u>	<u>\$ 312,000</u>	<u>\$ 44,783</u>
Jackson County, Georgia SPLOST #6 - Commenced November 15, 2015				
Public Facilities Debt Reduction	\$ 100,122	\$ 100,122	\$ -	\$ -
Public Safety	75,092	75,092	-	-
Streets and Bridges	75,091	75,091	-	-
Construction of New Public Facility	250,305	250,305	-	-
Totals	<u>\$ 500,610</u>	<u>\$ 500,610</u>	<u>\$ -</u>	<u>\$ 38,466</u>
Total of SPLOST above			\$	\$ 83,249

CITY OF PENDERGRASS, GEORGIA
Reconciliation of Expenditures for SPLOST
For the Year Ended December 31, 2017

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

Expenditures \$ 83,249

Expenditures reported on SPLOST schedule above

\$ 83,249

Schedule of Projects Constructed With Special Purpose Local Option Sales Tax (page 23)

SPLOST #4	\$ -
SPLOST #5	44,783
SPLOST #6	<u>38,466</u>

Total

\$ 83,249

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

September 13, 2019

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, 2017, 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 September 13, 2019.

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 2017-01 (Re-issued):

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:

The City only keeps track of recurring monthly payments for legal fees.

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 2017-02 (Re-issued):

The General Fund owes the SPLOST Fund \$24,597, a decrease of \$19,166 from 2016.

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:

The City had no established plan to reimburse SPLOST.

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.

City of Pendergrass' Response to Findings

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