CITY OF PEARSON, GEORGIA

ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2011

City of Pearson, Georgia
Annual Financial Report
For the Year Ended December 31, 2011

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Pearson, Georgia

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Pearson, Georgia, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Pearson, Georgia's management. My responsibility is to express opinions on these financial statements based on my audit

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Pearson, Georgia as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated June 5, 2012, on my consideration of The City of Pearson, Georgia's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The City of Pearson, Georgia has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

The required supplementary information on pages 28 through 30 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

To the City Council
The City of Pearson, Georgia

INDEPENDENT AUDITOR'S REPORT, continued

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pearson, Georgia's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of projects undertaken with special sales tax proceeds on page 46, the combining and individual nonmajor fund financial statements listed in the table of contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robert W Goodman CPA

Alma, Georgia
June 5, 2012

BASIC FINANCIAL STATEMENTS

City of Pearson, Georgia
Statement of Net Assets
December 31, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	City of Pearson Industrial Authority
Assets				
Cash and cash equivalents	$ 1,261,376	$ 42,074	$ 1,303,450	$ 13,271
Restricted cash	-	220,592	220,592	-
Receivables:				
Accounts	-	59,494	59,494	-
Property taxes	46,194	-	46,194	-
Interest	831	-	831	
Interfund	209	(209)	-	
Intergovernmental	55,053	-	55,053	-
Notes	80,961	-	80,961	50,183
Capital Assets:				
Nondepreciable	63,863	203,557	267,420	583,848
Depreciable, net	786,509	5,625,415	6,411,924	-
Total Assets	2,294,996	6,150,923	8,445,919	647,302
Liabilities				
Current Liabilities				
Accounts payable	17,335	99	17,434	-
Accrued expenses	-	429	429	-
Payable from restricted assets:				
Accrued interest	-	5,102	5,102	-
Revenue bonds payable due within one year	-	24,220	24,220	-
Customer deposits	-	60,634	60,634	-
Notes payable due within one year	-	-	-	16,766
Total Current Liabilities	17,335	90,484	107,819	16,766
Long-Term Liabilities				
Revenue bonds (net of current portion)	-	1,608,558	1,608,558	-
Total Long-Term Liabilities	-	1,608,558	1,608,558	-
Total Liabilities	17,335	1,699,042	1,716,377	16,766
NET ASSETS				
Invested in capital assets, net of related debt	850,372	4,196,194	5,046,566	583,848
Restricted for:				
Capital outlay	174,232	-	174,232	-
Debt service	-	130,636	130,636	-
Public safety	3,650	-	3,650	-
Economic development	191,611	-	191,611	-
Unrestricted	1,057,796	125,051	1,182,847	46,688
Total Net Assets	$ 2,277,661	$ 4,451,881	$ 6,729,542	$ 630,536

See accompanying notes to the basic financial statements.

City of Pearson, Georgia
Statement of Activities
For the Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services and Fines	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Unit: City of Pearson Industrial Authority
Primary government:								
Governmental activities:								
General government	$ 172,857	$ 6,267	$ 1,083	$ 80,000	$ (85,507)	$ -	$ (85,507)	$ -
Judicial	66,146	9,104	-	-	(57,042)	-	(57,042)	-
Public safety	309,312	186,083	-	-	(123,229)	-	(123,229)	-
Public works	162,011	-	-	-	(162,011)	-	(162,011)	-
Health and social services	33,416	-	-	-	(33,416)	-	(33,416)	-
Culture and recreation	125,334	14,678	-	-	(110,656)	-	(110,656)	-
Housing and development	6,855	-	-	-	(6,855)	-	(6,855)	-
Total governmental activities	875,931	216,132	1,083	80,000	(578,716)	-	(578,716)	-
Business-type activities:								
Water and Sewer	587,284	477,441	-	-	-	(109,843)	(109,843)	-
Total business-type activities	587,284	477,441	-	-	-	(109,843)	(109,843)	-
Total primary government	$ 1,463,215	$ 693,573	$ 1,083	$ 80,000	(578,716)	(109,843)	(688,559)	-
Component units:								
City of Pearson Industrial Authority	$ 700	$ -	$ -	$ -	-	-	-	(700)
Total component units	$ 700	$ -	$ -	$ -	-	-	-	(700)
General revenues:								
Taxes:								
Property taxes					217,134	-	217,134	-
Sales taxes for general purposes					219,923	-	219,923	-
Other taxes					268,570	-	268,570	-
Investment earnings					11,760	1,086	12,846	2,087
Miscellaneous					31,716	-	31,716	-
Total General Revenues					749,103	1,086	750,189	2,087
Change in Net Assets					170,387	(108,757)	61,630	1,387
Net Assets - Beginning of Year					2,107,274	4,560,638	6,667,912	629,149
Net Assets - End of Year					$ 2,277,661	$ 4,451,881	$ 6,729,542	$ 630,536

See accompanying notes to the basic financial statements.

FUND FINANCIAL STATEMENTS

City of Pearson, Georgia
Governmental Funds
Balance Sheet
December 31, 2011

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	$ 992,844	$ 268,532	$ 1,261,376
Receivables:			
Property taxes	46,194	-	46,194
Interest	831	-	831
Interfund	209	-	209
Intergovernmental	35,053	20,000	55,053
Notes	-	80,961	80,961
Total Assets	$ 1,075,131	$ 369,493	$ 1,444,624
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 17,335	$ -	$ 17,335
Deferred revenue	34,660	-	34,660
Total Liabilities	51,995	-	51,995
Fund Balances			
Restricted for:			
Capital projects	-	174,232	174,232
Public safety		3,650	3,650
Housing and development	-	191,611	191,611
Unrestricted:			
Committed(capital projects)	77,850	-	77,850
Unassigned	945,286	-	945,286
Total Fund Balances	1,023,136	369,493	1,392,629
Total Liabilities and Fund Balances	$ 1,075,131	$ 369,493	$ 1,444,624

See accompanying notes to the basic financial statements.

City of Pearson, Georgia
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
December 31, 2011

Total Governmental Fund Balances		$ 1,392,629
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		
Cost of capital assets	$ 1,768,817	
Less accumulated depreciation	(918,445)	850,372
Other assets are not available to pay for current period expenditures and therefore are deferred in the funds		
Property taxes		34,660
Net Assets of Governmental Activities		$ 2,277,661

See accompanying notes to the basic financial statements.

City of Pearson, Georgia
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2011

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	$ 217,041	$ -	$ 217,041
Other taxes	488,493	-	488,493
Fines and forfeitures	185,525	518	186,043
Licenses and permits	18,355	-	18,355
Intergovernmental	1,083	80,000	81,083
Charges for services	30,089	-	30,089
Investment income	10,247	1,513	11,760
Other revenues	13,361	-	13,361
Total Revenues	964,194	82,031	1,046,225
Expenditures			
Current:			
General government	167,792	-	167,792
Judiciary	66,146	-	66,146
Public safety	285,131	2,999	288,130
Public works	146,075	-	146,075
Health and social services	22,299	-	22,299
Culture and recreation	108,775	-	108,775
Housing and development	10,855	-	10,855
Capital outlay	-	78,800	78,800
Total Expenditures	807,073	81,799	888,872
Net Change in Fund Balances	157,121	232	157,353
Fund Balances - Beginning of Year	866,015	369,261	1,235,276
Fund Balances - End of Year	$ 1,023,136	$ 369,493	$ 1,392,629

See accompanying notes to the basic financial statements.

City of Pearson, Georgia
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities
For the Year Ended December 31, 2011

Net Change in Fund Balances - Total Governmental Funds		$ 157,353
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures on the governmental fund type operating statement. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which the capitalized capital outlays exceeded depreciation expense in the current period.		
Depreciation expense	$ (66,059)	
Capital outlay	79,000	12,941
Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues at the fund financial reporting level.		
Property taxes:		
Deferred at 12/31/10	$ (34,567)	
Deferred at 12/31/11	34,660	93
Change in Net Assets of Governmental Activities		$ 170,387

See accompanying notes to the basic financial statements.

City of Pearson, Georgia
Proprietary Funds
Statement of Net Assets
December 31, 2011

	Business-Type Activities - Enterprise Funds	
	Water and Sewer	Total
Assets		
Current Assets:		
Cash and cash equivalents	$ 42,074	$ 42,074
Accounts receivable, net	59,494	59,494
Restricted assets:		
Bond contingency - cash	159,958	159,958
Customer deposits	60,634	60,634
Total Current Assets	322,160	322,160
Capital Assets:		
Land	203,557	203,557
Water and sewer system	8,098,597	8,098,597
Equipment	220,237	220,237
Accumulated depreciation	(2,693,419)	(2,693,419)
Total Capital Assets	5,828,972	5,828,972
Total Assets	6,151,132	6,151,132
Liabilities		
Current Liabilities:		
Accounts payable	99	99
Accrued expenses	429	429
Interfund payable	209	209
Payable from restricted assets:		
Accrued interest	5,102	5,102
Revenue bonds payable, current	24,220	24,220
Customer deposits	60,634	60,634
Total Current Liabilities	90,693	90,693
Noncurrent Liabilities:		
Revenue bonds, net of current portion	1,608,558	1,608,558
Total Noncurrent Liabilities	1,608,558	1,608,558
Total Liabilities	1,699,251	1,699,251
Net Assets		
Invested in capital assets, net of related debt	4,196,194	4,196,194
Restricted for debt service	130,636	130,636
Unrestricted	125,051	125,051
Total Net Assets	$ 4,451,881	$ 4,451,881

See accompanying notes to the basic financial statements.

City of Pearson, Georgia
Proprietary Funds
Statement of Revenues , Expenses and Changes in Fund Net Assets
For the Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds	
	Water and Sewer	Total
Operating Revenues		
Charges for Services:		
Water billings	$ 248,661	$ 248,661
Sewer billings	212,189	212,189
Other	16,591	16,591
Total Operating Revenues	477,441	477,441
Operating expenses		
Salaries and wages	77,425	77,425
Group insurance	12,843	12,843
Payroll taxes	5,790	5,790
Employee benefits	5,255	5,255
Professional services	63,148	63,148
Repairs and maintenance	6,162	6,162
Insurance	4,498	4,498
Communications	1,517	1,517
Advertising	536	536
Postage	2,421	2,421
Dues and fees	4,925	4,925
Operating supplies	12,240	12,240
Utilities	102,962	102,962
Gas, oil and fuel	2,482	2,482
Bad debt expense	9,734	9,734
Depreciation	201,409	201,409
Total Operating Expenses	513,347	513,347
Income (Loss) from Operations	(35,906)	(35,906)
Nonoperating Revenues (Expenses)		
Interest expense	(73,937)	(73,937)
Interest revenue	1,086	1,086
Total Non-Operating Revenues (Expenses)	(72,851)	(72,851)
Change in Net Assets	(108,757)	(108,757)
Net Assets, Beginning of Year	4,560,638	4,560,638
Net Assets, End of Year	$ 4,451,881	$ 4,451,881

See accompanying notes to the basic financial statements.

City of Pearson, Georgia
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds	
	Water and Sewer	Total
Cash Flows from Operating Activities		
Cash received from customers	$ 468,334	$ 468,334
Cash payments to suppliers for goods and services	(225,049)	(225,049)
Cash payments to employees for services	(77,425)	(77,425)
Net Cash Provided by Operating Activities	165,860	165,860
Cash Flows from Capital and Related Financing Activities		
Principal paid on capital debt	(23,163)	(23,163)
Interest paid on capital debt	(74,037)	(74,037)
Net Cash Used by Capital and Related Financing Activities	(97,200)	(97,200)
Cash Flows from Investing Activities		
Interest on cash and cash equivalents	1,086	1,086
Net Cash Provided by Investing Activities	1,086	1,086
Net Decrease in Cash and Cash Equivalents	69,746	69,746
Cash and Cash Equivalents, Beginning of Year	192,920	192,920
Cash and Cash Equivalents, End of Year	$ 262,666	$ 262,666
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income (loss)	$ (35,906)	$ (35,906)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	201,409	201,409
Changes in assets and liabilities:		
Receivables, net	(8,330)	(8,330)
Accounts payable	54	54
Accrued expenses	(323)	(323)
Customer deposits payable	8,956	8,956
Net Cash Provided by (Used in) Operating Activities	$ 165,860	$ 165,860

See accompanying notes to the basic financial statements.

City of Pearson, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Pearson, Georgia was incorporated under the laws of the State of Georgia, and operates under a mayor-council form of government. The Mayor and a five member council govern the City and are elected to four-year terms.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting. The City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities at the government-wide financial reporting level and to its enterprise fund, provided they do not conflict with or contradict GASB pronouncements. The City does not follow subsequent private-sector guidance.

The more significant of the City's accounting policies are described below.

A. Reporting entity

The financial reporting entity consists of (a) primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific restrictions on, the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has (a) a separately elected governing board, (b) a governing body appointed by a higher level of government, or (c) a jointly appointed board.

City of Pearson, Georgia, Industrial Authority - Created in 1969, the City of Pearson, Georgia, Industrial Authority (the "Industrial Authority") is responsible for industrial and commercial development within the City of Pearson, Georgia. The Industrial Authority board consists of five members, who are appointed by the City Council of the City of Pearson, Georgia for terms that run concurrent with the terms of the City Council. The Industrial Authority is financed by one mill of advalorem taxes that is levied by the City of Pearson, Georgia. The Authority meets the GASB 14 criteria for inclusion as a component unit. The financial statements of the component have been included as a discretely presented component unit. The year end of the component unit is December 31, 2011, which is the same year end as the City of Pearson, Georgia. Financial information of the component unit is reported in a column separate from the City's financial information to emphasize that it is legally separate from the City.

Complete financial statements for the individual component unit discussed above may be obtained at the following address:
City of Pearson, Georgia
City Hall
P.O. Box 295
Pearson, GA 31642

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the degree of 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. The City does not allocate indirect expenses to functions in the statement of activities

Separate financial statements are provided for governmental funds and agency funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. 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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current year. 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 taxes, licenses, water and sewer charges and interest associated with the current year are all considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenue items are considered to be measurable and available only when cash is received by the government.

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental fund:

General Fund - The General Fund is the main operating fund of the City. The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

Proprietary Funds are accounted for using economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary fund:

Water and Sewer Fund – The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Non-current governmental assets/liabilities:

GASB Statement 34 eliminates the presentation of account groups, but provides for these reports to be maintained and incorporates the information into the governmental column in the government-wide statement of net assets.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. An exception of this general rule is payments-in-lieu of taxes. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, and net assets or equity

1. Deposits

The City has defined cash and cash equivalents to include cash on hand, demand deposits, amounts with fiscal agents and investments with an original maturity of three months of less. Time deposits are classified as cash and cash equivalent without regard to maturity date.

Statutes authorize the City to invest in obligations of the U.S. Treasury, other U.S. Government agencies, the State of Georgia, other counties, municipal corporations and political subdivisions of the State of Georgia and pooled investment programs sponsored by the State of Georgia for the investment of local government funds.

The City, during the year, invested funds in certificates of deposits and time deposits of local banks. Investments are stated at cost.

2. Receivables

In the fund financial statements, material receivables in governmental funds include revenue accounts such as property taxes, grants and other similar intergovernmental revenues since they are both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Accounts receivable account for the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. All trade and property tax receivables are reported net of an allowance for uncollectibles, where applicable.

3. Inventories and prepaid items

Inventories are stated at cost using the first-in, first-out (FIFO) method of accounting. Inventory of expendable supplies held for consumption are not considered material and are recorded as expenditures, or expenses, as appropriate, when purchased.

Payments made to vendors for services that will benefit future accounting periods are recorded as prepaid items in both the government-wide and fund financial statements.

4. Restricted assets

Proceeds from certain revenues and other resources in the Revolving Loan Fund, Water and Sewer Fund, and Special Revenue Funds are classified as restricted assets on the balance sheet because their use is limited by applicable statutes or agreements. When an expense is incurred for which both restricted and unrestricted net assets are available, restricted resources are applied first.

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Capital assets

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, sidewalks and similar items) acquired after June 30, 1979, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City's policy has set the capitalization threshold at $5,000 for reporting capital assets and at $50,000 for reporting infrastructure assets. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

Buildings	25-50
Water and sewer system	10-40
Improvements	25
Equipment, vehicles and furniture	7-10
Infrastructure	25-50

General infrastructure assets acquired prior to July 1, 2003 are not reported in the basic financial statements. General infrastructure assets include all roads and other infrastructure assets acquired subsequent to July 1, 2003.

6. Compensated absences

Full-time, permanent employees are granted vacation benefits to specified maximums depending on tenure with the City. Sick leave accrues to full-time, permanent employees to specified maximums. Generally, after one year of service, employees are entitled to a percentage of their sick leave balance and all accrued vacation leave upon termination.

The estimated current portion of the liability for vested vacation and sick leave benefits attributable to the City's governmental funds is recorded as an expenditure and liability in the respective funds. The amounts attributable to the proprietary fund are charged to expense and a corresponding liability.

7. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the useful life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing resources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Fund equity

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

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. Amounts are classified as nonspendable, restricted, committed, assigned, or unassigned. Fund balances considered to be nonspendable are items that are not available to fund expenditures, such as fund balance associated with inventories or prepaid expenses. The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, an external resource provider, or through enabling legislation. The committed fund balance classification includes amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision-making authority. Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Net Assets - Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets 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. All other net assets are reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

9. Revenues, expenditures, and expenses

   a. Operating and non-operating revenues and expenses

      Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods or services. Also included are all revenues and expenses not related to capital and related financing, non-capital financing, or investing activities. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, the City's policy is to use restricted resources first, then unrestricted resources as needed.

   b. Expenditures/expenses

      In the government-wide financial statements, expenses are classified by function for governmental activities. Administrative overhead charges are made to various functions and are included in direct expenses. In the fund financial statements, governmental fund expenditures are classified as by character i.e. current (further classified by function), debt service, and capital outlay. Proprietary fund expenses are classified as operating and non-operating.

      In the fund financial statements, governmental funds report expenditures of current financial resources. Proprietary funds report expenses relating to use of economic resources.

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. Interfund transactions

Interfund transactions are reflected as loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transfers are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

11. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that may affect the amounts reported in the financial statements and the related notes. Accordingly, actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, revolving loan fund and the drug fund. All annual appropriations lapse at year end.

The appropriated budget is prepared by fund, function, and department. The Mayor may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (i.e., the level at which expenditures may not exceed appropriations) is the department level. The council did make supplementary budget appropriations during the year.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits

Deposits – The City's cash and investment policy limits deposits to demand and money market accounts and time deposits at local banks. The City's deposits shall be secured by Federal Depositary Insurance Corporation (FDIC) coverage and/or bank pledges. State statutes require banks holding public funds to secure these funds by FDIC insurance, securities pledged at par value, and surety bonds at face value in combined aggregate totaling not less than 110 percent of the public funds held.

Custodial Credit Risk – Deposits - The custodial credit risk for deposits is the risk that, in the event of bank failure, the City's deposits may not be recovered.

As of December 31, 2011, all of the City's deposits were covered either by FDIC coverage or collateralized by the financial institution or a combination of the two. At year-end the bank balance of the City's demand and time deposits was $1,538,598 and the carrying amount was $1,524,042.

Also, the City of Pearson Industrial Authority's deposits were covered either by FDIC coverage or were entirely insured or collateralized with securities held by the component unit's agent in the component unit's name.

III. DETAILED NOTES ON ALL FUNDS (continued)

Primary government cash and cash equivalents reconciliation:

	Cash and Cash Equivalents
Primary Government - Fund Reporting Level:	
Governmental Funds - Balance Sheet	$ 1,261,376
Proprietary Fund Type Statement of Net Assets	42,074
Proprietary Fund Type Statement of Net Assets - Restricted	220,592
	$ 1,524,042

B. Receivables

Receivables at December 31, 2011 consisted of taxes, accounts (billings for user charges) and intergovernmental receivables arising from grants, interest and notes.

Receivables and payables are recorded on the City's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectibility.

C. Restricted Assets

There were no restricted assets reported in the General Fund at December 31, 2011.

D. Property Taxes

A major receivable of the City is property taxes receivable. Property is appraised and a lien on such property becomes enforceable 60 days after the final notification of delinquency of property taxes. Property tax millage rates are usually adopted in September and tax bill are rendered in October.

The City's property tax calendar for 2011 was as follows:
Property taxes attached as an enforceable lien on property as of January 1, 2011. The tax levy of 12.0 mills was approved on July 26, 2011. Taxes became due on December 20, 2011 and became delinquent on January 15, 2012.

III. DETAILED NOTES ON ALL FUNDS (continued)

E. Capital Assets

Primary Government:
Governmental Activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	$ 59,863	$ -	$ -	$ 59,863
Construction in progress	-	4,000	-	4,000
Total capital assets, not being depreciated	59,863	4,000	-	63,863
Capital assets, being depreciated				
Buildings	623,414	-	-	623,414
Improvements	372,511	-	-	372,511
Equipment, vehicles and furniture	634,029	75,000	-	709,029
Total capital assets, being depreciated	1,629,954	75,000	-	1,704,954
Less accumulated depreciation for:				
Buildings	(158,306)	(15,051)	-	(173,357)
Improvements	(180,300)	(11,155)	-	(191,455)
Equipment, vehicles and furniture	(513,780)	(39,853)	-	(553,633)
Total accumulated depreciation	(852,386)	(66,059)	-	(918,445)
Total capital assets, being depreciated, net	777,567	8,941	-	786,509
Net governmental activities capital assets	$ 837,430	$ 12,941	$ -	$ 850,372

III. DETAILED NOTES ON ALL FUNDS (continued)

Business Type Activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	$ 203,557	$ -	$ -	$ 203,557
Total capital assets, not being depreciated	203,557	-	-	203,557
Capital assets, being depreciated				
Water & sewer system and plant	8,098,597	-	-	8,098,597
Equipment	220,237	-	-	220,237
Total capital assets, being depreciated	8,318,834	-	-	8,318,834
Less accumulated depreciation for:				
Water & sewer system and plant	(2,347,771)	(193,421)	-	(2,541,192)
Equipment	(144,239)	(7,988)	-	(152,227)
Total accumulated depreciation	(2,492,010)	(201,409)	-	(2,693,419)
Total capital assets, being depreciated, net	5,826,824	(201,409)	-	5,625,415
Net business-type activities capital assets	$ 6,030,381	$ (201,409)	$ -	$ 5,828,972

Discretely Presented Component Units

Capital assets activity for the City of Pearson Industrial Authority for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	$ 577,389	$ 14,625	$ (8,166)	$ 583,848
Total capital assets, not being depreciated	577,389	14,625	(8,166)	583,848
Net City of Pearson Industrial Authority capital assets	$ 577,389	$ 14,625	$ (8,166)	$ 583,848

Depreciation was charged to governmental activities as follows:

General government	$ 5,065
Public safety	21,182
Public works	15,936
Health and social services	11,117
Culture and recreation	12,759
Total depreciation expense	$ 66,059

III. DETAILED NOTES ON ALL FUNDS (continued)

F. Interfund receivables, payables and transfers

The City uses interfund receivables and payables to account for Water and Sewer Fund expenses paid directly by the General Fund to be reimbursed.

Interfund transfers are used to 1) move revenues from the fund that statute or budget requires collecting them to the fund that statute or budget requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due and 3) move unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations. However, transfers are eliminated in the government-wide financial statements if the interfund transfer is within the governmental fund group.

Interfund receivables and payables at December 31, 2011 are comprised of the following:

	Payable from:	
Payable to:	Water and Sewer Fund	Total
General Fund	$ 209	$ 209
Total	$ 209	$ 209

G. Liabilities

Notes Payable

Notes payable at December 31, 2011 consisted of the following:

Component unit:
Note payable in the original amount of $226,428 to the City of Pearson for the financing of a loan to a business located in the City industrial park, payable in monthly installments of $2,894 including interest at 5% through July 30, 2010.

Revenue Bonds

Water and Sewer Revenue Bonds:

2002 Series:
On July 9, 2002 the City adopted the Interim Bond Resolution for the City of Pearson Interim Water Revenue Bond, Series 2002 in the amount of $1,800,000. The purposes of the bonds are to provide for the acquisition, construction and installation of additions and improvements to the existing water and sewerage system of the City.

On June 5, 2003 the City issued a bond to the United States Department of Agriculture, which redeemed the interim bond and provide for amortization of the bond principal and interest on a monthly basis. Principal maturity ranges are one to forty years.

The bonds will be amortized with a monthly installment of principal and interest in the amount of $8,100 at an interest rate of 4.5% per annum. Payments began July 5, 2003 and will end on May 5, 2043.

III. DETAILED NOTES ON ALL FUNDS (continued

The bond ordinance provides for prescribing and revising rates and for collecting fees and charges for the services, facilities and commodities to be furnished by the system and all additions, extensions and improvements thereto, sufficient to provide funds (a) to pay the cost of maintaining, repairing, operating and insuring the System, (b) to pay the principal and interest on the City of Pearson Water and Sewerage Revenue Bonds, Series 1971, including the reserves therefore, as the same become due and payable, (c) to pay the principal of and interest on this bond as the same become due and payable in the current sinking fund year, and to create and maintain a reserve to pay the same, (d) to maintain the Renewal and Extension Fund, and (e) to create a reserve for extensions and improvements to the System if one is desired and approved in accordance with the Ordinance.

Changes in Long-term Liabilities:

The following is a summary of changes in long-term debt for the year ended December 31, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Primary government:					
Business-type activity:					
Revenue bonds:					
Major Enterprise Funds					
Water and Sewer Fund:					
2002 Series	$1,655,935	$ -	$ (23,157)	$1,632,778	$ 24,220
Total Water and Sewer	1,655,935	-	(23,157)	1,632,778	24,220
Total business-type activity	1,655,935	-	(23,157)	1,632,778	24,220
Total Primary Government Long-Term Debt	$1,655,935	$ -	$(23,157)	$1,632,778	$ 24,220
Component unit:					
City of Pearson Industrial Authority					
Notes payable	$ 16,766	$ -	$ -	$ 16,766	$ 16,766
Total Component Unit Long-Term Debt	$ 16,766	$ -	$ -	$ 16,766	$ 16,766

The government-wide statement of net assets includes $24,220 of the long-term liabilities due within one year for business-type activities in "liabilities payable from restricted assets."

III. DETAILED NOTES ON ALL FUNDS (continued)

Debt Service Requirements to Maturity:

The annual debt service requirement to maturity as of December 31, 2011 is as follows:

Primary Government

Business-type activity:
Major Enterprise Fund:

Water and Sewer Fund:

Year Ending December 31,	Principal	Interest	Total
2012	$ 24,220	$ 72,980	$ 97,200
2013	25,333	71,867	97,200
2014	26,497	70,703	97,200
2015	27,714	69,486	97,200
2016	28,987	68,213	97,200
2017-2021	166,178	319,822	486,000
2022-2026	208,021	277,979	486,000
2027-2031	260,399	225,601	486,000
2032-2036	325,967	160,033	486,000
2037-2041	408,044	77,956	486,000
2042-2043	131,418	4,425	135,843
	$ 1,632,778	$ 1,419,065	$ 3,051,843

Component Unit

City of Pearson Industrial Authority:

Year Ending December 31,	Principal	Interest	Total
2012	$ 16,766	$ -	$ 16,766
	$ 16,766	$ -	$ 16,766

Short-Term Debt

The City did not incur any short-term debt during the year.

Conduit Debt

Component Unit:
City of Pearson Industrial Authority

The City of Pearson Industrial Authority, a discretely presented component unit, has issued a note to provide financial assistance to a private enterprise located within the City of Pearson. The financing of the project was deemed to be of public interest since it is for the purpose of increasing or maintaining employment in the City of Pearson, Georgia. Neither the City of Pearson Industrial Authority, the City of Pearson, Atkinson County, The State of Georgia or any other political subdivision of the State of Georgia is obligated in any manner for the repayment of the note. Accordingly, the bonds are not reported as a liability in the accompanying financial statements. The total amount of the note issued was $400,000. The amount outstanding at December 31, 2011 was $332,806.

IV. OTHER NOTES

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance. The City maintains property, liability, automobile and fidelity coverage.

There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

For its workers compensation coverage, the City is a member of the Georgia Municipal Association of Workers' Compensation Self Insurance Fund. The fund operates under the authority of O.C.G.A. 34-9-150 et Seq. The City pays into the fund its share of the fund's projected obligation for workers' compensation liability, administrative expenses, and other costs incurred by the fund. The City's share is adjusted by the board of the fund according to the claims experience of each participating member in accordance with criteria set forth in the bylaws of the fund. The fund makes payments to the employees of the members for workers compensation benefits pursuant to and in accordance with the claims procedures set forth in title 34, chapter 9 of O.C.G.A. The City is jointly and severally liable for all legal obligations of the fund, including, but not limited to, any obligations of the fund to pay claims against the fund arising out of any occurrence, incident, or accident covered under title 34, chapter 9 of O.C.G.A.

B. Contingent liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various legal proceedings and litigations arising in the normal course of operations. Although the outcome of these proceedings is not presently determinable, in the opinion of the city attorney, the resolution of these matters will not have a material adverse effect of the financial condition of the City.

IV. OTHER NOTES (continued)

C. Joint ventures

The City of Pearson, Georgia, in conjunction with cities and counties in the eighteen county South Georgia area are members of the Southern Georgia Regional Commission (SGRC). Membership in a regional commission (RC) is automatic for each municipality and county in the state. The Official Code of Georgia Annotated Section 50-8-34 (Georgia Planning Act of 1989) provides for the organizational structure of the RCs. Each county and municipality in the state is required by law to pay minimum annual dues to the RC. The City paid annual dues in the amount of $2,541 to the SGRC for the year ended December 31, 2011. The SGRC council membership includes the chief elected official of each county and the chief elected official of one municipality in each county. Additional council members are appointed from the region by the Governor, Lieutenant Governor and the Speaker of the House of Representatives. Separate financial statements are available at the following address: Southern Georgia Regional Commission. 327 West Savannah Avenue, Valdosta, GA 31503, or by calling 229-333-5277.

O.C.G.A. 50-8-32 defines regional commissions "public agencies and instrumentalities of their members". Georgia law also provides that member governments are liable for any debts or obligations of an RC beyond its resources (O.C.G.A. 50-8-39).

D. Related organizations

Housing Authority of the City of Pearson - The Housing Authority of the City of Pearson is a public body created under the General Statutes of Georgia. The Housing Authority was created for the purpose of providing safe and sanitary housing for the low-income citizens of Pearson, Georgia. The Board of Commissioners of the Housing Authority is composed of five members who are appointed by the City of Pearson. The City has no significant influence over the management, budget, or policies of the Housing Authority of the City of Pearson. The Authority reports independently.

E. Defined contribution plan

The City of Pearson adopted the Georgia Municipal Association 401(a) Defined Contribution Plan on August 24, 2005. The plan is administered by the Georgia Municipal Association. To be eligible, an employee must work a minimum of 40 hours per week and must have minimum of 90 days of service with the City. The City will match employee contributions to the plan, but in no event will matching contributions made on behalf of a participant exceed 5% of the participant's includable compensation. Employer matching contributions are 100% vested after a participant has been employed as an eligible employee for 3 years. Matching contributions remain 0% vested until the participant satisfies the full vesting period. The total amount contributed by the City in 2011 to the 401(a) defined contribution plan was $14,148. The employees contributed $14,981 to their 457(b) deferred compensation plan. The City has the sole authority of amending and changing the plan.

REQUIRED SUPPLEMENTARY INFORMATION

City of Pearson, Georgia
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Property taxes	$ 181,500	$ 181,500	$ 217,041	$ 35,541
Other taxes	462,270	462,270	488,493	26,223
Fees and fines	125,000	125,000	185,525	60,525
Licenses and permits	15,650	15,650	18,355	2,705
Intergovernmental	1,083	1,083	1,083	-
Charges for services	59,085	59,085	30,089	(28,996)
Investment earnings	10,000	10,000	10,247	247
Other revenues	2,450	2,450	13,361	10,911
Total Revenues	857,038	857,038	964,194	107,156
Expenditures				
Current				
General government				
Legislative	14,500	14,226	13,798	428
Mayor's office	27,137	28,855	28,735	120
Clerk	40,185	42,604	42,542	62
General administration	140,388	82,851	78,757	4,094
Elections	-	3,960	3,960	
Public buildings	11,000	734	-	734
Total general government	233,210	173,230	167,792	5,438
Judiciary				
Municipal court	47,085	67,103	66,146	957
Total judiciary	47,085	67,103	66,146	957
Public safety				
Police administration	48,936	50,913	48,037	2,876
Police patrol	212,955	218,029	193,655	24,374
Custody of prisioners	3,500	8,500	6,475	2,025
Fire department	23,040	36,964	36,964	-
Total public safety	288,431	314,406	285,131	29,275
Public works				
Administration	26,660	23,891	14,368	9,523
Streets	117,385	131,941	131,707	234
Total public works	144,045	155,832	146,075	9,757
Health and social services				
Community center	500	250	224	26
Civic center	6,390	6,490	5,239	1,251
Senior citizens center	17,147	17,107	16,836	271
Total health and social services	24,037	23,847	22,299	1,548

City of Pearson, Georgia
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget
Culture and recreation				
Recreation center	100,292	97,359	95,802	1,557
Museum	1,500	1,500	357	1,143
Library	13,129	12,763	12,616	147
Total culture and recreation	114,921	111,622	108,775	2,847
Housing and development				
Building inspection	2,422	4,407	4,307	100
Code enforcement	450	50	7	43
Southeast Ga RDC - dues	2,437	2,541	2,541	-
Total housing and development	5,309	6,998	6,855	143
Total Current Expenditures	857,038	853,038	803,073	49,965
Capital outlay	-	4,000	4,000	-
Total Expenditures	857,038	857,038	807,073	49,965
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	157,121	157,121
Net Change in Fund Balances	$ -	$ -	157,121	157,121
Fund Balances - Beginning			866,015	866,015
Fund Balances - Ending			$ 1,023,136	$ 1,023,136

Note 1 - *Budgetary Information*

Budgets for the general fund are adopted on a basis that is consistent with accounting principles generally accepted in the United States as applied to governments.

SUPPLEMENTARY INFORMATION

COMBINING AND INDIVIDUAL FUND STATEMENTS

AND SCHEDULES

Nonmajor Governmental Funds

Special Revenue Funds:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or for major capital projects) that are legally restricted to expenditure for specified purposes.

Drug Fund - To account for funds received from fines to be used for public safety.

Revolving Loan Fund - To account for Community Development Block Grant monies loaned to business entities. The use of such loan collections are restricted in accordance with federal guidelines.

Capital Projects Funds:

The Capital Projects Funds are used to account for the acquisition and/or construction of major capital assets other than those acquired by proprietary funds.

City of Pearson, Georgia
Nonmajor Governmental Funds
Combining Balance Sheet - By Fund Type
December 31, 2011

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Total
Assets			
Cash and cash equivalents	$ 114,300	$ 154,232	$ 268,532
Receivables - intergovernmental	-	20,000	20,000
Notes receivable	80,961	-	80,961
Total Assets	$ 195,261	$ 174,232	$ 369,493
Fund Balances:			
Restricted for:			
Capital projects	$ -	$ 174,232	$ 174,232
Public safety	3,650	-	3,650
Housing and development	191,611	-	191,611
Total Fund Balances	$ 195,261	$ 174,232	$ 369,493

City of Pearson, Georgia
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes In Fund Balances - By Fund Type
For the Year Ended December 31, 2011

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Total
Revenues			
Forfeitures	$ 518	$ -	$ 518
Investment income	1,513	-	1,513
Intergovernmental transfers	-	80,000	80,000
Total Revenues	2,031	80,000	82,031
Expenditures			
Current:			
Public safety	2,999	-	2,999
Capital outlay	-	78,800	78,800
Total Expenditures	2,999	78,800	81,799
Excess Revenues Over (Under) Expenditures	(968)	1,200	232
Fund Balances, Beginning	196,229	173,032	369,261
Fund Balances, Ending	$ 195,261	$ 174,232	$ 369,493

City of Pearson, Georgia
Governmental Funds
Nonmajor Special Revenue Funds
Combining Balance Sheet
For the Year Ended December 31, 2011

	Drug Fund	Revolving Loan Fund	Total
Assets			
Cash and cash equivalents	$ 3,650	$ 110,650	$ 114,300
Notes receivable	-	80,961	80,961
Total Assets	$ 3,650	$ 191,611	$ 195,261
Fund Balances:			
Restricted for:			
Public safety	$ 3,650	$ -	$ 3,650
Housing and development	-	191,611	191,611
Total Fund Balances	$ 3,650	$ 191,611	$ 195,261

City of Pearson, Georgia
Governmental Funds
Nonmajor Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes In Fund Balances
For the Year Ended December 31, 2011

	Drug Fund	Revolving Loan Fund	Total
Revenues			
Forfeitures	$ 518	$ -	$ 518
Investment income	12	1,501	1,513
Total Revenues	530	1,501	2,031
Expenditures			
Current:			
Public safety	2,999	-	2,999
Total Expenditures	2,999	-	2,999
Excess Revenues Over (Under) Expenditures	(2,469)	1,501	(968)
Fund Balances, Beginning	6,119	190,110	196,229
Fund Balances, Ending	$ 3,650	$ 191,611	$ 195,261

City of Pearson, Georgia
Drug Fund
Comparative Balance Sheet
December 31, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents	$ 3,650	$ 6,119
Total Assets	$ 3,650	$ 6,119
Fund Balances		
Restricted for:		
Public safety	$ 3,650	$ 6,119
Total Fund Balances	$ 3,650	$ 6,119

City of Pearson, Georgia
Drug Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

	2011				2010
	Budgeted Amounts			Variance with	
	Original	Final	Actual	Final Budget	Actual
Revenues:					
Forfeitures	$ 2,500	$ 2,500	$ 518	$ (1,982)	$ -
Investment income	-	-	12	12	28
Total Revenues	2,500	2,500	530	(1,970)	28
Expenditures:					
Current:					
Public safety	2,500	2,500	2,999	(499)	100
Total Expenditures	2,500	2,500	2,999	(499)	100
Excess (Deficiency) of Revenues Over Expenditures	$ -	$ -	(2,469)	(2,469)	(72)
Fund Balances - Beginning of Year			6,119		6,191
Fund Balances - End of Year			$ 3,650		$ 6,119

City of Pearson, Georgia
Revolving Loan Fund
Comparative Balance Sheet
December 31, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents	$ 110,650	$ 110,567
Notes receivable	80,961	85,559
Total Assets	$ 191,611	$ 196,126
Liabilities and Fund Balances		
Liabilities:		
Escrow payable	$ -	$ 6,016
Total Liabilities	-	6,016
Fund Balances		
Restricted for:		
Housing and development	191,611	190,110
Total Fund Balances	191,611	190,110
Total Liabilities and Fund Balances	$ 191,611	$ 196,126

City of Pearson, Georgia
Revolving Loan Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

	2011				2010
	Budgeted Amounts			Variance with	
	Original	Final	Actual	Final Budget	Actual
Revenues:					
Investment income	$ 3,000	$ 3,000	$ 1,501	$ (1,499)	$ 3,213
Total Revenues	3,000	3,000	1,501	(1,499)	3,213
Expenditures:					
Current:					
Economic development	3,000	3,000	-	(3,000)	-
Total Expenditures	3,000	3,000	-	(3,000)	-
Excess (Deficiency) of Revenues Over Expenditures	$ -	$ -	1,501	$ 1,501	3,213
Fund Balances - Beginning of Year			190,110		186,897
Fund Balances - End of Year			$ 191,611		$ 190,110

City of Pearson, Georgia
2006 SPLOST Fund
Comparative Balance Sheet
December 31, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents	$ 154,232	$ 146,366
Receivables - intergovernmental	20,000	26,666
Total Assets	$ 174,232	$ 173,032
Fund Balances		
Restricted for:		
Capital projects	$ 174,232	$ 173,032
Total Fund Balances	$ 174,232	$ 173,032

City of Pearson, Georgia
2006 SPLOST Fund
Project Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
From Inception and for the Year Ended December 31, 2011

	Project Length Budget	2011	Prior Years	Actual Amounts	Variance with Final Budget- Over (Under)
Revenues:					
Intergovernmental	$ 480,000	$ 80,000	$ 373,333	$ 453,333	$ (26,667)
Total Revenues	480,000	80,000	373,333	453,333	(26,667)
Expenditures:					
Capital outlay	393,323	78,800	113,624	192,424	(200,899)
General government - administrative:					
Capital lease principal	13,380	-	12,450	12,450	(930)
Capital lease interest	-	-	929	929	929
Public works:					
Capital lease principal	13,380	-	12,450	12,450	(930)
Capital lease interest	-	-	929	929	929
Public safety:					
Capital lease principal	24,967	-	23,682	23,682	(1,285)
Capital lease interest	-	-	1,766	1,766	1,766
Recreation:					
Capital lease principal	13,380	-	12,450	12,450	(930)
Capital lease interest	-	-	930	930	930
Health and welfare - senior citizens:					
Capital lease principal	21,570	-	19,657	19,657	(1,913)
Capital lease interest	-	-	1,434	1,434	1,434
Total Expenditures	480,000	78,800	200,301	279,101	(200,899)
Excess (Deficiency) of Revenues Over Expenditures	$ -	1,200	173,032	$ 174,232	$ 174,232
Fund Balances, Beginning of Year		173,032	-		
Fund Balances, End of Year		$ 174,232	$ 173,032		

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

Honorable Mayor and Members
Of the City Council
City of Pearson, Georgia

I have audited the financial statements of the governmental activities, the business-type activities, the major discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Pearson, Georgia as of and for the year ended December 31, 2011, which collectively comprise the City of Pearson, Georgia's basic financial statements and have issued my report thereon dated June 5, 2012. I conducted my 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.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the City of Pearson, Georgia's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Pearson, Georgia's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Pearson, Georgia's internal control over financial reporting.

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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that I consider to be significant deficiencies in internal control over financial reporting. (2008-1, 2008-4). 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pearson, Georgia's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of the City of Pearson, Georgia in a separate letter dated June 5, 2012.

The City of Pearson, Georgia's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. I did not audit the City of Pearson, Georgia's responses and, accordingly, I express no opinion it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robert W Goodman CPA

Alma, Georgia
June 5, 2012

COMPLIANCE SECTION

City of Pearson, Georgia
Schedule of Findings and Responses
For the Year Ended December 31, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	*Unqualified*	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	X no
Significant deficiency(es) identified not considered to be material weakness(es)	X yes	_____ no
Noncompliance material to financial statements noted?	_____ yes	X no

City of Pearson, Georgia
Schedule of Findings and Responses
For the Year Ended December 31, 2011

Section II - Findings Related to the Audit of the Financial Statements

Significant Deficiency

2008-1

Condition: At present, management is not preparing the financial statements, They are being assisted by auditors. The intent of SAS 112 is not to prevent auditors from preparing the client's financial statements. Instead the issue to be considered when determining if a significant deficiency or material weakness exists is whether the client is capable of preparing the financial statements and has the skills and competencies necessary to prevent, detect and correct a material misstatement.

Criteria: Management is responsible for the financial statements, including the preparation of such statements. A system of internal controls over financial reporting does not stop at the general ledger. It includes controls over financial statement preparation, including footnote disclosure.

Effect: A control deficiency exists when the City does not have controls over the preparation of the financial statements that could prevent or detect a misstatement in the financial statements.

Cause: The size of the City's accounting staff prevents them from having the time to prepare the financial statements. As a matter of convenience and efficiency, the auditor is preparing the statements. This is a condition which is common in most small governments in Georgia.

Recommendation: I recommend the City provide additional training to provide the skills to set up proper controls to review, prevent and detect material misstatements.

Views of officials: Management concurs with the above finding, and is continuing to strive for proper education and training.

Significant Deficiency

2008-4

Condition: There is not an appropriate segregation of duties between recording, distribution, reconciliation of cash accounts and other operational functions within various City departments.

Criteria: Internal controls should be in place, which provide reasonable assurance that an individual cannot misappropriate funds without such actions being detected during the normal course of business.

Effect: The failure to segregate out the accounting duties among multiple persons presents the opportunity for misappropriation of assets, mainly cash.

Recommendation: The duties of recording, distribution, reconciliation of cash accounts and other operational functions should be segregated between employees.

Views of officials: Management concurs with the above finding, and will work with the effected offices to devise better internal controls over the accounting functions.

City of Pearson, Georgia
Schedule of Projects Undertaken
With Special Sales Tax Proceeds
For the Year Ended December 31, 2011

Project	Original Estimated Cost	Current Estimated Cost	Expenditures		
			Prior Years	Current Year	Total To Date
2006 SPLOST:					
Administrative Vehicle	$ 13,380	$ 13,380	$ 13,379	$ -	$ 13,379
Public Works Vehicle	13,380	13,380	13,379	-	13,379
Recreation Department Vehicle	13,380	13,380	13,380	-	13,380
Police Vehicle	24,967	24,967	25,446	-	25,446
Senior Citizen Van	21,570	21,570	21,092	-	21,092
Recreation Department field lights, playground equipment, new police cars, city works trucks, generators for waste water lift stations and utility tractor and equipment	393,323	200,898	-	-	-
Fire truck		75,000	-	75,000	75,000
Fence and shelter-West St. Park		3,800	-	3,800	3,800
Sports complex fence		4,557	4,557	-	4,557
Public Works Mower	-	7,955	7,955	-	7,955
Public Works Utility Vehicles	-	6,950	6,950	-	6,950
Police Vehicle	-	24,079	24,079	-	24,079
Civic Center Improvements	-	8,107	8,107	-	8,107
Playground equipment	-	45,134	45,134	-	45,134
Recreation Department field lights	-	16,843	16,843	-	16,843
Total	$ 480,000	$ 480,000	$ 200,301	$ 78,800	$ 279,101