# CITY OF PEARSON, GEORGIA

# ANNUAL FINANCIAL REPORT

# FOR THE FISCAL YEAR ENDED

# DECEMBER 31, 2013

**CITY OF PEARSON, GEORGIA**
**TABLE OF CONTENTS**
**DECEMBER 31, 2013**


| Description | Page Number |
|---|---|
| Independent Auditor's Report | 1 |
| Basic Financial Statements: | |
| Government-Wide Statement of Net Position | 4 |
| Government-Wide Statement of Activities and Changes in Net Position | 6 |
| Combining Balance Sheet - Governmental Funds | 8 |
| Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position | 9 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds | 10 |
| Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities | 11 |
| Statement of Net Position - Proprietary Funds | 12 |
| Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds | 14 |
| Statement of Cash Flows - Proprietary Funds | 16 |
| Notes to the Financial Statements | 18 |
| Required Supplementary Information: | |
| General Fund: | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance General Fund -GAAP Basis | 33 |
| Notes to Required Supplementary Information | 35 |
| Supplementary Information: | |
| Non-Major Governmental Funds: | |
| Combining Balance Sheet | 36 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance | 37 |
| Schedule of Projects Using Special Purpose Local Option Sales Tax Proceeds - 2006 SPLOST | 38 |
| Schedule of Projects Using Special Purpose Local Option Sales Tax Proceeds - 2012 SPLOST | 39 |
| 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 | 40 |
| Schedule of Findings and Responses | 42 |

HERRING
CPA GROUP, P.C.
Certified Public Accountants & Consultants

GERALD N. HERRING, JR., C.P.A.
CHARLES W. POWELL, III, C.P.A.
DAVID L. DEARISO, C.P.A.
TONY QUINNEY, C.P.A.
JAMES H. HERRING, C.P.A.
JANE L. GRAY, C.P.A.
BRANDON N. MONTGOMERY, C.P.A.
SETH D. FREEMAN, C.P.A.

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
THE GEORGIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

OFFICES
TIFTON, GEORGIA
SYLVESTER, GEORGIA

# INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Pearson, Georgia as of and for the year ended December 31, 2013 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 representation 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. 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 risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.



212 W. 2ND STREET P.O. BOX 7328 TIFTON, GEORGIA 31793-7328 PHONE (229) 382-2355 FAX (229) 382-4793 www.herringcpagroup.com

## Opinions

In our 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, and each major fund of the City of Pearson, Georgia, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 33 and 34 be presented to supplement the basic financial statements. Such information, although not 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 accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

## Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pearson's basic financial statements. The statements and schedules presented as Supplementary Information and the Schedule of Projects Constructed with Special Sales Tax Proceeds, as required by the Official Code of Georgia Annotated Section, 48-8-121, as described in the table of contents on pages 35 through 38, are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the City of Pearson, Georgia.

The statements and schedules are the responsibility of management and were derived from and relate 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 statements and schedules presented as Supplementary Information and the Schedule of Projects Constructed with Special Sales Tax Proceeds, as required by the Official Code of Georgia Annotated Section, 48-8-121, have been subjected to the auditing procedures applied in the audit of the basic financial statements, and,

in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Herring CPA Group, P.C.
Tifton, GA
12/19/14

**City of Pearson**

**Government-Wide Statement of Net Position**

**December 31, 2013**

| | Primary Government | | | Component Unit |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Totals | City of Pearson Industrial Authority |
| **Assets** | | | | |
| Cash | $ 946,316 | $ 350,972 | $ 1,297,288 | $ 27,737 |
| Taxes receivable | 68,878 | 0 | 68,878 | 0 |
| Accounts receivable | 4,182 | 50,509 | 54,691 | 0 |
| Due from other governments | 153,646 | 0 | 153,646 | 0 |
| Notes receivable | 0 | 0 | 0 | 39,641 |
| Prepaid items | 12,080 | 1,421 | 13,501 | 0 |
| Non-Depreciable Items | 59,863 | 465,948 | 525,811 | 608,925 |
| Capital assets - net | 887,707 | 5,316,213 | 6,203,920 | 0 |
| TOTAL ASSETS | $ 2,132,672 | $ 6,185,063 | $ 8,317,735 | $ 676,303 |
| **Current Liabilities** | | | | |
| Accounts payable | $ 42,628 | $ 41,689 | $ 84,317 | $ 0 |
| Accrued expenses | 0 | 6,315 | 6,315 | 0 |
| Bonds payable-current | 0 | 60,042 | 60,042 | 0 |
| Consumers' deposits payable | 0 | 68,387 | 68,387 | 0 |
| Total Current Liabilities | 42,628 | 176,433 | 219,061 | 0 |

The accompanying notes to financial statements
are an integral part of this statement.

**City of Pearson**

**Government-Wide Statement of Net Position**

**December 31, 2013**

| | Primary Government | | | Component Unit |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Totals | City of Pearson Industrial Authority |
| **Long-Term Liabilities** | | | | |
| Long term compensated absences | 7,467 | 0 | 7,467 | 0 |
| Notes payable - non-current | 0 | 0 | 0 | 16,766 |
| Bonds payable - non-current | 0 | 1,004,704 | 1,004,704 | 0 |
| Total Long-Term Liabilities | 7,467 | 1,004,704 | 1,012,171 | 16,766 |
| TOTAL LIABILITIES | 50,095 | 1,181,137 | 1,231,232 | 16,766 |
| **Net Position** | | | | |
| Net investment in capital assets | $ 947,570 | $ 4,717,415 | $ 5,664,985 | $ 608,925 |
| Restricted for: | | | | |
| Debt Retirement | 0 | 130,000 | 130,000 | 0 |
| Capital Projects | 316,248 | 0 | 316,248 | 0 |
| Public Safety | 6,125 | 0 | 6,125 | 0 |
| Housing and Development | 191,712 | 0 | 191,712 | 0 |
| Unrestricted | 620,922 | 156,511 | 777,433 | 50,612 |
| TOTAL NET POSITION | $ 2,082,577 | $ 5,003,926 | $ 7,086,503 | $ 659,537 |

The accompanying notes to financial statements
are an integral part of this statement.

**City of Pearson**
**Government-Wide State of Activities and Changes in Net Position**
**For the Year Ended December 31, 2013**

| | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions |
|---|---|---|---|---|
| Primary Government | | | | |
| Governmental Activities: | | | | |
| General government | $ 215,736 | $ 27,289 | $ 0 | $ 0 |
| Judicial | 121,532 | 0 | 0 | 0 |
| Public safety | 316,777 | 309,166 | 0 | 0 |
| Public works | 229,454 | 0 | 0 | 509,559 |
| Health and Social Services | 20,941 | 0 | 0 | 0 |
| Culture and recreation | 162,899 | 29,600 | 0 | 11,410 |
| Housing and Development | 71,019 | 0 | 0 | 0 |
| Total Governmental Activities | 1,138,358 | 366,055 | 0 | 520,969 |
| Business-Type Activities: | | | | |
| Water and Sewer | 736,265 | 578,471 | 0 | 0 |
| Total Business-Type Activities | 736,265 | 578,471 | 0 | 0 |
| Total Primary Government | $ 1,874,623 | $ 944,526 | $ 0 | $ 520,969 |
| Component Unit: | | | | |
| City of Pearson Industrial Authority | $ 807 | $ 9,691 | $ 0 | $ 25,000 |
| General Revenues and Transfers: | | | | |
| Property taxes | | | | |
| Other taxes | | | | |
| Penalties and interest on delinquent taxes | | | | |
| Interest | | | | |
| Other revenue | | | | |
| Transfers - Internal activities | | | | |
| Total General Revenues and Transfers | | | | |
| Change in Net Position | | | | |
| **Net Position - Beginning of Year** | | | | |
| **Net Position - End of Year** | | | | |

The accompanying notes to financial statements
are an integral part of this statement.

**City of Pearson**
**Government-Wide State of Activities and Changes in Net Position**
**For the Year Ended December 31, 2013**

| Total | Net (Expenses) Revenue and Changes in Net Position Primary Government: Governmental Activities | Business-Type Activities | Total | Component Unit: City of Pearson Industrial Authority |
|---|---|---|---|---|
| $ 27,289 | $ (188,447) | $ 0 | $ (188,447) | $ 0 |
| 0 | (121,532) | 0 | (121,532) | 0 |
| 309,166 | (7,611) | 0 | (7,611) | 0 |
| 509,559 | 280,105 | 0 | 280,105 | 0 |
| 0 | (20,941) | 0 | (20,941) | 0 |
| 41,010 | (121,889) | 0 | (121,889) | 0 |
| 0 | (71,019) | 0 | (71,019) | 0 |
| 887,024 | (251,334) | 0 | (251,334) | 0 |
| 578,471 | 0 | (157,794) | (157,794) | 0 |
| 578,471 | 0 | (157,794) | (157,794) | 0 |
| $ 1,465,495 | (251,334) | (157,794) | (409,128) | 0 |
| $ 34,691 | 0 | 0 | 0 | 33,884 |
| | 233,326 | 0 | 233,326 | 0 |
| | 476,211 | 0 | 476,211 | 0 |
| | 3,013 | 0 | 3,013 | 0 |
| | 3,967 | 1,369 | 5,336 | 0 |
| | 29,761 | 0 | 29,761 | 0 |
| | (817,733) | 817,733 | 0 | 0 |
| | (71,455) | 819,102 | 747,647 | 0 |
| | (322,789) | 661,308 | 338,519 | 33,884 |
| | 2,405,366 | 4,342,618 | 6,747,984 | 625,653 |
| | $ 2,082,577 | $ 5,003,926 | $ 7,086,503 | $ 659,537 |

The accompanying notes to financial statements
are an integral part of this statement.

City of Pearson, Georgia
Governmental Funds
Combining Balance Sheet
December 31, 2013

| | General Fund | SPLOST Fund | CDBG Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Cash and cash equivalents | $ 531,430 | $291,677 | $ 6,333 | $ 116,876 | $ 946,316 |
| Tax receivable | 68,878 | 0 | 0 | 0 | 68,878 |
| Accounts receivable | 4,182 | 0 | 0 | 0 | 4,182 |
| Due from other governments | 34,418 | 24,571 | 13,696 | 80,961 | 153,646 |
| Due from other funds | 100 | 0 | 0 | 0 | 100 |
| **Total Assets** | $ 639,008 | $316,248 | $ 20,029 | $ 197,837 | $ 1,173,122 |
| **Liabilities** | | | | | |
| Accounts payable | 22,699 | 0 | 19,929 | 0 | 42,628 |
| Due to other funds | 0 | 0 | 100 | 0 | 100 |
| **Total Liabilities** | 22,699 | 0 | 20,029 | 0 | 42,728 |
| **Deferred Inflows of Resources** | 42,893 | 0 | 0 | 0 | 42,893 |
| **Total Liabilities and Deferred Inflows of Resources** | 65,592 | 0 | 20,029 | 0 | 85,621 |
| **Fund Balance** | | | | | |
| Restricted: | | | | | |
| Capital Projects | 0 | 316,248 | 0 | 0 | 316,248 |
| Public Safety | 0 | 0 | 0 | 6,125 | 6,125 |
| Housing and Development | 0 | 0 | 0 | 191,712 | 191,712 |
| Unassigned: | 573,416 | 0 | 0 | 0 | 573,416 |
| **Total Fund Balance** | 573,416 | 316,248 | 0 | 197,837 | 1,087,501 |
| **Total Liabilities, Deferred Inflows of Resources, and Fund Balances** | $ 639,008 | $316,248 | $ 20,029 | $ 197,837 | $ 1,173,122 |

The accompanying notes to financial statements
are an integral part of this statement.

**City of Pearson, Georgia**
**Reconciliation of the Governmental Funds Balance Sheet**
**To the Government-Wide Statement of Net Position**
**December 31, 2013**

| | |
|---|---|
| TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | $ 1,087,501 |
| Amounts reported for governmental activities in the government-wide statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. | 947,570 |
| Some of the City's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds. A portion of the billed taxes will not be collected so a reserve is reported for the amount demeed uncollectable on the Government Wide Statement. | |
| Deferred Inflow of Resources | 42,893 |
| Prepaid expenses are recorded on the Statement of Net Position when an expense is incurred but will benefit a future period. In the governmental funds, the expense is recognized in the governmental funds. | 12,080 |
| Liabilities not due and payable in the current period and therefore are not reported in the governmental fund balance sheets but are reported on the government-wide statement of net position (exclusive of internal service funds compensated absenses) | |
| Balances at June 30, 2014 are: | |
| Compensated Absences | (7,467) |
| TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES | $ 2,082,577 |

The accompanying notes to financial statements
are an integral part of this statement.

City of Pearson, Georgia
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
December 31, 2013

| | General Fund | SPLOST Fund | CDBG Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Property taxes | $ 232,724 | $ 0 | $ 0 | $ 0 | $ 232,724 |
| Other taxes | 476,211 | 0 | 0 | 0 | 476,211 |
| Penalties and interest on taxes | 3,013 | 0 | 0 | 0 | 3,013 |
| Fines and forfeitures | 302,674 | 0 | 0 | 6,492 | 309,166 |
| Licenses and permits | 27,289 | 0 | 0 | 0 | 27,289 |
| Intergovernmental | 0 | 286,130 | 234,839 | 0 | 520,969 |
| Investment income | 3,834 | 90 | 0 | 43 | 3,967 |
| Charges for services | 29,600 | 0 | 0 | 0 | 29,600 |
| Other Revenues | 29,761 | 0 | 0 | 0 | 29,761 |
| **Total Revenues** | 1,105,106 | 286,220 | 234,839 | 6,535 | 1,632,700 |
| **Expenditures** | | | | | |
| Current | | | | | |
| General government | 223,494 | 0 | 0 | 0 | 223,494 |
| Judiciary | 121,532 | 0 | 0 | 0 | 121,532 |
| Public safety | 286,930 | 0 | 0 | 1,484 | 288,414 |
| Public works | 206,406 | 0 | 0 | 0 | 206,406 |
| Health and social services | 11,666 | 0 | 0 | 0 | 11,666 |
| Culture and recreation | 139,032 | 11,410 | 0 | 0 | 150,442 |
| Housing and development | 68,454 | 0 | 0 | 0 | 68,454 |
| **Total Expenditures** | 1,057,514 | 11,410 | 0 | 1,484 | 1,070,408 |
| **Excess of Revenues Over Expenditures** | 47,592 | 274,810 | 234,839 | 5,051 | 562,292 |
| **Other Financing Uses** | | | | | |
| Transfers out | (500,000) | (80,000) | (237,733) | 0 | (817,733) |
| **Net Changes in Fund Balance** | (452,408) | 194,810 | (2,894) | 5,051 | (255,441) |
| **Fund Balance - Beginning of Year** | 1,025,824 | 121,438 | 2,894 | 192,786 | 1,342,942 |
| **Fund Balance - End of Year** | $ 573,416 | $ 316,248 | $ 0 | $ 197,837 | $ 1,087,501 |

The accompanying notes to financial statements
are an integral part of this statement.

**City of Pearson, Georgia**
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities**
**For the year ended December 31, 2013**

| | |
|---|---|
| NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | $ (255,441) |
| **Amounts reported for governmental activities in the government-wide statement of activites are different because:** | |
| Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, by they do not require the use of current financial resources. Therefore, this amount of depreciation expense is not reported as expenditures in the governmental funds. | (72,563) |
| Some property taxes will not be collected for several months after the city's fiscal year ends, they are not considered "available" revenues, and are deferred in the governmental funds. Deferred tax revenues increased by this amount this year. | 602 |
| The Statement of Activities recognizes expenditures for prepaid expenses when the related liability is incurred. Governmental funds recognize expenditures for prepaid expenses at the time of purchase. Prepaid expenses increase this amount this fiscal year. | 12,080 |
| Under the modified accrual basis of accounting used in the governmental funds, expenditures are 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. This adjustment combines the net changes of two balances. | |
| Long term compensated absences | (7,467) |
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | $ (322,789) |

The accompanying notes to financial statements are an integral part of this statement.

**City of Pearson, Georgia**
**Proprietary Funds**
**Statement of Net Position**
**For the Year Ended December 31, 2013**

| | Water and Sewer |
|---|---|
| **Assets:** | |
| **Current Assets:** | |
| Cash | $ 220,972 |
| Accounts receivable - net | 50,509 |
| Prepaid Items | 1,421 |
| **Total Current Assets** | 272,902 |
| **Restricted Assets:** | |
| Cash | 130,000 |
| **Non-Current Assets** | |
| **Capital Assets:** | |
| Land | 203,557 |
| Construction in progress | 262,391 |
| Water and sewer system | 8,178,597 |
| Equipment | 220,237 |
| Accumulated depreciation | (3,082,621) |
| **Total Non-Current Assets** | 5,782,161 |
| **Total Assets** | $ 6,185,063 |
| **Liabilities** | |
| **Current Liabilities:** | |
| Accounts payable | $ 41,689 |
| Accrued expenses | 6,315 |
| Customer deposits | 68,387 |
| Revenue bonds payable, current | 60,042 |
| **Total Current Liabilities** | 176,433 |

The accompanying notes to financial statements
are an integral part of this statement.

City of Pearson, Georgia
Proprietary Funds
Statement of Net Position
For the Year Ended December 31, 2013

| | Water and Sewer |
|---|---|
| **Non-Current Liabilities** | |
| Revenue bonds, net of current portion | $ 1,004,704 |
| **Total Non-Current Liabilities** | 1,004,704 |
| **Total Liabilities** | 1,181,137 |
| **Net Position** | |
| Invested in capital assets, net of related debt | 4,717,415 |
| Restricted for debt service | 130,000 |
| Unrestricted | 156,511 |
| **Total Net Position** | $ 5,003,926 |

The accompanying notes to financial statements
are an integral part of this statement.

City of Pearson, Georgia
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended December 31, 2013

| | Water and Sewer |
|---|---|
| **Operating Revenues:** | |
| Charges for Services: | |
| Water Billings | $ 233,032 |
| Sewer Billings | 218,482 |
| Garbage Billings | 126,957 |
| **Total Operating Revenues** | 578,471 |
| | |
| **Operating Expenses:** | |
| Salaries and wages | 52,660 |
| Depreciation | 192,250 |
| Utilities | 117,167 |
| Garbage disposal | 110,513 |
| Repairs and maintenance | 75,744 |
| Professional services | 65,968 |
| Operating supplies | 17,498 |
| Dues and fees | 10,574 |
| Group insurance | 5,744 |
| Payroll taxes | 4,035 |
| Employee benefits | 3,841 |
| Insurance | 2,903 |
| Communications | 1,876 |
| Postage | 2,594 |
| Gas, oil, and fuel | 5,697 |
| Other expense | 1,873 |
| Total Operating Expenses | 670,937 |
| | |
| **Income (Loss) from Operations** | (92,466) |
| | |
| **Nonoperating Revenues (Expenses)** | |
| Interest expense | (65,328) |
| Interest revenue | 1,369 |
| Total Non-Operating Revenues (Expenses) | (63,959) |
| | |
| **Net Loss Before Transfers** | (156,425) |

The accompanying notes to financial statements
are an integral part of this statement.

City of Pearson, Georgia
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended December 31, 2013

| | Water and Sewer |
|---|---|
| Transfers | $ 817,733 |
| Change in Net Position | 661,308 |
| Net Position, Beginning of Year | 4,342,618 |
| Net Position, End of Year | $ 5,003,926 |

The accompanying notes to financial statements
are an integral part of this statement.

City of Pearson, Georgia
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2013

| | Water and Sewer |
|---|---|
| **Cash Flows from Operating Activities** | |
| Cash received from customers | $ 598,437 |
| Cash payments to suppliers for goods and services | (380,462) |
| Cash payments to employees for services | (52,660) |
| **Net Cash Provided by Operating Activities** | 165,315 |
| | |
| **Cash Flows from Capital and Related Financing Activities** | |
| Acquisition of capital assets | (342,391) |
| Transfers in | 817,733 |
| Principal paid on capital debt | (543,807) |
| Repayment of Interfund payable | (27,993) |
| Interest paid on capital debt | (70,387) |
| **Net Cash Used by Capital and Related Financing Activities** | (166,845) |
| | |
| **Cash Flows from Investing Activities** | |
| Interest received | 1,369 |
| **Net Cash Used by Investing Activities** | 1,369 |
| | |
| **Net Increase in Cash and Cash Equivalents** | (161) |
| | |
| **Cash and Cash Equivalents, Beginning of Year** | 351,133 |
| | |
| **Cash and Cash Equivalents, End of Year** | $ 350,972 |

The accompanying notes to financial statements
are an integral part of this statement.

City of Pearson, Georgia
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2013

| | Water and Sewer |
|---|---|
| **Reconciliation of Operating Income to Net Cash Provided by Operating Activities:** | |
| Operating Income (loss) | $ (92,466) |
| Adjustment to reconcile operating income to net cash provided by operating activities: | |
| Depreciation Expense | 192,250 |
| Changes in Assets and Liabilities: | |
| Decrease in accounts receivable | 8,720 |
| Increase in prepaid items | (1,421) |
| Increase in accounts payable | 41,098 |
| Increase in accrued expenses | 5,888 |
| Increase in customer deposits | 11,246 |
| Total Adjustments | 257,781 |
| **Net Cash Provided by (Used in) Operating Activities** | $ 165,315 |

The accompanying notes to financial statements
are an integral part of this statement.

## 1. 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 accounting principles of the City of Pearson conform to generally accepted accounting principles as applied to governments. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies:

### A. Reporting Entity

The financial reporting entity consists of (a) the 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 financial burdens 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 board 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, 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 Authority meets the GASB 14 criteria for inclusion as a component unit. The financial statements of the component unit have been included as a discretely presented component unit. The year end of the component unit is December 31, 2013, 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

## B. Basis of Presentation

*Government-wide Statements:* The statements of net position and the statements of activities display information about the primary government. These statements include the financial activities of the overall government, except the fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the city. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between expense and program revenues for the different business-type activities of the city and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes are presented as general revenues.

*Fund Financial Statement*: The fund financial statements provide information about the City's funds. Separate statements for each fund category, governmental and proprietary, are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

## C. Measurement Focus, Basis of Accounting

*Government-wide and Proprietary Fund Financial Statements*. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, includes property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements*. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, licenses, 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.

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

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.

SPLOST Fund – This fund accounts for the special purpose local option sales tax that is transferred in from the county to be used for various city capital outlay items.

CDBG Fund – This fund accounts for the City's community development block grant proceeds to be used for water and sewer system improvements.

Proprietary Funds are accounted for using economic resources management 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 Position. 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, sewer, and solid waste services to the residents of the City. Activities of the fund include administration, operations, and maintenance of the water and sewer system, collection and disposal of solid waste, and billing and collection activities. All costs are financed through changes to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses result from exchange transactions associated with the principal activity of the fund. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. Nonoperating expenses result from nonexchange transactions or ancillary activities.

**D. Cash and Investments**

It is the investment policy of the City of Pearson to invest all of its cash into demand deposits and negotiable certificates of deposit. The City is allowed to invest in (1) obligations of the State of Georgia or other states; (2) obligations issued by the U.S. government; (3 ) obligations fully insured or guaranteed by the U.S government or by a government agency of the United States; (4) obligations of any corporation of the U.S government; (5) prime banker acceptances; (6) the Local Government Pool established by the State of Georgia; (7) repurchase agreements; (8) obligations of other political subdivisions of the State of Georgia; and (9) certificates of deposits or deposit accounts with eligible depository institutions (any

commercial bank or trust company, mutual savings bank, savings and loan association, or building and loan association existing under the laws of Georgia or the United States and domiciled in Georgia.) For fiscal year ended December 31, 2013, all investments were in demand deposits and certificates of deposit with local banks and are stated at cost, which approximates market value.

### E. 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.

### F. Inventories and Prepaid Items

Inventories are valued 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 proprietary fund financial statements.

### G. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The city's policy has set the capitalization threshold for reporting capital assets at $5,000 for machinery, equipment, and buildings, and $50,000 for infrastructure and distribution assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| Asset Class | Estimated Useful Lives |
|---|---|
| Buildings | 25-50 |
| Water and Sewer System | 10-40 |
| Improvements | 25 |
| Equipment, vehicles and furniture | 7-10 |
| Infrastructure | 25-50 |

## H. 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 accrued vacation leave up to specific limits upon termination.

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

## I. 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 position. 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.

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.

## J. 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."

Generally, the fund balance represents the difference between the current assets and current liabilities. There are five fund balance classifications in the Fund Financial Statements. They are as follow:

1. Non-spendable Fund Balance – The non-spendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.

2. Restricted Fund Balance – The restricted fund balance classification occurs when constraints are placed on the use of resources either externally imposed by creditors, grantors, contributors, or laws or regulations of other government, or imposed by law through constitutional provisions or enabling legislation.

3. Committed Fund Balance – The committed fund balance classification occurs when amounts can only be used for specific purposes pursuant to constraints imposed by the formal action of the government's highest level of decision-making authority. Actions to establish, modify, or rescind a

committed fund balance must be formalized by a resolution and a majority approval of the city council.

4. Assigned Fund Balance – The assigned fund balance classification occurs when amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted or committed. The council or mayor is authorized to assign amounts to a specific purpose and is given this authority by resolution at a monthly meeting or special called meeting.

5. Unassigned Fund Balance – The unassigned fund balance classification is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

Sometimes the government will fund outlay for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

In the government-wide financial statements, equity is classified as net position and displayed in three components as follows:

1. Invested in capital assets, net of related debt consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduce by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

2. Restricted net position consist of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

3. Unrestricted net position consist of all other assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

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

## K. Revenues, expenditures, and expenses

1. 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 revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

2. 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.

## L. Interfund transactions

Interfund transactions are reflected as loans, charges for services provided, reimbursements or transfers. Loan 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.

## M. 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.

## N. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund. All unencumbered annual appropriations lapse at fiscal 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 control for each legally adopted annual operating budget is at the department level.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting- under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation- is

utilized in the governmental funds. Encumbrances outstanding at the year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Encumbrance accounting is not used by the City of Pearson.

## 2. CASH AND INVESTMENTS

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 100 percent of the public funds held. All city deposits were covered by either FDIC coverage or were entirely collateralized with securities held by the city's agent in the city's name.

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.

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.

Summary of Deposit and Investment Balances:

| | |
|---|---|
| Primary Government: | |
| Cash on Hand | $ 1,456 |
| Bank Deposits | 1,295,832 |
| Total Primary Government | $ 1,297,288 |
| | |
| Component Unit: | |
| Bank Deposits | $ 27,737 |

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less are considered cash equivalents.

## 3. RECEIVABLES

Accounts Receivable consists of taxes, accounts (including billings for user charges), and amounts due from other governmental entities. These amounts are reported net of an allowance for uncollectable accounts of $29,029 in the water and sewer fund.

## 4. 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 2013 was as follows:
Property taxes attached as an enforceable lien on property as of January 1, 2013. The tax levy of 12 mils was approved on August 13, 2013. Taxes became due on December 20, 2013 and became delinquent on January 15, 2014.

## 5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

| | Beginning Balances | Increase | Decrease | Ending Balances |
|---|---|---|---|---|
| Governmental Activities: | | | | |
| Capital Assets not being Depreciated: | | | | |
| Land | $ 59,863 | $ 0 | $ 0 | $ 59,863 |
| Total Capital Assets not being Depreciated | 59,863 | 0 | 0 | 59,863 |
| Capital Assets being Depreciated: | | | | |
| Buildings | 726,023 | 0 | 0 | 726,023 |
| Improvements | 381,246 | 0 | 0 | 381,246 |
| Equipment, vehicles, and furniture | 862,088 | 0 | 0 | 862,088 |
| Total Capital Assets being Depreciated | 1,969,357 | 0 | 0 | 1,969,357 |
| Less Accumulated Depreciation: | | | | |
| Buildings | (190,974) | (16,731) | 0 | (207,705) |
| Improvements | (203,045) | (10,969) | 0 | (214,014) |
| Equipment, vehicles, and furniture | (615,067) | (44,864) | 0 | (659,931) |
| Total Accumulated Depreciation | (1,009,086) | (72,564) | 0 | (1,081,650) |
| Net Capital Assets being Depreciated | 960,271 | (72,564) | 0 | 887,707 |
| Net investment in capital assets: | $ 1,020,134 | $ (72,564) | $ 0 | $ 947,570 |

Depreciation expense of the general fund was charged to governmental functions as follows:

| | |
|---|---|
| General Government | $ 4,322 |
| Public Safety | 25,661 |
| Public Works | 18,283 |
| Health and Social Services | 9,275 |
| Economic Development | 2,565 |
| Culture and Recreation | 12,458 |
| Total | $ 72,564 |

| | Beginning Balances | Increase | Decrease | Ending Balances |
|---|---|---|---|---|
| Business Type Activities: | | | | |
| Capital Assets not being Depreciated: | | | | |
| Land | $ 203,557 | $ 0 | $ 0 | $ 203,557 |
| Construction in Progress | 0 | 262,391 | 0 | 262,391 |
| Total Capital Assets not being Depreciated | $ 203,557 | 262,391 | 0 | 465,948 |
| Capital Assets being Depreciated: | | | | |
| Water & Sewer system and plant | 8,098,597 | 80,000 | 0 | 8,178,597 |
| Equipment | 220,237 | 0 | 0 | 220,237 |
| Total Capital Assets being Depreciated | 8,318,834 | 80,000 | 0 | 8,398,834 |
| Less Accumulated Depreciation: | | | | |
| Water & Sewer system and plant | (2,730,155) | (184,261) | 0 | (2,914,416) |
| Equipment | (160,216) | (7,989) | 0 | (168,205) |
| Total Accumulated Depreciation | (2,890,371) | (192,250) | 0 | (3,082,621) |
| Net Capital Assets being Depreciated | 5,428,463 | (112,250) | 0 | 5,316,213 |
| Net investment in capital assets: | $ 5,632,020 | $150,141 | $ 0 | $5,782,161 |

Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method.

Discretely Presented Component Units

Capital assets activity for the City of Pearson Industrial Authority for the year ended December 31, 2013 was as follows:

| | Beginning Balances | Increase | Decrease | Ending Balances |
|---|---|---|---|---|
| Business Type Activities: | | | | |
| Capital Assets not being Depreciated: | | | | |
| Land | $ 583,248 | $ 25,677 | $ 0 | $ 608,925 |

## 6. TRANSFERS

Internal transfers for the year ended December 31, 2013, were as follows:

| | Transfer In | | Transfer Out |
|---|---|---|---|
| Governmental Funds: | | | |
| General Fund: | | | |
| Water and Sewer Fund | 0 | A | 500,000 |
| SPLOST Fund: | | | |
| Water and Sewer Fund | 0 | B | 80,000 |
| CDBG Fund: | | | |
| Water and Sewer Fund | 0 | C | 237,733 |
| Proprietary Fund: | | | |
| General Fund | 500,000 | A | 0 |
| SPLOST Fund | 80,000 | B | 0 |
| CDBG Fund | 237,733 | C | 0 |
| TOTAL ALL FUNDS | $ 817,733 | | $ 817,733 |

A) To transfer funds for Debt Retirement.
B) To transfer funds for water and sewer system extensions.
C) To transfer funds for water and sewer system extensions.

## 7. LONG-TERM DEBT

### A. Changes in Long-Term Obligations:

The following is a summary of the City's governmental funds for the fiscal year ended December 31, 2013:

| | Beginning Balance | Addition | Payment/ Retirements | Ending Balance | Due in One year |
|---|---|---|---|---|---|
| Compensated absences | $ 0 | $7,467 | $ 0 | $7,467 | $ 0 |

The following is a summary of the City's proprietary funds for the fiscal year ended December 31, 2013:

| | Beginning Balance | Addition | Payment/ Retirements | Ending Balance | Due in One year |
|---|---|---|---|---|---|
| Bonds Payable | $1,608,553 | $1,650,000 | $2,193,807 | $1,064,746 | $60,042 |

The following is a summary of the City's component unit for the fiscal year ended December 31, 2013:

| | Beginning Balance | Addition | Payment/ Retirements | Ending Balance | Due in One year |
|---|---|---|---|---|---|
| Notes Payable | $16,766 | $ 0 | $ 0 | $16,766 | $ 0 |

### B. Revenue Bonds:

Water and Sewer Revenue Bonds

The annual requirements to amortize all revenue bonds outstanding at December 31, 2013 are as follows:

| Year Ending | Principal June 30 | Interest Due | Total Requirement |
|---|---|---|---|
| 2014 | $ 60,042 | $ 27,904 | $ 87,946 |
| 2015 | 61,678 | 26,268 | 87,946 |
| 2016 | 63,287 | 24,659 | 87,946 |
| 2017 | 65,081 | 22,865 | 87,946 |
| 2018 | 66,853 | 21,093 | 87,946 |
| 2019-2023 | 362,534 | 77,196 | 439,730 |
| 2024-2028 | 385,271 | 25,144 | 410,415 |
| Total | $ 1,064,746 | $ 225,129 | $ 1,289,875 |

C. **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 maintain 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, 2013 was $174,699.

## 8. RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of the above risks of loss. Management believes that coverage is adequate to preclude any significant uninsured risk exposure to the City.

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.

## 9. CONTINGENT LIABILITIES AND LITIGATION

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.

## 10. 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 $2,638 to the SGRC for the year ended December 31, 2013. 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).

## 11. RELATED ORGINATIONS

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.

## 12. 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 2013 to the 401(a) defined contribution plan was $5,810.

## 13. SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through December 29, 2014, the date when the financial statements were available to be issued.

# 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, 2013**

| | Original Budget | Final Budget | Actual | Variance With Final Budget |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Ad Valorem taxes | $ 190,000 | $ 190,000 | $ 169,997 | $ (20,003) |
| Mobile home and motor vehicle | 31,036 | 31,036 | 62,727 | 31,691 |
| Intangible tax | 1,000 | 1,000 | 2,178 | 1,178 |
| Real estate transfer tax | 400 | 400 | 302 | (98) |
| Franchise taxes | 114,625 | 114,625 | 107,043 | (7,582) |
| Local option sales and use taxes | 226,068 | 226,068 | 203,161 | (22,907) |
| Alcoholic beverage excise taxes | 54,000 | 54,000 | 51,241 | (2,759) |
| Insurance premium taxes | 105,469 | 105,469 | 109,203 | 3,734 |
| Financial Institution tax | 2,000 | 2,000 | 2,000 | 0 |
| Penalties and interest on taxes | 3,200 | 3,200 | 3,013 | (187) |
| Business licenses | 16,700 | 16,700 | 24,364 | 7,664 |
| Regulatory fees- building structures and equipment | 5,000 | 5,000 | 2,925 | (2,075) |
| Payment in lieu of taxes | 1,084 | 1,084 | 1,083 | (1) |
| Fines and forfeitures | 193,325 | 193,325 | 302,674 | 109,349 |
| Investment earnings | 7,500 | 7,500 | 3,834 | (3,666) |
| Other revenues | 144,894 | 144,894 | 45,511 | (99,383) |
| Rents and Royalties | 5,075 | 5075 | 13,850 | 8,775 |
| **Total Revenues** | 1,101,376 | 1,101,376 | 1,105,106 | 3,730 |
| | | | | |
| **Expenditures:** | | | | |
| General government | | | | |
| Legislative | 17,928 | 17,928 | 17,132 | 796 |
| Mayor's office | 31,185 | 31,185 | 28,531 | 2,654 |
| Clerk | 47,135 | 47,135 | 51,483 | (4,348) |
| General Administration | 235,252 | 235,252 | 126,348 | 108,904 |
| Total general government | 331,500 | 331,500 | 223,494 | 108,006 |
| | | | | |
| Judiciary | | | | |
| Municipal Court | 119,201 | 119,201 | 121,532 | (2,331) |
| Total judiciary | 119,201 | 119,201 | 121,532 | (2,331) |
| | | | | |
| Public Safety | | | | |
| Police administration | 47,759 | 47,759 | 39,197 | 8,562 |
| Police patrol | 222,696 | 222,696 | 221,333 | 1,363 |
| Fire department | 29,356 | 29,356 | 26,400 | 2,956 |
| Total public safety | 299,811 | 299,811 | 286,930 | 12,881 |

**City of Pearson, Georgia**
**General Fund**
**Schedule of Revenues, Expenditures, and**
**Changes in Fund Balances - Budget and Actual**
**For the Year Ended December 31, 2013**

| | Original Budget | Final Budget | Actual | Variance With Final Budget |
|---|---|---|---|---|
| Public Works | | | | |
| Administration | 26,329 | 26,329 | 23,155 | 3,174 |
| Streets | 158,720 | 158,720 | 183,251 | (24,531) |
| Total public works | 185,049 | 185,049 | 206,406 | (21,357) |
| | | | | |
| Health and social services | | | | |
| Community center | 750 | 750 | 1,721 | (971) |
| Senior citizens center | 20,285 | 20,285 | 9,945 | 10,340 |
| Total health and social services | 21,035 | 21,035 | 11,666 | 9,369 |
| | | | | |
| Culture and recreation | | | | |
| Recreation center | 107,317 | 107,317 | 125,597 | (18,280) |
| Museum | 1,500 | 1,500 | 465 | 1,035 |
| Library | 13,750 | 13,750 | 12,970 | 780 |
| Total culture and recreation | 122,567 | 122,567 | 139,032 | (16,465) |
| | | | | |
| Housing and development | | | | |
| Building inspection | 4,436 | 4,436 | 3,790 | 646 |
| Farmers market | 725 | 725 | 630 | 95 |
| Special Facilities | 12,500 | 12,500 | 11,711 | 789 |
| Economic Development | 23,437 | 48,437 | 52,323 | (3,886) |
| Total housing and development | 41,098 | 66,098 | 68,454 | (2,356) |
| | | | | |
| **Total Expenditures** | 1,120,261 | 1,145,261 | 1,057,514 | 87,747 |
| | | | | |
| **Total Expenditures** | 1,120,261 | 1,145,261 | 1,057,514 | 87,747 |
| | | | | |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | (18,885) | (43,885) | 47,592 | 91,477 |
| | | | | |
| **Other Financing Uses** | | | | |
| Transfer Out | 0 | (500,000) | (500,000) | 0 |
| | | | | |
| **Net Change in Fund Balance** | $ (18,885) | $ (543,885) | $ (452,408) | $ 91,477 |
| | | | | |
| **Fund Balance, Beginning of Year** | | | $1,025,824 | $1,025,824 |
| | | | | |
| **Fund Balance, End of Year** | | | $ 573,416 | $1,117,301 |

**1. BUDGETARY BASIS:**

The City of Pearson adopts its budget on the modified accrual basis of accounting and is in compliance with generally accepted accounting principles.

# SUPPLEMENTARY INFORMATION

City of Pearson, Georgia
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2013

| | Drug Fund | Revolving Loan Fund | Total |
|---|---|---|---|
| **Assets:** | | | |
| Cash and cash equivalents | $ 6,125 | $ 110,751 | $ 116,876 |
| Receivables - intergovernmental | 0 | 80,961 | 80,961 |
| **Total Assets** | 6,125 | 191,712 | 197,837 |
| **Liabilities** | 0 | 0 | 0 |
| **Fund Balance** | | | |
| Restricted: | | | |
| Public Safety | 6,125 | 0 | 6,125 |
| Housing and Development | 0 | 191,712 | 191,712 |
| **Total Fund Balance** | $ 6,125 | $ 191,712 | $ 197,837 |

City of Pearson, Georgia
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2013

| | Drug Fund | Revolving Loan Fund | Total |
|---|---|---|---|
| **Revenues:** | | | |
| Forfeitures | $ 6,492 | $ 0 | $ 6,492 |
| Investment Income | 6 | 37 | 43 |
| **Total Revenues** | 6,498 | 37 | 6,535 |
| | | | |
| **Expenditures** | | | |
| Public Safety | 1,484 | 0 | 1,484 |
| | | | |
| **Total Expenditures** | 1,484 | 0 | 1,484 |
| | | | |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | 5,014 | 37 | 5,051 |
| | | | |
| **Net Change in Fund Balance** | 5,014 | 37 | 5,051 |
| | | | |
| **Fund Balance, Beginning** | 1,111 | 191,675 | 192,786 |
| | | | |
| **Fund Balance, Ending** | $ 6,125 | $191,712 | $ 197,837 |

**City of Pearson, Georgia**
**Schedule of Projects Using Special**
**Purpose Local Option Sales Tax Proceeds**
**For the Year Ended December 31, 2013**

| 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 | $ 0 | $ 13,379 |
| Public works vehicle | 13,380 | 13,380 | 13,379 | 0 | 13,379 |
| Recreation department vehicle | 13,380 | 13,380 | 13,380 | 0 | 13,380 |
| Police vehicle | 24,967 | 24,967 | 25,446 | 0 | 25,446 |
| Senior citizen van | 21,570 | 21,570 | 21,092 | 0 | 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 | 116,693 | 0 | 0 | 0 |
| Fire truck | 0 | 75,000 | 75,000 | 0 | 75,000 |
| Fence and shelter - West St. Park | 0 | 23,945 | 12,535 | 11,410 | 23,945 |
| Sports complex fence | 0 | 4,557 | 4,557 | 0 | 4,557 |
| Public works mower | 0 | 7,955 | 7,955 | 0 | 7,955 |
| Public works utility vehicles | 0 | 6,950 | 6,950 | 0 | 6,950 |
| Public works tractor | 0 | 29,178 | 29,178 | 0 | 29,178 |
| Public works backhoe | 0 | 17,288 | 17,288 | 0 | 17,288 |
| Police vehicle | 0 | 41,673 | 41,673 | 0 | 41,673 |
| Civic center Improvements | 0 | 8,107 | 8,107 | 0 | 8,107 |
| Playground equipment | 0 | 45,134 | 45,134 | 0 | 45,134 |
| Recreation Department field lights | 0 | 16,843 | 16,843 | 0 | 16,843 |
| Total | $ 480,000 | $480,000 | $ 351,896 | $ 11,410 | $ 363,306 |

**City of Pearson, Georgia**
**Schedule of Projects Using Special**
**Purpose Local Option Sales Tax Proceeds**
**For the Year Ended December 31, 2013**

| Project | Original Estimated Cost | Current Estimated Cost | Expenditures Prior Years | Current Year | Total To Date |
|---|---|---|---|---|---|
| **2012 SPLOST:** | | | | | |
| Public works vehicles | $ 125,000 | $ 125,000 | $ 0 | $ 0 | $ 0 |
| Tractor and equipment | 41,667 | 41,667 | 0 | 0 | 0 |
| Backhoe and accessories | 100,000 | 100,000 | 0 | 0 | 0 |
| Police equipment and vehicles | 125,000 | 125,000 | 0 | 0 | 0 |
| Water and wastewater buildings and equipment | 208,333 | 208,333 | 0 | 80,000 | 80,000 |
| Recreation buildings, equipment, and vehicles | 100,000 | 100,000 | 0 | 0 | 0 |
| Fire equipment, buildings, and vehicles | 50,000 | 50,000 | 0 | 0 | 0 |
| Total | $ 750,000 | $ 750,000 | $ 0 | $ 80,000 | $ 80,000 |

HERRING
CPA GROUP, P.C.
Certified Public Accountants & Consultants

GERALD N. HERRING, JR., C.P.A.
CHARLES W. POWELL, III, C.P.A.
DAVID L. DEARISO, C.P.A.
TONY QUINNEY, C.P.A.
JAMES H. HERRING, C.P.A.
JANE L. GRAY, C.P.A.
BRANDON N. MONTGOMERY, C.P.A.
SETH D. FREEMAN, C.P.A.

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
THE GEORGIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

OFFICES
TIFTON, GEORGIA
SYLVESTER, GEORGIA

# 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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Pearson, Georgia as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City of Pearson's basic financial statements and have issued our report thereon dated December 19, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Pearson'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 Pearson's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Pearson'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies.



212 W. 2ND STREET P.O. BOX 7328 TIFTON, GEORGIA 31793-7328 PHONE (229) 382-2355 FAX (229) 382-4793 www.herringcpagroup.com

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the City of Pearson'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

**The City of Pearson's Response to Findings**

The City of Pearson's response to the findings identified in our audit is described in accompanying Schedule of Findings and Responses. The City of Pearson's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Herring CPA Group, P.C.
Tifton, Georgia
12/19/14

CITY OF PEARSON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2013

**FINANCIAL STATEMENT FINDINGS**

**2013-1 FINDING** **Accounting Personnel, lack of complete segregation of duties.**

Criteria: Adequate number of personnel should be employed to reduce conflicting job duties.

Condition: Recording, collections, and reporting are being administered by the same employees.

Effect: Lack of complete segregation of duties can result in misappropriation of funds.

Recommendation: Additional personnel should be hired or procedures should be implemented requiring the segregation of duties of the accounting personnel.

Management's response: We concur with the recommendation. We will implement oversight by the Mayor and Council. However, due to limited resources and personnel we cannot completely correct the lack of segregation of duties.

**2013-2 FINDING** **Accounts Payable not reconciled to general ledger.**

Criteria: Accounts payable ledgers need to be produced and reconciled to the general ledger on a monthly basis.

Condition: The subsidiary accounts payable ledgers are not being maintained for reconciliation to the general ledger.

Effect: Not reconciling subsidiary ledgers to general ledger can result in misappropriation of funds.

Recommendation: Reconcile and review monthly subsidiary accounts receivable ledgers to general ledger and review accounts before write-offs occur.

Management's response: We concur with the recommendation. Monthly reviews of the account receivables will be administered.

**2013-3 FINDING** **Financial statements not being prepared.**

Criteria: Financial statements are not prepared by the City.

Condition: City personnel do not have the knowledge or capability to properly prepare the financial statements.

Effect: Not having the adequate knowledge could result in misclassification of assets and liabilities.

Recommendation: The city should obtain outside assistance in drafting the financial statements.

Management's response: We concur with the recommendation. The City will continue to use the auditing firm in drafting the financial statements.

CITY OF PEARSON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2013

**FINANCIAL STATEMENT FINDINGS**

**2013-4 FINDING** **Budget Compliance.**

Criteria: Annual budgets need to be adopted for all funds and compared to actual results.

Condition: Adopted budgets for the special revenue funds could not be produced and several departments of the General Fund exceeded their budgets.

Effect: Failure to approve and monitor budgets can result in the overspending and misuse of funds.

Recommendation: Annual budgets need to be adopted for the special revenue funds and monthly budget reports reviewed and budget amendments need to be approved as needed.

Management's response: We concur with the recommendation. We will implement budget preparation and oversight by Mayor and Council.