CITY OF PEARSON, GEORGIA

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

DECEMBER 31, 2019

CITY OF PEARSON, GEORGIA

FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

TABLE OF CONTENTS

Page

FINANCIAL SECTION

Independent Auditor's Report ..... 1 – 3

Basic Financial Statements

Government-wide Financial Statements:

Statement of Net Position 4

Statement of Activities ..... 5 and 6

Fund Financial Statements:

Balance Sheet – Governmental Funds 7

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds 8

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities 9

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund ..... 10 and 11

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – CDBG Fund 12

Statement of Net Position – Proprietary Funds 13

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds 14

Statement of Cash Flows – Proprietary Funds ..... 15 and 16

Notes to Financial Statements ..... 17 – 34

Combining and Individual Fund Statements:

Combining Balance Sheet – Nonmajor Governmental Funds 35

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds 36

Schedule of Expenditures of Special Purpose Local Option Sales Tax 37

COMPLIANCE SECTION

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* ..... 38 and 39

Schedule of Findings and Responses ..... 40 – 44

Schedule of Prior Year Findings ..... 45 and 46

FINANCIAL SECTION

MAULDIN & JENKINS
CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

The City Council
of the City of Pearson, Georgia
Pearson, Georgia

Report on the Financial Statements

We 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** (the "City"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of December 31, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, and CDBG Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of special purpose local option sales tax proceeds, as required by the Official Code of Georgia Annotated ("O.C.G.A.") §48-8-121, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of special purpose local option sales tax proceeds 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 combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of special purpose local option sales tax proceeds are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pearson, Georgia's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Macon, Georgia
February 18, 2022

CITY OF PEARSON, GEORGIA

STATEMENT OF NET POSITION
DECEMBER 31, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	City of Pearson Industrial Authority
ASSETS				
Cash and cash equivalents	$ 277,386	$ 202,556	$ 479,942	$ 43,546
Taxes receivable	59,765	-	59,765	-
Accounts receivable, net of allowances	6,589	78,886	85,475	-
Due from other governments	44,164	-	44,164	-
Internal balances	50,645	(50,645)	-	-
Restricted assets:				
Cash and cash equivalents	-	64,971	64,971	-
Notes receivable	-	-	-	11,396
Capital assets:				
Nondepreciable	714,096	203,557	917,653	652,157
Depreciable, net of accumulated depreciation	1,471,418	4,751,237	6,222,655	-
Total assets	2,624,063	5,250,562	7,874,625	707,099
LIABILITIES				
Accounts payable	47,037	-	47,037	-
Accrued liabilities	18,637	5,134	23,771	-
Customer deposits	-	78,192	78,192	-
Compensated absences due in more than one year	8,370	2,406	10,776	-
Note payable due within one year	6,000	-	6,000	4,884
Note payable due in more than one year	5,396	-	5,396	19,647
Bonds payable due within one year	-	119,624	119,624	-
Bonds payable due in more than one year	-	292,330	292,330	-
Total liabilities	85,440	497,686	583,126	24,531
NET POSITION				
Net investment in capital assets	2,174,118	4,542,840	6,716,958	627,626
Restricted				
Public safety	5,400	-	5,400	-
Housing and development	98,470	-	98,470	-
Capital projects	52,839	-	52,839	-
Unrestricted	207,796	210,036	417,832	54,942
Total net position	$ 2,538,623	$ 4,752,876	$ 7,291,499	$ 682,568

The accompanying notes are an integral part of these financial statements.

CITY OF PEARSON, GEORGIA

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	$ 789,637	$ 267,663	$ -	$ -
Judicial	112,845	-	-	-
Public works	276,891	-	-	75,739
Public safety	513,425	512,128	1,501	64
Health and welfare	80,415	-	-	-
Culture and recreation	175,976	-	-	-
Housing and development	13,636	-	-	609,737
Interest on long-term debt	534	-	-	-
Total governmental activities	1,963,359	779,791	1,501	685,540
Business-type activities:				
Water and sewer	934,120	669,097	-	-
Total business-type activities	934,120	669,097	-	-
Total primary government	$ 2,897,479	$ 1,448,888	$ 1,501	$ 685,540
Component unit:				
Downtown Development Authority	$ 4,056	$ -	$ 6,000	$ -
Total component unit	$ 4,056	$ -	$ 6,000	$ -

General revenues:
- Property taxes
- Sales taxes
- Alcoholic beverage taxes
- Other taxes
- Unrestricted investment earnings
- Gain on sale of capital assets

Total general revenues

Change in net position

Net position, beginning of year

Net position, end of year

The accompanying notes are an integral part of these financial statements.

Net (Expenses) Revenues and Changes in Net Position			Component Unit
Governmental Activities	Business-type Activities	Total	Downtown Development Authority
$ (521,974)	$ -	$ (521,974)	$ -
(112,845)		(112,845)	
(201,152)	-	(201,152)	-
268	-	268	-
(80,415)	-	(80,415)	-
(175,976)	-	(175,976)	-
596,101		596,101	
(534)	-	(534)	-
(496,527)	-	(496,527)	-
-	(265,023)	(265,023)	-
-	(265,023)	(265,023)	-
(496,527)	(265,023)	(761,550)	-
-	-	-	1,944
-	-	-	1,944
627,190	-	627,190	-
203,431	-	203,431	-
55,000	-	55,000	-
117,197	-	117,197	-
854	772	1,626	115
-	-	-	23,917
1,003,672	772	1,004,444	24,032
507,145	(264,251)	242,894	25,976
2,031,478	5,017,127	7,048,605	656,592
$ 2,538,623	$ 4,752,876	$ 7,291,499	$ 682,568

CITY OF PEARSON, GEORGIA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	General	CDBG Fund	Nonmajor Governmental Funds	Totals Governmental Funds
ASSETS				
Cash and cash equivalents	$ 145,093	$ 329	$ 131,964	$ 277,386
Taxes receivable	59,765	-	-	59,765
Accounts receivable	6,589	-	-	6,589
Due from other governments	19,748	-	24,416	44,164
Due from other funds	50,645	-	-	50,645
Total assets	$ 281,840	$ 329	$ 156,380	$ 438,549
LIABILITES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 47,037	$ -	$ -	$ 47,037
Accrued liabilities	18,637	-	-	18,637
Total liabilities	65,674	-	-	65,674
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	50,391	-	-	50,391
Total deferred inflows of resources	50,391	-	-	50,391
FUND BALANCES				
Fund balances				
Restricted for:		-		
Public safety	-	-	5,400	5,400
Housing and development	-	-	98,470	98,470
Capital projects	-	329	52,510	52,839
Unassigned	165,775	-	-	165,775
Total fund balances	165,775	329	156,380	322,484
Total liabilities, deferred inflows of resources and fund balances	$ 281,840	$ 329	$ 156,380	

Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,185,514
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	50,391
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(19,766)
Net position of governmental activities	$ 2,538,623

The accompanying notes are an integral part of these financial statements.

CITY OF PEARSON, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

	General	CDBG Fund	Nonmajor Governmental Funds	Totals Governmental Funds
Revenues				
Taxes	$ 847,637	$ -	$ 154,079	$ 1,001,716
Licenses and permits	44,364	-	-	44,364
Intergovernmental	75,739	609,737	-	685,476
Charges for services	221,694	-	-	221,694
Fines and forfeitures	512,128	-	-	512,128
Interest and penalties	680	-	238	918
Other revenues	1,276	329	1,501	3,106
Total revenues	1,703,518	610,066	155,818	2,469,402
Expenditures				
Current:				
General government	770,632	-	-	770,632
Judicial	87,750	-	-	87,750
Public works	248,124	-	-	248,124
Public safety	443,955	-	560	444,515
Health and welfare	80,415	-	-	80,415
Culture and recreation	137,531	-	-	137,531
Housing and development	27,736	609,737	-	637,473
Debt service:				
Principal retirement	4,000	-	23,701	27,701
Interest and fiscal charges	-	-	534	534
Capital outlay	-	-	111,624	111,624
Total expenditures	1,800,143	609,737	136,419	2,546,299
Excess (deficiency) of revenues over (under) expenditures	(96,625)	329	19,399	(76,897)
Other financing sources				
Issuance of long-term debt	15,396	-	-	15,396
Total other financing sources	15,396	-	-	15,396
Net change in fund balances	(81,229)	329	19,399	(61,501)
Fund balances, beginning of year	247,004	-	136,981	383,985
Fund balances, end of year	$ 165,775	$ 329	$ 156,380	$ 322,484

The accompanying notes are an integral part of these financial statements.

CITY OF PEARSON, GEORGIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds	$	(61,501)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays differed from depreciation in the current period.		558,232
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		1,102
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		12,305
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the increase in compensated absences payable.		(2,993)
	$	507,145

The accompanying notes are an integral part of these financial statements.

CITY OF PEARSON, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL FUND FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

	Budget Amounts			Variance with Final
	Original	Final	Actual	Budget
Revenues				
Taxes	$ 861,831	$ 861,831	$ 847,637	$ (14,194)
Licenses and permits	35,811	35,811	44,364	8,553
Intergovernmental	30,000	30,000	75,739	45,739
Charges for services	177,254	177,254	221,694	44,440
Fines and forfeitures	325,621	325,621	512,128	186,507
Interest and penalties	494	494	680	186
Other revenues	-	-	1,276	1,276
Total revenues	1,431,011	1,431,011	1,703,518	272,507
Expenditures				
Current				
General government:				
General Administration	411,973	411,973	770,632	(358,659)
Total general government	411,973	411,973	770,632	(358,659)
Judicial:				
Municipal Court	25,859	25,859	87,750	(61,891)
Total Judicial	25,859	25,859	87,750	(61,891)
Public Works:				
Highways and streets	266,311	266,311	248,124	18,187
Total public works	266,311	266,311	248,124	18,187
Public Safety:				
Police Administration	476,898	476,898	397,280	79,618
Custody of Prisoners	23,250	23,250	11,070	12,180
Fire Department	35,155	35,155	35,605	(450)
Total public safety	535,303	535,303	443,955	91,348
Health and Welfare				
Community Center	4,150	4,150	2,513	1,637
Senior Citizens	57,984	57,984	77,902	(19,918)
Total Health and Welfare	62,134	62,134	80,415	(18,281)
Culture and recreation				
Recreation Center	56,373	56,373	108,571	(52,198)
Sports Facilities	23,750	23,750	15,486	8,264
Museum	4,800	4,800	221	4,579
Library	15,140	15,140	13,253	1,887
Total Culture and Recreation	100,063	100,063	137,531	(37,468)
Housing and Development				
Building Inspection	10,500	10,500	15,030	(4,530)
Economic Development	18,868	18,868	12,706	6,162
Total Housing and Development	29,368	29,368	27,736	1,632

(Continued)

CITY OF PEARSON, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

	Budget Amounts			Variance with Final
	Original	Final	Actual	Budget
Expenditures (Continued)				
Debt service:				
Principal retirement	$ -	$ -	$ 4,000	$ (4,000)
Total debt service	-	-	4,000	(4,000)
Total expenditures	1,431,011	1,431,011	1,800,143	(369,132)
Deficiency of revenues under expenditures	-	-	(96,625)	(96,625)
Other financing sources				
Issuance of long-term debt	-	-	15,396	15,396
Total other financing sources, net	-	-	15,396	15,396
Net change in fund balances	-	-	(81,229)	(81,229)
Fund balance, beginning of year	247,004	247,004	247,004	-
Fund balance, end of year	$ 247,004	$ 247,004	$ 165,775	$ (81,229)

The accompanying notes are an integral part of these financial statements.

CITY OF PEARSON, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CDBG FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

	Original and Final Budget	Actual	Variance
Revenues			
Intergovernmental	$ -	$ 609,737	$ 609,737
Other revenues	-	329	329
Total revenues	-	610,066	610,066
Expenditures			
Housing and development	-	609,737	(609,737)
Total expenditures	-	609,737	(609,737)
Deficiency of revenues under expenditures	-	329	329
Net change in fund balance	-	329	329
Fund balance, beginning of year	-	-	-
Fund balance, end of year	$ -	$ 329	$ 329

The accompanying notes are an integral part of these financial statements.

CITY OF PEARSON, GEORGIA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2019

	Water and Sewer
CURRENT ASSETS	
Cash	$ 202,556
Accounts receivable (net of allowance for uncollectibles)	78,886
Restricted assets:	
Cash	64,971
Total current assets	346,413
NON-CURRENT ASSETS	
Capital assets, at cost	
Land	203,557
Water and sewer system	8,717,109
Equipment	315,176
	9,235,842
Less accumulated depreciation	4,281,048
Total capital assets	4,954,794
Total non-current assets	4,954,794
Total assets	5,301,207
CURRENT LIABILITIES	
Accrued other expenses	5,134
Due to other funds	50,645
Customer deposits	78,192
Revenue bonds payable, current	119,624
Total	253,595
Total current liabilities	253,595
NON-CURRENT LIABILITIES	
Compensated absences, long term	2,406
Revenue bonds payable, long term	292,330
Total non-current assets	294,736
Total liabilities	548,331
NET POSITION	
Investment in capital assets	4,542,840
Unrestricted	210,036
Total net position	$ 4,752,876

The accompanying notes are an integral part of these financial statements.

CITY OF PEARSON, GEORGIA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

	Water and Sewer
Operating revenues	
Charges for services:	
Water billings	$ 252,095
Sewer billings	417,002
Total operating revenues	669,097
Operating expenses	
General and administrative	11,203
Salaries and wages	190,862
Utilities	81,683
Repairs and maintenance	260,780
Professional services	86,434
Operating supplies	31,173
Group insurance	22,962
Payroll taxes	11,561
Employee benefits	2,479
Communications	2,756
Gas, oil, and fuel	619
Total operating expenses	702,512
Operating loss before depreciation	(33,415)
Depreciation expense	218,823
Operating loss	(252,238)
Non-operating revenues (expenses)	
Interest revenue	772
Interest expense	(12,785)
Total non-operating revenues (expenses)	(12,013)
Change in net position	(264,251)
Net position, beginning of year	5,017,127
Net position, end of year	$ 4,752,876

The accompanying notes are an integral part of these financial statements.

CITY OF PEARSON, GEORGIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

	Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers, including deposits	$ 688,959
Cash payments to:	
Suppliers and vendors	(602,429)
Employees	(120,139)
Net cash used in operating activities	(33,609)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Retirement of bonds	(116,452)
Interest on bonds	(12,785)
Purchase of capital assets	(7,500)
Net cash used in capital and related financing activties	(136,737)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	772
Net cash provided by investing activities	772
Net decrease in cash	(169,574)
Cash and cash equivalents, January 1	437,101
Cash and cash equivalents, December 31	$ 267,527
Classified as:	
Cash	$ 202,556
Restricted assets:	
Cash	64,971
	$ 267,527

(Continued)

CITY OF PEARSON, GEORGIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

	Water and Sewer
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	$ (252,238)
Depreciation	218,823
Changes in assets and liabilities:	
Decrease in accounts receivable	19,862
Decrease in vouchers payable	(595)
Decrease in customer deposits	(3,766)
Increase in accrued other expenses	3,297
Decrease in due to other funds	(18,992)
Net cash used in operating activities	$ (33,609)

The accompanying notes are an integral part of these financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Pearson, Georgia (the "City") have been prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB"), is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City 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 accompanying financial statements present the City and its component unit, entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

The **City of Pearson, Georgia, Industrial Authority (the "Authority")** was created in 1969 and has been included as a discretely presented component unit in the accompanying financial statements. The Authority is responsible for industrial and commercial development with the City. The Authority board consists of five members, who are appointed by the City Council of Pearson, Georgia for terms that run concurrent with the terms of the City Council. The Authority maintains a general fund with limited activity. Separate financial statements for the Authority are not available.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the 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 the discretely presented component unit.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not considered program revenues are reported instead as *general revenues*.

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

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the *economic resource 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 City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally 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, franchise taxes, licenses, intergovernmental grants, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

The format of the fund financial statements has been modified by GASB Statement No. 34. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 also requires, as required supplementary information, Management's Discussion and Analysis which includes an analytical overview of the City's financial activity.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Community Development Block Grant ("CDBG") Fund** is a special revenue fund which accounts for the financing and construction of various community development projects. Financing is provided by grants received from the U.S. Department of Housing and Urban Development.

The City reports the following major proprietary funds:

The **Water and Sewer Fund** accounts for the provision of water and sewer services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

Amounts reported as *program revenues* include: 1) charges for services provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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. The principal operating revenues of the enterprise funds are charges for goods and services provided. Operating expenses of the enterprise funds include the cost of these goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgets

Budgets are adopted on a basis consistent with GAAP. 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 and services. Encumbrances 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 appropriations - 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.

E. 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) purchase 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 law of Georgia or the United States and domiciled in Georgia.) For fiscal year ended December 31, 2019, all investments were in demand deposits and certificates of deposit with local banks and are stated at cost, which approximates market value.

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

F. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year as well as all other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Inventories and Prepaid Items

Inventories consist of expendable supplies and items acquired for infrastructure repair and maintenance or for possible future expansion. Inventories in governmental funds are stated at average cost. Proprietary funds' inventories are stated at lower of average cost or market. The consumption method is used to account for inventories. Under the consumption method, budgetary authority is slated and expenditures are recorded in terms of authority to use or consume inventory items. Reported inventories are equally offset by a fund balance reserve in the fund financial statements.

Payments made to vendors for services that will benefit periods beyond December 31, 2019, are recorded as prepaid items in both the government-wide and fund financial statements.

H. Other Assets

Other assets held are recorded and accounted for at cost.

I. Restricted Assets

Proprietary funds, based on certain bond covenants, are required to establish and maintain prescribed amounts of resources (consisting of cash and temporary investments) that can be used only to service outstanding debt. Customer deposits that must be refunded upon the termination of service are also restricted.

J. 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 asset's lives are not capitalized.

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

Assets	Years
Buildings	25 – 50
Water and Sewer System	10 – 40
Improvements	25
Equipment, Vehicles, and Furniture	7 – 10
Infrastructure	25 – 50

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Compensated Absences

Full-time, permanent employees are granted vacation benefits to specified maximums depending on tenure with the City. 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 proprietary fund are charged to expense and a corresponding liability.

L. 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 are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable discount or premium. Any proprietary fund type loans payable are reported as liabilities at their outstanding value.

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 sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City did not have any items that qualify for reporting in this category for the year ended December 31, 2019.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category, which arises only under the modified accrual basis of accounting. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes not received within 60 days after year-end. These amounts are deferred and will be recognized as an inflow of resources in the period in which the amounts become available.

N. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance.” Fund equity for all other reporting is classified as “net position.”

Fund Balances – Generally, fund balance represents the difference between the assets and liabilities under the current financial resources measurement focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- ***Non-spendable*** – Fund balances are reported as non-spendable when amounts cannot be spent because they are either: a) not in spendable form (i.e., items that are not expected to be converted to cash), or b) legally or contractually required to be maintained intact.

- ***Restricted*** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

- ***Committed*** – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Commission through the adoption of a resolution. Only the City Commission may modify or rescind the commitment.

- ***Assigned*** – Fund balances are reported as assigned when amounts are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City has not adopted a policy giving specific parties the power to assign fund balance. The only assigned fund balances are those mandated by GASB pronouncements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Fund Equity (Continued)

Fund Balances (Continued) –

- ***Unassigned*** – Fund balances are reported as unassigned as the residual amount when balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the General Fund. Negative unassigned fund balances may be reported in all funds.

Flow Assumptions – When both restricted and unrestricted amounts of fund balances are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balances, it is the City's policy to use fund balances in the following order:

- Committed
- Assigned
- Unassigned

Net Position – Net position represents the difference between assets and liabilities in reporting which utilizes the economic resources measurement focus. Net position 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 (i.e., the amount that the City has spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted using the same definition as used for restricted fund balance as described in the section above. All other net position is reported as unrestricted.

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

O. Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds." The details of this difference are as follows:

Notes payable	$	(11,396)
Compensated absences		(8,370)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net position - governmental activities*	$	(19,766)

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	$	654,233
Depreciation expense		(96,001)
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$	558,232

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and Government-wide Statement of Activities (Continued)

Another element of that reconciliation explains that "the issuance of long-term debt provides current financial resources to government funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position." The details of this difference are as follows:

Proceeds from debt - notes payable	$	(15,396)
Principal repayments		27,701
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$	12,305

NOTE 3. LEGAL COMPLIANCE - BUDGETS

Excess Expenditures over Appropriations

For the year ended December 31, 2019, expenditures exceeded budgeted appropriations, as follows:

Fund or Department	Excess
General Fund:	
General Government:	
General Adminstrative	$ 358,659
Judicial:	
Highways and Streets	61,891
Health and Welfare:	
Senior Citizens	19,918
Culture and Recreation:	
Recreation Center	52,198
Housing and Development:	
Building Inspection	4,530
Debt Service:	
Principal Retirement	4,000
CDBG Fund:	
Housing and Development	609,737

These over-expenditures were funded by under-expenditures in other departments.

NOTE 4. DEPOSITS AND INVESTMENTS

Total deposits and investments as of December 31, 2019, are summarized as follows:

As reported in the Statement of Net Position:	
Primary government:	
Cash and cash equivalents	$ 479,942
Restricted cash and cash equivalents	64,971
	$ 544,913
Cash deposited with financial institutions	$ 544,913
	$ 544,913
Component unit:	
Cash and cash equivalents	$ 43,546
Cash deposited with financial institutions	$ 43,546

Credit Risk. State statutes authorize the City to invest in obligations of the State of Georgia or other states; obligations issued by the U.S. government; obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States; obligations of any corporation of the U.S. government; prime bankers' acceptances; the local government investment pool established by state law; repurchase agreements; and obligations of other political subdivisions of the State of Georgia.

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Deposits. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of December 31, 2019, the City did not have any balances exposed to custodial credit risk as uninsured and uncollateralized.

Fair Value Measurements. The City categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

NOTE 4. DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Investments. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. State statutes require all investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities.

NOTE 5. RECEIVABLES

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 2019 was as follows:

Property taxes attached as an enforceable lien on property as of January 1, 2019. Taxes became due on December 20, 2019, and were delinquent on January 21, 2020.

Receivables at December 31, 2019, for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Water and Sewer	Nonmajor Governmental Funds
Receivables:			
Taxes	$ 67,776	$ 96,315	$ -
Accounts	6,589	-	-
Due from other governments	19,748	-	24,416
Gross receivables	94,113	96,315	24,416
Less allowance for uncollectible	(8,011)	(17,429)	-
Net total receivables	$ 86,102	$ 78,886	$ 24,416

NOTE 6. CAPITAL ASSETS

Primary Government

Capital asset activity for the fiscal year ended December 31, 2019, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	$ 59,863	$ 30,396	$ -	$ 90,259
Construction in progress	-	623,837	-	623,837
Total	59,863	654,233	-	714,096
Capital assets, being depreciated:				
Buildings	1,182,113	-	-	1,182,113
Improvements	801,632	-	-	801,632
Equipment, vehicles and furniture	901,925	-	-	901,925
Total	2,885,670	-	-	2,885,670
Less accumulated depreciation for:				
Buildings	(308,464)	(27,886)	-	(336,350)
Improvements	(292,102)	(23,961)	-	(316,063)
Equipment, vehicles and furniture	(717,685)	(44,154)	-	(761,839)
Total	(1,318,251)	(96,001)	-	(1,414,252)
Total capital assets, being depreciated, net	1,567,419	(96,001)	-	1,471,418
Governmental activities capital assets, net	$ 1,627,282	$ 558,232	$ -	$ 2,185,514

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated:				
Land	$ 203,557	$ -	$ -	$ 203,557
Total	203,557	-	-	203,557
Capital assets, being depreciated:				
Water and sewer system and plant	8,717,109	-	-	8,717,109
Equipment	307,675	7,500	-	315,175
Total	9,024,784	7,500	-	9,032,284
Less accumulated depreciation for:				
Water and sewer system and plant	(3,863,989)	(203,762)	-	(4,067,751)
Equipment	(198,236)	(15,061)	-	(213,297)
Total	(4,062,225)	(218,823)	-	(4,281,048)
Total capital assets, being depreciated, net	4,962,559	(211,323)	-	4,751,236
Business-type activities capital assets, net	$ 5,166,116	$ (211,323)	$ -	$ 4,954,793

NOTE 6. CAPITAL ASSETS (CONTINUED)

Primary Government (Continued)

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

Governmental activities:	
General government	$ 5,917
Judicial	25,095
Public works	27,167
Culture and recreation	37,822
Total depreciation expense - governmental activities	$ 96,001
Business-type activities:	
Water and sewer	$ 218,823
Total depreciation expense - business-type activities	$ 218,823

Component Unit

	Beginning Balance	Increases	Decreases	Ending Balance
Component unit				
Capital assets, not being depreciated:				
Land	$ 679,320	$ -	$ 27,163	$ 652,157

NOTE 7. LONG-TERM DEBT

Long-term liability activity for the year ended December 31, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Note payable	$ 23,701	$ 15,396	27,701	$ 11,396	$ 6,000
Compensated absences	5,377	3,052	59	8,370	8,370
Governmental activity Long-term liabilities	$ 29,078	$ 18,448	$ 27,760	$ 19,766	$ 14,370
Business-type activities					
Bonds payable	$ 528,406	$ -	116,452	$ 411,954	$ 119,624
Compensated absences	3,001	34	629	2,406	2,406
Business-type activity Long-term liabilities	$ 531,407	$ 34	$ 117,081	$ 414,360	$ 122,030

NOTE 7. LONG-TERM DEBT (CONTINUED)

For the governmental activities, compensated absences are generally liquidated by the General Fund.

For the business-type activities, compensated absences are generally liquidated by the Water and Sewer Fund.

Note Payable. During the year ended December 31, 2019, the City entered into an agreement with the City of Pearson Industrial Authority to provide funding for a portion of the purchase of a piece of property owned by the City of Pearson Industrial Authority. The note is as follows at December 31, 2019:

Interest Rate	Term	Due Date	Amount	Amount
0.00%	3.5 years	2021	$ 15,396	$ 11,396

The annual requirements to pay the outstanding note are as follows:

Fiscal Year Ending December 31,	Principal
2020	$ 6,000
2021	5,396
Total	$ 11,396

Water and Sewer Revenue Bonds

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending December 31,	Total Amount of Bonds Payable		
	Principal	Interest	Total
2020	$ 119,438	$ 9,800	$ 129,238
2021	122,770	6,468	129,238
2022	126,164	3,074	129,238
2023	43,582	255	43,837
	$ 411,954	$ 19,597	$ 431,551

NOTE 7. LONG-TERM DEBT (CONTINUED)

Notes Payable – Discretely Presented Component Unit

The City of Pearson Industrial Authority originated a new loan to purchase land in 2016. The note on the loan is payable in 98 installments of $500 (annual interest rate of 5%) and began on June 10, 2016.

Fiscal Year Ending December 31,	Principal	Interest	Total
2020	$ 4,884	$ 1,116	$ 6,000
2021	5,134	866	6,000
2022	5,397	603	6,000
2023	5,673	327	6,000
2024	3,443	58	3,501
	$ 24,531	$ 2,970	$ 27,501

NOTE 8. INTERFUND RECEIVABLES AND PAYABLES

The City's interfund receivables and payables at December 31, 2019 (at the fund level) are shown below. These amounts represent short-term receivables and payables. The balances resulted from the time lag between the dates that: 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

As of December 31, 2019, the General Fund reflected an interfund receivable from the Water and Sewer Fund in the amount of $50,645.

NOTE 9. CONTINGENCIES

Grant Contingencies

The City participates in a number of federal, state and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. At December 31, 2019, there were no known amounts questioned or earmarked for disallowance. Based upon prior experience, management of the City believes such disallowances, if any, will not have a material effect on any individual governmental fund or the overall financial position of the City.

NOTE 9. CONTINGENCIES

Litigation

As is the ordinary course of city government, the City is the defendant in several lawsuits in the nature of civil violations, claims for damages to persons and property and other similar types of suits. Liability, if any, which might result from these proceedings, would not, in the opinion of the Management and the City Commission, have a material adverse effect on the financial position of the City.

NOTE 10. 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 the Official Code of Georgia Annotated (“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.

NOTE 11. JOINT VENTURES

Under Georgia Law, the City, in conjunction with other cities and counties in the 18-county South Georgia area, is a member of the Southern Georgia Regional Commission (“SGRC”) and is required to pay annual dues thereto. During the year ended December 31, 2019, the City paid $2,608 in such dues. Membership in SGRC is required by the O.C.G.A. §50-8-34 which provides for the organizational structure of Regional Commissions (“RCs”) in Georgia. The RC Board membership includes the chief elected official of each county and municipality of the area. O.C.G.A. §50-8-39.1 provides that the member governments are liable for any debts or obligations of an RC. Separate financial statements may be obtained from the Southern Georgia Regional Commission, 327 West Savannah Avenue, Valdosta, Georgia 31503.

NOTE 12. DEFINED CONTRIBUTION PLAN

The City 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 a 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 2019 to the 401(a) defined contribution plan was $2,009.

COMBINING AND INDIVIDUAL FUND STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Drug Fund – This fund is used to account for special fines collected by the court to be used by the City solely and exclusively for a drug program related to controlled substances and marijuana.

Revolving Loan Fund – This fund is used to account for a grant to the City to be loaned to individuals and companies for the purpose of generating low to moderate income jobs to help the City's economic development. The revenue generated is from the loan interest.

Capital Projects Funds

The **SPLOST 2012 – 2017 Fund –** This fund is used to account for financing and construction of facilities and improvements in accordance with a sales tax referendum associated with the years 2012 through 2017.

CITY OF PEARSON, GEORGIA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	Special Revenue Funds		Capital Projects Fund	
	Drug Fund	Revolving Loan Fund	SPLOST 2012 – 2017 Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash	$ 5,400	$ 98,470	$ 28,094	$ 131,964
Due from other governments	-	-	24,416	24,416
Total assets	5,400	98,470	52,510	156,380
FUND BALANCES				
Restricted for:				
Public safety	5,400	-	-	5,400
Housing and development	-	98,470	-	98,470
Capital projects	-	-	52,510	52,510
Total fund balances	5,400	98,470	52,510	156,380
Total liabilities and fund balances	$ 5,400	$ 98,470	$ 52,510	$ 156,380

CITY OF PEARSON, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

	Special Revenue Funds		Capital Projects Fund	
	Drug Fund	Revolving Loan Fund	SPLOST 2012 – 2017 Fund	Total Nonmajor Governmental Funds
Revenues				
Taxes	$ -	$ -	$ 154,079	$ 154,079
Interest and dividend income	15	159	64	238
Other revenues	1,501	-	-	1,501
Total revenues	1,516	159	154,143	155,818
Expenditures				
Current:				
Public safety	560	-	-	560
Capital outlay	-	-	111,624	111,624
Debt service:				
Principal	-	-	23,701	23,701
Interest and fiscal charges	-	-	534	534
Total expenditures	560	-	135,859	136,419
Excess of revenues over expenditures	956	159	18,284	19,399
Net change in fund balances	956	159	18,284	19,399
Fund balances, beginning of year	4,444	98,311	34,226	136,981
Fund balances, end of year	$ 5,400	$ 98,470	$ 52,510	$ 156,380

CITY OF PEARSON, GEORGIA

SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE LOCAL OPTION SALES TAX FOR THE FISCAL YEAR ENDED JUNE 30, 2019

No.	Project	Original and Current Estimated Cost	Prior Years	Current Year	Total
		2017 Referendum			
1	Public Safety - Equipment	$ 175,000	$ 50,500	$ 49,416	$ 99,916
2	Senior Center - Capital Improvement and Equipment	50,000	-	-	-
3	Renovation and Capital Repair of Buildings	150,000	5,500	45,423	50,923
4	Paving and Street Improvements	100,000	73,260	10,000	83,260
5	Water and Wastewater Buildings and Equipment	175,000	110	28,520	28,630
6	Recreation Buildings, Equipment and Improvements	160,000	64,433	2,500	66,933
		$ 810,000	$ 193,803	$ 135,859	$ 329,662

COMPLIANCE SECTION

MAULDIN & JENKINS
CPAs & ADVISORS

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*

The City Council
of the City of Pearson, Georgia
Pearson, Georgia

We have audited, 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, the 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 (the "City"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 18, 2022.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purposes of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-001 through 2019-006 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 financial statements. 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*.

City of Pearson, Georgia's Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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.

Mauldin & Jenkins, LLC

Macon, Georgia
February 18, 2022

CITY OF PEARSON, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

SECTION I
SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	X Yes _____ None Reported
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes X None Reported
Noncompliance material to financial statements noted?	_____ Yes X No

Federal Awards

There was not an audit of major federal award programs due to the total amount expended on federal programs being less than $750,000.

CITY OF PEARSON, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2019-001 – General Accounting Matters/Close-Out Procedures

Criteria: Internal control is a process designed to provide reasonable assurance about the achievement of an entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control is also a process of safeguarding assets against unauthorized acquisition, use, or disposition, and includes controls related to financial reporting and operations objectives. Generally accepted accounting principles require assets, liabilities, revenues and expenditures to be recognized in the accounting period in which they become both measurable (and available). Further, a fundamental principle in accounting and financial reporting is the notion of timely recognition and recording of financial and non-financial transactions and activities.

Condition: During our audit, we noted an inordinate amount of accounting, reporting and reconciling was not properly performed and reviewed during the fiscal year which required a significant effort to close the City's 2019 fiscal year. Significant adjustments were determined and required to be recorded in the months that followed December 31, 2019. Further, and throughout the course of the audit process, we noted there was an overall lack of proper and adequate accounting on a timely basis. We noted deficiencies in timeliness, completeness, and accuracy. Specifically, we noted a lack of timely and accurate financial and non-financial information needed:

- to properly account for all bank accounts related to the City;
- to properly reconcile all cash accounts;
- to properly maintain the accounts payable on a periodic basis throughout the year;
- to accurately maintain and record the City's capital assets;
- to properly account for prior year audit entries;
- to properly maintain general ledgers, subsidiary ledgers, and related reconciliations; and
- to close-out and report activities, events and transactions on a periodic basis.

We believe it is important to note that we observed genuine interest by the City's accounting personnel in their desire to learn and assume greater responsibilities for the City's accounting and financial reporting and noticed great improvement subsequent to the current year's audit.

Context: We addressed the matter with the City to determine the appropriate steps are taken so as to properly complete general accounting matters and close-out procedures at December 31, 2019.

Effects: The ultimate effect of the above condition is the potential for errors and irregularities to occur and not to be detected and corrected in a timely manner.

Cause: There was a lack of appropriate controls implemented at the City during the fiscal year to properly maintain financial and non-financial information and to properly close-out the year-end.

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2019-001 – General Accounting Matters/Close-Out Procedures (Continued)

Recommendation: We recommend the City consider a variety of options to address the above condition. In no particular order, the City needs to look at the respective staffing of the accounting function, and determine if an adequate number of staff are currently available to address the condition. The City also needs to consider and evaluate its strengths and weaknesses relative to the accounting function, and take measures to address the concerns noted above with a goal of providing timely recording, reconciling and reporting of City operations and financial and non-financial activities. We also recommend the City seek the expertise of a technician to come in and diagnose the issues with the City's accounting software related to the accounts payable and capital assets to improve the overall audit.

Views of Responsible Officials and Planned Corrective Action: We concur with the finding. We will continue to review and improve policies and procedures in an effort to eliminate error and identify deficiencies from both operational and financial perspectives.

2019-002 – Insufficient Internal Controls Regarding Procurement Processes

Criteria: Internal controls surrounding procurement processes are a vital safeguard to the purchase of materials, supplies and/or services for the City.

Condition: The City was unable to show evidence of procurement processes designed to safeguard the City.

Effect: Lack of such sufficient safeguards can result in the misappropriation of funds, supplies and/or assets of the City.

Recommendation: The City should prepare and adopt a procurement policy. The policy should include clearly defined procedures for purchases exceeding certain established thresholds, including but not limited to – governing body approval prior to purchase and established methods of procurement.

Views of Responsible Officials and Planned Corrective Action: We concur with the finding. We will begin establishing such policies.

2019-003 – 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.

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2019-003 – Segregation of Duties (Continued)

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

Views of Responsible Officials and Planned Corrective Action: We concur with the recommendation. We will implement oversight by the Mayor and Council. However, due to limited resources and personnel we cannot correct the lack of segregation of duties.

2019-004 – Timely Financial Reporting to Management

Criteria: Monthly financial statements and information needs to be presented to Management and Council.

Condition: Management, Mayor and Council are not being provided adequate and timely financial data.

Effect: Failure to receive financial data can result in misappropriation and misuse of City resources, no budgetary control, and inefficiencies in properly running the City.

Recommendation: Management, Mayor and Council should be provided accurate and reliable financial data on at least a monthly basis.

Views of Responsible Officials and Planned Corrective Action: Management concurs with the recommendation. We are currently installing new accounting software to aid in producing timely and accurate financial information for management, Mayor and Council.

2019-005 – Financial Statements Not Being Prepared

Criteria: Financial statements are not being prepared by the City.

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

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

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

Views of Responsible Officials and Planned Corrective Action: We concur with the recommendation. The City will continue to use the auditing firm to assist in drafting the financial statements.

CITY OF PEARSON, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2019-006 – 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 budgets reports reviewed and budget amendments need to be approved as needed.

Views of Responsible Officials and Planned Corrective Action: We concur with the recommendation. We will implement budget preparation and oversight by Mayor and Council.

CITY OF PEARSON, GEORGIA

SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

2018-001 – Insufficient Internal Controls Regarding Procurement Processes

Criteria: Internal controls surrounding procurement processes are a vital safeguard to the purchase of materials, supplies and/or services for the City.

Condition: The City was unable to show evidence of procurement processes designed to safeguard the City.

Status: Unresolved. This is included in current finding number 2019-002.

2018-002 – Insufficient Record Retention

Criteria: Retention of all relevant records of the City's transactions should be maintained and safeguarded in accordance with established policies.

Condition: The City was unable to provide documentation, including invoices, regarding multiple material transactions occurring during the year.

Status: Resolved.

2018-003 – 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.

Status: Unresolved. This is included in current finding number 2019-003.

2018-004 – Accounts Receivable and Accounts Payable Not Reconciled to General Ledger

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

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

Status: Unresolved. This is included in current finding number 2019-001.

CITY OF PEARSON, GEORGIA

SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

2018-005 – Timely Financial Reporting to Management

Criteria: Monthly financial statements and information needs to be presented to Management and Council.

Condition: Management, Mayor and Council are not being provided adequate and timely financial data.

Status: Unresolved. This is included in current finding number 2019-004.

2018-006 – Financial Statements Not Being Prepared

Criteria: Financial statements are not being prepared by the City.

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

Status: Unresolved. This is included in current finding number 2019-005.

2018-007 – 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.

Status: Unresolved. This is included in current finding number 2019-006.