CITY OF PEARSON, GEORGIA

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2021

CITY OF PEARSON, GEORGIA

FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2021

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FINANCIAL SECTION

MAULDIN & JENKINS
CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the American Rescue Plan Act ("ARPA") Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States *("Government Auditing Standards").* Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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. 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 the financial reports 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.

Supplementary 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 accompanying combining and individual nonmajor fund financial statements and schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedules of expenditures of special purpose local option sales tax proceeds are presented for purposes of additional analysis as required by the Official Code of Georgia Annotated ("O.C.G.A.") §48-8-121, and are also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 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 September 20, 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's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Macon, Georgia
September 20, 2022

BASIC FINANCIAL STATEMENTS

CITY OF PEARSON, GEORGIA

STATEMENT OF NET POSITION
DECEMBER 31, 2021

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	City of Pearson Industrial Authority
ASSETS				
Cash and cash equivalents	$ 370,289	$ 111,343	$ 481,632	$ 85,812
Taxes receivable	158,467	-	158,467	-
Accounts receivable, net of allowances	6,589	80,478	87,067	-
Due from other governments	54,349	-	54,349	-
Restricted assets:				
Cash and cash equivalents	-	64,946	64,946	-
Capital assets:				
Nondepreciable	710,798	203,557	914,355	592,623
Depreciable, net of accumulated depreciation	2,100,718	4,366,107	6,466,825	-
Total assets	3,401,210	4,826,431	8,227,641	678,435
LIABILITIES				
Accounts payable	32,629	19,437	52,066	-
Accrued liabilities	5,694	962	6,656	-
Unearned revenues	66,735	-	66,735	-
Customer deposits	-	121,142	121,142	-
Compensated absences due in more than one year	9,387	2,983	12,370	-
Capital leases due within one year	19,577	-	19,577	-
Capital leases due in more than one year	28,778	-	28,778	-
Note payable due within one year	-	-	-	5,397
Note payable due in more than one year	-	-	-	9,116
Bonds payable due within one year	-	126,228	126,228	-
Bonds payable due in more than one year	-	43,220	43,220	-
Total liabilities	162,800	313,972	476,772	14,513
NET POSITION				
Net investment in capital assets	2,763,161	4,400,216	7,163,377	578,110
Restricted:				
Public safety	9,204	-	9,204	-
Housing and development	98,627	-	98,627	-
Capital projects	92,691	-	92,691	-
Unrestricted	274,727	112,243	386,970	85,812
Total net position	$ 3,238,410	$ 4,512,459	$ 7,750,869	$ 663,922

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, 2021

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	$ 1,109,142	$ 223,727	$ -	$ 170,343
Judicial	74,419	-	-	-
Public works	275,617	-	-	557,869
Public safety	533,338	621,616	783	64
Health and welfare	52,075	-	-	-
Culture and recreation	201,348	-	-	-
Housing and development	118,585	-	-	315,015
Interest on long-term debt	978	-	-	-
Total governmental activities	2,365,502	845,343	783	1,043,291
Business-type activities:				
Water and sewer	740,089	581,363	-	-
Total business-type activities	740,089	581,363	-	-
Total primary government	$ 3,105,591	$ 1,426,706	$ 783	$ 1,043,291
Component unit:				
Downtown Development Authority	$ 43,424	$ -	$ 30,203	$ -
Total component unit	$ 43,424	$ -	$ 30,203	$ -

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

Transfers

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
$ (715,072)	$ -	$ (715,072)	$ -
(74,419)		(74,419)	-
282,252	-	282,252	-
89,125	-	89,125	-
(52,075)	-	(52,075)	-
(201,348)	-	(201,348)	-
196,430		196,430	-
(978)	-	(978)	-
(476,085)	-	(476,085)	-
-	(158,726)	(158,726)	-
-	(158,726)	(158,726)	-
(476,085)	(158,726)	(634,811)	-
-	-	-	(13,221)
-	-	-	(13,221)
582,246	-	582,246	-
253,341	-	253,341	-
63,141	-	63,141	-
-	-	-	-
-	-	-	-
113,217	-	113,217	-
218	86	304	-
-	-	-	(10,893)
(17,750)	17,750	-	-
994,413	17,836	1,012,249	(10,893)
518,328	(140,890)	377,438	(24,114)
2,720,082	4,653,349	7,373,431	688,036
$ 3,238,410	$ 4,512,459	$ 7,750,869	$ 663,922

CITY OF PEARSON, GEORGIA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2021

	General	ARPA Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 155,168	$ 66,811	$ 148,310	$ 370,289
Taxes receivable	158,467	-	-	158,467
Accounts receivable	6,589	-	-	6,589
Due from other governments	24,213	-	30,136	54,349
Due from other funds	-	-	22,000	22,000
Total assets	$ 344,437	$ 66,811	$ 200,446	$ 611,694
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 32,629	$ -	$ -	$ 32,629
Accrued liabilities	5,694	-	-	5,694
Unearned revenues	-	66,735	-	66,735
Due to other funds	22,000	-	-	22,000
Total liabilities	60,323	66,735	-	127,058
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	120,668	-	-	120,668
Total deferred inflows of resources	120,668	-	-	120,668
FUND BALANCES				
Restricted for:				
Public safety	-	-	9,204	9,204
Housing and development	-	-	98,627	98,627
Capital projects	-	76	92,615	92,691
Unassigned	163,446	-	-	163,446
Total fund balances	163,446	76	200,446	363,968
Total liabilities, deferred inflows of resources and fund balances	$ 344,437	$ 66,811	$ 200,446	

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.	2,811,516
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	120,668
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(57,742)
Net position of governmental activities	$ 3,238,410

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, 2021

	General	ARPA Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Taxes	$ 927,657	$ -	$ -	$ 927,657
Licenses and permits	40,093	-	-	40,093
Intergovernmental	557,869	315,015	170,343	1,043,227
Charges for services	183,634	-	-	183,634
Fines and forfeitures	621,616	-	-	621,616
Interest and penalties	75	76	131	282
Other revenues	-	-	783	783
Total revenues	2,330,944	315,091	171,257	2,817,292
Expenditures				
General government	919,021	184,265	-	1,103,286
Judicial	74,419	-	-	74,419
Public works	743,269	-	-	743,269
Public safety	495,258	-	-	495,258
Health and welfare	52,075	-	-	52,075
Culture and recreation	166,082	-	-	166,082
Housing and development	49,905	-	-	49,905
Debt service:				
Principal retirement	5,396	-	11,132	16,528
Interest and fiscal charges	-	-	978	978
Capital outlay	-	-	183,544	183,544
Total expenditures	2,505,425	184,265	195,654	2,885,344
Other financing sources				
Issuance of long-term debt	-	-	59,487	59,487
Transfers in	131,079	-	-	131,079
Transfers out	-	(130,750)	(329)	(131,079)
Total other financing sources	131,079	(130,750)	59,158	59,487
Net change in fund balances	(43,402)	76	34,761	(8,565)
Fund balances, beginning of year	206,848	-	165,685	372,533
Fund balances, end of year	$ 163,446	$ 76	$ 200,446	$ 363,968

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, 2021

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds		$ (8,565)
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.		505,352
The net effect of various miscellaneous transactions (i.e., sales and donations) is to decrease net position.		(17,750)
Prior year long-term assets not available for current period expenditures	$ (36,380)	
Current year long-term assets not available for current period expenditures	120,668	84,288
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.		(42,959)
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.		(2,038)
		$ 518,328

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, 2021

	Budget Amounts			Variance with Final
	Original	Final	Actual	Budget
Revenues				
Taxes	$ 629,113	$ 629,113	$ 927,657	$ 298,544
Licenses and permits	74,171	74,171	40,093	(34,078)
Intergovernmental	-	-	557,869	557,869
Charges for services	199,009	199,009	183,634	(15,375)
Fines and forfeitures	301,620	301,620	621,616	319,996
Interest and penalties	494	494	75	(419)
Other revenues	65,000	65,000	-	(65,000)
Total revenues	1,269,407	1,269,407	2,330,944	1,061,537
Expenditures				
General Government:				
General Administration	325,073	325,073	919,021	(593,948)
Total general government	325,073	325,073	919,021	(593,948)
Judicial:				
Municipal Court	49,037	49,037	74,419	(25,382)
Total Judicial	49,037	49,037	74,419	(25,382)
Public Works:				
Highways and streets	225,850	225,850	743,269	(517,419)
Total Public Works	225,850	225,850	743,269	(517,419)
Public Safety:				
Police Administration	418,559	418,559	483,563	(65,004)
Custody of Prisoners	11,500	11,500	1,580	9,920
Fire Department	32,855	32,855	10,115	22,740
Total Public Safety	462,914	462,914	495,258	(32,344)
Health and Welfare:				
Mosquito Control	3,500	3,500	-	3,500
Community Center	4,150	4,150	4,770	(620)
Senior Citizens	104,520	104,520	47,305	57,215
Total Health and Welfare	112,170	112,170	52,075	60,095
Culture and Recreation:				
Recreation Center	53,723	53,723	139,372	(85,649)
Sports Facilities	19,750	19,750	14,491	5,259
Museum	900	900	879	21
Library	12,290	12,290	11,340	950
Total Culture and Recreation	86,663	86,663	166,082	(79,419)
Housing and Development:				
Building Inspection	7,000	7,000	48,041	(41,041)
Economic Development	700	700	1,864	(1,164)
Total Housing and Development	7,700	7,700	49,905	(42,205)

(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, 2021

	Budget Amounts			Variance with Final
	Original	Final	Actual	Budget
Expenditures (Continued):				
Debt service:				
Principal retirement	$ -	$ -	$ 5,396	$ (5,396)
Total debt service	-	-	5,396	(5,396)
				-
Total expenditures	1,269,407	1,269,407	2,505,425	(1,236,018)
Excess of revenues over expenditures	-	-	(174,481)	(174,481)
Other financing sources				
Transfers in	-	-	131,079	131,079
Total other financing sources, net	-	-	131,079	131,079
Net change in fund balances	-	-	(43,402)	(43,402)
Fund balance, beginning of year	206,848	206,848	206,848	-
Fund balance, end of year	$ 206,848	$ 206,848	$ 163,446	$ (43,402)

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
ARPA FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2021

	Original and Final Budget	Actual	Variance
Revenues			
Intergovernmental	$ -	$ 315,015	$ 315,015
Interest and penalties	-	76	76
Total revenues	-	315,091	315,091
Expenditures			
General government	-	184,265	(184,265)
Total expenditures	-	184,265	(184,265)
Deficiency of revenues under expenditures	-	130,826	130,826
Other financing sources (uses)			
Transfers out	-	(130,750)	(130,750)
Total other financing sources, net		(130,750)	(130,750)
Net change in fund balance	-	76	76
Fund balance, beginning of year	-	-	-
Fund balance, end of year	$ -	$ 76	$ 76

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

CITY OF PEARSON, GEORGIA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2021

	Water and Sewer
CURRENT ASSETS	
Cash	$ 111,343
Accounts receivable (net of allowance for uncollectibles)	80,478
Restricted assets:	
Cash	64,946
Total current assets	256,767
Capital assets, at cost	
Land	203,557
Water and sewer system	8,717,109
Equipment	350,676
	9,271,342
Less accumulated depreciation	4,701,678
Total capital assets	4,569,664
Total non-current assets	4,569,664
Total assets	4,826,431
CURRENT LIABILITIES	
Payable from current assets:	
Accounts payable	19,437
Accrued other expenses	962
Customer deposits	121,142
Revenue bonds payable, current	126,228
Total	267,769
Total current liabilities	267,769
NON-CURRENT LIABILITIES	
Compensated absences, long term	2,983
Revenue bonds payable, long term	43,220
Total non-current assets	46,203
Total liabilities	313,972
NET POSITION	
Investment in capital assets	4,400,216
Unrestricted	112,243
Total net position	$ 4,512,459

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, 2021

	Water and Sewer
Operating revenues	
Charges for services:	
Water billings	$ 216,082
Sewer billings	365,281
Total operating revenues	581,363
Operating expenses	
General and administrative	4,600
Salaries and wages	156,207
Utilities	111,045
Repairs and maintenance	76,480
Professional services	96,072
Operating supplies	59,893
Group insurance	3,095
Payroll taxes	11,706
Employee benefits	589
Communications	240
Total operating expenses	519,927
Operating income before depreciation	61,436
Depreciation expense	213,806
Operating loss	(152,370)
Non-operating revenues (expenses)	
Interest revenue	86
Interest expense	(6,356)
Total non-operating revenues (expenses)	(6,270)
Income (loss) before transfers and contributions	(158,640)
Capital contributions	17,750
Change in net position	(140,890)
Net position, beginning of year	4,653,349
Net position, end of year	$ 4,512,459

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, 2021

	Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers, including deposits	$ 576,415
Cash payments to:	
Suppliers and vendors	(349,360)
Employees	(115,089)
Net cash provided by operating activities	111,966
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Retirement of bonds	(122,882)
Interest on bonds	(6,356)
Purchase of capital assets	(17,750)
Net cash used in capital and related financing activties	(146,988)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	86
Net cash provided by investing activities	86
Net decrease in cash	(34,936)
Cash and cash equivalents, January 1	211,225
Cash and cash equivalents, December 31	$ 176,289
Classified as:	
Cash	$ 111,343
Restricted assets:	
Cash	64,946
	$ 176,289

(Continued)

CITY OF PEARSON, GEORGIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2021

	Water and Sewer
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	$ (152,370)
Depreciation	213,806
Changes in assets and liabilities:	
Increase in accounts receivable	(4,948)
Increase in accounts payable	19,437
Increase in compensated absences	195
Increase in customer deposits	39,473
Decrease in accrued other expenses	(3,627)
Net cash provided by operating activities	$ 111,966
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:	
Capital assets transferred from other funds	$ 17,750
Net noncash investing, capital, and financing activities	$ 17,750

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.

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*.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 **American Rescue Plan Act ("ARPA") Fund** is used to account for grant funds awarded to the City as part of the State and Local Fiscal Recovery Fund under the American Rescue Plan Act of 2021.

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgets (Continued)

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.

E. Cash and Investments

It is the investment policy of the City 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 bankers' 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, 2021, 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, 2021, 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, 2021.

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 balances represent 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Fund Equity (Continued)

Fund Balances (Continued) –

- ***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.

- ***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 balances 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 balance 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 balance 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

Capital leases payable	$	(48,355)
Compensated absences		(9,387)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net position - governmental activities*	$	(57,742)

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

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	$	627,172
Depreciation expense		(121,820)
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$	505,352

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	$	(59,487)
Principal repayments		16,528
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$	(42,959)

NOTE 3. LEGAL COMPLIANCE - BUDGETS

Excess Expenditures over Appropriations

For the year ended December 31, 2021, expenditures exceeded budgeted appropriations, as follows:

Fund or Department	Excess
General Fund:	
General Government:	
General Adminstrative	$ 593,948
Judicial:	
Municipal Court	25,382
Public Works:	
Highways and Streets	517,419
Public Safety:	
Police Administration	65,004
Health and Welfare:	
Community Center	620
Culture and Recreation:	
Recreation Center	85,649
Housing and Development:	
Building Inspection	41,041
Economic Development	1,164
Debt Service:	
Principal Retirement	5,396
ARPA Fund:	
General Government	184,265

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

NOTE 4. DEPOSITS AND INVESTMENTS

Total deposits and investments as of December 31, 2021, are summarized as follows:

As reported in the Statement of Net Position:	
Primary government:	
Cash and cash equivalents	$ 481,632
Restricted cash and cash equivalents	64,946
	$ 546,578
Cash deposited with financial institutions	$ 546,578
	$ 546,578
Component unit:	
Cash and cash equivalents	$ 85,812
Cash deposited with financial institutions	$ 85,812

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, 2021, 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 bills are rendered in October.

The City's property tax calendar for 2021 was as follows:

Property taxes attached as an enforceable lien on property as of January 1, 2021. Taxes became due on January 9, 2022 and were delinquent on May 9, 2022.

Receivables at December 31, 2021, 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	$ 167,053	$ 90,434	$ -
Accounts	6,589	-	-
Due from other governments	24,213	-	30,136
Gross receivables	197,855	90,434	30,136
Less allowance for uncollectible	(8,586)	(9,956)	-
Net total receivables	$ 189,269	$ 80,478	$ 30,136

NOTE 6. CAPITAL ASSETS

A. Primary Government

Capital asset activity for the fiscal year ended December 31, 2021, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	$ 90,259	$ -	$ -	$ 90,259
Construction in progress	107,977	512,562	-	620,539
Total	198,236	512,562	-	710,798
Capital assets, being depreciated:				
Buildings	1,182,113	-	-	1,182,113
Improvements	1,551,632	-	-	1,551,632
Equipment, vehicles and furniture	915,225	96,860	-	1,012,085
Total	3,648,970	96,860	-	3,745,830
Less accumulated depreciation for:				
Buildings	(364,236)	(27,886)	-	(392,122)
Improvements	(355,649)	(42,711)	-	(398,360)
Equipment, vehicles and furniture	(803,407)	(51,223)	-	(854,630)
Total	(1,523,292)	(121,820)	-	(1,645,112)
Total capital assets, being depreciated, net	2,125,678	(24,960)	-	2,100,718
Governmental activities capital assets, net	$ 2,323,914	$ 487,602	$ -	$ 2,811,516

	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	315,175	35,500	-	350,675
Total	9,032,284	35,500	-	9,067,784
Less accumulated depreciation for:				
Water and Sewer System and Plant	(4,269,061)	(198,848)	-	(4,467,909)
Equipment	(218,810)	(14,958)	-	(233,768)
Total	(4,487,871)	(213,806)	-	(4,701,677)
Total capital assets, being depreciated, net	4,544,413	(178,306)	-	4,366,107
Business-type activities capital assets, net	$ 4,747,970	$ (178,306)	$ -	$ 4,569,664

NOTE 6. CAPITAL ASSETS (CONTINUED)

A. Primary Government (Continued)

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

Governmental activities:	
General government	$ 3,850
Public works	44,910
Public safety	35,239
Culture and recreation	37,821
Total depreciation expense - governmental activities	$ 121,820
Business-type activities:	
Water and sewer	$ 213,806
Total depreciation expense - business-type activities	$ 213,806

B. Component Unit

	Beginning Balance	Increases	Decreases	Ending Balance
Component unit				
Capital assets, not being depreciated:				
Land	$ 635,601	$ -	$ 42,978	$ 592,623

NOTE 7. LONG-TERM DEBT

Long-term liability activity for the year ended December 31, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Note payable	$ 5,396	$ -	$ 5,396	$ -	$ -
Capital leases	-	59,487	11,132	48,355	19,577
Compensated absences	7,349	10,408	8,370	9,387	9,387
Governmental activity Long-term liabilities	$ 12,745	$ 69,895	$ 24,898	$ 57,742	$ 28,964
Business-type activities					
Bonds payable	$ 292,330	$ -	$ 122,882	$ 169,448	$ 126,228
Compensated absences	2,788	3,975	3,780	2,983	2,983
Business-type activity Long-term liabilities	$ 295,118	$ 3,975	$ 126,662	$ 172,431	$ 129,211

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 was paid off in the current year.

A. 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
2022	$ 126,228	$ 3,009	$ 129,237
2023	43,220	245	43,465
	$ 169,448	$ 3,254	$ 172,702

B. 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
2022	$ 5,397	$ 603	$ 6,000
2023	5,673	327	6,000
2024	3,443	58	3,501
	$ 14,513	$ 988	$ 15,501

NOTE 7. LONG-TERM DEBT (CONTINUED)

C. Capital Leases – Equipment

The City has entered into lease agreements as lessee for financing the acquisition of various equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inceptions. The following is an analysis of leased assets under capital lease as of December 31, 2021:

	Governmental Activities
Machinery and equipment	$ 59,487
Less: Accumulated depreciation	(4,957)
	$ 54,530

Depreciation expense for the year ended December 31, 2021, for assets under capital lease is $4,957.

The following is a schedule of the future minimum lease payments under the capital leases, and the present value of the future minimum lease payments at December 31, 2021:

Fiscal Year Ending December 31,	Governmental Activities
2022	$ 20,760
2023	20,760
2024	8,669
Total minimum lease payments	50,189
Less amount representing interest	1,834
Present value of future minimum lease payments	$ 48,355

NOTE 8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2021, is as follows:

Receivable Fund	Payable Fund	Total
Nonmajor governmental funds	General Fund	$ 22,000

NOTE 8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

These 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.

	Transfers Out		
	ARPA Fund	Nonmajor Governmental Funds	Total
Transfers In			
General Fund	$ 130,750	$ 329	$ 131,079
Total	$ 130,750	$ 329	$ 131,079

Transfers are used to: 1) move revenues from the fund that statute or budget requires to collect them to the fund that the statute or budget requires to expend them, and 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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, 2021, 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.

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, 2021, the City paid $2,553 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 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 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 three years. Matching contributions remain 0% vested until the participant satisfies the full vesting period. No contributions were made by the City in 2021 to the 401(a) defined contribution plan.

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.

Community Development Block Grant ("CDBG") Fund – This fund is used to account for the financing and construction of various community development projects. Financing is provided by grants from the U.S. Department of Housing and Urban Development.

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, 2021

	Special Revenue Funds			Capital Projects Fund	
	Drug Fund	Revolving Loan Fund	CDBG Fund	SPLOST 2012 – 2017 Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash	$ 9,204	$ 98,627	$ -	$ 40,479	$ 148,310
Due from other funds	-	-	-	22,000	22,000
Due from other governments	-	-	-	30,136	30,136
Total assets	9,204	98,627	-	92,615	200,446
FUND BALANCES					
Restricted for:					
Public safety	9,204	-	-	-	9,204
Housing and development	-	98,627	-	-	98,627
Capital projects	-	-	-	92,615	92,615
Total fund balances	$ 9,204	$ 98,627	$ -	$ 92,615	$ 200,446

CITY OF PEARSON, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2021

	Special Revenue Funds			Capital Projects Fund	
	Drug Fund	Revolving Loan Fund	CDBG Fund	SPLOST 2012 – 2017 Fund	Total Nonmajor Governmental Funds
Revenues					
Intergovernmental	$ -	$ -	$ -	$ 170,343	$ 170,343
Interest and dividend income	16	60	-	55	131
Other revenues	783	-	-	-	783
Total revenues	799	60	-	170,398	171,257
Expenditures					
Capital outlay	-	-	-	183,544	183,544
Debt service:					
Principal	-	-	-	11,132	11,132
Interest and fiscal charges	-	-	-	978	978
Total expenditures	-	-	-	195,654	195,654
Excess (deficiency) of revenues over (under) expenditures	799	60	-	(25,256)	(24,397)
Other financing sources (uses)					
Proceeds from issuance of leases	-	-	-	59,487	59,487
Transfers out	-	-	(329)	-	(329)
Total other financing sources (uses), net	-	-	(329)	59,487	59,158
Net change in fund balances	799	60	(329)	34,231	34,761
Fund balances, beginning of year	8,405	98,567	329	58,384	165,685
Fund balances, end of year	$ 9,204	$ 98,627	$ -	$ 92,615	$ 200,446

CITY OF PEARSON, GEORGIA

SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE LOCAL OPTION SALES TAX FOR THE FISCAL YEAR ENDED DECEMBER 31, 2021

No.	Project	Original and Current Estimated Cost	Prior Years	Current Year	Total
		2017 Referendum			
1	Public Safety - Equipment	$ 175,000	$ 113,216	$ 99,104	$ 212,320
2	Senior Center - Capital Improvement and Equipment	50,000	-	-	-
3	Renovation and Capital Repair of Buildings	150,000	62,622	52,300	114,922
4	Paving and Street Improvements	100,000	169,009	15,400	184,409
5	Water and Wastewater Buildings and Equipment	175,000	47,713	22,150	69,863
6	Recreation Buildings, Equipment and Improvements	160,000	86,195	6,700	92,895
		$ 810,000	$ 478,755	$ 195,654	$ 674,409

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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 20, 2022.

Report on 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 purpose 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 were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 through 2021-005 that we consider to be material weaknesses.

Report on 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2021-006.

City of Pearson, Georgia's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on 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 other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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
September 20, 2022

CITY OF PEARSON, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2021

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?	X Yes ____ 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, 2021

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2021-001 – 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 2021 fiscal year. Significant adjustments were determined and required to be recorded in the months that followed December 31, 2021. 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, 2021.

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)

2021-001 – 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.

2021-002 – 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.

2021-003 – 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)

2021-003 – 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.

2021-004 – 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.

2021-005 – 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, 2021

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2021-006 – 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 budget 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, 2021

2020-001 – 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 2020 fiscal year. Significant adjustments were determined and required to be recorded in the months that followed December 31, 2020. 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.

Status: Unresolved. This is included in current finding number 2021-001.

2020-002 – 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.

Status: Unresolved. This is included in current finding number 2021-002.

CITY OF PEARSON, GEORGIA

SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2021

2020-003 – 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.

Status: Unresolved. This is included in current finding number 2021-003.

2020-004 – 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.

Status: Unresolved. This is included in current finding number 2021-004.

2020-005 – 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.

Status: Unresolved. This is included in current finding number 2021-005.

2020-006 – 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.

Status: Unresolved. This is included in current finding number 2021-006.