

City of Rincon, Georgia
Audited Financial Statements
For the Year Ended
December 31, 2019

City of Rincon, Georgia
Audited Financial Statements
For the year ended December 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Rincon, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Rincon, Georgia, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City of Rincon, Georgia's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 13, the budgetary comparison information on pages 46 through 48, and the schedule of changes in net pension liability and related ratios and the schedule of contributions on pages 49 and 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rincon, Georgia's basic financial statements. The Hotel/Motel Tax Fund Schedule of Revenues, Expenditures and Changes in Fund balances - Budget and Actual, The Schedule of Hotel/Motel Tax and the Schedule of Projects Constructed with Special Local Option Sales Tax Proceeds are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Hotel/Motel Tax Fund Schedule of Revenues, Expenditures and Changes in Fund balances - Budget and Actual, the Schedule of Hotel/Motel Tax and the Schedule of Projects Constructed with Special 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 Schedule of Revenues, Expenses, Expenditures and Changes in Fund Balances - Budget and Actual - Hotel/Motel Tax Fund, Schedule of Hotel/Motel Tax and the Schedule of Projects Constructed with Special Local Option Sales Tax Proceeds are fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Mayor and City Council
City of Rincon, Georgia
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2020, on our consideration of the City of Rincon, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Rincon, Georgia's internal control over financial reporting and compliance.

Camady, Hodges, Pines & Richbourg, LLP

June 22, 2020

City of Rincon, Georgia
Management's Discussion and Analysis

As management of the City of Rincon (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Rincon, Georgia for the fiscal year ended December 31, 2019. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The City's total net position on a government-wide basis, at the close of fiscal year 2019 was \$51,441,947 (net position). Of this amount, \$9,738,649 (unrestricted net position) is available to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$3,608,896 from the prior year. The governmental net position increased by \$1,937,712 and business-type net position increased by \$1,671,184.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,837,950, which is an increase of \$2,014,692 from the prior year. The general fund, fire department fund and SPLOST fund all reported increases in fund balances of \$1,023,453, \$311,831 and \$678,952, respectively. The increase in the general and fire funds fund balance is attributed to City Council's policy to increase a depleted fund balance in the funds. Management made a conscious effort to come under budgets established by Council. The City also implemented a hiring freeze during the year. The SPLOST fund collected more during the year than expended on projects approved by the voters of Effingham County. This trend will change in future years as the City expends funds on eligible SPLOST projects.
- The General Fund reported a total fund balance of \$2,352,197, an increase from 2018 of \$1,023,453. The unassigned fund balance for the general fund was \$2,320,503 or 60% of the total general fund operating expenditures. The City has \$31,694 in restricted fund balance for public safety purposes.

Overview of the Financial Statements

This annual report consists of four parts – Management's Discussion and Analysis, the basic financial statements, required supplementary information and other supplementary information. The basic financial statements include two kinds of statements that present different views of the City of Rincon. The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. To assess the City's overall health, the reader needs to consider additional nonfinancial factors such as the condition of the City's capital assets.

The government-wide financial statements of the City are divided into two categories:

- Governmental activities – Most of the City's basic services are included here, such as police, fire, public works, court, recreation and parks, and general administration. Sales taxes, franchise taxes, insurance premium tax, charges for services, and fines and forfeitures provide most of the funding.
- Business-type activities – The City charges fees to customers to help cover the costs of certain services it provides. The City's water and sewer system, sanitation collection, and golf course and restaurant operations are treated as business-type activities.

City of Rincon, Georgia
Management’s Discussion and Analysis

Fund Financial Statements

The fund financial statements provide detailed information about the City’s most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. State law requires some funds. The City Council establishes other funds to control and manage money for particular purposes.

The City has two kinds of funds:

- Governmental funds – Most of the City’s basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow, and the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the future to finance the City’s programs.
- Proprietary funds – Services for which the City charges customers a fee generally reported in proprietary funds. Proprietary funds, like government-wide statements, provide both long-term and short-term financial information.

Financial Overview

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City of Rincon, Georgia, assets exceeded liabilities by \$51.4 million at the close of the most recent fiscal period. Governmental activities comprise \$23.1 million, and business-type activities make up \$28.3 million of the total net position. In a condensed format, the table below shows a comparison of the net position as of the current date to the prior year:

| | Governmental Activities | | Business-type Activities | | Total | |
|--|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Current assets | \$ 8,392,817 | \$ 7,827,405 | \$ 9,261,712 | \$ 7,444,323 | \$ 17,654,529 | \$ 15,271,728 |
| Capital assets, net | 15,445,669 | 15,577,951 | 28,057,557 | 28,087,967 | 43,503,226 | 43,665,918 |
| Total assets | <u>23,838,486</u> | <u>23,405,356</u> | <u>37,319,269</u> | <u>35,532,290</u> | <u>61,157,755</u> | <u>58,937,646</u> |
| Deferred outflow s of resources - pensions | <u>88,761</u> | <u>104,215</u> | <u>27,204</u> | <u>31,942</u> | <u>115,965</u> | <u>136,157</u> |
| Current liabilities | 579,046 | 2,027,551 | 1,476,309 | 1,008,211 | 2,055,355 | 3,035,762 |
| Noncurrent liabilities | 161,030 | 208,196 | 7,442,527 | 7,792,100 | 7,603,557 | 8,000,296 |
| Total liabilities | <u>740,076</u> | <u>2,235,747</u> | <u>8,918,836</u> | <u>8,800,311</u> | <u>9,658,912</u> | <u>11,036,058</u> |
| Deferred inflow s of resouces - pensions | <u>132,309</u> | <u>156,674</u> | <u>40,552</u> | <u>48,020</u> | <u>172,861</u> | <u>204,694</u> |
| Net position: | | | | | | |
| Net investment in capital assets | 15,410,135 | 15,516,975 | 20,137,674 | 19,903,530 | 35,547,809 | 35,420,505 |
| Restricted for: | | | | | | |
| Public safety | 689,771 | 380,427 | - | - | 689,771 | 380,427 |
| Capital projects | 4,827,676 | 4,148,724 | 638,042 | 408,917 | 5,465,718 | 4,557,641 |
| Unrestricted | 2,127,280 | 1,071,024 | 7,611,369 | 6,403,454 | 9,738,649 | 7,474,478 |
| Total net position | <u>\$ 23,054,862</u> | <u>\$ 21,117,150</u> | <u>\$ 28,387,085</u> | <u>\$ 26,715,901</u> | <u>\$ 51,441,947</u> | <u>\$ 47,833,051</u> |

The largest portion of the City’s net position (69%) represents its investment in capital assets such as land, buildings, infrastructure, and equipment, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be

City of Rincon, Georgia
Management's Discussion and Analysis

noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City has unrestricted net position totaling \$9.7 or 18.9% of total net position, which may be used to meet the City's ongoing obligations to citizens and creditors.

The remaining balance of total net position contains resources that are subject to external restrictions on how they may be used, such as SPLOST resources and confiscated assets.

The total net position increased by \$3,608,894 from the prior year. Governmental activities net position increased \$1,937,712, while business-type activities net position increased by \$1,671,184.

Changes in Net Position

The following table shows the changes in net position for 2019:

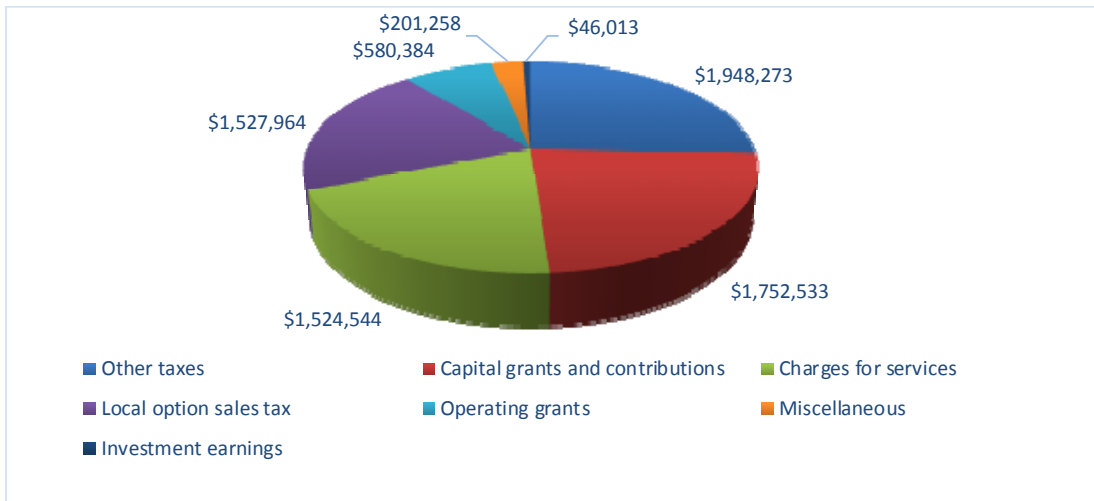
| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 1,524,544 | \$ 1,527,939 | \$ 4,646,115 | \$ 4,856,519 | \$ 6,170,659 | \$ 6,384,458 |
| Operating grants and contributions | 580,384 | 575,815 | - | - | 580,384 | 575,815 |
| Capital grants and contributions | 1,752,533 | 1,672,629 | 917,168 | 428,691 | 2,669,701 | 2,101,320 |
| General revenues: | | | | | | |
| Sales taxes | 1,527,964 | 1,513,596 | - | - | 1,527,964 | 1,513,596 |
| Other taxes | 1,948,273 | 1,847,677 | - | - | 1,948,273 | 1,847,677 |
| Unrestricted investment earnings | 46,013 | 12,651 | 55,495 | 31,193 | 101,508 | 43,844 |
| Miscellaneous | 201,258 | 141,173 | 80,365 | 77,476 | 281,623 | 218,649 |
| Transfers | (430,856) | (10,660) | 430,856 | 10,660 | - | - |
| Total revenues | 7,150,113 | 7,280,820 | 6,129,999 | 5,404,539 | 13,280,112 | 12,685,359 |
| Expenses: | | | | | | |
| General government | 717,790 | 1,017,366 | - | - | 717,790 | 1,017,366 |
| Judiciary | 143,144 | 59,051 | - | - | 143,144 | 59,051 |
| Public safety | 2,747,392 | 2,838,476 | - | - | 2,747,392 | 2,838,476 |
| Public works | 629,013 | 1,142,794 | - | - | 629,013 | 1,142,794 |
| Culture and recreation | 700,301 | 689,985 | - | - | 700,301 | 689,985 |
| Housing and development | 273,027 | 378,714 | - | - | 273,027 | 378,714 |
| Interest on long-term debt | 1,734 | 2,248 | - | - | 1,734 | 2,248 |
| Sanitation | - | - | 582,636 | 527,531 | 582,636 | 527,531 |
| Water and sewer | - | - | 3,165,548 | 2,626,682 | 3,165,548 | 2,626,682 |
| Golf course | - | - | 710,631 | 595,802 | 710,631 | 595,802 |
| Total expenses | 5,212,401 | 6,128,634 | 4,458,815 | 3,750,015 | 9,671,216 | 9,878,649 |
| Change in net position | 1,937,712 | 1,152,186 | 1,671,184 | 1,654,524 | 3,608,896 | 2,806,710 |
| Net position-beginning | 21,117,150 | 19,964,964 | 26,715,901 | 25,061,377 | 47,833,051 | 45,026,341 |
| Net position-ending | \$ 23,054,862 | \$ 21,117,150 | \$ 28,387,085 | \$ 26,715,901 | \$ 51,441,947 | \$ 47,833,051 |

City of Rincon, Georgia
Management's Discussion and Analysis

Governmental Activities

Revenues for governmental activities totaled \$7.5 million in 2019, which represents an increase of 3.9% over 2018. The largest source of revenue for the City, other taxes accounted for \$1.9 million or 25% of total revenue, a reported increase of \$100,596 from 2018. Capital grants and contributions account for \$1.8 million or 23% of the total revenue. Local option sales tax accounted for \$1.5 million or 20% of the total revenue, a reported increase of \$14,368 from 2018. Charges for services generated \$1.5 million or 20% of total revenue. Operating grants and contributions, miscellaneous and investment earnings accounted for 11% of the City's total revenue for 2019.

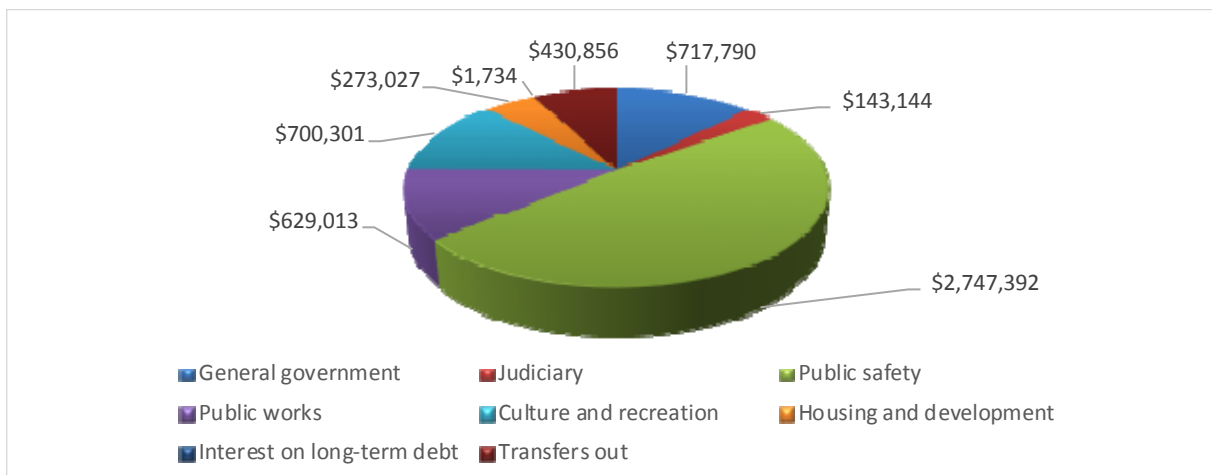
Revenues by Source – Governmental Activities – Year Ended December 31, 2019



*Other taxes includes franchise, insurance premium, business occupation, alcohol, energy excise tax and title ad valorem taxes.

The City's expenses for governmental activities cover a wide range of services, with 48% or \$2.7 million related to public safety, 12% or \$.7 million for general government services (includes interest for long-term debt), 11% or \$.6 million for public works, 13% or \$.7 million for culture and recreation and 5% or \$.3 million for housing and development. Overall expenses for governmental activities totaled \$5.6 million, which represents a decrease of (\$496,934) compared to 2018. The decrease in governmental activities is mainly attributed to a concerted effort to keep spending levels below budget targets in 2019.

Expenses by Function – Governmental Activities – Year Ended December 31, 2019

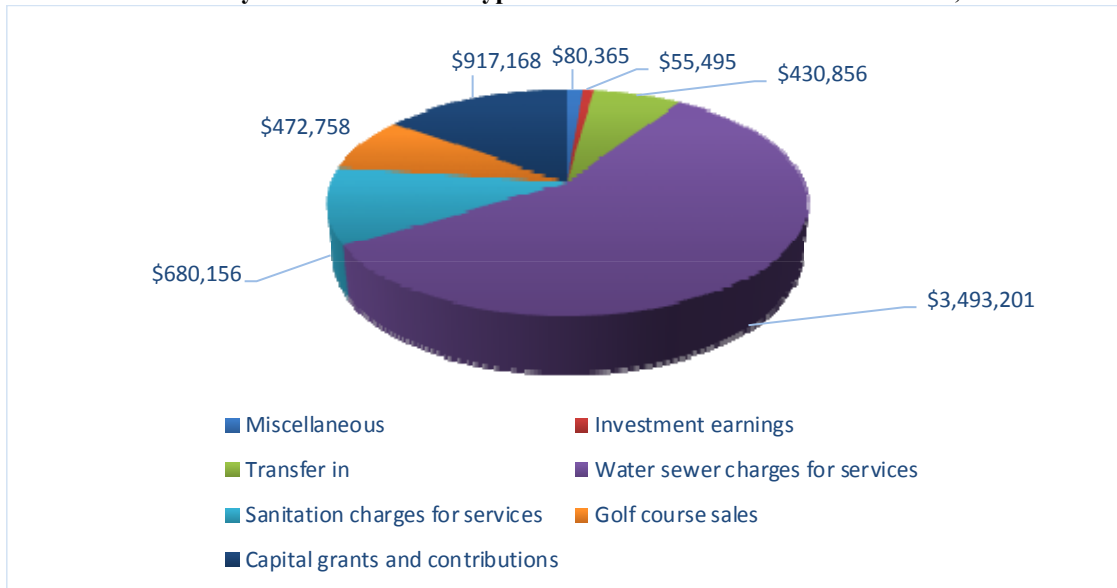


City of Rincon, Georgia
Management's Discussion and Analysis

Business-type Activities

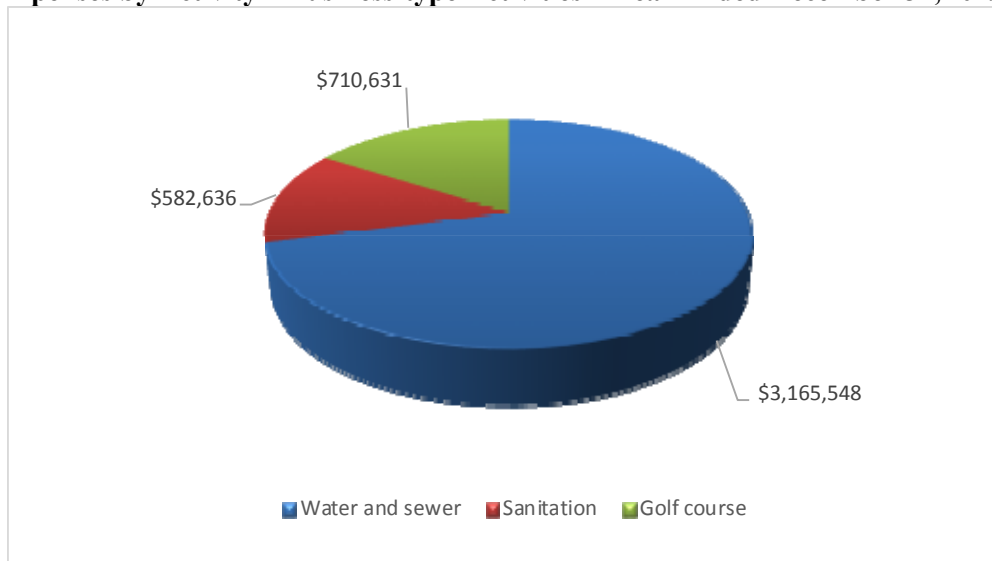
The City has three business-type activities: water and sewer operations, sanitation collection services, and the City golf course. For fiscal year 2019, total revenues for business-type activities were \$6.1 million, which represents an increase of 13% when compared to 2018. The increase in revenue is partially due to a transfer from the SPLOST capital projects fund for water and sewer projects funded during the year. Also, there was a significant increase in capital contributions (water and sewer impact fees).

Revenues by Source – Business-type Activities – Year Ended December 31, 2019



Total expenses for fiscal year 2019 were \$4.4 million, which represents an increase of 18% from the prior year. The increase in expenses is attributable to increases in salaries. The increase was due to the allocation of personnel costs to the various funds from the general fund.

Expenses by Activity – Business-type Activities – Year Ended December 31, 2019



City of Rincon, Georgia
Management's Discussion and Analysis

Financial Analysis of City Funds

General Fund

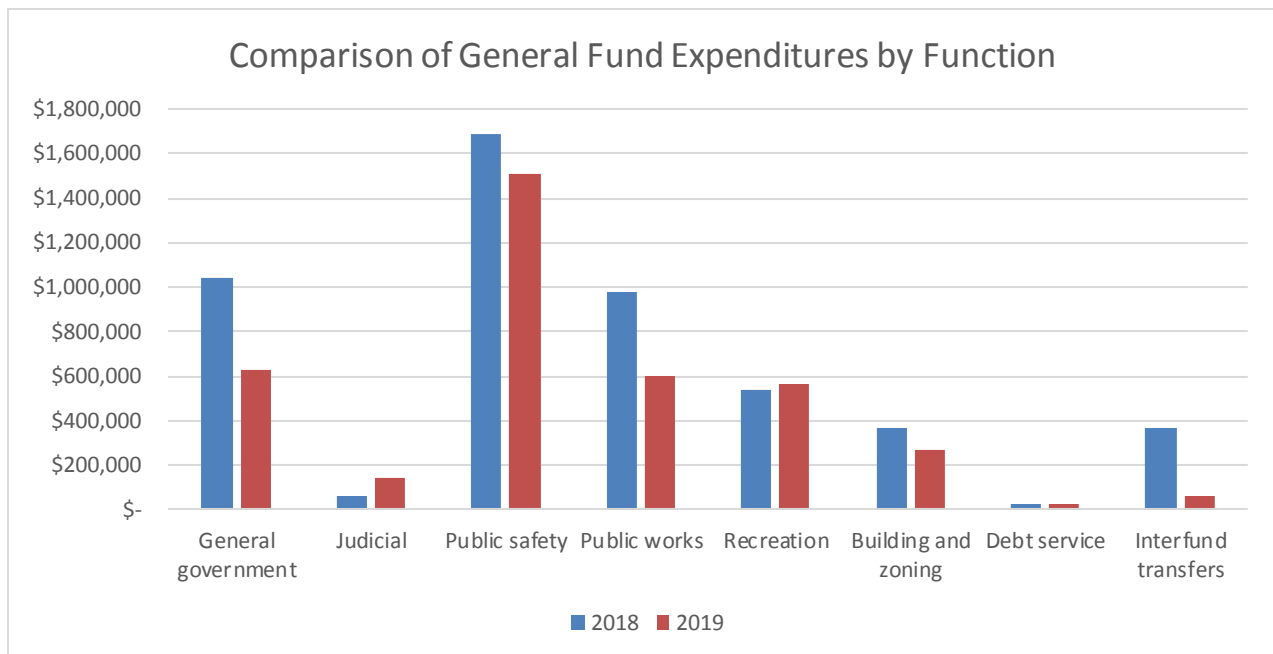
The general fund is the chief operating fund of the City. At year-end, the total fund balance in the general fund was \$2,352,197. The total amount of unassigned fund balance for the general fund was \$2,320,503.

One measure of the general fund's liquidity is to compare its unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance and total fund balance represents 61% and 62% percent of total general fund expenditures respectively.

The fund balance of the general fund increased \$1,023,454 during fiscal year 2019. The increase is mainly attributed to a concerted effort to keep spending levels below budget targets in 2019. A majority of departments had significant reductions in expenditures from 2018 levels. There were several occurrences that contributed to the reduction of general fund expenditures in 2019. Below is a list.

- Reduction of personnel cost. The City began charging salaries directly to the funds for time spent on the fund's operations.
- Postponement of public works projects in 2019.
- Decrease in health insurance premiums.
- Transfers out for projects decreased.

The chart below compares general fund expenditures by function to the prior year. This chart demonstrates the significant reduction in expenditures by function.



Capital Projects Fund

The SPLOST Capital Projects Fund balance at December 31, 2019 was \$4,827,676. This was an increase of \$678,952. Revenues received exceeded expenditures on the various projects and capital purchases.

City of Rincon, Georgia
Management's Discussion and Analysis

Proprietary Funds

Proprietary fund statements provide the same information as in the business-type activities column of the government-wide financial statements, only in greater detail. The City uses three enterprise funds at this time in the proprietary fund financial statements, the water and sewer fund, the solid waste fund, and the City golf course fund. An enterprise fund is required to account for the operations for which fees are charged to external users for goods or services.

Capital Assets

Statement of net position presents capital assets in two groups: those assets subject to depreciation, such as equipment or operational facilities and those assets not subject to depreciation such as land and construction in progress. At year-end, the City's net capital assets for both governmental activities and business-type activities totaled \$43.5 million. Capital assets include assets purchased, constructed or donated.

Additional information on the City's capital assets can be found in Note 9. beginning on page 34.

Debt Administration

The long-term liabilities at December 31, 2019 totaled \$8,150,969 (includes loans and installment purchase agreements). Of this amount, \$185,209 relates to governmental type activities and \$7,965,760 relates to business-type activities.

Additional information on the City's debt can be found in Note 11. beginning on page 37.

General Fund Budgetary Highlights

The budgetary comparison schedule of the General Fund and Fire Fund is provided as required supplementary information other than MD&A and can be found beginning on page 46. Additional budgetary comparison schedules for the hotel/motel tax fund can be found within other supplementary information beginning on page 51. Budget columns are provided for both the original budget adopted for fiscal year 2019 as well as the final budget. A column for actual revenues, expenditures, and a column for any variance between final budget and actual are also provided.

Current Economic Conditions, Next Year's Budget

In preparing the fiscal year 2020 budget, the City considered outside factors that affect funding decisions such as state and local economic conditions, federal and state mandates, political and social environment, citizen concerns, and outside agency considerations. Based on these factors, the following assumptions were made to guide the development of the budget for 2020.

- Local Option Sales Tax (L.O.S.T), the major source of General Fund revenue continues to increase due to an increase in economic activity in the City.
- The City will continue to make efforts to hold expenditures down in order to meet Council's goal of increasing fund balance to acceptable levels.

In order to improve operations to enhance the City's delivery of fire protection service, Mayor and Council increased the fire fee by \$4. The rate increase went into effect in March of 2020. Also, a rate increase for water and wastewater services was approved in order to adequately fund all operating costs, including debt service, capital improvements and service expansion needs. As a result of the rate increase, the average residential customer

City of Rincon, Georgia
Management's Discussion and Analysis

will experience an increase in their bill of approximately \$3.00 per month. Even with the rate increase, the City offers a competitive rate for water and sewer services as compared to other governments in the area. The City will continue to invest in water and sewer infrastructure projects using proceeds from the GEFA loan secured by the City and impact fees collected.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact: The City of Rincon, Finance Director, 302 Columbia Avenue, Rincon, Georgia 31326.

City of Rincon, Georgia
Statement of Net Position
December 31, 2019

| | Primary Government | | |
|--|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 6,766,645 | \$ 7,810,175 | \$ 14,576,820 |
| Restricted cash | 625,906 | 638,042 | 1,263,948 |
| Receivables: | | | |
| Taxes | 636,465 | | 636,465 |
| Intergovernmental | 269,682 | 60,040 | 329,722 |
| Accounts | 94,119 | 682,846 | 776,965 |
| Inventory | | 8,007 | 8,007 |
| Prepaid items | | 62,602 | 62,602 |
| Capital assets: | | | |
| Nondepreciable capital assets | 1,526,957 | 3,913,074 | 5,440,031 |
| Depreciable capital assets, net | <u>13,918,712</u> | <u>24,144,483</u> | <u>38,063,195</u> |
| Total assets | <u>23,838,486</u> | <u>37,319,269</u> | <u>61,157,755</u> |
| Deferred Outflows of Resources | | | |
| Pension: | | | |
| Contributions after measurement date | 66,472 | 20,372 | 86,844 |
| Changes in assumptions | 17,723 | 5,433 | 23,156 |
| Net difference between projected and actual earnings on pension plan investments | 4,566 | 1,399 | 5,965 |
| Total deferred outflows of resources | <u>88,761</u> | <u>27,204</u> | <u>115,965</u> |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable | 511,323 | 433,269 | 944,592 |
| Accrued interest payable | | 14,143 | 14,143 |
| Other accrued expenses | 46,567 | 29,676 | 76,243 |
| Customer deposits | | 472,965 | 472,965 |
| Interfund | (3,023) | 3,023 | 0 |
| Capital leases payable (current portion of long-term) | 24,179 | | 24,179 |
| Bonds payable (current portion of long-term) | | 455,572 | 455,572 |
| Notes payable (current portion of long-term) | | 67,661 | 67,661 |
| Long-term liabilities: | | | |
| Net pension liability | 149,675 | 45,877 | 195,552 |
| Capital leases payable (net of current portion) | 11,355 | | |
| Notes payable (net of current portion) | | 3,773,921 | 3,785,276 |
| Bonds payable (net of current portion) | | <u>3,622,729</u> | <u>3,622,729</u> |
| Total liabilities | <u>740,076</u> | <u>8,918,836</u> | <u>9,658,912</u> |
| Deferred Inflows of Resources | | | |
| Pension: | | | |
| Difference between expected and actual experience | <u>132,309</u> | <u>40,552</u> | <u>172,861</u> |
| Net Position | | | |
| Net investment in capital assets | 15,410,135 | 20,137,674 | 35,547,809 |
| Restricted for: | | | |
| Public safety | 689,315 | | 689,315 |
| Housing and development | 456 | | 456 |
| Capital projects | 4,827,676 | 638,042 | 5,465,718 |
| Unrestricted | <u>2,127,280</u> | <u>7,611,369</u> | <u>9,738,649</u> |
| Total net position | <u>\$ 23,054,862</u> | <u>\$ 28,387,085</u> | <u>\$ 51,441,947</u> |

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

City of Rincon, Georgia
Statement of Activities
For the Year Ended December 31, 2019

| Function/Program | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | |
|---|---------------------|--------------------------------|--|----------------------------------|---|---|----------------------|----------------------|
| | | Charges for Services and Sales | Operating Grants, Contributions and Interest | Capital Grants and Contributions | Governmental Activities | Primary Government Business-Type Activities | Total | |
| Primary government | | | | | | | | |
| Governmental activities | | | | | | | | |
| General Government | | | | | | | | |
| City Council | \$ 170,392 | | | | \$ (170,392) | | \$ (170,392) | |
| General administration | 416,555 | \$ 52,169 | | | (364,386) | | (364,386) | |
| Financial administration | 130,843 | | | | (130,843) | | (130,843) | |
| Judicial | 143,144 | | | | (143,144) | | (143,144) | |
| Public Safety - police | 1,747,984 | 527,986 | | \$ 132,640 | (1,087,358) | | (1,087,358) | |
| Public Safety - fire | 999,408 | 528,064 | \$ 580,384 | \$ 132,640 | 241,680 | | 241,680 | |
| Public Works - streets and lanes | 477,880 | | | 324,105 | (153,775) | | (153,775) | |
| Public Works - drainage | 151,133 | | | 204,062 | 52,929 | | 52,929 | |
| Public Works - water & sewer | | | | 816,243 | 816,243 | | 816,243 | |
| Parks and Recreation | 700,301 | 176,799 | | 142,843 | (380,659) | | (380,659) | |
| Housing & Development - building & zoning | 273,027 | 239,526 | | | (33,501) | | (33,501) | |
| Interest expense | 1,734 | | | | (1,734) | | (1,734) | |
| Total governmental activities | <u>5,212,401</u> | <u>1,524,544</u> | <u>580,384</u> | <u>1,752,533</u> | <u>(1,354,940)</u> | <u>\$ 0</u> | <u>(1,354,940)</u> | |
| Business-type activities: | | | | | | | | |
| Sanitation | 582,636 | 680,156 | | | | 97,520 | 97,520 | |
| Water and sewer | 3,165,548 | 3,493,201 | | 917,168 | | 1,244,821 | 1,244,821 | |
| Golf course | 710,631 | 472,758 | | | | (237,873) | (237,873) | |
| Total business-type activities | <u>4,458,815</u> | <u>4,646,115</u> | <u>0</u> | <u>917,168</u> | <u>0</u> | <u>1,104,468</u> | <u>1,104,468</u> | |
| Total - primary government | <u>\$ 9,671,216</u> | <u>\$ 6,170,659</u> | <u>\$ 580,384</u> | <u>\$ 2,669,701</u> | <u>(1,354,940)</u> | <u>1,104,468</u> | <u>(250,472)</u> | |
| General revenues | | | | | | | | |
| | | | | | 1,527,964 | | 1,527,964 | |
| | | | | | 267,203 | | 267,203 | |
| | | | | | 61,965 | | 61,965 | |
| | | | | | 575,605 | | 575,605 | |
| | | | | | 128,723 | | 128,723 | |
| | | | | | 211,958 | | 211,958 | |
| | | | | | 678,513 | | 678,513 | |
| | | | | | 18,030 | | 18,030 | |
| | | | | | 6,276 | | 6,276 | |
| | | | | | 46,013 | 55,495 | 101,508 | |
| | | | | | 201,258 | 80,365 | 281,623 | |
| | | | | | <u>3,723,508</u> | <u>135,860</u> | <u>3,859,368</u> | |
| Total general revenues | | | | | | | | |
| Transfers | | | | | (430,856) | 430,856 | 0 | |
| Total general revenues and transfers | | | | | <u>3,292,652</u> | <u>566,716</u> | <u>3,859,368</u> | |
| | | | | | Change in net position | 1,937,712 | 1,671,184 | 3,608,896 |
| | | | | | Net position beginning of year | 21,117,150 | 26,715,901 | 47,833,051 |
| | | | | | Net position end of year | <u>\$ 23,054,862</u> | <u>\$ 28,387,085</u> | <u>\$ 51,441,947</u> |

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

City of Rincon, Georgia
Balance Sheet
Governmental Funds
December 31, 2019

| | General | Fire Department Fund | SPLOST Capital Projects Fund | Hotel/Motel Tax Fund (non-major) | Total Governmental Funds |
|--|---------------------|-------------------------------------|---|---|---|
| Assets | | | | | |
| Cash and cash equivalents | \$ 1,978,859 | | \$ 4,787,786 | | \$ 6,766,645 |
| Restricted cash and cash equivalents | 31,694 | \$ 594,055 | | \$ 157 | 625,906 |
| Receivables | | | | | |
| Taxes | 636,166 | | | 299 | 636,465 |
| Intergovernmental | | | 269,682 | | 269,682 |
| Accounts | | 94,119 | | | 94,119 |
| Interfund balances | 3,023 | | | | 3,023 |
| Total assets | \$ 2,649,742 | \$ 688,174 | \$ 5,057,468 | \$ 456 | \$ 8,395,840 |
| Liabilities and Fund Balances | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 263,447 | \$ 18,084 | \$ 229,792 | | \$ 511,323 |
| Accrued expenses | 34,098 | 12,469 | | | 46,567 |
| Total liabilities | 297,545 | 30,553 | 229,792 | \$ 0 | 557,890 |
| Fund balances | | | | | |
| Restricted for: | | | | | |
| Public safety | 31,694 | 657,621 | | | 689,315 |
| Housing and development | | | | 456 | 456 |
| Capital outlays | | | 4,827,676 | | 4,827,676 |
| Unassigned | 2,320,503 | | | | 2,320,503 |
| Total fund balances | 2,352,197 | 657,621 | 4,827,676 | 456 | 7,837,950 |
| Total liabilities and fund balances | \$ 2,649,742 | \$ 688,174 | \$ 5,057,468 | \$ 456 | \$ 8,395,840 |

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

City of Rincon, Georgia
Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Position
December 31, 2019

Total governmental fund balances \$ 7,837,950

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 not reported in the funds. However, in the statement of net assets the cost of these assets are capitalized and expensed over their estimated lives through annual depreciation expense.

| | | |
|-------------------------------|--------------------|-------------------|
| Cost of capital assets | \$ 23,189,129 | |
| Less accumulated depreciation | <u>(7,743,460)</u> | <u>15,445,669</u> |

The deferred outflows of resources below are not current assets or financial resources and the deferred inflows of resources are not due and payable in the current period and therefore are not reported in the governmental funds. Balances at December 31, 2019, are:

| | |
|-------------------|------------------|
| Deferred outflows | 88,761 |
| Deferred inflows | <u>(132,309)</u> |

Liabilities, including capital leases and net pension liability are not due and payable in the current period and therefore are not reported at the fund financial reporting level, however, these liabilities are reported at the government-wide reporting level:

| | |
|-----------------------|------------------|
| Capital lease payable | (35,534) |
| Net pension liability | <u>(149,675)</u> |

Net position of governmental activities **\$ 23,054,862**

City of Rincon, Georgia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2019

| | General | Fire Department Fund | SPLOST Capital Projects Fund | Hotel/Motel Tax Fund (non-major) | Total Governmental Funds |
|---|---------------------|----------------------------|---------------------------------------|--|--------------------------------|
| Revenues | | | | | |
| Taxes | \$ 3,469,961 | | | \$ 6,276 | \$ 3,476,237 |
| Licenses and permits | 291,695 | | | | 291,695 |
| Intergovernmental | 120,043 | \$ 580,384 | \$ 1,585,366 | | 2,285,793 |
| Charges for services | 176,799 | 528,064 | | | 704,863 |
| Fines and forfeitures | 527,986 | | | | 527,986 |
| Investment earnings | 39,345 | 6,668 | 47,124 | | 93,137 |
| Miscellaneous | 191,111 | 10,147 | | | 201,258 |
| Total Revenues | <u>4,816,940</u> | <u>1,125,263</u> | <u>1,632,490</u> | <u>6,276</u> | <u>7,580,969</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| General Government - administration | | | | | |
| City Council | 171,293 | | | | 171,293 |
| General administration | 325,141 | | | | 325,141 |
| Financial administration | 130,656 | | | | 130,656 |
| Judicial | 144,404 | | | | 144,404 |
| Public Safety | | | | | |
| Police | 1,507,894 | | | | 1,507,894 |
| Fire | | 813,432 | | | 813,432 |
| Public Works - streets and lanes | 596,769 | | | | 596,769 |
| Parks and Recreation | 561,434 | | | | 561,434 |
| Housing & Development - building & zoning | 266,981 | | | 5,820 | 272,801 |
| Capital outlays | | | 584,421 | | 584,421 |
| Debt service: | | | | | |
| Principal | 25,442 | | | | 25,442 |
| Interest and fiscal charges | 1,734 | | | | 1,734 |
| Total expenditures | <u>3,731,748</u> | <u>813,432</u> | <u>584,421</u> | <u>5,820</u> | <u>5,135,421</u> |
| Excess of revenues to expenditures | 1,085,192 | 311,831 | 1,048,069 | 456 | 2,445,548 |
| Other financing uses | | | | | |
| Interfund transfers | (61,739) | | (369,117) | | (430,856) |
| Net change in fund balances | 1,023,453 | 311,831 | 678,952 | 456 | 2,014,692 |
| Fund balances beginning of year | 1,328,744 | 345,790 | 4,148,724 | 0 | 5,823,258 |
| Fund balances end of year | <u>\$ 2,352,197</u> | <u>\$ 657,621</u> | <u>\$ 4,827,676</u> | <u>\$ 456</u> | <u>\$ 7,837,950</u> |

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

City of Rincon, Georgia
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities
For the Year Ended December 31, 2019

Net changes in fund balances - total governmental funds \$ 2,014,692

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capitalized capital outlay in the current period.

| | | |
|----------------------------|--------------|-----------|
| Depreciation expense | \$ (777,515) | |
| Capitalized capital outlay | 645,233 | (132,282) |
| | | |

| | | |
|---|--|--------|
| Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | | 25,442 |
|---|--|--------|

Net pension liability reported in the statement of activities does not require the use of current financial resources and therefore is not reported as an expenditure in governmental funds.

| | | |
|--|-----------|--------|
| Net pension liability | | |
| Balance at 12/31/19 | (149,675) | |
| Balance at 12/31/18 | 170,624 | 20,949 |
| | | |
| Deferred inflows/outflows of resources from pensions | | |
| Balance at 12/31/19 | (43,548) | |
| Balance at 12/31/18 | 52,459 | 8,911 |
| | | |

Change in net position of governmental activities \$ 1,937,712

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

City of Rincon, Georgia
Statement of Net Position
Proprietary Funds
December 31, 2019

| | Sanitation | Water and Sewer | Golf Course | Total |
|--|-------------------|----------------------|---------------------|----------------------|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | | | | |
| Unrestricted | \$ 422,821 | \$ 7,376,172 | \$ 11,182 | \$ 7,810,175 |
| Restricted | | 638,042 | | 638,042 |
| Receivables | | | | |
| Accounts | 117,774 | 564,564 | 508 | 682,846 |
| Intergovernmental | | 60,040 | | 60,040 |
| Interfund balances | | 40,085 | | 40,085 |
| Inventory | | | 8,007 | 8,007 |
| Prepaid expenses | | 62,602 | | 62,602 |
| Total current assets | 540,595 | 8,741,505 | 19,697 | 9,301,797 |
| Noncurrent assets: | | | | |
| Capital assets: | | | | |
| Nondepreciable capital assets | | 3,468,074 | 445,000 | 3,913,074 |
| Depreciable capital assets, net | | 21,835,901 | 2,308,582 | 24,144,483 |
| Total capital assets | 0 | 25,303,975 | 2,753,582 | 28,057,557 |
| Total assets | 540,595 | 34,045,480 | 2,773,279 | 37,359,354 |
| Deferred outflows of resources - pension | | | | |
| Contributions after measurement date | | 16,020 | 4,352 | 20,372 |
| Changes in assumptions | | 4,272 | 1,161 | 5,433 |
| Net difference between projected and actual earnings on pension plan investments | | 1,100 | 299 | 1,399 |
| Total deferred outflows of resources | 0 | 21,392 | 5,812 | 27,204 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 94,789 | 329,359 | 9,121 | 433,269 |
| Accrued interest payable | | 14,143 | | 14,143 |
| Other accrued expenses | 631 | 20,694 | 8,351 | 29,676 |
| Customer deposits | | 472,965 | | 472,965 |
| Interfund balances | | | 43,108 | 43,108 |
| Current portion of bonds payable | | 455,572 | | 455,572 |
| Current portion of notes payable | | 67,661 | | 67,661 |
| Total current liabilities | 95,420 | 1,360,394 | 60,580 | 1,516,394 |
| Long-term liabilities: | | | | |
| Net pension liability | | 36,071 | 9,806 | 45,877 |
| Bonds payable (net of current portion) | | 3,773,921 | | 3,773,921 |
| Notes payable (net of current portion) | | 3,622,729 | | 3,622,729 |
| | 0 | 7,432,721 | 9,806 | 7,442,527 |
| Total liabilities | 95,420 | 8,793,115 | 70,386 | 8,958,921 |
| Deferred inflows of resources - pension | | | | |
| Difference between expected and actual experience | | 31,887 | 8,665 | 40,552 |
| Net position | | | | |
| Net investment in capital assets | | 17,384,092 | 2,753,582 | 20,137,674 |
| Restricted for capital improvements | | 638,042 | | 638,042 |
| Unrestricted | 445,175 | 7,219,736 | (53,542) | 7,611,369 |
| Total net position | \$ 445,175 | \$ 25,241,870 | \$ 2,700,040 | \$ 28,387,085 |

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

City of Rincon, Georgia
Statement of Revenues,
Expenses and Changes in Fund Net Position
Proprietary Funds
For the year ended December 31, 2019

| | <u>Sanitation</u> | <u>Water and Sewer</u> | <u>Golf Course</u> | <u>Total</u> |
|---|-------------------|----------------------------|---------------------|----------------------|
| Operating revenues | | | | |
| Charges for services | \$ 679,797 | \$ 3,492,831 | \$ 472,758 | \$ 4,645,386 |
| Other revenues | 359 | 370 | | 729 |
| Total operating revenues | <u>680,156</u> | <u>3,493,201</u> | <u>472,758</u> | <u>4,646,115</u> |
| Operating expenses | | | | |
| Salaries | 19,143 | 729,155 | 300,848 | 1,049,146 |
| Payroll taxes and employee benefits | 5,244 | 228,456 | 54,595 | 288,295 |
| Utilities and telephone | | 201,061 | 52,975 | 254,036 |
| Repairs and maintenance | | 190,467 | 80,576 | 271,043 |
| Office supplies and expenses | | 31,280 | 1,617 | 32,897 |
| Computer support | | 11,045 | 490 | 11,535 |
| Operational supplies | | 146,718 | 50,778 | 197,496 |
| Gas, oil and tires | | 17,745 | 7,778 | 25,523 |
| Insurance | | 46,968 | 11,693 | 58,661 |
| Contractual services | 558,249 | 171,269 | 18,069 | 747,587 |
| Engineering fees | | 2,828 | | 2,828 |
| Advertising/legal ads | | 801 | 628 | 1,429 |
| Dues and subscriptions | | 1,954 | 521 | 2,475 |
| Travel and training | | 5,376 | 331 | 5,707 |
| Miscellaneous expense | | 234,685 | 16,922 | 251,607 |
| Bank merchant fees | | 41,806 | 3,324 | 45,130 |
| Leased equipment | | | 1,960 | 1,960 |
| Depreciation | | 932,212 | 107,526 | 1,039,738 |
| Total operating expenses | <u>582,636</u> | <u>2,993,826</u> | <u>710,631</u> | <u>4,287,093</u> |
| Operating income (loss) | <u>97,520</u> | <u>499,375</u> | <u>(237,873)</u> | <u>359,022</u> |
| Non-operating revenues (expenses) | | | | |
| Impact fees | | 654,607 | | 654,607 |
| Grant revenue | | 262,561 | | 262,561 |
| Investment earnings | 1,927 | 52,735 | 833 | 55,495 |
| Tower rental | | 80,365 | | 80,365 |
| Interest expense | | (171,722) | | (171,722) |
| Total non-operating revenues | <u>1,927</u> | <u>878,546</u> | <u>833</u> | <u>881,306</u> |
| Income (loss) before interfund transfers | <u>99,447</u> | <u>1,377,921</u> | <u>(237,040)</u> | <u>1,240,328</u> |
| Interfund transfers | | | | |
| From General Fund | | | 61,739 | 61,739 |
| From SPLOST Capital Projects Fund | | 369,117 | | 369,117 |
| From Water and Sewer Fund | | | 56,894 | 56,894 |
| To Golf Course Fund | | (56,894) | | (56,894) |
| Total interfund transfers | <u>0</u> | <u>312,223</u> | <u>118,633</u> | <u>430,856</u> |
| Change in net position | 99,447 | 1,690,144 | (118,407) | 1,671,184 |
| Net position beginning of year | <u>345,728</u> | <u>23,551,726</u> | <u>2,818,447</u> | <u>26,715,901</u> |
| Net position end of year | <u>\$ 445,175</u> | <u>\$ 25,241,870</u> | <u>\$ 2,700,040</u> | <u>\$ 28,387,085</u> |

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

City of Rincon, Georgia
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2019

| | <u>Sanitation</u> | <u>Water and Sewer</u> | <u>Golf Course</u> | <u>Total</u> |
|--|-------------------|----------------------------|--------------------|---------------------|
| Increase (decrease) in cash and cash equivalents | | | | |
| Cash flows from operating activities | | | | |
| Cash received from customers | \$ 668,562 | \$ 3,448,516 | \$ 472,758 | \$ 4,589,836 |
| Cash payments to employees for personal services | (23,756) | (963,564) | (354,356) | (1,341,676) |
| Cash payments for goods and services | <u>(508,581)</u> | <u>(1,179,192)</u> | <u>(235,840)</u> | <u>(1,923,613)</u> |
| Net cash provided by (used for) operating activities | <u>136,225</u> | <u>1,305,760</u> | <u>(117,438)</u> | <u>1,324,547</u> |
| Cash flows from noncapital financing activities | | | | |
| Interfund balances | 117,639 | 1,482,819 | | 1,600,458 |
| Tower rental | | 80,365 | | 80,365 |
| Interfund transfers | | <u>(56,894)</u> | <u>118,633</u> | <u>61,739</u> |
| Net cash provided by noncapital financing activities | <u>117,639</u> | <u>1,506,290</u> | <u>118,633</u> | <u>1,742,562</u> |
| Cash flows from capital and related financing activities | | | | |
| Proceeds from impact fees | | 654,607 | | 654,607 |
| Proceeds from long-term debt | | 184,169 | | 184,169 |
| Grant proceeds | | 262,561 | | 262,561 |
| Principal paid on long-term debt | | (448,723) | | (448,723) |
| Interest paid on debt | | (172,888) | | (172,888) |
| Payments for capital acquisitions | | (684,952) | | (684,952) |
| Transfers from SPLOST Capital Projects Fund | | <u>369,117</u> | | <u>369,117</u> |
| Net cash provided by capital and related financing activities | <u>0</u> | <u>163,891</u> | <u>0</u> | <u>163,891</u> |
| Cash flows from investing activities | | | | |
| Investment earnings | <u>1,928</u> | <u>52,735</u> | <u>833</u> | <u>55,496</u> |
| Net change in cash and cash equivalents | 255,792 | 3,028,676 | 2,028 | 3,286,496 |
| Cash and cash equivalents beginning of year | <u>167,029</u> | <u>4,985,538</u> | <u>9,154</u> | <u>5,161,721</u> |
| Cash and cash equivalents end of year | <u>\$ 422,821</u> | <u>\$ 8,014,214</u> | <u>\$ 11,182</u> | <u>\$ 8,448,217</u> |
| Cash and cash equivalents | | | | |
| Unrestricted | \$ 422,821 | \$ 7,376,172 | \$ 11,182 | \$ 7,810,175 |
| Restricted | | 638,042 | | 638,042 |
| | <u>\$ 422,821</u> | <u>\$ 8,014,214</u> | <u>\$ 11,182</u> | <u>\$ 8,448,217</u> |

(continued)

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

City of Rincon, Georgia
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2019

| | (continued) | | | |
|--|-------------------|----------------------------|---------------------|---------------------|
| | <u>Sanitation</u> | <u>Water and Sewer</u> | <u>Golf Course</u> | <u>Total</u> |
| Reconciliation of operating income to net cash provided by operating activities | | | | |
| Operating income (loss) | \$ 97,520 | \$ 499,375 | \$ (237,873) | \$ 359,022 |
| Adjustments: | | | | |
| Depreciation | | 932,212 | 107,526 | 1,039,738 |
| (Increase) decrease in assets: | | | | |
| Accounts receivable | (11,594) | (87,172) | | (98,766) |
| Inventory | | | 1,306 | 1,306 |
| Prepaid expenses | | (35,977) | 5,108 | (30,869) |
| Increase (decrease) in liabilities: | | | | |
| Accounts payable | 49,668 | (39,212) | 5,408 | 15,864 |
| Accrued expenses | 631 | 1,241 | 3,043 | 4,915 |
| Customer deposits | | 42,487 | | 42,487 |
| Net pension liability | | (7,194) | (1,956) | (9,150) |
| Net cash provided by (used for) operating activities | <u>\$ 136,225</u> | <u>\$ 1,305,760</u> | <u>\$ (117,438)</u> | <u>\$ 1,324,547</u> |

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

City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 1 - Reporting Entity

The City of Rincon, Georgia (the City) was incorporated under the provisions of Georgia law on August 3, 1927. The City operates under a Council-City Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), streets and lanes, sanitation, planning and zoning, water and sewer, and various administrative services.

The reporting entity is comprised of the primary government and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City.

The City has no component units and there are no organizations which have been excluded from the reporting entity.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting.

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

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements - The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. The primary government is presented separately within these financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and grants and the City's general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of net position presents the financial position of the governmental and business-type activities of the City at year end.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and for each identifiable activity of the business-type activities of the City. Direct expenses are those that are specifically associated with a function and therefore clearly identifiable to that particular function. The City does not allocate indirect expenses to functions in the statement of activities.

City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 2 - Summary of Significant Accounting Policies (continued)

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees and other charges to users of the City's services; and (2) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. For identifying to which function program revenue pertains, the determining factor for charges for services is which function generates the revenue. For grants and contributions, the determining factor is to which function the revenues are restricted.

Other revenue sources not properly included with program revenues are reported as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Fund financial statements are provided for governmental and proprietary funds.

Major individual governmental and enterprise funds are reported in separate columns on the fund statements.

Fund Accounting - The City uses funds to maintain its financial records during the year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The City uses two categories of funds: governmental and proprietary.

Governmental Funds - Governmental funds are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between governmental fund assets and liabilities as fund balance. The following are the City's major governmental funds:

The General Fund – The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund's fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Georgia.

The Fire Fund – This fund is used to account for the operation of activities involved in providing fire services to City residents.

City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 2 - Summary of Significant Accounting Policies (continued)

The SPLOST Capital Projects Fund – This fund is used to account for financial resources to be used for the acquisition or construction or other capital projects under the Special Local Option Sales Tax referendum.

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. The proprietary funds are classified as enterprise funds. The following are the City's major enterprise funds:

Sanitation Fund – This fund is used to account for the operation of activities involved in providing sanitation services to City residents.

Water and Sewer Fund – This fund is used to account for the construction of facilities and operation of activities involved in providing water and sewer utilities services to City residents.

Golf Course Fund – This fund is used to account for the purchase of facilities and operation of activities involved in operating a municipal golf course. The golf course is being utilized as a dispersal site for sewer re-use water.

Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net position. The statement of activities reports revenues and expenses.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus on both financial reporting levels. All assets and all liabilities associated with the operation of these funds are included on the statements of net position. The statements of changes in fund net position present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 2 - Summary of Significant Accounting Policies (continued)

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, the governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting at both reporting levels. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and outflows of resources, and in the presentation of expenses versus expenditures.

Revenues – Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, the phrase “available for exchange transactions” means expected to be received within 60 days of year-end.

Revenues - Non-exchange Transactions - Non-exchange transactions in which the City receives value without directly giving equal value in return, include sales taxes, property taxes, grants and donations. On an accrual basis, revenue from sales taxes is recognized in the period in which the taxable sale takes place. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions also must be available (i.e., collected within 60 days) before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: property taxes, sales taxes, interest and federal and state grants.

Unearned Revenue - Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

On both the government-fund financial statements and the government-wide financial statements, revenues are deferred for grants and entitlements received before the eligibility requirements are met (e.g., cash advances).

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 2 - Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Fund Equity

Cash, Cash Equivalents, and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

Investments are stated at fair value based on quoted market prices.

Georgia law authorizes the City to invest in the following type of obligations:

- Obligations of the State of Georgia or of any other states
- Obligations of the United States Government
- Obligations fully insured or guaranteed by the United States Government or Government agency
- Obligations of any corporation of the United States Government
- Prime bankers' acceptances
- The State of Georgia local government investment pool (i.e., Georgia Fund I)
- Repurchase agreements
- Obligations of the other political subdivisions of the State of Georgia

Receivables

All trade and property tax receivables are reported net of an allowance for uncollectibles, where applicable. Unbilled utility charges are accrued as receivables and revenue at December 31.

Interfund Balances

On the fund financial statements, receivables and payables resulting from short term interfund loans are classified as "interfund receivables/interfund payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the current year end are recorded as expenses in the governmental funds using the purchases method and as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. At the fund reporting level, an equal amount of fund balance is reserved as this amount is not available for general appropriation.

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City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 2 - Summary of Significant Accounting Policies (continued)

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column of the government-wide statement of net position but does not report these assets in the governmental fund financial statements. Capital assets utilized by enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the enterprise funds' statement of net position.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value. The City maintains a capitalization threshold of ten thousand dollars or at managements discretion for items under this threshold. The City's infrastructure consists of roads, bridges, water lines and sewer lines. Improvements to capital assets are capitalized. The City has capitalized only those infrastructure costs related to roads and bridges incurred after December 31, 2004. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets utilized by the enterprise funds is capitalized.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

| Asset Class | Governmental Activities | Business-type Activities |
|------------------------------------|----------------------------|-----------------------------|
| Buildings and improvements | 30-50 Years | 30 years |
| Improvements, other than buildings | | 15 years |
| Equipment | 5-10 years | 7-10 Years |
| Vehicles | 5-8 years | 5 Years |
| Infrastructure | 20 years | |
| Water and sewer collection systems | | 40 Years |

At the inception of capital leases at the governmental fund reporting level, expenditures and an "other financing source" of an equal amount are reported at the net present value of future minimum lease payments. The cost of assets acquired with capital leases is capitalized and depreciated at the fund level for enterprise funds and at the government-wide level for governmental activities and business-type activities.

Compensated Absences

Unless approved otherwise by management on a case-by-case basis, unused vacation benefits expire at year end. No accrual for unused vacation benefits has been made as the liability cannot be reasonably determined. Additionally, the liability, if any, is not anticipated to be significant.

City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 2 - Summary of Significant Accounting Policies (continued)

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of these funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are “due for payment” during the current year. Capital leases are recognized as a liability in the governmental fund financial statements when due.

Debt Premiums, Discounts and Issuance Costs

On the government-wide statement of net position and the proprietary fund type statement of net position, debt premiums and discounts are netted against debt. On the government-wide and proprietary fund type statement of activities, debt premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

Debt issuance costs are recognized as an outflow of resources in the reporting period in which they are incurred.

Fund Equity

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

Fund Balance – Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund 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:

Nonspendable - Fund balances are reported as nonspendable when amounts cannot be spent because they are either (1) not in spendable form (i.e., items that are not expected to be converted to cash) or (2) 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 enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 2 - Summary of Significant Accounting Policies (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. Intent can be expressed by the City or by an official or body to which the City Council delegates the authority.

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

Net Position Flow Assumptions – In order to report net position as a "restricted net position" and an "unrestricted net position" in the government-wide and proprietary fund financial statements, the City has established a flow assumption policy. It is the City's policy to use "restricted net position first before using "unrestricted net position".

Fund Balance Flow Assumptions – It is the City's policy to consider restricted fund balance to have been used before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, it is the City's policy to use fund balance in the following order: (1) Committed, (2) Assigned, and finally (3) Unassigned.

Net Position - Net position represent the difference between assets and liabilities. Net position component "net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. This net asset amount also is adjusted by any debt issuance deferral amounts. The net position is 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. The balance of the net position is reported as unrestricted.

Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements of the City will sometimes report a separate section for deferred outflows of resources. This separate element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources in the form of expenditures until that time. The Governmental Activities, Business-Type Activities and the Proprietary Funds report deferred outflows for pension related items.

In addition to liabilities, the financial statements of the City will sometimes report a separate section for deferred inflows of resources. This separate element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources in the form of revenue until that time. The Governmental Activities, Business-Type Activities and the Proprietary funds report deferred inflows for pension related items.

City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 2 - Summary of Significant Accounting Policies (continued)

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water and sewer and sanitation and charges for the activities of the golf course. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after the non-operating revenues/expenses section in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements (i.e., they are netted).

Transfers between governmental and business-type activities on the government-wide statement of activities are reported as general revenues. Transfers between funds reported in the governmental activities column are eliminated. Transfers between funds reported in the business type activities column are eliminated.

Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3 – Stewardship, Compliance and Accountability

Budgetary Information

The City adopts an annual operating budget for the general fund and the capital projects fund. The budget resolution reflects the total of each department's appropriation in each fund.

The general and capital projects fund's budgets are adopted on a basis consistent with GAAP. For fund level reporting purposes, capital outlays and debt service are reported separately from current operating expenditures. For budgetary purposes, capital outlays and debt service are included in the departmental expenses charged for the expenditures.

City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 3 – Stewardship, Compliance and Accountability (continued)

The legal level of control (the level at which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the department level within each individual fund. Any change in total to a fund or departmental appropriation within a fund requires approval of the City Council.

Transfer of budget amounts can occur within departments. All unexpended annual appropriations lapse at year-end.

Note 4 – Combination of Funds

Effective January 1, 2019, the City combined the Water Fund and the Sewer Fund into one fund, the Water and Sewer Fund. The City determined the financial statements would be more meaningful because the operations of these two funds overlap significantly and the revenues of the sewer fund are materially determined by the consumption in the water fund. Following is a summary of the prior year ending fund balances.

| | |
|---------------------------------|----------------------|
| Water Fund | \$ 11,430,875 |
| Sewer Fund | 12,120,851 |
| Water and Sewer Fund - combined | <u>\$ 23,551,726</u> |

Note 5 - Deposits and Investments

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of December 31, 2019, the City was not exposed to custodial credit risk.

Note 6 - Receivables

Receivables at December 31, 2019, consisted of taxes, interest, and accounts (billings for user charges).

Receivables and payables are recorded on the City’s financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectibility. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. With council approval, trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded as revenue when received. Allowances for uncollectible accounts, which was netted with accounts receivable, were \$357,697 for the year ended December 31, 2019.

City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 7 - Property Taxes

Property taxes have not been imposed since 1998; therefore no tax bills were mailed in the current year.

Note 8 - Inventory

Inventory is stated at the lower of cost or market, and valued using the first in, first out method. Inventory in the Proprietary Fund consists of clothing and golf-related items sold to customers and expendable supplies held for future consumption. The cost is recorded as an expense as items are sold or consumed. Inventory balance at December 31, 2019, was \$8,007.

Note 9 - Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2019, was as follows:

| | <u>Balance 12/31/18</u> | <u>Additions</u> | <u>Dispositions</u> | <u>Reclassi- fication</u> | <u>Balance 12/31/19</u> |
|---|-----------------------------|---------------------|---------------------|-------------------------------|-----------------------------|
| Governmental activities: | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 1,356,379 | \$ 170,578 | _____ | _____ | \$ 1,526,957 |
| Depreciable capital assets: | | | | | |
| Land improvements | 4,415,863 | | | | 4,415,863 |
| Buildings | 3,147,260 | | | | 3,147,260 |
| Equipment | 4,819,175 | 86,180 | | | 4,905,355 |
| Vehicles | 1,389,707 | 44,028 | | | 1,433,735 |
| Infrastructure | 7,415,512 | 344,447 | | | 7,759,959 |
| Total depreciable capital assets | <u>21,187,517</u> | <u>474,655</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>21,662,172</u> |
| Total capital assets | <u>22,543,896</u> | <u>645,233</u> | <u>0</u> | <u>0</u> | <u>23,189,129</u> |
| Accumulated depreciation: | | | | | |
| Land improvements | 542,826 | 89,524 | | | 632,350 |
| Buildings | 1,055,132 | 68,986 | | | 1,124,118 |
| Equipment | 3,485,504 | 341,201 | | | 3,826,705 |
| Vehicles | 1,103,465 | 114,617 | | | 1,218,082 |
| Infrastructure | 779,018 | 163,187 | | | 942,205 |
| Total accumulated depreciation | <u>6,965,945</u> | <u>777,515</u> | <u>0</u> | <u>0</u> | <u>7,743,460</u> |
| Governmental activities capital assets, net | <u>\$ 15,577,951</u> | <u>\$ (132,282)</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 15,445,669</u> |

City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 9 - Capital Assets (continued)

Governmental activities depreciation expense:

| | |
|--|-------------------|
| General government | \$ 85,305 |
| Public safety - police | 175,008 |
| Public safety - fire | 147,200 |
| Public works - streets and lanes | 214,921 |
| Parks and recreation | 152,559 |
| Building and zoning | <u>2,522</u> |
| Total governmental activities depreciation expense | <u>\$ 777,515</u> |

Capital asset activity for business-type activities for the year ended December 31, 2019, was as follows:

| | <u>Balance</u> <u>12/31/18</u> | <u>Additions</u> | <u>Dispositions</u> | <u>Reclassi- fication</u> | <u>Balance</u> <u>12/31/19</u> |
|--|-----------------------------------|-------------------|---------------------|-------------------------------|-----------------------------------|
| Business-type activities: | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land and rights | \$ 819,163 | | | | \$ 819,163 |
| Construction in progress | <u>3,756,736</u> | <u>\$ 995,178</u> | | <u>\$ (1,658,003)</u> | <u>3,093,911</u> |
| Total capital assets not being depreciated | <u>4,575,899</u> | <u>995,178</u> | <u>\$ 0</u> | <u>(1,658,003)</u> | <u>3,913,074</u> |
| Depreciable capital assets: | | | | | |
| Buildings | 775,684 | | | | 775,684 |
| Improvements, other than buildings | 2,358,106 | | | | 2,358,106 |
| Water system | 9,697,012 | | | | 9,697,012 |
| Sewer plant | 22,377,255 | | | 1,658,003 | 24,035,258 |
| Equipment | 930,936 | | | | 930,936 |
| Vehicles | <u>425,188</u> | <u>14,150</u> | | | <u>439,338</u> |
| Total depreciable capital assets | <u>36,564,181</u> | <u>14,150</u> | <u>0</u> | <u>1,658,003</u> | <u>38,236,334</u> |
| Total capital assets | <u>41,140,080</u> | <u>1,009,328</u> | <u>0</u> | <u>0</u> | <u>42,149,408</u> |

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City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 9 - Capital Assets (continued)

| | Balance 12/31/18 | Additions | Dispositions | Reclassi- fication | Balance 12/31/19 |
|---|----------------------|--------------------|--------------|-----------------------|----------------------|
| Accumulated depreciation: | | | | | |
| Buildings | 224,024 | 25,888 | | | 249,912 |
| Improvements, other than buildings | 532,822 | 58,880 | | | 591,702 |
| Water system | 3,003,086 | 250,729 | | | 3,253,815 |
| Sewer plant | 8,133,498 | 637,102 | | | 8,770,600 |
| Equipment | 793,098 | 43,349 | | | 836,447 |
| Vehicles | 365,585 | 23,790 | | | 389,375 |
| Total accumulated depreciation | <u>13,052,113</u> | <u>1,039,738</u> | <u>0</u> | <u>0</u> | <u>14,091,851</u> |
| Business-type activities capital assets, net | <u>\$ 28,087,967</u> | <u>\$ (30,410)</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 28,057,557</u> |

Note 10 - Interfund Balances and Transfers

Interfund balances at December 31, 2019, consisted of the following amounts and represent charges for services or reimbursable expenses:

The Golf Course Fund owed \$3,023 to the General Fund and \$40,085 to the Water and Sewer Fund.

These remaining balances resulted from the time lag between the dates that (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting period, and (3) payments between funds are made. The City expects to repay all interfund balances within one year.

Interfund transfers for the year ended December 31, 2019, were as follows:

- SPLOST fund transferred \$369,117 to the Water and Sewer fund for water and sewer system additions.
- Water fund transferred \$56,894 to Golf Course fund to supplement its finances.
- General fund transferred \$61,739 to the Golf Course fund to supplement its finances.

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City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 11 - Long-Term Debt

Capital Leases – From time to time the City enters into capital leases for various pieces of equipment. Each lease meets the criteria of a capital lease since it transfers benefits and risks of ownership to the lessee at the end of the lease term. Capital lease payments are reflected as debt service expenditures at the governmental fund reporting level. At the fund level for enterprise funds and at the government-wide level for both governmental and business-type activities, the cost of the assets purchased with capital leases is capitalized and depreciated over the estimated useful life of the asset. Also at the fund level for enterprise funds and the government-wide level for both governmental and business-type activities the capital leases are recorded at the net present value of the debt service payments and amortized over the lives of the leases at the stated effective rates of interest in the lease agreements. Depreciation expense on capital assets purchased with capital leases is reported as a direct expense in the activity that utilizes the asset.

Governmental Activities

Capital lease - Capital lease payable in equal monthly payments of \$2,265 including interest at 3.26% through May, 2021. The purpose of this lease was to purchase equipment for streets and lanes. The original principal amount of the lease was \$125,000. The equipment acquired by the lease is included in governmental activities capital assets in the amount of \$33,333 (cost of \$125,000 less accumulated depreciation of \$91,667). The outstanding balance of the corresponding liabilities is included in the governmental activities long-term debt. Annual debt service requirements to amortize this capital lease as of December 31, 2019, follow:

| Year | Principal | Interest | Total |
|-------|------------------|---------------|------------------|
| 2020 | \$ 24,179 | \$ 838 | \$ 25,017 |
| 2021 | 11,355 | 92 | 11,447 |
| Total | <u>\$ 35,534</u> | <u>\$ 930</u> | <u>\$ 36,464</u> |

Business Type Activities

Refunding Revenue Bonds - Water and Sewer refunding revenue bonds, series 2015, in the amount of \$6,150,000. The interest rate for the bonds is 2.5%. The bonds mature on June 1, 2028. The bonds were issued in order pay off GEFA debt, which was incurred constructing a wastewater treatment plant. The bonds are secured by a charge or lien on the revenues derived from the ownership and operation of the water and sewer system. Annual debt service requirements to amortize the bonds as of December 31, 2019, follow.

| Year | Principal | Interest | Total |
|-----------|---------------------|-------------------|---------------------|
| 2020 | \$ 455,572 | \$ 100,538 | \$ 556,110 |
| 2021 | 467,090 | 89,020 | 556,110 |
| 2022 | 478,902 | 77,208 | 556,110 |
| 2023 | 491,013 | 65,097 | 556,110 |
| 2024 | 503,430 | 52,680 | 556,110 |
| 2025-2028 | 1,833,486 | 81,993 | 1,915,479 |
| Total | <u>\$ 4,229,493</u> | <u>\$ 466,536</u> | <u>\$ 4,696,029</u> |

City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 11 - Long-Term Debt (continued)

GEFA 2017 Loan (Water) - The purpose of the loan is to complete improvements to the water system. The total amount of this loan is expected to be \$2,100,000. Advances were made on this loan in 2017 and 2018 totaling \$917,442 and \$1,152,327, respectively. There were no advances in 2019. The loan will be converted from construction status to fixed amortization upon completion of the project with payments to be amortized over 20 years at 1.89% interest.

GEFA 2017 Loan (Sewer) - The purpose of the loan is to complete improvements to the sewer system. The total amount of this loan is expected to be \$2,540,000. Advances were made on this loan in 2017, 2018 and 2019, totaling \$896,281, \$545,752 and \$184,169, respectively. On November 1, 2019, the loan converted from construction status to fixed amortization upon completion of the project with payments to be amortized over 20 years at 1.89% interest. Annual debt service requirements to amortize the loan as of December 31, 2019, follow.

| Year | Principal | Interest | Total |
|-----------|---------------------|-------------------|---------------------|
| 2020 | \$ 67,661 | \$ 30,046 | \$ 97,707 |
| 2021 | 68,951 | 28,756 | 97,707 |
| 2022 | 70,266 | 27,441 | 97,707 |
| 2023 | 71,605 | 26,102 | 97,707 |
| 2024 | 72,970 | 24,736 | 97,706 |
| 2025-2029 | 386,257 | 102,277 | 488,534 |
| 2030-2034 | 424,507 | 64,027 | 488,534 |
| 2035-2039 | 458,404 | 21,988 | 480,392 |
| Total | <u>\$ 1,620,621</u> | <u>\$ 325,373</u> | <u>\$ 1,945,994</u> |

Changes in Long-term Debt - Changes in the City's long-term obligations consisted of the following for the year ended December 31, 2019.

| | Outstanding 12/31/18 | Additions | Reductions | Outstanding 12/31/19 | Amounts Due in One Year |
|-------------------------------|-------------------------|-------------|------------------|-------------------------|-------------------------------|
| Governmental Activities | | | | | |
| Capital lease | \$ 60,976 | | \$ 25,442 | \$ 35,534 | \$ 24,179 |
| Net pension liability | 170,624 | | 20,949 | 149,675 | |
| Total governmental activities | <u>\$ 231,600</u> | <u>\$ 0</u> | <u>\$ 46,391</u> | <u>\$ 185,209</u> | <u>\$ 24,179</u> |

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City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 11 - Long-Term Debt (continued)

| | Outstanding 12/31/18 | Additions | Reductions | Outstanding 12/31/19 | Amounts Due in One Year |
|-----------------------------------|-------------------------|-------------------|-------------------|-------------------------|-------------------------------|
| Business-Type Activities | | | | | |
| Series 2015 bonds | \$ 4,672,635 | | \$ 443,142 | \$ 4,229,493 | \$ 455,572 |
| GEFA loan- Water Fund | 2,069,769 | | | 2,069,769 | |
| GEFA loan- Sewer Fund | 1,442,033 | \$ 184,169 | 5,581 | 1,620,621 | 67,661 |
| Net pension liability | 52,297 | | 6,420 | 45,877 | |
| Total Business-Type Activities | <u>\$ 8,236,734</u> | <u>\$ 184,169</u> | <u>\$ 455,143</u> | <u>\$ 7,965,760</u> | <u>\$ 523,233</u> |

The governmental capital lease payable is being financed through future general fund expendable available financial sources as it becomes due. Principal and interest payments related to the City's revenue bonds and the GEFA loans are financed from income derived from the operation of the water and sewer system.

Total interest incurred (all of which was charged to operations) in the government-wide financial statements amounted to \$1,734 for governmental activities and \$171,722 for business-type activities.

Note 12 - Defined Benefit Pension Plan

General Information About the Pension Plan

Plan Description - All full-time city employees are eligible to participate in the Georgia Municipal Employees Benefit System (GMEBS) which is an agent multiple employer defined benefit plan administered by the Georgia Municipal Association which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the plan are established by state statute and an adoption agreement executed by City Council. The Georgia Municipal Association issues a publicly available annual report that includes financial statements and required supplementary information for the Georgia Municipal Employees Benefit System Retirement Trust. That report may be obtained by writing to Georgia Municipal Association, 201 Pryor Street, SW, Atlanta, Georgia, 30303-3606.

Benefits Provided - GMEBS provides retirement, disability benefits and death benefits to plan members and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with 5 years of total service are eligible to retire at age 55.

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City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 12 - Defined Benefit Pension Plan (continued)

Employees Covered - At July 1, 2019, the following employees were covered by the benefit terms for the plan:

| | |
|--|-----|
| Inactive employees or beneficiaries currently receiving benefits | 17 |
| Inactive employees entitled to but not yet receiving benefits | 45 |
| Active employees | 69 |
| Total | 131 |

Contributions - The City's employee's participation is noncontributory. The City is subject to minimum standards of the Public Retirement Systems Standards Law (Georgia Code Section 47-20-10). Policy set by the City for contributing the annual pension expense exceeds the minimum requirements. Employer contribution rates are determined on an annual basis by the actuary and shall be effective on the July 1 following the notice of a change in the rate.

The annual minimum contribution is the sum of 1) the normal cost (including administrative expenses), 2) the closed level dollar amortization of the unfunded actuarial accrued liability over a period that ranges from 10 to 30 years based on the funding policy adopted by the GMEBS Board of Trustees, and 3) interest on these amounts from the valuation date to the date contributions are paid (assumed monthly). The City's contributions to the plan were \$115,799 for the year ended December 31, 2019.

Net Pension Liability

The City's net pension liability (NPL) for the plan is measured as the total pension liability (TPL), less the pension plan's fiduciary net position (FNP). The net pension liability of the plan is measured as of March 31, 2019, using an annual actuarial valuation as of July 1, 2019. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

| | |
|-------------------------------|--|
| Valuation date | July 1, 2019 |
| Measurement date | March 31, 2019 |
| Actuarial cost method | Entry age normal |
| Amortization method | Closed level dollar for remaining unfunded liability |
| Remaining amortization period | Remaining amortization period varies for the bases, with a net effective amortization period of twelve years. |
| Asset valuation method | Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at end of year. The actuarial value is adjusted, if necessary, to be within 20% of market value. |
| Discount rate | 7.50% |
| Inflation rate | 2.75% |

City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 12 - Defined Benefit Pension Plan (continued)

| | |
|---------------------------------|--|
| Net investment rate of return | 7.50% |
| Projected salary increase | 2.75% plus service based merit increases |
| Cost of living adjustments | Not applicable |
| Postretirement benefit increase | Not applicable |

The underlying mortality assumptions and all other actuarial assumptions used in the July 1, 2019, valuation were based on the results of an actuarial experience study for the period January 1, 2010, through June 30, 2014. Further details of the experience study can be obtained by contacting the Georgia Municipal Association.

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The discount rate did not change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of March 31, 2019, (see the discussion of the pension plan's investment policy) are summarized in the following table.

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-----------------------|------------------------------|---|
| Domestic equity | 45% | 6.40% |
| International equity | 20% | 7.40% |
| Real estate | 10% | 5.10% |
| Global fixed income | 5% | 3.03% |
| Domestic fixed income | 20% | 1.75% |
| Cash | 0% | |
| Total | <u>100%</u> | |

City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 12 - Defined Benefit Pension Plan (continued)

Changes in Net Pension Liability

The changes in the Net Pension Liability for the plan are as follows:

| | Total Pension Liability | Fiduciary Net Position | Net Pension Liability/ Asset |
|--|-------------------------------|---------------------------|------------------------------------|
| Balances as of March 31, 2018 | \$ 2,109,997 | \$ 1,887,076 | \$ 222,921 |
| Changes for the year: | | | |
| Service cost | 101,862 | | 101,862 |
| Interest | 163,752 | | 163,752 |
| Differences between expected and actual experience | (113,151) | | (113,151) |
| Contributions - employer | | 121,640 | (121,640) |
| Net investment income | | 69,390 | (69,390) |
| Benefit payments | (57,002) | (57,002) | 0 |
| Administrative expense | | (11,198) | 11,198 |
| Changes in assumptions | | | 0 |
| Net changes | 95,461 | 122,830 | (27,369) |
| Balances as of March 31, 2019 | \$ 2,205,458 | \$ 2,009,906 | \$ 195,552 |

Sensitivity of the Net Pension Liability to changes in the discount rate is as follows:

| | Current | |
|-------------|---------------|-------------|
| 1% Decrease | Discount Rate | 1% Increase |
| \$ 526,744 | \$ 195,552 | \$ (74,585) |

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City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 12 - Defined Benefit Pension Plan (continued)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended December 31, 2019, the City recognized a pension expense of \$76,779. At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ | \$ (172,861) |
| Pension contributions subsequent to measurement date | 86,844 | |
| Changes in assumptions | 23,156 | |
| Net difference between projected and actual earnings on plan investments | 5,965 | |
| Total | \$ 115,965 | \$ (172,861) |

\$86,846 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ended December 31, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a component of pension expense as follows:

| Year ended December 31: | |
|----------------------------|--------------|
| 2020 | \$ (57,501) |
| 2021 | (72,296) |
| 2022 | (28,769) |
| 2023 | 14,823 |
| | \$ (143,743) |

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City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 13 - Net Investment in Capital Assets

The "net investment in capital assets" amount as reported on the government-wide statement of net position as of December 31, 2019, is as follows:

| | Governmental Activities | Business Type Activities |
|---|----------------------------|--------------------------------|
| Investments in capital assets, net of related debt: | | |
| Cost of capital assets | \$ 23,189,129 | \$ 42,149,408 |
| Less accumulated depreciation | 7,743,460 | 14,091,851 |
| Book value | 15,445,669 | 28,057,557 |
| Less capital related debt | 35,534 | 7,919,883 |
| Investments in capital assets, net of related debt | \$ 15,410,135 | \$ 20,137,674 |

Note 14 - Risk Management

The City joined the Georgia Interlocal Risk Management Agency (GIRMA). Insurance coverage and deductible options for property, casualty and crime under the policy are selected by the City's management based on the anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed by GIRMA, as well as following loss reduction and prevention procedures established by GIRMA. GIRMA's responsibility includes paying claims, and representing the city in defense and settlement of claims. GIRMA's basis for estimating the liabilities for unpaid claims is "IBNR" established by an actuary. The City has not compiled a record of claims paid up to the applicable deductible for the prior year or the current fiscal year. The City is unaware of any claims for which the City is liable (up to the applicable deductible) which were outstanding and unpaid at December 31, 2019. No provisions have been made in the financial statements for the year ended December 31, 2019, for any estimate of potential unpaid claims.

The City has elected to be a member of the Georgia Municipal Association Workers' Compensation Self-Insurance Fund (the Fund). As a participant in the Fund, the City has no legal obligation to pay its own workers' compensation claims. The City is required to make an annual contribution to the Fund in an amount that is determined on the basis of actuarial projections of losses. With payment of the City's annual contribution, the City has effectively transferred the risk and responsibility for payment of its workers' compensation claims. However, the enabling statute creating the Fund permits the Fund to levy an assessment upon its members to make up any deficiency the Fund may have in surplus or reserves. No amount has been recorded in the financial statements for this contingency as management believes the likelihood for assessment is remote.

City of Rincon, Georgia
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 15 - Commitments

The City had contractual commitments at December 31, 2019, of approximately \$943,172 for various construction contracts. Future appropriations will fund these commitments as work is performed. Following is a schedule of these commitments.

| | |
|----------------------------------|-----------|
| General fund | |
| Public works - streets and lanes | \$ 41,563 |
| Utility funds | |
| Water and sewer projects | 901,609 |

Note 16 - Contingent Liabilities

State Grant Audits - The City has received state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement to the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the City believes such disallowances, if any, will be immaterial.

Litigation - The City was a defendant in several lawsuits at December 31, 2019. In the opinion of City management, the outcome of these contingencies will not have a material effect on the financial position of the City.

Note 17 - Joint Ventures

Under Georgia law, the City, in conjunction with other cities and counties in the coastal Georgia area, is a member of the Coastal Georgia Regional Commission (RC) and is required to pay annual dues thereto. Membership in an RC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the RC in Georgia. The RC board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of an RC. Separate financial statements may be obtained from Coastal Georgia Regional Commission, P. O. Box 2917, Brunswick, Georgia 31521.

Note 18 - Subsequent Events

Subsequent events have been evaluated by management through June 22, 2020, which is the date the financial statements were available to be issued. As a result of the COVID19 coronavirus, economic uncertainties have arisen which may negatively impact the operating results of the City. The financial impact and duration cannot be reasonably estimated at this time.

City of Rincon, Georgia
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2019

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|--|----------------------------|-------------------------|---------------------|---|
| Revenues | | | | |
| Taxes | \$ 2,947,700 | \$ 3,277,700 | \$ 3,469,961 | \$ 192,261 |
| Licenses and permits | 147,250 | 147,250 | 291,695 | 144,445 |
| Intergovernmental | 274,000 | 274,000 | 120,043 | (153,957) |
| Charges for services | 165,000 | 165,000 | 176,799 | 11,799 |
| Fines and forfeitures | 783,700 | 783,700 | 527,986 | (255,714) |
| Investment earnings | 3,550 | 3,550 | 39,345 | 35,795 |
| Miscellaneous | 20,900 | 110,739 | 191,111 | 80,372 |
| Total revenues | <u>4,342,100</u> | <u>4,761,939</u> | <u>4,816,940</u> | <u>55,001</u> |
| Expenditures | | | | |
| Current: | | | | |
| General Government | | | | |
| City Council | 325,626 | 265,626 | 171,293 | 94,333 |
| General administration | 379,542 | 371,511 | 325,141 | 46,370 |
| Financial administration | 137,829 | 161,191 | 130,656 | 30,535 |
| Judicial | 57,616 | 147,227 | 144,404 | 2,823 |
| Public Safety - police | 1,709,751 | 1,769,841 | 1,507,894 | 261,947 |
| Public Works - streets and lanes | 573,181 | 965,159 | 596,769 | 368,390 |
| Parks and Recreation | 546,881 | 596,319 | 561,434 | 34,885 |
| Housing and Development - Building and zoning | 236,499 | 267,122 | 266,981 | 141 |
| Debt service: | | | | |
| Principal | | 25,443 | 25,442 | 1 |
| Interest and fiscal charges | | 1,734 | 1,734 | 0 |
| Total expenditures | <u>3,966,925</u> | <u>4,571,173</u> | <u>3,731,748</u> | <u>839,425</u> |
| Excess of revenues to expenditures | 375,175 | 190,766 | 1,085,192 | 894,426 |
| Other financing sources (uses) | | | | |
| Interfund transfer - golf fund | 28,100 | (61,739) | (61,739) | 0 |
| Net change in fund balance | <u>\$ 403,275</u> | <u>\$ 129,027</u> | 1,023,453 | <u>\$ 894,426</u> |
| Fund balances beginning of year | | | <u>1,328,744</u> | |
| Fund balances end of year | | | <u>\$ 2,352,197</u> | |

See the accompanying notes to the required supplementary information.

City of Rincon, Georgia
Fire Department Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2019

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|---|----------------------------|-------------------------|-------------------|---|
| Revenues | | | | |
| Intergovernmental | \$ 625,000 | \$ 625,000 | \$ 580,384 | \$ (44,616) |
| Charges for service | 622,626 | 622,626 | 528,064 | (94,562) |
| Investment earnings | 350 | 350 | 6,668 | 6,318 |
| Miscellaneous | 0 | 7,281 | 10,147 | 2,866 |
| Total revenues | <u>1,247,976</u> | <u>1,255,257</u> | <u>1,125,263</u> | <u>(129,994)</u> |
| Expenditures | | | | |
| Public safety | <u>1,099,937</u> | <u>1,120,945</u> | <u>813,432</u> | <u>307,513</u> |
| Excess of revenues to expenditures | <u>\$ 148,039</u> | <u>\$ 134,312</u> | 311,831 | <u>\$ 177,519</u> |
| Fund balances | | | | |
| Beginning of year | | | <u>345,790</u> | |
| End of year | | | <u>\$ 657,621</u> | |

See the accompanying notes to the required supplementary information.

City of Rincon, Georgia
Notes to the Required Supplementary Information
For the Year Ended December 31, 2019

Note 1 - Budgetary Information

The City adopts an annual operating budget for the general fund, each special revenue fund, each capital projects fund and the debt service fund.

All budgets are adopted on a basis consistent with GAAP.

The legal level of control (the level at which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the department level within each individual fund.

The City Manager may approve budget transfers within departments. Any changes to a fund total or departmental appropriation within a fund requires approval of the City Council. During the year, the City Council approved twelve budget revisions, eleven of which affected governmental funds.

All unexpended annual appropriations lapse at year-end.

City of Rincon, Georgia
Schedule of Changes in the Net Pension Liability and Related Ratios
Defined Benefit Pension Plan
For the Year Ended December 31, 2019

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total Pension Liability | | | | | |
| Service cost | \$ 101,862 | \$ 136,661 | \$ 108,123 | \$ 97,483 | \$ 88,655 |
| Interest | 163,752 | 140,700 | 141,487 | 130,270 | 116,317 |
| Difference between expected and actual experience | (113,151) | (1,960) | (204,573) | (25,955) | 43,628 |
| Changes in assumptions | | 46,319 | | | (15,768) |
| Benefit payments, including refunds of employee contributions | (57,002) | (54,411) | (55,969) | (58,166) | (47,411) |
| Net change in total pension liability | 95,461 | 267,309 | (10,932) | 143,632 | 185,421 |
| Total pension liability - beginning | 2,109,997 | 1,842,688 | 1,853,620 | 1,709,988 | 1,524,567 |
| Total pension liability - ending | <u>\$ 2,205,458</u> | <u>\$ 2,109,997</u> | <u>\$ 1,842,688</u> | <u>\$ 1,853,620</u> | <u>\$ 1,709,988</u> |
| Plan fiduciary net position | | | | | |
| Contributions - employer | \$ 121,640 | \$ 129,365 | \$ 125,260 | \$ 111,719 | \$ 95,936 |
| Net investment income | 69,390 | 204,461 | 177,863 | 4,954 | 115,339 |
| Benefit payments, including refunds of employee contributions | (57,002) | (54,411) | (55,969) | (58,166) | (47,411) |
| Administrative expense | (11,198) | (10,657) | (10,441) | (6,914) | (6,018) |
| Net change in fiduciary net position | 122,830 | 268,758 | 236,713 | 51,593 | 157,846 |
| Plan fiduciary net position - beginning | 1,887,076 | 1,618,318 | 1,381,605 | 1,330,012 | 1,172,166 |
| Plan fiduciary net position - ending | <u>\$ 2,009,906</u> | <u>\$ 1,887,076</u> | <u>\$ 1,618,318</u> | <u>\$ 1,381,605</u> | <u>\$ 1,330,012</u> |
| Net pension liability - ending | <u>195,552</u> | <u>222,921</u> | <u>224,370</u> | <u>472,015</u> | <u>379,976</u> |
| Plan fiduciary net position as a percentage of total pension liability | 91.13% | 89.44% | 87.82% | 74.54% | 77.78% |
| Covered employee payroll | 2,459,722 | 2,010,635 | 2,495,005 | 2,058,549 | 1,810,133 |
| Net position liability as a percentage of covered-employee payroll | 7.95% | 11.09% | 8.99% | 22.93% | 20.99% |

Changes in assumptions

Amounts reported for the fiscal year ending in 2018 reflect the following assumption changes based on the actuarial study conducted in September 2017:

The investment return assumption was decreased from 7.75% to 7.5%

The inflation assumption was decreased from 3.25% to 2.75%

As a result of the plan change to provide immediate participation for employees, for the fiscal year ended in 2016, the eligibility assumption has been changed from one year to immediate. The increase in the Plan's net pension liability is minimal and has been included in the differences between expected and actuarial experience.

As a result of an administrative fee structure approved by the Board, the administrative expense assumption was updated for fiscal years beginning in 2016.

In 2015, amounts reported as changes in assumptions resulted primarily from adjustments made based on actuarial experience study covering the period January 1, 2010 to June 30, 2014. The City implemented GASB 68 for the fiscal year ended December 31, 2015. In time this section will present the required ten years of data.

Benefit changes

Effective January 1, 2015, the Plan was amended to provide immediate participation for employees. This change has no impact on service credited under the Plan and has no impact on benefits. There were no other changes in benefit provisions in the years presented.

City of Rincon, Georgia
Schedule of Contributions
Defined Benefit Pension Plan
For the Year Ended December 31, 2019

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|------|---------------|---------------|---------------|---------------|
| Actuarially determined contribution | * | \$ 123,587 | \$ 131,291 | \$ 123,249 | \$ 107,875 |
| Contributions in relation to actuarially determined contribution | * | 123,587 ** | 131,291 ** | 123,249 ** | 107,875 ** |
| Contribution deficiency (excess) | * | 0 | 0 | 0 | 0 |
| Covered-employee payroll | * | 2,010,635 *** | 2,495,005 *** | 2,058,549 *** | 1,810,196 *** |
| Contributions as a percentage of covered-employee payroll | * | 6.15% | 5.26% | 5.99% | 5.96% |

Notes to Schedule of Contributions

* 2019 information will be determined after fiscal year end and will be included in the 2020 valuation report.

** Contributions are recorded based on date of receipt into the GMEBS trust. Minor timing issues in receipt of monthly payments are not indicative of noncompliance with GMEBS funding policy. A plan is in compliance with the GMEBS funding policy if it pays either the dollar amount or the percentage of employee-covered payroll of the actuarially determined contributions.

*** Covered payroll is based on data collected as of February 28, of each of the respective years for the actuarial valuations for the respective years.

The City implemented GASB 68 for the fiscal year ended December 31, 2015. In time this schedule will present the required ten years of data.

Valuation Date The actuarially determined contribution rate was determined as of July 1, 2019, with an interest adjustment to the fiscal year. Contributions in relation to this actuarially determined contribution rate will be reported for the fiscal year ending December 31, 2020.

Methods and Assumptions Used to Determine Contribution Rates

| | |
|------------------------------------|--|
| Actuarial cost method | Entry Age normal |
| Amortization method | Closed level dollar for remaining unfunded liability |
| Remaining amortization period | Remaining amortization period varies for the bases, with a net effective amortization period of twelve years. |
| Asset valuation method | Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at end of year. The actuarial value is adjusted, if necessary, to be within 20% of market value. |
| Inflation | 2.75% |
| Salary increases | 2.75%, plus service based merit increases |
| Investment rate of return | 7.50% |
| Retirement age | Retirement rates are adjusted to closely reflect actual experience |
| Mortality rates | |
| Healthy | RP-2000 Combined Healthy Mortality Table with sex-distinct rates, set forward two years for males and one year for females |
| Disabled | RP-2000 Disabled Retire Mortality Table with sex-distinct rates |
| Plan termination basis (all lives) | 1994 Group Annuity Reserving Unisex Table |

City of Rincon, Georgia
Hotel/Motel Tax Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget to Actual
For the Year Ended December 31, 2019

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|--|----------------------------|-------------------------|---------------|---|
| Revenues | | | | |
| Taxes | \$ 6,500 | \$ 6,500 | \$ 6,276 | \$ (224) |
| Expenditures | | | | |
| Tourism promotion | <u>6,500</u> | <u>6,500</u> | <u>5,820</u> | <u>680</u> |
| Net change in fund balance | <u>\$ 0</u> | <u>\$ 0</u> | 456 | <u>\$ 456</u> |
| Fund balances beginning of year | | | <u>0</u> | |
| Fund balances end of year | | | <u>\$ 456</u> | |

City of Rincon, Georgia
Schedule of Hotel/Motel Tax
For the Year Ended December 31, 2019

In accordance with O.C.G.A. 48-13-51, the City of Rincon levies a 5% tax on hotel/motel lodging and disburses collected funds for the purpose of promoting tourism.

This schedule provides information on the amount of Hotel/Motel tax cash receipts and the amount of such receipts which were disbursed for that purpose.

Revenues and expenditures for the year ended December 31, 2019, were as follows.

| | Amount | Amount as a percentage of revenue |
|---|----------|---|
| Hotel/Motel tax cash receipts | \$ 6,276 | |
| Expenditures for: | | |
| Community promotion - Freedom Rings Celebration | \$ 5,820 | 92.73% |

City of Rincon, Georgia
Schedule of Projects Constructed with
Special Purpose Local Option Sales Tax Proceeds
For the Year Ended December 31, 2019

| | Original Estimated Cost | Revised Estimated Cost | Prior Years | Current Year | Total | Estimated Percent Complete |
|-------------------------------------|-------------------------------|------------------------------|---------------------|-------------------|---------------------|----------------------------------|
| 2011 Effingham County SPLOST | | | | | | |
| Public buildings | \$ 38,867 | \$ 49,586 | \$ 49,586 | \$ | \$ 49,586 | 100.00% |
| Public safety | 155,467 | 324,250 | 331,832 | (7,582) | 324,250 | 100.00% |
| Roads, streets, and bridges | 777,333 | 850,519 | 485,545 | 364,974 | 850,519 | 100.00% |
| Drainage | 15,547 | | | | | #DIV/0! |
| Recreation | 1,554,667 | 702,907 | 554,890 | 35,720 | 590,610 | 84.02% |
| Water and sewerage | 3,754,520 | 1,950,712 | 741,372 | 369,117 | 1,110,489 | 56.93% |
| Total | <u>\$ 6,296,401</u> | <u>\$ 3,877,974</u> | <u>\$ 2,163,225</u> | <u>\$ 762,229</u> | <u>\$ 2,925,454</u> | |

2016 Effingham County SPLOST (Passed November, 2016; Began July 1, 2017)

| | | | | | | |
|----------------------|----------------------|---------------------|-------------|-------------------|-------------------|--------|
| Public buildings | \$ 1,183,000 | \$ 773,203 | | \$ 8,147 | \$ 8,147 | 1.05% |
| Police | 961,838 | 628,877 | | 127,278 | 127,278 | 20.24% |
| Fire | 961,837 | 628,878 | | 47,689 | 47,689 | 7.58% |
| Streets and drainage | 2,959,500 | 1,935,007 | | 8,195 | 8,195 | 0.42% |
| Recreation | 1,035,825 | 677,253 | | | 0 | 0.00% |
| Water and sewerage | 4,735,200 | 3,096,012 | | | 0 | 0.00% |
| Total | <u>\$ 11,837,200</u> | <u>\$ 7,739,230</u> | <u>\$ 0</u> | <u>\$ 191,309</u> | <u>\$ 191,309</u> | |

Remaining fund balance at December 31, 2018:

| | |
|------------------------------|---------------------|
| 2011 Effingham County SPLOST | \$ 961,908 |
| 2016 Effingham County SPLOST | <u>3,865,767</u> |
| | <u>\$ 4,827,675</u> |



**INDEPENDENT AUDITORS' 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***

To the Mayor and City Council
City of Rincon, Georgia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Rincon, Georgia, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise City of Rincon, Georgia's basic financial statements, and have issued our report thereon dated June 22, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Rincon, Georgia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Rincon, Georgia's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Rincon, Georgia's internal

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 at 2019-01 through 2019-03, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rincon, Georgia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Rincon, Georgia's Response to Findings

City of Rincon, Georgia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Rincon, Georgia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Canady, Hodges, Coomes + Richbourg, LLP

June 22, 2020

City of Rincon, Georgia
Schedule of Findings and Responses
For the Year Ended December 31, 2019

2019-01 **Bank statement reconciliations (REPEAT FINDING) (PY 2018-02)**

Condition: The City's bank statements were not consistently reconciled in a timely manner throughout the year.

Context: Bank statements should be reconciled in a timely manner to ensure proper recording and detection of fraud and error in a timely manner.

Effect: Incomplete bank reconciliations result in increased risk that financial activity recorded is incomplete and inaccurate and could result in material misstatements in the financial statements.

Cause: Internal control procedures were modified to provide for numerous personnel, many without adequate training, to reconcile bank statements. This appears to be due to lack of adequate training of staff previously responsible for such procedures. Further causes included numerous erroneous entries to cash accounts which significantly increased the difficulty of reconciling bank statements.

Recommendation: Design and implement controls to ensure that all bank statements are consistently reconciled in a timely manner and that personnel performing bank statement reconciliations are qualified to do so. This condition appears to have been corrected by personnel hired subsequent to year end.

Management response: Management agrees with the finding and has corrected the condition subsequent to year end.

2019-02 **Misclassification of transactions (REPEAT FINDING) (PY 2018-06)**

Condition: Numerous misclassifications of transactions and erroneous entries were recorded throughout the year, and several transactions throughout the year were not recorded in a timely manner.

Context: Internal control procedures should be sufficiently designed and implemented to ensure that general ledger transactions are classified properly and that misclassifications and omitted transactions are detected and corrected in a timely manner.

Effect: This condition lead to inaccuracy in various management reports throughout the year and could lead to theft or other fraud. Many of the transactions were recorded by personnel not properly authorized to have access to the financial reporting system and were thus made without the knowledge of upper management.

City of Rincon, Georgia
Schedule of Findings and Responses
For the Year Ended December 31, 2019

2019-02 **Misclassification of transactions (REPEAT FINDING) (PY 2018-06) (continued)**

Cause: Insufficient training of personnel involved in most internal control procedures, including bank reconciliation, general ledger entry, and review of general ledger activity; and unauthorized contracting of a bookkeeper to help "clean up" the City's financial records and reporting.

Recommendation: Establish procedures to ensure that all transactions are recorded correctly and that management review is conducted in a thorough and timely manner sufficient to detect and correct account misclassifications. It appears that this condition was corrected by personnel hired subsequent to year end.

Management response: Management agrees with the finding and has corrected the condition subsequent to year end.

2019-03 **Management override of controls- contracted services (REPEAT FINDING) (PY 2018-07)**

Condition: During the year, management contracted a bookkeeper without approval and appears to have paid the bookkeeper several payments specifically under the threshold above which approval of the city manager's approval is required.

Context: Internal control procedures should be consistently applied to ensure that all hired contractors are adequately approved by appropriate levels of management and that disbursement procedures, specifically those related to approval thresholds, are consistently applied.

Effect: This condition could lead to fraudulent activity and at a minimum has led and could lead to unapproved activity and undesired repercussions.

Cause: Management override of internal controls, inadequate training of management personnel involved in creating the condition.

Recommendation: Establish procedures to require that vendors be approved by appropriate levels of management prior to procurement or to entry into the financial reporting system. Further, establish procedures to periodically review check registers to identify unauthorized vendors or unusual payments to vendors. The condition appears to have been corrected by personnel hired subsequent to year end.

Management response: Management agrees with the finding and has corrected the condition subsequent to year end.