



CITY OF HARLEM, GEORGIA

ANNUAL FINANCIAL REPORT

As of and for the Year Ended December 31, 2015

And Report of Independent Auditor

CITY OF HARLEM, GEORGIA

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Report of Independent Auditor

Honorable Mayor and Members of City Council
City of Harlem, 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 aggregate remaining fund information of the City of Harlem, Georgia (the "City") as of and for the year ended December 31, 2015, and the related notes to financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 aggregate remaining fund information of the City, as of December 31, 2015, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Change in Accounting Principle

As discussed in Notes 8 and 14 to the financial statements, in 2015 the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, and schedule of employer's contribution, as listed in the table of contents, 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's basic financial statements as a whole. The combining nonmajor fund financial statements and the schedules of expenditures of special purpose local option sales tax proceeds, as required by the Office Code of Georgia 48-8-121, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedules of expenditures of special purpose local option sales tax proceeds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the City's internal control over financial reporting and compliance.



Augusta, Georgia
August 30, 2016

CITY OF HARLEM, GEORGIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2015

As management of the City of Harlem (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the City for the fiscal year ended December 31, 2015.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year ended December 31, 2015 by \$16.2 million. Of that amount \$1.3 million (unrestricted net position) may be used to meet the City's ongoing obligations to the citizens and creditors.
- The City's total net position decreased by approximately \$123,000 for the year ended December 31, 2015.
- As of December 31, 2015, the City's governmental funds reported combined ending fund balances of approximately \$1,325,000 a decrease of \$52,354 in comparison with the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private sector business. The statement of net position presents information on all of the City's assets and liabilities with the difference between the two reported as net position. 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. The statement of net position combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other nonfinancial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage improvements, and storm drains, etc.), to assess the overall health or financial condition of the City. The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes). Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

In the statement of net position and the statement of activities, the City is divided into two categories of activities:

Governmental activities - Most of the City's basic services are reported in this category including the police, fire, transportation, culture and recreation, and general administration. Property taxes, sales taxes, insurance premium taxes, and franchise fees finance most of these activities.

Business-type activities - The City charges a fee to customers to help it cover all or most of the cost of services it provides. The City's water and sewer system is reported in this category.

CITY OF HARLEM, GEORGIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Reporting the City's Most Significant Funds

Fund financial statements - The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by state law. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds - governmental and proprietary - utilize different accounting approaches.

Governmental funds - The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds. The balances left in the funds at year-end are those available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long-term effect of the government's near-term financing decisions.

The relationships or difference between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is detailed in a reconciliation following the fund financial statements. The City maintains five individual governmental funds.

Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the SPLOST 2011-2016 Fund and the non-major funds. The General Fund and the SPLOST 2011-2016 Fund are considered to be major funds.

Proprietary funds - The City charges customers for the services it provides (water and sewer service), whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and statement of activities. In fact, the City's enterprise fund (a component of the proprietary fund) is identical to the business-type activities that are reported in the government-wide financial statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Notes to the basic financial statements - The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

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, assets and deferred outflows exceeded liabilities and deferred inflows by approximately \$16.2 million at the close of the current fiscal year.

CITY OF HARLEM, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS

By far the largest portion of the City's net position (88 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses its 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 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.

Summary of Net Position
December 31, 2015

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 2,142,765	\$ 2,276,901	\$ 783,261	\$ 827,336	\$ 2,926,026	\$ 3,104,237
Capital assets	10,782,534	11,047,095	7,474,069	7,588,265	18,256,603	18,635,360
Total Assets	12,925,299	13,323,996	8,257,330	8,415,601	21,182,629	21,739,597
Deferred outflows of resources	97,937	-	46,088	-	144,025	46,088
Long-term liabilities outstanding	2,683,751	2,794,111	1,420,464	1,504,194	4,104,215	4,298,305
Other liabilities	689,188	275,189	315,736	174,790	1,004,924	449,979
Total Liabilities	3,372,939	3,069,300	1,736,200	1,678,984	5,109,139	4,748,284
Deferred inflows of resources	20,959	-	9,862	-	30,821	9,862
Net Position:						
Net investment in capital assets	8,134,190	8,288,343	6,053,605	6,084,071	14,187,795	14,372,414
Restricted	658,707	737,749	-	-	658,707	737,749
Unrestricted	836,441	1,228,604	503,751	652,546	1,340,192	1,881,150
Total Net Position	\$ 9,629,338	\$ 10,254,696	\$ 6,557,356	\$ 6,736,617	\$ 16,186,694	\$ 16,991,313

Governmental Activities

The City's governmental revenues increased by 6% (\$162,593) when compared to 2014.

The most significant governmental expense for the City was in public safety expense which consists of operations of the public safety department. Public safety expenses totaled \$799,114 in 2015. These expenses were offset to some extent by revenues from fines and forfeitures which totaled approximately \$123,000. Another significant governmental expense in 2015 was providing for the general government. General government expenses totaled \$625,188, and increase of 10% over 2014. The increase in general government expenses is due, in most part, to expenditures made for capital projects in 2015.

CITY OF HARLEM, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Business-Type Activities

Revenues from the City's business-type activities were \$1,450,243 for the year ended December 31, 2015, an increase of 4% over 2014. This increase is due mainly to an increase in service charges related to water and sewer services provided. Expenses for the City's business-type activities were \$1,550,158, comparable to 2014.

Governmental and business-type activities decreased the City's net position by \$123,024. A summary of this decrease is as follows:

Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program Revenues:						
Charges for services	\$ 618,745	\$ 595,527	\$ 1,450,243	\$ 1,393,876	\$ 2,068,988	\$ 1,989,403
Operating grants	6,362	10,473	-	-	6,362	10,473
Capital grants/ contributions	518,887	452,181	-	-	518,887	452,181
General Revenues:						
Taxes	958,782	869,375	-	-	958,782	869,375
Sales tax	677,807	666,802	-	-	677,807	666,802
Other	45,388	69,020	636	328	46,024	69,348
Total Revenues	<u>2,825,971</u>	<u>2,663,378</u>	<u>1,450,879</u>	<u>1,394,204</u>	<u>4,276,850</u>	<u>4,057,582</u>
Expenses:						
General government	625,188	567,123	-	-	625,188	567,123
Public safety	799,114	916,978	-	-	799,114	916,978
Sanitation	280,935	268,317	-	-	280,935	268,317
Fire	187,725	204,631	-	-	187,725	204,631
Public works	548,942	574,382	-	-	548,942	574,382
Community services	230,533	74,804	-	-	230,533	74,804
Health and welfare	9,572	14,392	-	-	9,572	14,392
Culture and recreation	39,555	50,214	-	-	39,555	50,214
Interest on long-term debt	128,152	134,736	-	-	128,152	134,736
Water and sewer	-	-	1,550,158	1,558,477	1,550,158	1,558,477
Total Expenses	<u>2,849,716</u>	<u>2,805,577</u>	<u>1,550,158</u>	<u>1,558,477</u>	<u>4,399,874</u>	<u>4,364,054</u>
Deficiency	(23,745)	(142,199)	(99,279)	(164,273)	(123,024)	(306,472)
Transfers	<u>(138,128)</u>	-	<u>138,128</u>	-	-	-
Change in net position	(161,873)	(142,199)	38,849	(164,273)	(123,024)	(306,472)
Net position, beginning	10,254,696	10,396,895	6,736,617	6,900,890	16,991,313	17,297,785
Change in accounting principle for pensions	(463,485)	-	(218,110)	-	(681,595)	-
Net position - beginning, as restated	<u>9,791,211</u>	<u>10,396,895</u>	<u>6,518,507</u>	<u>6,900,890</u>	<u>16,309,718</u>	<u>17,297,785</u>
Net position - ending	<u>\$ 9,629,338</u>	<u>\$ 10,254,696</u>	<u>\$ 6,557,356</u>	<u>\$ 6,736,617</u>	<u>\$ 16,186,694</u>	<u>\$ 16,991,313</u>

CITY OF HARLEM, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2015

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2015, the City had \$18.3 million (net of accumulated depreciation) of capital assets. This investment in capital assets includes police and fire equipment, buildings, park facilities, roads, and bridges. Major capital asset additions were infrastructure consisting of repaving of roads totaling approximately \$161,000 and the purchase of land totaling approximately \$163,000.

Capital Assets at Year End

	Governmental Activities	Business-Type Activities	Total
Land	\$ 714,819	\$ 40,277	\$ 755,096
Construction in progress	83,472	-	83,472
Buildings and improvements	6,258,543	184,100	6,442,643
Vehicle and equipment	1,385,806	416,449	1,802,255
Infrastructure	7,385,640	-	7,385,640
Utility system	-	12,648,681	12,648,681
	<u>15,828,280</u>	<u>13,289,507</u>	<u>29,117,787</u>
Less accumulated depreciation	(5,045,746)	(5,815,438)	(10,861,184)
Total	<u>\$ 10,782,534</u>	<u>\$ 7,474,069</u>	<u>\$ 18,256,603</u>

See the notes to financial statements for more detailed information on the capital asset activity.

Debt

At year end, the City had the following debt outstanding:

	2015	2014
Business-type:		
Notes payable - GEFA	\$ 1,420,464	\$ 1,504,194
Governmental:		
Note payable - BB&T Bank	2,683,751	2,794,111
	<u>\$ 4,104,215</u>	<u>\$ 4,298,305</u>

Current year activity consisted of scheduled principal and interest payments on long-term debt.

CITY OF HARLEM, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2015

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

General Fund Budgetary Highlights

For the year, actual revenues and expenditures were consistent with the amounts that were budgeted.

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials consider many factors when setting the fiscal year 2016 budget including: property tax rates, expected sales tax, insurance premium tax, and various fees that will be collected. Another factor is the economy. The local economy of the City remains strong. The City continues to experience stable economic conditions and a relatively stable 2016 tax digest will provide consistent tax revenue.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, 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 any questions about this report or need additional financial information, contact the Mayor, City of Harlem at 320 N. Louisville Street, Harlem, Georgia 30814.

CITY OF HARLEM, GEORGIA
STATEMENT OF NET POSITION

DECEMBER 31, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1,766,131	\$ 692,918	\$ 2,459,049
Receivables, net:			
Taxes	44,191	-	44,191
Accounts	248,320	75,586	323,906
Internal balances	25	(25)	-
Prepaid expenses	48,691	14,782	63,473
Restricted cash - capital projects	35,407	-	35,407
Capital Assets:			
Land	714,819	40,277	755,096
Construction in process	83,472	-	83,472
Depreciable, net of accumulated depreciation	9,984,243	7,433,792	17,418,035
Total Assets	12,925,299	8,257,330	21,182,629
DEFERRED OUTFLOWS OF RESOURCES			
Pension experience differences	20,006	9,415	29,421
Contributions to pension plan	77,931	36,673	114,604
Total Deferred Outflows of Resources	97,937	46,088	144,025
LIABILITIES			
Current Liabilities:			
Accounts payable	114,835	57,819	172,654
Retainage Payable	7,245	-	7,245
Accrued expenses	57,789	7,829	65,618
Other liabilities	3,470	-	3,470
Unearned revenue	5,915	1,800	7,715
Noncurrent Liabilities:			
Compensated absences	39,836	31,772	71,608
Due within one year	115,619	87,315	202,934
Due in more than one year	2,568,132	1,333,149	3,901,281
Net pension liability	460,098	216,516	676,614
Total Liabilities	3,372,939	1,736,200	5,109,139
DEFERRED INFLOWS OF RESOURCES			
Pension investment return	12,909	6,074	18,983
Changes in pension assumptions	8,050	3,788	11,838
Total Deferred Inflows of Resources	20,959	9,862	30,821
NET POSITION			
Net investment in capital assets	8,134,190	6,053,605	14,187,795
Restricted for:			
Economic development	132,976	-	132,976
Capital Projects	525,731	-	525,731
Unrestricted	836,441	503,751	1,340,192
Total Net Position	\$ 9,629,338	\$ 6,557,356	\$ 16,186,694

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

CITY OF HARLEM, GEORGIA
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2015

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government Functions/Programs							
Governmental Activities:							
General government	\$ 625,188	\$ 59,880	\$ -	\$ 518,887	\$ (46,421)	\$ -	\$ (46,421)
Public safety	799,114	123,465	-	-	(675,649)	-	(675,649)
Fire	187,725	-	-	-	(187,725)	-	(187,725)
Community services	230,533	-	6,362	-	(224,171)	-	(224,171)
Health and welfare	9,572	-	-	-	(9,572)	-	(9,572)
Public works (highways and streets)	548,942	-	-	-	(548,942)	-	(548,942)
Culture and recreation	39,555	30,068	-	-	(9,487)	-	(9,487)
Sanitation	280,935	405,332	-	-	124,397	-	124,397
Interest	128,152	-	-	-	(128,152)	-	(128,152)
Total Governmental Activities	<u>2,849,716</u>	<u>618,745</u>	<u>6,362</u>	<u>518,887</u>	<u>(1,705,722)</u>	<u>-</u>	<u>(1,705,722)</u>
Business-type Activities:							
Water	1,550,158	1,450,243	-	-	-	(99,915)	(99,915)
Total Business-type Activities	<u>1,550,158</u>	<u>1,450,243</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(99,915)</u>	<u>(99,915)</u>
Total Primary Government	<u>\$ 4,399,874</u>	<u>\$ 2,068,988</u>	<u>\$ 6,362</u>	<u>\$ 518,887</u>	<u>(1,705,722)</u>	<u>(99,915)</u>	<u>(1,805,637)</u>
General Revenues:							
Property taxes					593,932	-	593,932
Sales taxes					677,807	-	677,807
Other taxes					364,850	-	364,850
Payments in lieu of taxes					4,793	-	4,793
Unrestricted investment earnings					2,112	333	2,445
Loss on sale of capital assets					(4,208)	303	(3,905)
Other income					42,691	-	42,691
Total General Revenues					<u>1,681,977</u>	<u>636</u>	<u>1,682,613</u>
Transfers					(138,128)	138,128	-
Total General Revenues & Transfers					<u>1,543,849</u>	<u>138,764</u>	<u>1,682,613</u>
Change in Net Position					(161,873)	38,849	(123,024)
Net Position, Beginning of Year - as previously reported					10,254,696	6,736,617	16,991,313
Change in accounting principle for pensions					(463,485)	(218,110)	(681,595)
Net Position, Beginning of Year - as restated					9,791,211	6,518,507	16,309,718
Net Position, End of Year					<u>\$ 9,629,338</u>	<u>\$ 6,557,356</u>	<u>\$ 16,186,694</u>

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

CITY OF HARLEM, GEORGIA
GOVERNMENTAL FUNDS
BALANCE SHEET

DECEMBER 31, 2015

	General	SPLOST 2011-2016 Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,192,290	\$ 359,292	\$ 214,549	\$ 1,766,131
Taxes receivable	108,114	-	-	108,114
Accounts receivable	64,725	114,405	5,267	184,397
Prepaid expenses	48,691	-	-	48,691
Restricted cash	35,407	-	-	35,407
Due from other funds	25	-	-	25
Total Assets	\$ 1,449,252	\$ 473,697	\$ 219,816	\$ 2,142,765
LIABILITIES				
Accounts payable	\$ 109,794	\$ 5,041	\$ -	\$ 114,835
Accrued salaries	5,121	-	130	5,251
Retainage Payable	-	7,245	-	7,245
Other liabilities	9,255	-	-	9,255
Total Liabilities	124,170	12,286	130	136,586
FUND BALANCE				
Nonspendable:				
Prepaid expenditures	48,691	-	-	48,691
Restricted for:				
Capital projects	35,407	461,411	64,320	561,138
Economic development	-	-	132,976	132,976
Committed to:				
Museum building repairs	26,076	-	-	26,076
Capital outlay	-	-	14,879	14,879
Assigned to:				
Public safety	-	-	7,511	7,511
Unassigned	1,214,908	-	-	1,214,908
Total Fund Balance	1,325,082	461,411	219,686	2,006,179
Total Liabilities and Fund Balance	\$ 1,449,252	\$ 473,697	\$ 219,816	\$ 2,142,765

CITY OF HARLEM, GEORGIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

DECEMBER 31, 2014

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

Ending fund balances - Governmental funds	<u>\$ 2,006,179</u>
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds	
Historical cost of capital assets	15,828,281
Accumulated depreciation	<u>(5,045,747)</u>
	<u>10,782,534</u>
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflows of resources related to pensions	97,937
Deferred inflows of resources related to pensions	<u>(20,959)</u>
	76,978
Certain liabilities, including notes payable and accrued interest, which are not due and payable in the current period, are therefore, not reported in the funds	
Notes payable	(2,683,751)
Compensated absences	(39,836)
Net pension liability	(460,098)
Accrued interest	<u>(52,668)</u>
	<u>(3,236,353)</u>
Net position of governmental activities	<u><u>\$ 9,629,338</u></u>

CITY OF HARLEM, GEORGIA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2015

	General	SPLOST 2011-2016 Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUE				
Taxes	\$ 960,536	\$ -	\$ -	\$ 960,536
Permits and licenses	55,680	-	-	55,680
Fines and forfeitures	123,465	-	11,358	134,823
Intergovernmental revenue	676,653	390,981	127,709	1,195,343
Charges for services	406,632	-	-	406,632
Uses of money/property	-	197	113	310
Culture and recreation	29,318	-	-	29,318
Grants	11,155	-	-	11,155
Other	32,174	-	-	32,174
Total Revenue	<u>2,295,613</u>	<u>391,178</u>	<u>139,180</u>	<u>2,825,971</u>
EXPENDITURES				
Current Operating:				
General government	633,424	-	24,563	657,987
Public safety	717,079	-	95	717,174
Fire	155,290	-	-	155,290
Public works (highways and streets)	314,454	-	-	314,454
Health and welfare	6,557	-	-	6,557
Culture and recreation	39,555	23,265	-	62,820
Sanitation	280,935	-	-	280,935
Community development	207,774	-	-	207,774
Capital outlay	-	83,472	160,781	244,253
Debt service - principal	110,360	-	-	110,360
Debt service - interest	130,318	-	-	130,318
Total Expenditures	<u>2,595,746</u>	<u>106,737</u>	<u>185,439</u>	<u>2,887,922</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(300,133)</u>	<u>284,441</u>	<u>(46,259)</u>	<u>(61,951)</u>
OTHER FINANCING SOURCES (USES)				
Sale of assets	4,208	-	-	4,208
Transfers in	243,571	-	-	243,571
Transfers (out)	-	(271,239)	-	(271,239)
Total Other Financing Sources (Uses)	<u>247,779</u>	<u>(271,239)</u>	<u>-</u>	<u>(23,460)</u>
Net change in fund balances	(52,354)	13,202	(46,259)	(85,411)
Fund balance, beginning of year	1,377,436	448,209	265,945	2,091,590
Fund balance, end of year	<u>\$ 1,325,082</u>	<u>\$ 461,411</u>	<u>\$ 219,686</u>	<u>\$ 2,006,179</u>

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

CITY OF HARLEM, GEORGIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2015

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

Net change in fund balances - total governmental funds \$ (85,411)

Governmental funds report capital outlay as expenditures.

However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Current year capital asset additions	\$ 455,869	
Net book value of disposals and transfers	(213,463)	
Depreciation expense	<u>(506,967)</u>	
		(264,561)

The issuance of long-term debt (e.g., notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction however has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term related accounts.

Notes payable	110,360	
Compensated absences	(4,792)	
Accrued interest	<u>2,166</u>	
		<u>107,734</u>

In the fund financials, contributions to pension plans are expensed when paid.

In the statement of activities, pension expense is recognized for the change in the City's proportionate share of the collective net pension liability and related deferred inflows and outflows

		<u>80,365</u>
Change in net position of governmental activities	\$	<u><u>(161,873)</u></u>

CITY OF HARLEM, GEORGIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND**

FOR THE YEAR ENDED DECEMBER 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 850,500	\$ 973,274	\$ 960,536	\$ (12,738)
Permits and licenses	43,016	55,678	55,680	2
Fines and forfeitures	132,000	123,464	123,465	1
Intergovernmental	672,000	676,502	676,653	151
Charges for services	384,550	406,632	406,632	-
Use of money/property	1,540	1,998	-	(1,998)
Culture and recreation	45,000	29,318	29,318	-
Grants	17,000	11,154	11,155	1
Other	27,450	30,177	32,174	1,997
Total Revenues	<u>2,173,056</u>	<u>2,308,197</u>	<u>2,295,613</u>	<u>(12,584)</u>
EXPENDITURES				
General government	474,315	633,749	633,424	325
Public safety	680,304	717,107	717,079	28
Fire	154,921	155,364	155,290	74
Public works, highways	333,669	315,066	314,454	612
Health and welfare	17,605	6,576	6,557	19
Culture and recreation	46,364	40,426	39,555	871
Sanitation	271,800	280,936	280,935	1
Community services	194,075	207,890	207,774	116
Debt service - principal	110,362	110,362	110,360	2
Debt service - interest	130,319	130,319	130,318	1
Total Expenditures	<u>2,413,734</u>	<u>2,597,795</u>	<u>2,595,746</u>	<u>2,049</u>
Revenue over (under) expenditures	<u>(240,678)</u>	<u>(289,598)</u>	<u>(300,133)</u>	<u>(10,535)</u>
OTHER FINANCING SOURCES				
Sale of assets	-	4,208	4,208	-
Fund balance appropriations	240,678	44,712	-	(44,712)
Transfers in	-	240,678	243,571	2,893
Total Other Financing Sources	<u>240,678</u>	<u>289,598</u>	<u>247,779</u>	<u>(41,819)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(52,354)</u>	<u>\$ (52,354)</u>
Fund balance, beginning of year			<u>1,377,436</u>	
Fund balance, end of year			<u>\$ 1,325,082</u>	

CITY OF HARLEM, GEORGIA
STATEMENT OF NET POSITION
PROPRIETARY FUND
WATER AND SEWER FUND

DECEMBER 31, 2015

ASSETS

Current Assets:

Cash and cash equivalents	\$ 692,918
Accounts receivable, net of allowance	75,586
Prepaid expenses	14,782
Total Current Assets	783,286

Capital Assets:

Land	40,277
Depreciable, net of accumulated depreciation	7,433,792
Total Capital Assets	7,474,069
Total Assets	8,257,355

DEFERRED OUTFLOWS OF RESOURCES

Pension experience differences	9,415
Contributions to pension plan	36,673
Total Deferred Outflows of Resources	46,088

LIABILITIES

Current Liabilities:

Accounts payable	57,819
Accrued expenses	7,829
Due to General Fund	25
Compensated absences	31,772
Unearned income	1,800
Construction loan payable - GEFA - current portion	87,315
Total Current Liabilities	186,560

Noncurrent liabilities:

Net pension liability	216,516
Construction loan payable - GEFA	1,333,149
Total Noncurrent Liabilities	1,549,665
Total Liabilities	1,736,225

DEFERRED INFLOWS OF RESOURCES

Pension investment return	6,074
Changes in pension assumptions	3,788
Total Deferred Inflows of Resources	9,862

NET POSITION

Net investment in capital assets	6,053,605
Unrestricted	503,751
Total Net Position	\$ 6,557,356

CITY OF HARLEM, GEORGIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
WATER AND SEWER FUND

FOR THE YEAR ENDED DECEMBER 31, 2015

Operating Revenues:	
Water and sewer sales	\$ 1,367,942
Service charges/penalties	60,701
Other revenues	21,600
Total Operating Revenues	<u>1,450,243</u>
Operating Expense:	
Salaries and wages	367,796
Insurance and pension cost	75,420
Utilities	84,331
Maintenance and repair	158,174
Chemicals	35,554
Postage and supplies	25,945
Miscellaneous	46,442
County water and sewerage charges	291,518
Depreciation	295,891
Professional fees	86,064
Testing and training	10,694
Vehicle expense	10,752
Total Operating Expenses	<u>1,488,581</u>
Operating Loss	(38,338)
Non-operating Revenue (Expense):	
Interest income	333
Gain on sale of asset	303
Interest expense	(61,577)
Total Non-operating Expenses	<u>(60,941)</u>
Loss before transfers and contributions	(99,279)
Transfers in	27,668
Capital contributions	110,460
Total transfers and capital contributions	<u>138,128</u>
Change in net position	38,849
Net position, beginning of year, as previously reported	6,736,617
Change in accounting principle for pensions	(218,110)
Net position, beginning of year, as restated	<u>6,518,507</u>
Total net position, end of year	<u><u>\$ 6,557,356</u></u>

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

CITY OF HARLEM, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
WATER AND SEWER FUND

FOR THE YEAR ENDED DECEMBER 31, 2015

Cash flows from operating activities:

Cash received from customers and others	\$ 1,403,131
Cash paid for goods and services	(732,269)
Cash paid to or on behalf of employees	(520,690)
Cash received from other funds	117
Net cash from operating activities	<u>150,289</u>

Cash flows from capital and related financing activities:

Principal paid on long-term debt	(83,730)
Interest paid on long-term debt	(61,577)
Net cash from capital and related financing activities	<u>(145,307)</u>

Cash flows from investing activities:

Purchase of capital assets	(43,567)
Proceeds from sale of capital assets	303
Interest income received	333
Net cash from investing activities	<u>(42,931)</u>

Net change in cash and cash equivalents	(37,949)
Cash and cash equivalents, beginning of year	730,867
Cash and cash equivalents, end of year	<u>\$ 692,918</u>

Reconciling operating loss to net cash from operating activities:

Operating loss	\$ (38,338)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	295,891
Net change in assets and liabilities:	
Accounts receivable	10,343
Prepaid expenses	(4,334)
Due to/from other funds	117
Decrease in accounts and other payables	(18,115)
Customer deposits and unearned income	(57,455)
Net pension changes	(37,820)
Net cash from operating activities	<u>\$ 150,289</u>

Schedule of Noncash Investing, Capital and Financing Activities:

During the year ended December 31, 2015, the Water and Sewer fund received a building with a net book value of approximately \$110,000, for use by the Water and Sewer fund. The building was previously used as a fire station and, therefore, recorded as capital assets in governmental activities.

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 1—Summary of significant accounting policies

The accounting and reporting policies of the City of Harlem, Georgia (“City”) reflected in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments.

Introduction - The City complies with Generally Accepted Accounting Principles (“GAAP”) pronouncements.

A. Financial reporting entity - basis of presentation

Primary government - The City was created in 1870. The City provides the following services: public safety, streets and highways, public improvements, culture and recreation, and general and administrative services. The accompanying financial statements present the City's primary government funds for which the City is financially accountable. The City has no component units for which the City is considered to be financially accountable.

B. Government-wide and fund financial statements

The government-wide financial statements include the statement of net position and statement of activities and report information on all of the activities of the City. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements, if applicable. Governmental activities are supported mainly by taxes and intergovernmental revenues.

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

Separate fund financial statements are provided for governmental funds and proprietary funds. Each major fund is reported in a separate column in the fund financial statements. The combined amounts for these funds are reflected in a single column in the fund balance sheets and statements of revenues, expenditures, and changes in fund balances.

CITY OF HARLEM, GEORGIA
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 1—Summary of significant accounting policies (continued)

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of timing and related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Major revenue sources that are susceptible to accrual are property taxes, sales taxes, insurance premium taxes, and intergovernmental revenue. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The government reports the following major governmental funds:

The General Fund is the general operating fund of the City and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, charges for services, intergovernmental revenues and investment of idle funds. Primary expenditures are for general administration, public safety, public works, streets, recreation, and capital acquisition.

Sales Tax 2011-2016 Fund is a capital project fund used to account for monies received from intergovernmental revenues (i.e., Special Purpose Sales Taxes) for various City projects.

The government reports the following nonmajor governmental funds:

The Technology Fund is a capital projects fund that accounts for the financial resources to be used for the information technology projects specific for the operations of the City's courts.

The Community Development Block Grant Program ("CDBG") Fund is a capital project fund which is used to account for financial resources to be used for the construction of a Community Services Building which will house the Head Start Program. The CDBG is funded by the Georgia Department of Community Affairs.

The T-SPLOST Fund is a capital project fund used to account for monies received from intergovernmental revenues (i.e., Special Purpose Sales Taxes) for various City infrastructure projects.

The Sales Tax 2006-2010 Fund is a capital project fund used to account for monies received from intergovernmental revenues (i.e., Special Purpose Sales Taxes) for various City projects.

LMIG Fund is a capital project fund used to account for grant funds received for local maintenance and improvement projects.

Confiscation Fund is a special revenue fund used to account for funds received from seizures and forfeitures by the Sherriff's department.

CITY OF HARLEM, GEORGIA
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 1—Summary of significant accounting policies (continued)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

The Proprietary Fund is accounted for using the accrual basis of accounting as follows:

Revenues are recognized when earned, and expenses are recognized when the liabilities are incurred. On the proprietary funds financial statements, operating revenues are those that flow directly from the operations of the activity, i.e., charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items such as investment income and interest expense that are not a result of the direct operations of the activity.

The City reports the following proprietary fund:

Water and Sewerage Fund is used to account for water and sewer operations as well as construction and maintenance of water and sewerage projects.

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments. State statutes and the City's official Investment Policy authorize the City to invest in obligations of the U.S. Treasury, commercial paper, repurchase agreements, banker's acceptances, money market mutual funds, and direct obligations of the state of Georgia.

As of December 31, 2015, the City did not hold any investments. All investment income is recognized as revenue in the appropriate fund's statement of activity of revenues, expenditures, and changes in fund balance.

2. Receivables and payables

Accounts Receivable - Property tax receivables and revenues for property taxes are reflected in the government-wide statements based on the full accrual method of accounting. Property tax receivables for prior year's levy are shown net of an allowance for uncollectibles.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the City. Program grants are recorded as receivables and revenues at the time all eligibility requirements established by the provider have been met.

CITY OF HARLEM, GEORGIA
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 1—Summary of significant accounting policies (continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

2. Receivables and payables (continued)

Reimbursements for services performed, including billable services for certain contracts, are recorded as receivables and revenues when they are earned in the government-wide statements. Revenues received in advance of the costs being incurred are recorded as deferred revenue in the fund statements. Receivables are shown net of an allowance for uncollectibles.

3. Inventories and prepaid expenses

Inventories of the General and Proprietary Funds are accounted for as expenditures at the time of purchase and are not inventoried at year-end due to the amounts being immaterial. Expenditures for insurance and similar services extending over more than one accounting period are allocated between accounting periods. Reported prepaid expenses are equally offset by a fund balance reserve which indicates that they do not constitute “available spendable resources”.

4. Capital assets - primary government

Capital assets, which include land, buildings, and infrastructure assets, are reported in the government-wide financial statements. Capital assets such as vehicles, furniture, and equipment are defined as assets with a cost of \$2,500 or more. Infrastructure assets include city-owned roads and bridges. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets, including vehicles, furniture, equipment and infrastructure are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Furniture & fixtures	5-7
General equipment	5-10
Trucks	4-7
Cars	4-5
Computer hardware	3-5
Infrastructure	30
Utility systems	5-40

CITY OF HARLEM, GEORGIA
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 1—Summary of significant accounting policies (continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

5. Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until that time.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

6. Compensated absences and post-retirement benefits

The vacation policy of the City provides for the accumulation of up to a certain amount of earned vacation leave with such leave being fully vested when earned. For the City's government-wide financial statements and proprietary fund financial statements, an expense and a liability for compensated absences and the salary-related payments are recorded when leave is earned. The City has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements. No accrual has been established for accumulated sick leave of employees since it is the City's policy to record the cost of sick leave only when it is used.

The City has established a single-employer defined benefit other post-employment benefit plan (the "OPEB Plan"). The OPEB Plan states that these retirees shall be entitled after separation from City employment to continue to participate in and be covered by the health insurance plan of the City with the same benefits as those offered to active employees provided that such retiree must have served at least 25 years of employment and pay 30% of the premium associated with such participation, and enroll in a Medicare health insurance plan when the retiree becomes eligible, at which time the retiree will no longer participate in the City's OPEB Plan. The City has determined that the effects of the OPEB Plan are immaterial to the basic financial statements.

7. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

8. Unemployment compensation benefits

The City is the reimbursing employer for unemployment compensation benefits. Reimbursements are made on the basis of regular billings received from the Georgia Unemployment Commission.

CITY OF HARLEM, GEORGIA
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 1—Summary of significant accounting policies (continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

9. Net position/fund balance

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

- *Nonspendable* – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- *Restricted* – Fund balances are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.
- *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 of Harlem County Council (the “Council”) through the adoption of a formal policy. Only the Council may modify or rescind the commitment.
- *Assigned* – Fund balances are reported as assigned when amounts are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. Through policy, authorization to assign fund balance remains with the Council.
- *Unassigned* – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance in the general fund only. Negative unassigned fund balances may be reported in all governmental funds.

Flow assumptions

When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, the City’s policy is to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, the City’s policy is to use fund balance in the following order: 1) committed, 2) assigned, and 3) unassigned.

Net position

Net position represents the difference between assets and liabilities in reporting which utilizes the economic resources measurement focus. Net position is classified in the following Categories:

- *Net Investment in Capital Assets* - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduces this category.
- *Restricted Net Position* - This category represents external restrictions imposed by creditors, grantors, contributors, laws, or regulations of other governments and restrictions imposed by law through Constitutional provision enabling legislation.
- *Unrestricted Net Position* - This category represents the net position of the City which is not restricted for any project or other purpose. The City first applies unrestricted resources when an expense is incurred for the purposes for which both restricted and unrestricted net positions are available.

CITY OF HARLEM, GEORGIA
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 1—Summary of significant accounting policies (continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

10. Use of estimates

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

E. Stewardship, compliance and accountability

1. Budgetary information

During the year proceeding the budget year, the City follows the administrative and fiscal procedures below in establishing the budgetary data reflected in the accompanying financial statements of the General Fund:

In October, the City's clerk and other department heads prepare a tentative budget to be given to the mayor for review. After the review is completed, the City publishes notice of a public hearing on the proposed budget. The hearing is held a week from the date the notice is published.

After the public hearing has been held, the budget is voted on and approved at the first City Council meeting in December.

Changes in and amendments to the adopted budget are approved during the course of the year, as long as reserves are available to fund these modifications.

The accompanying statement of revenues, expenditures, and changes in fund balances, budget (budgetary basis) and actual, for the General Fund, presents a comparison of the legally adopted budget with actual operating results on a budgetary basis. The City's budget is prepared using GAAP. Encumbrance accounting, under which purchase orders and contracts are recorded in order to reserve that portion of the applicable appropriation, is not used by the City.

2. Fund balance deficit

As of December 31, 2015, there were no funds with a deficit fund balance.

CITY OF HARLEM, GEORGIA
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 2—Deposits, investments, and investment policies

A. Primary government

For the purpose of the statement of cash flow, the City's reporting entity considers highly liquid debt instruments with an original maturity of three months or less when purchased to be cash equivalents. The carrying amount of cash is a reasonable estimate of fair value. Investment fair values are based on quoted market prices or dealer quotes.

B. Custodial credit risk - deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. It is the City's policy for cash to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insured Corporation insurance. At December 31, 2015, the carrying amount of the City's deposits was \$2,494,456 and is classified as cash and cash equivalents and restricted cash in the accompanying statement of net position. At December 31, 2015, \$2,123,220 of the City's approximate \$2,585,212 bank balance was exposed to custodial risk as follows:

Uninsured and collateralized with securities held by the financial institution, by its trust department or agency, but not in the City's name	\$2,123,220
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C. Investments

The City can invest money subject to its control and jurisdiction in obligations of the United States, bonds or certificates of indebtedness of the state of Georgia, certificates of deposits of banks which have deposits insured by the Federal Deposit Insurance Corporation, and other legal investments. All investments held by the City are in accordance with this policy.

Note 3—Property taxes and other receivables

A. Receivables

The Columbia County Tax Commissioner bills and collects property taxes, then remits the City its respective share of property taxes. Property taxes for 2015 were levied on September 15, 2015 and were due November 15, 2015. The unpaid taxes became a lien 30 days after the due date. Unpaid property taxes received within 60 days of the year end are recognized and recorded as revenue.

The City receives approximately 4% of a 1% local option sales tax on all retail sales within the City. The proceeds of such tax collected each year are used to reduce, on a dollar for dollar basis, the millage equivalent amount of property taxes to be levied in the subsequent year. Local option sales tax collections collected during the year ended December 31, 2015, totaled \$676,653.

CITY OF HARLEM, GEORGIA
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 3—Property taxes and other receivables, continued

The City also receives approximately 2.7% of 1% Special Local Option Sales Tax (“SPLOST”) funds to be used as designated and approved after public hearings. The approved expenditures are generally for capital projects in the City. The SPLOST received during the year ended December 31, 2015, totaled \$390,981.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied prior to November 15 and are delinquent after that date.

Receivables as of year-end for the governmental activities and business-type activities, individual major governmental funds, including the applicable allowances for uncollectible accounts, as required by GAAP are as follows:

Receivables	Governmental Activities	Business-type Activities	Total
Taxes	\$ 44,191	\$ -	\$ 44,191
Accounts	248,320	176,346	424,666
Gross receivables	292,511	176,346	468,857
Less, allowance for uncollectible	-	(100,760)	(100,760)
Net Total Receivable	\$ 292,511	\$ 75,586	\$ 368,097

CITY OF HARLEM, GEORGIA
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 4—Capital assets

A. General government

A summary of changes in capital assets follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 598,216	\$ 116,603	\$ -	\$ 714,819
Construction in progress	-	83,472	-	83,472
Total Capital Assets, not being depreciated	<u>598,216</u>	<u>200,075</u>	<u>-</u>	<u>798,291</u>
Capital assets, being depreciated:				
Infrastructure	7,224,859	160,781	-	7,385,640
Buildings and improvements	6,507,819	72,382	(321,658)	6,258,543
Vehicles and equipment	1,564,580	22,631	(201,404)	1,385,807
	<u>15,297,258</u>	<u>255,794</u>	<u>(523,062)</u>	<u>15,029,990</u>
Less accumulated depreciation:				
Infrastructure	(2,625,040)	(243,269)	-	(2,868,309)
Buildings and improvements	(1,221,255)	(162,839)	114,079	(1,270,015)
Vehicles and equipment	(1,002,084)	(100,859)	195,520	(907,423)
	<u>(4,848,379)</u>	<u>(506,967)</u>	<u>309,599</u>	<u>(5,045,747)</u>
Total capital assets, being depreciated, net	<u>10,448,879</u>	<u>(251,173)</u>	<u>(213,463)</u>	<u>9,984,243</u>
Governmental activities capital assets, net	<u>\$ 11,047,095</u>	<u>\$ (51,098)</u>	<u>\$ (213,463)</u>	<u>\$ 10,782,534</u>

Depreciation expense for the year ended December 31, 2015, was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 60,286
Public safety	120,820
Fire	40,617
Community services	31,782
Public works	<u>253,462</u>
Total depreciation expense – governmental activities	<u>\$ 506,967</u>

CITY OF HARLEM, GEORGIA
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 4—Capital assets (continued)

B. Proprietary fund

A summary of changes in business-type activities capital assets follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated				
Land	\$ 40,277	\$ -	\$ -	\$ 40,277
Total Capital Assets, not being depreciated	<u>40,277</u>	<u>-</u>	<u>-</u>	<u>40,277</u>
Capital assets, being depreciated				
Building	-	110,460	-	110,460
Vehicles and equipment	314,957	13,774	-	328,731
Utility systems	12,648,681	87,718	-	12,736,399
Total capital assets, being depreciated, net	<u>12,963,638</u>	<u>211,952</u>	<u>-</u>	<u>13,175,590</u>
Less accumulated depreciation:				
Building	-	(4,603)	-	(4,603)
Vehicles and equipment	(298,172)	(38,711)	-	(336,883)
Utility systems	(5,117,478)	(282,834)	-	(5,400,312)
Total accumulated depreciation	<u>(5,415,650)</u>	<u>(326,148)</u>	<u>-</u>	<u>(5,741,798)</u>
Total capital assets, being depreciated, net	<u>7,547,988</u>	<u>(114,196)</u>	<u>-</u>	<u>7,433,792</u>
Capital assets, net	<u>\$ 7,588,265</u>	<u>\$ (114,196)</u>	<u>\$ -</u>	<u>\$ 7,474,069</u>

CITY OF HARLEM, GEORGIA
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 5—Long-term debt

The following is a summary of long-term debt activity for the year ended December 31, 2015:

	Balance	2015		Balance	Due Within One Year
	January 1, 2015	Additions	Reductions	December 31, 2015	
Governmental activities:					
Notes payable	\$ 2,794,111	\$ -	\$ 110,360	\$ 2,683,751	\$ 115,619
Compensated absences	35,044	39,836	35,044	39,836	39,836
Governmental activities long-term liabilities	<u>\$ 2,829,155</u>	<u>\$ 39,836</u>	<u>\$ 145,404</u>	<u>\$ 2,723,587</u>	<u>\$ 155,455</u>
Business-type activities:					
2005 GEFA loan	\$ 1,504,194	\$ -	\$ 83,730	\$ 1,420,464	\$ 87,315
Compensated absences	29,283	31,772	29,283	31,772	31,772
Business-type activities long-term liabilities	<u>\$ 1,533,477</u>	<u>\$ 31,772</u>	<u>\$ 113,013</u>	<u>\$ 1,452,236</u>	<u>\$ 119,087</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

A. Governmental activities debt

1. Notes payable (continued)

In August 2011, the City received a twenty-year loan from BB&T Bank for renovations to the Public Safety Facility as well as the addition of a new fire station, secured by the property financed. The interest rate on the loan is 4.71%. The first interest payment was due in February 2012.

Annual debt service requirements as of December 31, 2015, are as follows:

	Principal	Interest	Total Payment
2016	\$ 115,620	\$ 125,059	\$ 240,679
2017	121,130	119,549	240,679
2018	126,902	113,777	240,679
2019	132,949	107,730	240,679
2020	139,285	101,394	240,679
2021-2025	802,545	400,849	1,203,394
2026-2030	1,012,884	190,509	1,203,393
2031	232,436	8,242	240,678
	<u>\$ 2,683,751</u>	<u>\$ 1,167,109</u>	<u>\$ 3,850,860</u>

CITY OF HARLEM, GEORGIA
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 5—Long-term debt (continued)

B. Business-type activities debt

1. Notes payable

In 2005, the City applied for and received a construction loan from GEFA for improvements to the water and sewer system. The loan, which has an interest rate of 4.2%, consists of 240 installments of \$12,109.

Annual debt service requirements as of December 31, 2015, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2016	\$ 87,315	\$ 57,991	\$ 145,306
2017	91,053	54,253	145,306
2018	94,952	50,354	145,306
2019	99,018	46,288	145,306
2020	103,258	42,049	145,307
2021-2025	586,518	140,013	726,531
2026-2028	358,350	20,614	378,964
	<u>\$ 1,420,464</u>	<u>\$ 411,562</u>	<u>\$ 1,832,026</u>

Note 6—Interfund receivables/transfers

As of December 31, 2015, \$25 was due to the Water and Sewerage Fund from the General Fund. Additionally, the SPLOST 2011-2016 transferred \$243,571 to the General Fund for the payment of a BB&T loan and capital assets purchased totaling \$27,668 to the Water and Sewer Fund.

Interfund receivables and payables result from timing differences related to charges for services or reimbursable expenses. The City expects to repay these interfund balances within one year.

Note 7—Risk management

The City carries property and liability insurance through commercial insurance companies. Annual premiums are based on the amount of coverage and policy deductibles requested by the City.

A. Risk pool

The City is exposed to various risks of losses related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Agency (“GIRMA”) for property and liability insurance and the Worker’s Compensation Self-Insurance Fund (“WCSIF”), public entity risk pools currently operating as common risk management, and insurance programs for member local governments. The Georgia Municipal Association (“GMA”) administers both risk pools.

CITY OF HARLEM, GEORGIA
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 7—Risk management (continued)

As part of their agreement, the City must assist and cooperate in the defense and settlement of claims against the City. The City must furnish full cooperation to the pools' attorneys, claims adjusters, and any agent or independent contractor of the pools. In addition, the City must report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay claim for loss or injuries to municipal property or injuries to persons or property when such loss or injury is within the scope of the protection of a fund or funds in which the City participates.

The fund is to defend and protect the members of the funds against liability or loss as prescribed in the member governments' contracts and in accordance with the workers' compensation laws of Georgia. The funds are to pay all costs taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation, or defense.

There were no significant reductions in insurance coverage from the prior year, and there have been no settlements that exceed the City's insurance coverage.

Note 8—Pension Plan

Plan Description

The City Council approved the adoption of a defined benefit pension plan, the City of Harlem Retirement Plan (the "Plan"), covering all full-time employees in 1987, and closed entry to the plan to new participants as of December 17, 2012. The Plan is administered by the Georgia Municipal Employees Benefit System ("GMEBS"), a statewide, agent multiple-employer defined benefit pension plan that acts as a common investment and administrative agent for cities in the state of Georgia. GMEBS handles all administrative and investment functions relative to the Plan. All full-time City employees prior to December 17, 2012 were eligible to participate in the Plan after one year of service. Benefits vest after ten years of service. City employees may retire at age 55 under the early retirement provisions if they have completed ten years of service. Normal retirement is at age 60. Benefits are payable for life in an amount of covered compensation plus 2% of Participant Final Average Earnings, multiplied by years of service. The Plan also provides death and disability benefits. These benefit provisions and all other requirements are established by the GMEBS Pension Trust and Adoption Agreement executed by the City. The GMEBS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to GMEBS, 201 Pryor Street, SW, Atlanta, Georgia 30303.

Plan Membership

As of July 1, 2015, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	13
Inactive plan members entitled to, but not receiving benefits	17
Active plan members	24
	<hr/>
	54
	<hr/>

CITY OF HARLEM, GEORGIA
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 8—Pension Plan (continued)

Contributions

The Plan is subject to minimum funding standards of the Georgia Public Retirement Systems Standards law. The Board of Trustees of GMEBS has adopted a recommended actuarial funding policy for the Plan which meets state minimum requirements and will accumulate sufficient funds to provide the benefits under the plan. The funding policy for the Plan is to contribute an amount equal to or greater than the actuarially recommended contribution rate. This rate is based on the estimated amount necessary to finance the costs of benefits earned by the Plan members during the year, with an additional amount to finance any unfunded accrued liability. For the year ended December 31, 2015, the City's contribution rate was 19.51% of annual payroll. City contributions to the Plan were \$152,805 for the year ended December 31, 2015.

Net Pension Liability

The City's net pension liability was measured as of March 31, 2015, which would make it applicable to the fiscal year beginning January 1, 2015 and ending December 31, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015.

Actuarial Assumptions

The mortality and economic actuarial assumptions used in the July 1, 2015 valuation were approved GMEBS Board of Trustees in December 2014 based on the results of an actuarial experience study for the period January 1, 2010 through June 30, 2014. The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Net investment rate of return	7.75%
Projected salary increases	3.25%
Cost of living adjustment	2.00%

Mortality rates for the valuation period were based on the RP-2000 Mortality Tables with sex-distinct rates, set forward to years for males and one year for females. The RP-2000 mortality tables were determined to contain sufficient provision appropriate to reasonably reflect future mortality improvement, based on a four-year review of mortality experience for the period January 1, 2010 to June 30, 2014. Mortality experience will be reviewed periodically and updated if necessary.

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 target asset allocation percentage and by adding expected inflation. Best estimates are arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of March 31, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Long-Term Nominal Real Rate of Return
Domestic equity	50%	5.95%	9.20%
International equity	15%	6.45%	9.70%
Fixed income	25%	1.55%	4.80%
Real estate	10%	3.75%	7.00%
Total	100%		

CITY OF HARLEM, GEORGIA
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 8—Pension Plan (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to actuarially determined contribution rates assumed that City contributions will be made at rates equal to the actuarial determined rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all of the projected benefit payments to determine the total pension liability.

The following presents the net pension liability of the City, calculated using the discount rate of 7.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current year.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's net pension liability	\$937,603	\$676,614	\$459,114

Changes in the Net Pension Liability

The changes in the components of the net pension liability for the City for the year ended December 31, 2015 were as follows:

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 03/31/2014	\$1,915,789	\$1,201,435	\$714,354
Changes for the year:			
Service cost	62,619	-	62,619
Interest	144,614	-	144,614
Differences between expected and actual experience	44,129	-	44,129
Contributions – employer	-	160,035	(160,035)
Contributions – employee	-	-	-
Net investment income	-	118,891	(118,891)
Benefit payments, including refunds of employee contributions	(99,611)	(99,611)	-
Administrative expense	-	(7,582)	7,582
Other	(17,758)	-	(17,758)
Net changes	133,993	171,733	(37,740)
Balances at March 31, 2015	\$2,049,782	\$1,373,168	\$676,614

The required schedule of changes in the City's net pension liability and related ratios on pages 38-39 presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the total pension liability.

CITY OF HARLEM, GEORGIA
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 8—Pension Plan (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, the City recognized pension expense of \$123,697. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 29,421	\$ -
Changes of assumptions	-	(11,838)
Net difference between projected and actual earnings on Plan investments	-	(18,983)
City contributions subsequent to the measurement date	<u>114,604</u>	<u>-</u>
Total	<u>\$ 144,025</u>	<u>\$ (30,821)</u>

City contributions subsequent to the measurement date of \$114,604 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	
2016	\$ 4,045
2017	4,045
2018	(4,745)
2019	(4,745)
Total	<u>\$ (1,400)</u>

Note 9—Other Retirement Plans

In 2011, the City Council approved the adoption of “The Georgia Municipal Association 457(b) Deferred Compensation Plan” (the “457(b) Plan”). The 457(b) Plan allows employees to voluntarily supplement their retirement savings through the deferral of income before it is taxed. All employees of the City are eligible to participate in the 457(b) Plan. The City does not contribute to the 457(b) Plan.

In December 2012, the City Council approved the adoption of “The Georgia Municipal Association 401(a) Defined Contribution Plan” (the “401(a) Plan”). All full-time employees with six months of service hired after December 17, 2012 are eligible to participate in the plan. The City contributes 3% of total compensation to the 401(a) Plan. Additionally, the City will match 100% of contributions to the 457(b) Plan up to 3% of total compensation through contributions to the 401(a) Plan. Matching and nonmatching contributions are 100% vested after a participant has been employed five years and matching contributions remain 0% vested until the participant satisfies the full vesting period. As of December 31, 2015, there were eleven plan participants. For the year ended December 31, 2015, the City made contributions of \$11,965 to the Defined Contribution Plan.

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 10—Joint venture

Under Georgia law, the City, in conjunction with other cities and counties in the Central Savannah River Area, is a member of the Central Savannah River Area Regional Commission ("RC") and is required to pay annual dues thereto. During the year ended December 31, 2015, the City paid \$2,666 in such dues and service charges. Membership in a RC is required by the Official Code of Georgia Annotated ("OCGA") Section 50-8-34 that provides for the organizational structure of the RC in Georgia. The RDC Board membership includes the chief elected official of each City 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: CSRA Regional Commission, 3023 River Watch Parkway, Augusta, Georgia 30907.

Note 11—Housing authority

The Housing Authority of Harlem, Georgia (the "Housing Authority"), is considered a related organization based upon the criteria in GASB No. 14. Pursuant to Official Code of Georgia Annotated ("OCGA") 8-3-4, the Housing Authority is a separate legal entity from the City. Further, pursuant to OCGA 8-3-50, the City appoints a voting majority of the Housing Authority members. However, the City is not able to impose its will upon the Housing Authority nor does a financial benefit/burden relationship exist between them. In 2015, the City received \$4,793 for the 2013 and 2014 assessment years from the Harlem Housing Authority as payment in lieu of taxes.

Note 12—Commitments and contingencies

A. Commitments

As of December 31, 2015, the City has an outstanding contract for the replacement of fire hydrants with a remaining amount of approximately \$49,000.

B. Contingencies

The City is a defendant in several lawsuits. Management intends to contest these open cases vigorously. The City's legal counsel has stated that the outcome of these lawsuits is not presently determinable.

Note 13—Landfill post-closure cost

The City contracts with the County to dispose of its solid waste materials collected. In prior years the City maintained a landfill; however, it has been closed for several years. The state of Georgia requires the City to perform certain maintenance and monitoring functions at the closed landfill and to make periodic reports to the appropriate agencies. The estimated liability for post-closure cost is undeterminable; however, the City believes the maintenance cost is immaterial. However, changes in the post-closure care may occur for increases or decreases in cost due to inflation or deflation, changes in technology, changes to post-closure care requirements, and changes in the extent of environmental remediation required by law. If at such time that the post-closure care cost is determined and is a material liability appropriate disclosure will be reflected in the financial statements. The maintenance costs for 2015 were \$619.

CITY OF HARLEM, GEORGIA
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note 14—Change in accounting principle

During 2015, the City adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, and GASB Statement No. as well as GASB Statement No. 71, Pension Transition For Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68.

GASB 68 requires that the City’s net pension liability be recorded as of January 1, 2015. The effect of this adjustment is as follows:

	Governmental Activities	Business-type Activities
Ending net position December 31, 2014	\$ 10,254,696	\$ 6,736,617
Net pension liability	(485,761)	(228,593)
Pension contributions subsequent to measurement date	82,847	38,987
Deferred inflows - pension experience differences	(40,089)	(18,865)
Deferred inflows - pension investment return	(20,482)	(9,639)
Beginning net position January 1, 2015	<u>\$ 9,791,211</u>	<u>\$ 6,518,507</u>

Note 15—Subsequent events

In August 2016, the City refinanced the note payable through issuance of private placement bonds in the principal amount of \$2,595,000 at an interest rate of 2.43% with a maturity date of April 2029.

CITY OF HARLEM, GEORGIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

DECEMBER 31, 2015

Total pension liability:	
Service Cost	\$ 62,619
Interest on total pension liability	144,614
Differences between expected and actual experience	44,129
Benefit payments, including refunds of employee contributions	(99,611)
Other	<u>(17,758)</u>
Net change in total pension liability	133,993
Total pension liability - beginning	<u>1,915,789</u>
Total pension liability - ending (a)	<u><u>\$ 2,049,782</u></u>
Plan fiduciary net position:	
Contributions - employer	\$ 160,035
Net investment income	118,891
Benefit payments, including refunds of employee contributions	(99,611)
Administrative expense	<u>(7,582)</u>
Net change in fiduciary net position	171,733
Plan fiduciary net position - beginning	<u>1,201,435</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 1,373,168</u></u>
Net pension liability (a) - (b)	<u><u>\$ 676,614</u></u>
Plan fiduciary net position as a percentage of the total pension liability	66.99%
Covered-employee payroll	<u><u>\$ 687,814</u></u>
City's net pension liability as a percentage of covered-employee payroll	98.4%

CITY OF HARLEM, GEORGIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S CONTRIBUTION

DECEMBER 31, 2015

Actuarially determined contribution	\$	152,805
Contributions in relation to the actuarially determined contribution		<u>(152,805)</u>
Contribution deficiency (excess)	\$	<u><u>-</u></u>
Covered-employee payroll	\$	687,814
Contributions as a percentage of covered-employee payroll		22.22%

CITY OF HARLEM, GEORGIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2015

Note 1—Methods and assumptions used in calculations of actuarially determined contributions

The actuarially determined contribution rates in the schedule of contributions are calculated as of July 1 of the year prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial Cost Method	Projected Unit Credit
Amortizaion Method	Closed level dollar for the remaining unfunded liability
Remaining amortization period	Varies for the bases, with a net effective amortization period of 10 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 the end of the year. The acturial value is adjusted, if necessary, to be within 20% of market value.

Actuarial assumptions:

Net investment rate of return	7.75%
Projected salary increases	3.25% plus service based merit increases
Cost of living adjustments	2.00%

CITY OF HARLEM, GEORGIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2015

Note 2—Changes in methods and assumptions

As a result of the new administrative fee structure, the administrative expense assumption changed as follows:

	Current	Prior
Base fee	\$6,500	\$5,000
Per active and terminated vested participant	\$54	\$50
Per retiree and beneficiary	\$66	\$50
Percentage of the market value of assets	0.06%	0.05%

Based on the results of an actuarial experience study covering the period January 1, 2010 to June 30, 2014, the following assumptions were changed in the July 1, 2015 valuation:

- The mortality table for disabled participants was changed to remove the two-year set-forward for males and the one-year set-forward for females.
- The turnover rates were updated to introduce select rates for service less than five years and to reduce the ultimate rate by 15% and to assume no turnover on and after age 55. The select period rates were further constrained to not be less than the ultimate rates.
- The retirement rates where normal retirement is only available on or after age 65 were changed from the prior assumption of 100% at age 65 to the new assumption of 60% at ages 65 to 69 and 100% at age 70. Where normal retirement is available prior to age 65, the rates were changed from the prior assumption of 100% at earliest unreduced age, but not below age 60, to the new assumption of 10% at ages 55 to 59, 20% at age 60, 25% at age 61, 35% at age 62, 40% at age 63, 45% at age 64, 50% at ages 65 to 69, and 100% at age 70. If retirement is not available at a given age or a participant does not meet the plan's service criteria to retire at a given age, no retirement is assumed at that age.
- The inflation assumption was decreased from 3.50% to 3.25%.
- The salary increase assumption was changed from select period rates during the first five years of service, followed by age-related rates to an assumption based on new service-related rates. Under the prior assumption, the salary increases ranged from 4.00% to 11.00% and included an inflation assumption of 3.50%. Under the new assumption, the salary increases range from 3.75% to 8.00% and include an inflation assumption of 3.25%.

CITY OF HARLEM, GEORGIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2015

	Confiscation Fund	Technology Fund	CDBG Fund	T-SPLOST Fund	LMIG Fund	Combined Totals
ASSETS						
Cash and cash equivalents	\$ 7,641	\$ 14,879	\$ 132,976	\$ 58,995	\$ 58	\$ 214,549
Accounts receivable	-	-	-	5,267	-	5,267
Total Assets	\$ 7,641	\$ 14,879	\$ 132,976	\$ 64,262	\$ 58	\$ 219,816
LIABILITIES						
Accrued expenses	\$ 130	\$ -	\$ -	\$ -	\$ -	\$ 130
Total Liabilities	130	-	-	-	-	130
FUND BALANCE						
Restricted for						
Capital projects	-	-	-	64,262	58	64,320
Economic development	-	-	132,976	-	-	132,976
Committed to						
Capital outlay	-	14,879	-	-	-	14,879
Assigned						
Public safety	7,511	-	-	-	-	7,511
Total Fund Balance	7,511	14,879	132,976	64,262	58	219,686
Total Liabilities and Fund Balance	\$ 7,641	\$ 14,879	\$ 132,976	\$ 64,262	\$ 58	\$ 219,816

CITY OF HARLEM, GEORGIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2015

	Confiscation Fund	Technology Fund	CDBG Fund	T-SPLOST Fund	LMIG Fund	Total Nonmajor Governmental Funds
REVENUE						
Fines and forfeitures	\$ 7,158	\$ 4,200	\$ -	\$ -	\$ -	\$ 11,358
Intergovernmental revenue	-	-	-	56,687	71,022	127,709
Uses of money/property	-	6	76	-	31	113
Total Revenue	7,158	4,206	76	56,687	71,053	139,180
EXPENDITURES						
Current Operating						
General government	643	-	23,910	-	10	24,563
Public safety	95	-	-	-	-	95
Capital outlay	-	-	-	89,759	71,022	160,781
Total Expenditures	738	-	23,910	89,759	71,032	185,439
Excess (deficiency) of revenues over (under) expenditures	6,420	4,206	(23,834)	(33,072)	21	(46,259)
Net change in fund balances	6,420	4,206	(23,834)	(33,072)	21	(46,259)
Fund balance, beginning of year	1,091	10,673	156,810	97,334	37	265,945
Fund balance, end of year	\$ 7,511	\$ 14,879	\$ 132,976	\$ 64,262	\$ 58	\$ 219,686

Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Honorable Mayor and Members of City Council
City of Harlem, Georgia

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Harlem, Georgia (the "City"), as of and for the year ended December 31, 2015, and the related notes to financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 30, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 combination of deficiencies, in internal control that is less than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be material weaknesses as described in 2015-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

City of Harlem's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not audited 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 result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature of Chungy Bekant LLP in black ink.

Augusta, Georgia
August 30, 2016

CITY OF HARLEM, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES

FOR YEAR ENDED DECEMBER 31, 2015

Finding 2015-001

CONDITION:

The City of Harlem, Georgia (the "City") did not prepare its financial statements for the year ended December 31, 2015 or its conversion entries related to converting the fund financial statements to the statement of net position and statement of activities.

During our audit procedures, significant adjustments were posted to the internal financial statements in order for the financial statements to be in accordance with Generally Accepted Accounting Principles ("GAAP"). Based upon the City's request, we prepared the conversion entries to convert the fund financial statements to the statement of net position and statement of activities, and other year-end adjustments and reclassifications. Also, during our audit procedures as accounts were reconciled to supporting documentation, we proposed adjustments to correct balance sheet accounts to the supporting schedules.

The City relies on an external party to maintain the capital assets and calculate depreciation. The City has placed an overreliance on the external party and performed an insufficient review of the depreciation calculation in order to detect material misstatements.

CAUSE:

The City does not have sufficient resources with the financial statement expertise which would allow the City to internally prepare its conversion entries for the fund financial statements to the government-wide financial statements, in accordance with GAAP. Historically, due to the cost-benefit analysis made by management of internal control over financial reporting, the City has engaged its auditor to assist in the conversion to GAAP basis and financial statement preparation.

The City also has not had sufficient resources in the accounting and finance departments which would allow sufficient time to be spent on reconciling balance sheet accounts for all funds to the supporting documentation on a timely basis.

RECOMMENDATION:

We recommend that management consider the cost-benefit analysis of the preparation of its financial statements in accordance with GAAP. We also recommend that management continue the training and supervision of its finance and accounting staff in order to reconcile all balance sheet accounts to supporting documentation on a timely basis.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:

Management concurs with the findings. Management reviews the cost benefit of internal control over financial reporting and has determined the most prudent course of action is to engage the auditor to assist in the conversion to GAAP basis and financial statement preparation.

CITY OF HARLEM, GEORGIA

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

FOR YEAR ENDED DECEMBER 31, 2015

Finding 2014-01

CONDITION:

The City of Harlem, Georgia (the "City") did not prepare its financial statements for the year ended December 31, 2014 or its conversion entries related to converting the fund financial statements to the statement of net position and statement of activities. The City also did not reconcile certain balance sheet accounts during the year on a timely basis.

During our audit procedures, significant adjustments were posted to the internal financial statements in order for the financial statements to be in accordance with Generally Accepted Accounting Principles ("GAAP"). Based upon the City's request, we prepared the conversion entries to convert the fund financial statements to the statement of net position and statement of activities, and other year-end adjustments and reclassifications. Also, during our audit procedures as accounts were reconciled to supporting documentation, we proposed adjustments to correct balance sheet accounts to the supporting schedules.

The City relies on an external party to maintain the capital assets and calculate depreciation. The City has placed an overreliance on the external party and performed an insufficient review of the depreciation calculation in order to detect material misstatements.

CAUSE:

The City does not have sufficient resources with the financial statement expertise which would allow the City to internally prepare its conversion entries for the fund financial statements to the government-wide financial statements, in accordance with GAAP. Historically, due to the cost-benefit analysis made by management of internal control over financial reporting, the City has engaged its auditor to assist in the conversion to GAAP basis and financial statement preparation.

The City also has not had sufficient resources in the accounting and finance departments which would allow sufficient time to be spent on reconciling balance sheet accounts for all funds to the supporting documentation on a timely basis.

RECOMMENDATION:

We recommend that management consider the cost-benefit analysis of the preparation of its financial statements in accordance with GAAP. We also recommend that management continue the training and supervision of its finance and accounting staff in order to reconcile all balance sheet accounts to supporting documentation on a timely basis.

ACTIONS TAKEN OR PLANNED TO CORRECT DEFICIENCIES:

Management concurs with the findings. Management reviews the cost benefit of internal control over financial reporting and has determined the most prudent course of action is to engage the auditor to assist in the conversion to GAAP basis and financial statement preparation.

CURRENT STATUS:

Repeat finding at 2015-001.

CITY OF HARLEM, GEORGIA
SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE
LOCAL OPTION SALES TAX PROCEEDS (2006-2010)

FOR YEAR ENDED DECEMBER 31, 2015

Project	Original Estimated Cost	Prior Year	Current Year	To Date	Percentage of Completion
Tier I					
Upgrade and improve sewer plant/repair, replace and construction of new sewer/ water lines	\$ 1,404,000	\$ 1,404,000	\$ -	\$ 1,404,000	100%
Total - Tier I	1,404,000	1,404,000	-	1,404,000	
Tier II					
Public Buildings	189,000	178,883	-	178,883	95%
Generator	50,000	-	-	-	0%
Infrastructure	50,000	661,033	-	661,033	100%
Vehicles (police, fire, and public works)	100,000	-	-	-	0%
Water and sewer	70,000	70,000	-	70,000	100%
Total - Tier II	459,000	909,916	-	909,916	
Tier III					
Water and sewer	447,000	194,619	-	194,619	44%
Vehicles	150,000	-	-	-	0%
Communications	40,000	-	-	-	0%
Public Buildings	200,000	-	-	-	0%
Total - Tier III	837,000	194,619	-	194,619	
Grand Total	\$ 2,700,000	\$ 2,508,535	\$ -	\$ 2,508,535	

CITY OF HARLEM, GEORGIA
SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE
LOCAL OPTION SALES TAX PROCEEDS (2011-2016)

FOR YEAR ENDED DECEMBER 31, 2015

Project	Original Estimated Cost	Amended Estimated Cost	Prior Year	Current Year	To Date	Percentage of Completion
Tier I						
Vehicles and equipment	\$ 350,000	\$ 325,000	\$ 186,110	\$ 27,668	\$ 213,778	66%
Infrastructure (water and sewer)	718,224	193,224	-	83,472	83,472	43%
Transportation (roads and sidewalks)	200,000	160,000	11,000	-	11,000	7%
Public buildings	850,000	1,480,000	1,187,786	243,571	1,431,357	97%
Recreation	250,000	210,000	12,816	23,265	36,081	17%
Total - Tier I	<u>2,368,224</u>	<u>2,368,224</u>	<u>1,397,712</u>	<u>377,976</u>	<u>1,775,688</u>	
Tier II						
Vehicles and equipment	50,000	50,000	-	-	-	0%
Infrastructure (water and sewer)	610,377	610,377	-	-	-	0%
Public Buildings	150,000	150,000	-	-	-	0%
Total - Tier II	<u>810,377</u>	<u>810,377</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Tier III						
Infrastructure (water and sewer) sewer	521,749	521,749	-	-	-	0%
Total - Tier III	<u>521,749</u>	<u>521,749</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Grand Total	<u>\$ 3,700,350</u>	<u>\$ 3,700,350</u>	<u>\$ 1,397,712</u>	<u>\$ 377,976</u>	<u>\$ 1,775,688</u>	