



**CITY OF HARLEM, GEORGIA**

**ANNUAL FINANCIAL REPORT**

*As of and for the Year Ended December 31, 2017*

*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, 2017, 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, 2017, 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.

## **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 contributions, 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 non-major 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 non-major 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 28, 2018 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.

A handwritten signature in black ink that reads "Chung Bekant LLP". The signature is written in a cursive, flowing style.

Augusta, Georgia  
June 28, 2018

# CITY OF HARLEM, GEORGIA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2017

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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, 2017.

### 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, 2017, by approximately \$16.4 million. Of that amount, \$1.8 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 increased by approximately \$8,000 for the year ended December 31, 2017.
- As of December 31, 2017, the City's governmental funds reported combined ending fund balances of approximately \$2.6 million, an increase of \$500,000 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, 2017

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### 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 recourses 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 nine 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 Special Purpose Local Option Sales Tax ("SPLOST") 2017-2022 Fund, and the non-major funds. The General Fund and the SPLOST 2017-2022 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 \$16.4 million at the close of the current fiscal year.

**CITY OF HARLEM, GEORGIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

DECEMBER 31, 2017

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

By far the largest portion of the City's net position (84%) 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, 2017**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 2,747,705	\$ 2,292,876	\$ 1,075,170	\$ 961,629	\$ 3,822,875	\$ 3,254,505
Capital assets	10,207,505	10,559,135	7,241,518	7,303,913	17,449,023	17,863,048
Total Assets	12,955,210	12,852,011	8,316,688	8,265,542	21,271,898	21,117,553
Deferred outflows of resources	62,715	234,913	41,811	110,547	104,526	345,460
Long-term liabilities outstanding	2,515,000	2,595,000	1,242,096	1,333,150	3,757,096	3,928,150
Other liabilities	626,454	821,332	639,185	361,980	1,265,639	1,183,312
Total Liabilities	3,141,454	3,416,332	1,881,281	1,695,130	5,022,735	5,111,462
Deferred inflows of resources	-	4,025	-	1,894	-	5,919
Net Position:						
Net investment in capital assets	7,692,505	7,964,135	5,999,422	5,970,763	13,691,927	13,934,898
Restricted	901,303	731,810	-	-	901,303	731,810
Unrestricted	1,282,663	970,622	477,796	708,302	1,760,459	1,678,924
Total Net Position	\$ 9,876,471	\$ 9,666,567	\$ 6,477,218	\$ 6,679,065	\$ 16,353,689	\$ 16,345,632

**Governmental Activities**

The City's governmental revenues increased by approximately 5% (\$139,223) when compared to 2016.

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 approximately \$728,000 in 2017. These expenses were offset to some extent by revenues from fines and forfeitures which totaled approximately \$84,000. Another significant governmental expense in 2017 was providing for the general government. General government expenses totaled approximately \$696,000, an increase of 31% from 2016. The increase in general government expenses is due, in most part, to expenditures made for capital projects in 2017.

**CITY OF HARLEM, GEORGIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

DECEMBER 31, 2017

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)**

**Business-Type Activities**

Revenues from the City's business-type activities were approximately \$1.8 million for the year ended December 31, 2017, an increase of 9% over 2016. 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 approximately \$2.0 million, an increase of approximately 20% over 2016. This increase is due mainly to increased costs for operation and maintenance of the water and sewer system, as well as expenses incurred related to a legal settlement from previous years' activities.

Governmental and business-type activities increased the City's net position by approximately \$8,000. A summary of this increase is as follows:

	<b>Changes in Net Position</b>					
	<b>Governmental</b>		<b>Business-Type</b>		<b>Total Primary</b>	
	<b>Activities</b>		<b>Activities</b>		<b>Government</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Revenues:						
Program Revenues:						
Charges for services	\$ 594,217	\$ 635,278	\$ 1,683,032	\$ 1,646,182	\$ 2,277,249	\$ 2,281,460
Operating grants	10,374	5,966	-	-	10,374	5,966
Capital grants/contributions	543,507	536,002	112,045	-	655,552	536,002
General Revenues:						
Taxes	1,129,904	987,665	-	-	1,129,904	987,665
Sales tax	715,244	698,803	-	-	715,244	698,803
Other	52,182	42,491	420	359	52,602	42,850
Total Revenues	<u>3,045,428</u>	<u>2,906,205</u>	<u>1,795,497</u>	<u>1,646,541</u>	<u>4,840,925</u>	<u>4,552,746</u>
Expenses:						
General government	695,760	528,851	-	-	695,760	528,851
Public safety	728,101	757,201	-	-	728,101	757,201
Sanitation	285,920	260,577	-	-	285,920	260,577
Fire	201,980	185,587	-	-	201,980	185,587
Public works	568,517	587,418	-	-	568,517	587,418
Community development	191,151	167,113	-	-	191,151	167,113
Health and welfare	51,665	54,088	-	-	51,665	54,088
Culture and recreation	46,994	41,056	-	-	46,994	41,056
Interest and bond issuance costs	65,436	158,252	-	-	65,436	158,252
Water and sewer	-	-	1,997,344	1,653,665	1,997,344	1,653,665
Total Expenses	<u>2,835,524</u>	<u>2,740,143</u>	<u>1,997,344</u>	<u>1,653,665</u>	<u>4,832,868</u>	<u>4,393,808</u>
Surplus (Deficiency)	209,904	166,062	(201,847)	(7,124)	8,057	158,938
Transfers	-	(128,833)	-	128,833	-	-
Change in net position	209,904	37,229	(201,847)	121,709	8,057	158,938
Net position, beginning	9,666,567	9,629,338	6,679,065	6,557,356	16,345,632	16,186,694
Net position, ending	<u>\$ 9,876,471</u>	<u>\$ 9,666,567</u>	<u>\$ 6,477,218</u>	<u>\$ 6,679,065</u>	<u>\$ 16,353,689</u>	<u>\$ 16,345,632</u>



**CITY OF HARLEM, GEORGIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

DECEMBER 31, 2017

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

As of December 31, 2017, the City had \$17.5 million (net of accumulated depreciation) of capital assets. This investment in capital assets includes police and fire equipment, park facilities, roads, and drains. Major capital asset additions were land totaling approximately \$55,000, buildings totaling approximately \$55,000, vehicles totaling approximately \$68,000, equipment consisting of generators totaling approximately \$138,000, and construction in progress related to the wastewater treatment plant expansion totaling approximately \$111,000.

**Capital Assets at Year End**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land	\$ 769,634	\$ 40,277	\$ 809,911
Construction in progress	-	111,090	111,090
Buildings and improvements	6,357,464	110,460	6,467,924
Vehicle and equipment	1,667,072	678,662	2,345,734
Infrastructure	7,506,266	-	7,506,266
Utility system	-	12,648,681	12,648,681
	<u>16,300,436</u>	<u>13,589,170</u>	<u>29,889,606</u>
Less accumulated depreciation	<u>(6,092,931)</u>	<u>(6,347,652)</u>	<u>(12,440,583)</u>
Total	<u>\$ 10,207,505</u>	<u>\$ 7,241,518</u>	<u>\$ 17,449,023</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:

	<u>2017</u>	<u>2016</u>
Business-type:		
Notes payable - GEFA	\$ 1,242,096	\$ 1,333,150
Governmental:		
Note payable - Regions Bank	<u>2,515,000</u>	<u>2,595,000</u>
	<u>\$ 3,757,096</u>	<u>\$ 3,928,150</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, 2017*

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**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 2018 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 2018 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, 2017

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 2,437,337	\$ 964,498	\$ 3,401,835
Receivables, net:			
Taxes	102,166	-	102,166
Accounts	159,612	89,911	249,523
Internal balances	(244)	244	-
Prepaid expenses	48,834	20,517	69,351
Capital Assets:			
Land	769,634	40,277	809,911
Construction in process	-	111,090	111,090
Depreciable, net of accumulated depreciation	9,437,871	7,090,151	16,528,022
<b>Total Assets</b>	<b>12,955,210</b>	<b>8,316,688</b>	<b>21,271,898</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension experience differences	12,105	8,070	20,175
Investment experience differences	1,726	1,151	2,877
Contributions to pension plan	48,884	32,590	81,474
<b>Total Deferred Outflows of Resources</b>	<b>62,715</b>	<b>41,811</b>	<b>104,526</b>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	97,915	303,943	401,858
Accrued expenses	23,203	8,542	31,745
Other liabilities	4,149	2,100	6,249
Unearned revenue	33,413	1,800	35,213
Noncurrent Liabilities:			
Compensated absences	35,640	34,711	70,351
Due within one year	183,000	94,953	277,953
Due in more than one year	2,332,000	1,147,143	3,479,143
Net pension liability	432,134	288,089	720,223
<b>Total Liabilities</b>	<b>3,141,454</b>	<b>1,881,281</b>	<b>5,022,735</b>
<b>NET POSITION</b>			
Net investment in capital assets	7,692,505	5,999,422	13,691,927
Restricted for:			
Economic development	121,209	-	121,209
Capital Projects	780,094	-	780,094
Unrestricted	1,282,663	477,796	1,760,459
<b>Total Net Position</b>	<b>\$ 9,876,471</b>	<b>\$ 6,477,218</b>	<b>\$ 16,353,689</b>

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

**CITY OF HARLEM, GEORGIA**  
**STATEMENT OF ACTIVITIES**

YEAR ENDED DECEMBER 31, 2017

	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	\$ 695,760	\$ 23,655	\$ -	\$ 543,507	\$ (128,598)	\$ -	\$ (128,598)
Public safety	728,101	79,935	-	-	(648,166)	-	(648,166)
Fire	201,980	-	-	-	(201,980)	-	(201,980)
Community development	191,151	-	10,374	-	(180,777)	-	(180,777)
Health and welfare	51,665	-	-	-	(51,665)	-	(51,665)
Public works (highways and streets)	568,517	-	-	-	(568,517)	-	(568,517)
Culture and recreation	46,994	47,577	-	-	583	-	583
Sanitation	285,920	443,050	-	-	157,130	-	157,130
Interest and fiscal charges on debt service	65,436	-	-	-	(65,436)	-	(65,436)
Total Governmental Activities	2,835,524	594,217	10,374	543,507	(1,687,426)	-	(1,687,426)
Business-type Activities:							
Water	1,997,344	1,683,032	-	112,045	-	(202,267)	(202,267)
Total Business-type Activities	1,997,344	1,683,032	-	112,045	-	(202,267)	(202,267)
Total Primary Government	\$ 4,832,868	\$ 2,277,249	\$ 10,374	\$ 655,552	(1,687,426)	(202,267)	(1,889,693)
General Revenues:							
Property taxes					712,923	-	712,923
Sales taxes					715,244	-	715,244
Other taxes					416,981	-	416,981
Payments in lieu of taxes					3,250	-	3,250
Unrestricted investment earnings					2,547	420	2,967
Other income					46,385	-	46,385
Total General Revenues					1,897,330	420	1,897,750
Change in Net Position					209,904	(201,847)	8,057
Net Position, Beginning of Year					9,666,567	6,679,065	16,345,632
Net Position, End of Year					\$ 9,876,471	\$ 6,477,218	\$ 16,353,689

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

**CITY OF HARLEM, GEORGIA**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**

DECEMBER 31, 2017

	General	SPLOST 2017-2022 Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,567,441	\$ 114,091	\$ 755,805	\$ 2,437,337
Taxes receivable	102,166	-	-	102,166
Accounts receivable	76,618	72,948	10,046	159,612
Prepaid expenses	48,834	-	-	48,834
Due from other funds	1,857	-	-	1,857
<b>Total Assets</b>	<b>\$ 1,796,916</b>	<b>\$ 187,039</b>	<b>\$ 765,851</b>	<b>\$ 2,749,806</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 97,915	\$ -	\$ -	\$ 97,915
Due to other funds	2,001	-	100	2,101
Accrued salaries	7,710	-	130	7,840
Other liabilities	4,019	-	-	4,019
Unearned revenue	-	-	33,413	33,413
<b>Total Liabilities</b>	<b>111,645</b>	<b>-</b>	<b>33,643</b>	<b>145,288</b>
<b>FUND BALANCE</b>				
Non-spendable:				
Prepaid expenditures	48,834	-	-	48,834
Restricted for:				
Capital projects	-	187,039	593,055	780,094
Economic development	-	-	121,209	121,209
Committed to:				
Museum building repairs	26,102	-	-	26,102
Capital outlay	-	-	13,219	13,219
Assigned to:				
Public safety	-	-	4,725	4,725
Unassigned	1,610,335	-	-	1,610,335
<b>Total Fund Balance</b>	<b>1,685,271</b>	<b>187,039</b>	<b>732,208</b>	<b>2,604,518</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,796,916</b>	<b>\$ 187,039</b>	<b>\$ 765,851</b>	<b>\$ 2,749,806</b>

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

*DECEMBER 31, 2017*

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

Ending fund balances - Governmental funds	<u>\$ 2,604,518</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	16,300,436
Accumulated depreciation	<u>(6,092,931)</u>
	<u>10,207,505</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	<u>62,715</u>
	<u>62,715</u>
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	(2,515,000)
Compensated absences	(35,640)
Net pension liability	(432,134)
Accrued interest	<u>(15,493)</u>
	<u>(2,998,267)</u>
Net position of governmental activities	<u><u>\$ 9,876,471</u></u>

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

YEAR ENDED DECEMBER 31, 2017

	General	SPLOST 2017-2022 Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenue:</b>				
Taxes	\$ 1,131,709	\$ -	\$ -	\$ 1,131,709
Permits and licenses	20,659	-	-	20,659
Fines and forfeitures	79,935	-	3,626	83,561
Intergovernmental revenue	713,839	340,483	202,812	1,257,134
Charges for services	443,850	-	-	443,850
Uses of money/property	2,427	18	314	2,759
Culture and recreation	58,987	-	-	58,987
Grants	13,624	-	-	13,624
Other	33,145	-	-	33,145
Total Revenue	<u>2,498,175</u>	<u>340,501</u>	<u>206,752</u>	<u>3,045,428</u>
<b>Expenditures:</b>				
Current operating:				
General government	573,223	-	154,431	727,654
Public safety	599,096	-	4,452	603,548
Fire	146,122	-	-	146,122
Public works (highways and streets)	305,900	-	-	305,900
Health and welfare	51,665	-	-	51,665
Culture and recreation	46,994	-	-	46,994
Sanitation	276,677	-	-	276,677
Community development	159,701	-	-	159,701
Capital outlay	-	-	73,790	73,790
Debt service:				
Principal	80,000	-	-	80,000
Interest	73,462	-	-	73,462
Total Expenditures	<u>2,312,840</u>	<u>-</u>	<u>232,673</u>	<u>2,545,513</u>
Excess (deficiency) of revenues over (under) expenditures	<u>185,335</u>	<u>340,501</u>	<u>(25,921)</u>	<u>499,915</u>
<b>Other Financial Sources (Uses):</b>				
Transfers in	153,462	-	-	153,462
Transfers (out)	-	(153,462)	-	(153,462)
Sale of general capital assets	600	-	-	600
Total Other Financing Sources (Uses)	<u>154,062</u>	<u>(153,462)</u>	<u>-</u>	<u>600</u>
Net change in fund balances	339,397	187,039	(25,921)	500,515
Fund balance, beginning of year	1,345,874	-	758,129	2,104,003
Fund balance, end of year	<u>\$ 1,685,271</u>	<u>\$ 187,039</u>	<u>\$ 732,208</u>	<u>\$ 2,604,518</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

YEAR ENDED DECEMBER 31, 2017

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

Net change in fund balances - total governmental funds \$ 500,515

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	\$ 205,195	
Net book value of disposals and transfers	-	
Depreciation expense	<u>(556,825)</u>	(351,630)

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.

Principal payments on long term debt	80,000	
Compensated absences	(9)	
Accrued interest	<u>8,026</u>	88,017

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>(26,998)</u>
Change in net position of governmental activities	\$	<u><u>209,904</u></u>



**CITY OF HARLEM, GEORGIA**

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

YEAR ENDED DECEMBER 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Taxes	\$ 1,007,905	\$ 1,007,695	\$ 1,131,709	\$ 124,014
Permits and licenses	59,350	19,900	20,659	759
Fines and forfeitures	96,000	80,475	79,935	(540)
Intergovernmental	660,000	660,000	713,839	53,839
Charges for services	424,550	423,800	443,850	20,050
Use of money/property	1,420	1,420	2,427	1,007
Culture and recreation	44,900	54,285	58,987	4,702
Grants	10,000	13,250	13,624	374
Other	28,335	27,635	33,145	5,510
<b>Total Revenues</b>	<u>2,332,460</u>	<u>2,288,460</u>	<u>2,498,175</u>	<u>209,715</u>
<b>Expenditures:</b>				
General government	470,558	580,558	573,223	7,335
Public safety	643,954	637,824	599,096	38,728
Fire	140,220	146,350	146,122	228
Public works, highways	353,655	352,955	305,900	47,055
Health and welfare	59,846	59,846	51,665	8,181
Culture and recreation	52,320	52,320	46,994	5,326
Sanitation	276,000	276,700	276,677	23
Community services	182,418	182,418	159,701	22,717
Debt service:				
Principal	80,000	80,000	80,000	-
Interest	73,489	73,489	73,462	27
<b>Total Expenditures</b>	<u>2,332,460</u>	<u>2,442,460</u>	<u>2,312,840</u>	<u>129,620</u>
Revenue over (under) expenditures	<u>-</u>	<u>(154,000)</u>	<u>185,335</u>	<u>339,335</u>
<b>Other Financial Sources:</b>				
Transfers in	-	154,000	153,462	(538)
Sale of general capital assets	-	-	600	600
<b>Total Other Financing Sources</b>	<u>-</u>	<u>154,000</u>	<u>154,062</u>	<u>62</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>339,397</u>	<u>\$ 339,397</u>
Fund balance, beginning of year			<u>1,345,874</u>	
Fund balance, end of year			<u>\$ 1,685,271</u>	

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

DECEMBER 31, 2017

**ASSETS**

Current Assets:

Cash and cash equivalents	\$ 964,498
Accounts receivable, net of allowance	89,911
Prepaid expenses	20,517
Due from General Fund	2,001
Total Current Assets	<u>1,076,927</u>

Capital Assets:

Land	40,277
Construction in progress	111,090
Depreciable, net of accumulated depreciation	7,090,151
Total Capital Assets	<u>7,241,518</u>
<b>Total Assets</b>	<u><b>8,318,445</b></u>

**DEFERRED OUTFLOWS OF RESOURCES**

Pension experience differences	8,070
Investment experience differences	1,151
Contributions to pension plan	32,590
<b>Total Deferred Outflows of Resources</b>	<u><b>41,811</b></u>

**LIABILITIES**

Current Liabilities:

Accounts payable	303,943
Accrued expenses	8,542
Due to General Fund	1,757
Compensated absences	34,711
Unearned income and customer deposits	3,900
Construction loan payable - GEFA - current portion	94,953
Total Current Liabilities	<u>447,806</u>

Noncurrent liabilities:

Net pension liability	288,089
Construction loan payable - GEFA	1,147,143
Total Noncurrent Liabilities	<u>1,435,232</u>
<b>Total Liabilities</b>	<u><b>1,883,038</b></u>

**NET POSITION**

Net investment in capital assets	5,999,422
Unrestricted	477,796
<b>Total Net Position</b>	<u><u><b>\$ 6,477,218</b></u></u>

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

*YEAR ENDED DECEMBER 31, 2017*

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Operating Revenues:	
Water and sewer sales	\$ 1,599,566
Service charges/penalties	61,866
Grant revenue	112,045
Other revenues	21,600
Total Operating Revenues	<u>1,795,077</u>
Operating Expenses:	
Salaries and wages	394,154
Insurance and pension cost	233,986
Utilities	76,928
Maintenance and repair	195,604
Chemicals	44,004
Postage and supplies	27,301
Miscellaneous	19,715
County water and sewerage charges	336,430
Depreciation	311,865
Professional fees	283,251
Testing and training	11,897
Vehicle expense	9,154
Total Operating Expenses	<u>1,944,289</u>
Operating Loss	<u>(149,212)</u>
Non-operating Revenue (Expense):	
Interest income	420
Interest expense	(53,055)
Total Non-operating Expenses	<u>(52,635)</u>
Loss before transfers and contributions	<u>(201,847)</u>
Change in net position	(201,847)
Net position, beginning of year	<u>6,679,065</u>
Total net position, end of year	<u><u>\$ 6,477,218</u></u>

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

*YEAR ENDED DECEMBER 31, 2017*

**Cash flows from operating activities:**

Cash received from customers and others	\$ 1,789,098
Cash paid for goods and services	(734,986)
Cash paid to or on behalf of employees	(553,715)
Cash paid to other funds	(15,359)
Net cash from operating activities	<u>485,038</u>

**Cash flows from capital and related financing activities:**

Principal paid on long-term debt	(91,054)
Interest paid on long-term debt	(53,055)
Net cash from capital and related financing activities	<u>(144,109)</u>

**Cash flows from investing activities:**

Purchase of capital assets	(249,470)
Interest income received	420
Net cash from investing activities	<u>(249,050)</u>

Net change in cash and cash equivalents	91,879
Cash and cash equivalents, beginning of year	872,619
Cash and cash equivalents, end of year	<u>\$ 964,498</u>

**Reconciliation of operating income to net cash from operating activities:**

Operating loss	\$ (149,212)
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	311,865
Net change in assets and liabilities:	
Accounts receivable	(6,679)
Prepaid expenses	376
Due to/from other funds	(15,359)
Accounts payable and accrued expenses	258,208
Unearned income and customer deposits	700
Net pension changes	85,139
Net cash from operating activities	<u>\$ 485,038</u>

# CITY OF HARLEM, GEORGIA

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

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### 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 (“GAAP”) applicable to state and local governments.

*Introduction* – The City complies with 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.

#### 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.

**CITY OF HARLEM, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**

*DECEMBER 31, 2017*

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**Note 1—Summary of significant accounting policies (continued)**

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

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 2017-2022 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 non-major governmental funds:

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

The Revolving Loan Fund is a special revenue fund originating from a grant from the Community Development Block Grant Employment Incentive Program. The grant was received by the City to provide a direct loan to a local business for equipment which created new positions. The repayment of the loan created the Revolving Loan Fund, the funds of which are available to be loaned to local businesses for the creation of new jobs in the area.

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.

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 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 Community HOME Investment Program ("CHIP") Fund is a special revenue fund to account for the financial resources used for the rehabilitation of owner occupied homes. The CHIP program is funded with U.S. Department of Housing and Urban Development HOME Investment Partnership Funds thru the Georgia Department of Community Affairs.

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

**CITY OF HARLEM, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2017

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**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 major 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, 2017, 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.

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.

**CITY OF HARLEM, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2017

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**Note 1—Summary of significant accounting policies (continued)**

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

**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 \$5,000 or more. Infrastructure assets include city-owned roads and bridges. Capital assets are recorded at historical cost 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, 2017

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**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, 2017

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**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:

- *Non-Spendable* – Fund balances are reported as non-spendable 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, 2017*

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**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, 2017, there were no funds with a deficit fund balance.

**CITY OF HARLEM, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**

*DECEMBER 31, 2017*

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**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, 2017, the carrying amount of the City's deposits was \$3,165,167 and is classified as cash and cash equivalents and restricted cash in the accompanying statement of net position. As of December 31, 2017, all of the deposits of the City were properly insured and collateralized as required by the OCGA Section 45-8-12(c) and as defined by GASB pronouncements. The City uses the pooled method to collateralize funds, which are held in the name of the City.

**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 2017 that were levied on September 15, 2017, were due November 15, 2017. 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 3.5% 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, 2017, totaled \$713,839. Beginning in 2018, the amount received by the City will be reduced to 2.5% of the 1% local option sales tax.

**CITY OF HARLEM, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2017

**Note 3—Property taxes and other receivables (continued)**

**A. Receivables (continued)**

The City also receives approximately 3% of 1% Special Purpose 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, 2017, totaled \$340,483.

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:

<u>Receivables</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Taxes	\$ 102,166	\$ -	\$ 102,166
Accounts	159,612	190,671	350,283
Gross receivables	261,778	190,671	452,449
Less allowance for uncollectible	-	(100,760)	(100,760)
Net Total Receivable	<u>\$ 261,778</u>	<u>\$ 89,911</u>	<u>\$ 351,689</u>

**CITY OF HARLEM, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2017

**Note 4—Capital assets**

**A. General government**

A summary of changes in capital assets follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 714,819	\$ 54,815	\$ -	\$ 769,634
Total Capital Assets, not being depreciated	714,819	54,815	-	769,634
Capital assets, being depreciated:				
Infrastructure	7,500,789	5,477	-	7,506,266
Buildings and improvements	6,287,058	70,406	-	6,357,464
Vehicles and equipment	1,592,575	74,497	-	1,667,072
	15,380,422	150,380	-	15,530,802
Less accumulated depreciation:				
Infrastructure	(3,119,846)	(255,147)	-	(3,374,993)
Buildings and improvements	(1,431,840)	(164,416)	-	(1,596,256)
Vehicles and equipment	(984,420)	(137,262)	-	(1,121,682)
	(5,536,106)	(556,825)	-	(6,092,931)
Total Capital Assets, not being depreciated	9,844,316	(406,445)	-	9,437,871
Governmental Activities Capital Assets, Net	\$ 10,559,135	\$ (351,630)	\$ -	\$ 10,207,505

Depreciation expense for the year ended December 31, 2017, was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 68,154
Public safety	134,363
Fire	55,858
Community services	31,450
Sanitation	9,243
Public works	257,757
Total depreciation expense – governmental activities	\$ 556,825

**CITY OF HARLEM, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2017

**Note 4—Capital assets (continued)**

**B. Proprietary fund**

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

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Business-type Activities:				
Capital assets, not being depreciated				
Land	\$ 40,277	\$ -	\$ -	\$ 40,277
Construction in progress	-	111,090	-	111,090
Total Capital Assets, not being depreciated	<u>40,277</u>	<u>111,090</u>	<u>-</u>	<u>151,367</u>
Capital assets, being depreciated				
Building	110,460	-	-	110,460
Vehicles and equipment	540,282	138,380	-	678,662
Utility systems	12,648,681	-	-	12,648,681
Total capital assets, being depreciated, net	<u>13,299,423</u>	<u>138,380</u>	<u>-</u>	<u>13,437,803</u>
Less accumulated depreciation:				
Building	(9,206)	(4,603)	-	(13,809)
Vehicles and equipment	(353,555)	(34,563)	-	(388,118)
Utility systems	(5,673,026)	(272,699)	-	(5,945,725)
Total accumulated depreciation	<u>(6,035,787)</u>	<u>(311,865)</u>	<u>-</u>	<u>(6,347,652)</u>
Total capital assets, being depreciated, net	<u>7,263,636</u>	<u>(173,485)</u>	<u>-</u>	<u>7,090,151</u>
Capital assets, net	<u>\$ 7,303,913</u>	<u>\$ (62,395)</u>	<u>\$ -</u>	<u>\$ 7,241,518</u>

**CITY OF HARLEM, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2017

**Note 5—Long-term debt**

The following is a summary of long-term debt activity for the year ended December 31, 2017:

	Balance	2017		Balance	Due Within One Year
	January 1, 2017	Additions	Reductions	December 31, 2017	
Governmental activities:					
Notes payable	\$ 2,595,000	\$ -	\$ 80,000	\$ 2,515,000	\$ 183,000
Compensated absences	35,631	35,640	35,631	35,640	35,640
Governmental activities long-term liabilities	<u>\$ 2,630,631</u>	<u>\$ 35,640</u>	<u>\$ 115,631</u>	<u>\$ 2,550,640</u>	<u>\$ 218,640</u>
Business-type activities:					
2005 GEFA loan	\$ 1,333,150	\$ -	\$ 91,054	\$ 1,242,096	\$ 94,953
Compensated absences	32,623	34,711	32,623	34,711	34,711
Business-type activities long-term liabilities	<u>\$ 1,365,773</u>	<u>\$ 34,711</u>	<u>\$ 123,677</u>	<u>\$ 1,276,807</u>	<u>\$ 129,664</u>

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

**A. Governmental activities debt**

**1. Notes payable**

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%. During the year ended December 31, 2016, the City refinanced the loan through an installment sale agreement with the Georgia Municipal Association; the interest of which was subsequently transferred to a bank. The loan is secured by the property financed and is due in varying installments of principal and interest, at a fixed rate of 2.44%, through 2029.

Annual debt service requirements as of December 31, 2017, are as follows:

	Principal	Interest	Total Payment
2018	\$ 183,000	\$ 59,872	\$ 242,872
2019	187,000	55,301	242,301
2020	192,000	50,764	242,764
2021	197,000	45,813	242,813
2022	201,000	40,896	241,896
2023-2026	856,000	112,111	968,111
2027-2029	699,000	26,212	725,212
	<u>\$ 2,515,000</u>	<u>\$ 390,969</u>	<u>\$ 2,905,969</u>



**CITY OF HARLEM, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2017

**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, 2017, are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total Payment</b>
2018	\$ 94,953	\$ 50,354	\$ 145,307
2019	99,018	46,288	145,306
2020	103,258	42,049	145,307
2021	107,679	37,627	145,306
2022	112,290	33,017	145,307
2023-2026	499,342	81,884	581,226
2027-2028	225,556	8,101	233,657
	<u>\$ 1,242,096</u>	<u>\$ 299,320</u>	<u>\$ 1,541,416</u>

**Note 6—Interfund receivables/transfers**

As of December 31, 2017, \$1,757 was due to the General Fund from the Water and Sewer Fund, \$100 was due to the General Fund from the CHIP Fund, and \$2,001 was due to the Water and Sewer Fund from the General Fund. Additionally, the SPLOST 2017-2022 transferred \$153,462 to the General Fund for the payment of a BB&T loan on a building for which the cost was included in the SPLOST 2017-2022 budget; however, the General Fund obtained debt to construct the building prior to the collection of SPLOST funds; therefore, the SPLOST funds are being transferred to the General Fund to reimburse the General Fund for prior years' capital outlay as stated in the SPLOST Intergovernmental Agreement with Columbia County.

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, 2017

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**Note 7—Risk management (continued)**

**A. Risk pool (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**

**A. 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.

**B. Plan Membership**

As of July 1, 2017, the Plan membership consisted of the following:

Inactive Plan members or beneficiaries currently receiving benefits	16
Inactive Plan members entitled to, but not receiving benefits	18
Active Plan members	18
	<hr/>
	52
	<hr/>

**CITY OF HARLEM, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2017

**Note 8—Pension plan (continued)**

**C. 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, 2017, the City's contribution rate was 28.34% of annual covered payroll. City contributions to the Plan were \$162,634 for the year ended December 31, 2017.

**D. Net Pension Liability**

The City's net pension liability was measured as of March 31, 2017, which would make it applicable to the fiscal year beginning January 1, 2017 and ending December 31, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017.

**E. Actuarial Assumptions**

The mortality and economic actuarial assumptions used in the July 1, 2017, 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, 2017, 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 two 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 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 Plan's target asset allocation as of March 31, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	45%	6.71%
International equity	20%	7.71%
Real estate	10%	5.21%
Global fixed income	5%	3.36%
Domestic fixed income	20%	2.11%
Total	<u>100%</u>	

**CITY OF HARLEM, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2017

**Note 8—Pension plan (continued)**

**F. 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 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 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.

	<b>1% Decrease (6.75%)</b>	<b>Current Discount Rate (7.75%)</b>	<b>1% Increase (8.75%)</b>
City's net pension liability	\$993,224	\$720,223	\$491,190

**G. 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, 2017, were as follows:

	<b>Total Pension Liability (a)</b>	<b>Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) – (b)</b>
Balances at March 31, 2016	\$2,248,068	\$1,404,967	\$843,101
Changes for the year:			
Service cost	52,796	-	52,796
Interest	165,691	-	165,691
Differences between expected and actual experience	(29,694)	-	(29,694)
Contributions – employer	-	155,680	(155,680)
Net investment income	-	167,063	(167,063)
Benefit payments, including refunds of employee contributions	(220,246)	(220,246)	-
Administrative expense	-	(11,072)	11,072
Net changes	(31,453)	91,425	(122,878)
Balances at March 31, 2017	\$2,216,615	\$1,496,392	\$720,223

The required schedule of changes in the City's net pension liability and related ratios on pages 38-40 presents multiyear trend information about whether the value of Plan assets are increasing or decreasing over time relative to the total pension liability.

**CITY OF HARLEM, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2017

**Note 8—Pension plan (continued)**

**H. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended December 31, 2017, the City recognized pension expense of \$274,771. At December 31, 2017, 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>
Net difference between expected and actual pension plan experience	\$ 20,175	\$ -
Net difference between projected and actual earnings on pension plan investments	2,877	-
Employer contributions subsequent to the measurement date	81,474	-
Total	<u>\$ 104,526</u>	<u>\$ -</u>

City contributions subsequent to the measurement date of \$81,474 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Years Ending December 31,</u>	
2018	\$ 23,626
2019	3,451
2020	8,197
2021	(12,222)
Total	<u>\$ 23,052</u>

**Note 9—Georgia Firefighters’ Pension Fund**

Certain employees of the Fire Department are covered by The Georgia Firefighters’ Pension Fund (“GFPF”). The GFPF was established by the Georgia General Assembly in 1995 for the purpose of providing retirement benefits for qualified firefighters. The GFPF is a cost-sharing, multiple-employer defined benefit pension plan as defined in the Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions*.

Any person employed as a firefighter or enrolled as a volunteer firefighter within the State of Georgia or any regular employee of the GFPF is eligible for membership in the GFPF. The various fire departments located within the State of Georgia, as employers of the members of GFPF, do not make contributions to the fund. The State of Georgia provides nonemployer contributions to the GFPF through the collection of insurance premiums tax. Since the City does not contribute directly to the GFPF, management has determined the related impact on the financial statements to be immaterial. GFPF issues a publicly available financial report that can be obtained at <http://gfpf.org/about/annualreports/>.

# CITY OF HARLEM, GEORGIA

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

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### **Note 10—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, 2017, there were twelve plan participants. For the year ended December 31, 2017, the City made contributions of \$5,028 to the Defined Contribution Plan.

### **Note 11—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, 2017, 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, 3626 Walton Way Ext. #300, Augusta, GA 30909.

### **Note 12—Housing authority**

The Housing Authority of Harlem, Georgia (the “Housing Authority”), is considered a related organization based in accordance with GAAP. Pursuant to 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 2017, the City received \$3,250 for the 2016 assessment year from the Harlem Housing Authority as payment in lieu of taxes.

### **Note 13—Commitments and contingencies**

#### **A. Commitments**

As of December 31, 2017, the City has no outstanding commitments.

#### **B. Contingencies**

The City is subject to various legal proceedings covering a wide range of matters that arise in the ordinary course of its activities.

**CITY OF HARLEM, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**

*DECEMBER 31, 2017*

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**Note 14—Landfill post-closure cost**

The City contracts with a disposal company to dispose of its solid waste materials collected. In prior years the City maintained a landfill; however, it was closed during 2016. 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 2017 were \$800.

**Note 15—Subsequent events**

Subsequent to December 31, 2017, the City reached an agreement related to a legal matter which related to activities in a prior year. The City has accrued this amount in its financial statements of the Water and Sewer fund as of December 31, 2017.

The City has evaluated subsequent events through June 28, 2018, the date which the financial statements were available to be issued. As of this date, there were no material subsequent events, except as disclosed above, requiring adjustment to or disclosure in the financial statements for the year ended December 31, 2017.

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

DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
<b>Total pension liability:</b>		
Service Cost	\$ 52,796	\$ 57,426
Interest on total pension liability	165,691	154,267
Differences between expected and actual experience	(29,694)	105,065
Benefit payments, including refunds of employee contributions	<u>(220,246)</u>	<u>(118,472)</u>
<b>Net change in total pension liability</b>	(31,453)	198,286
Total pension liability - beginning	<u>2,248,068</u>	<u>2,049,782</u>
Total pension liability - ending (a)	<u><u>\$ 2,216,615</u></u>	<u><u>\$ 2,248,068</u></u>
<b>Plan fiduciary net position:</b>		
Contributions - employer	\$ 155,680	\$ 152,944
Net investment income	167,063	5,352
Benefit payments, including refunds of employee contributions	(220,246)	(118,472)
Administrative expense	<u>(11,072)</u>	<u>(8,025)</u>
<b>Net change in fiduciary net position</b>	91,425	31,799
Plan fiduciary net position - beginning	<u>1,404,967</u>	<u>1,373,168</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 1,496,392</u></u>	<u><u>\$ 1,404,967</u></u>
<b>Net pension liability (a) - (b)</b>	<u><u>\$ 720,223</u></u>	<u><u>\$ 843,101</u></u>
Plan fiduciary net position as a percentage of the total pension liability	67.51%	62.50%
Covered-employee payroll	<u><u>\$ 518,351</u></u>	<u><u>\$ 670,477</u></u>
City's net pension liability as a percentage of covered-employee payroll	138.9%	125.7%

**\*NOTE: This schedule will present 10 years of information once it is accumulated.**



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

*DECEMBER 31, 2017*

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	<b>2017</b>	<b>2016</b>
Actuarially determined contribution	\$ 153,362	\$ 152,944
Contributions in relation to the actuarially determined contribution	<u>(153,362)</u>	<u>(152,944)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 670,477	\$ 670,477
Contributions as a percentage of covered-employee payroll	22.87%	22.81%

**\*NOTE: This schedule will present 10 years of information once it is accumulated.**

**CITY OF HARLEM, GEORGIA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

*DECEMBER 31, 2017*

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**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
Amortization 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 actuarial 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%

There were no changes in the methods or assumptions from the prior valuation.

**CITY OF HARLEM, GEORGIA**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**

DECEMBER 31, 2017

	<b>Confiscation Fund</b>	<b>Technology Fund</b>	<b>Revolving Loan Fund</b>	<b>T-SPLOST Fund</b>	<b>SPLOST 2011-2016 Fund</b>	<b>CHIP Fund</b>	<b>LMIG Fund</b>	<b>Combined Totals</b>
<b>ASSETS</b>								
Cash and cash equivalents	\$ 4,855	\$ 13,219	\$ 121,209	\$ 155,190	\$ 427,755	\$ 100	\$ 33,477	\$ 755,805
Accounts receivable	-	-	-	10,046	-	-	-	10,046
<b>Total Assets</b>	<b>\$ 4,855</b>	<b>\$ 13,219</b>	<b>\$ 121,209</b>	<b>\$ 165,236</b>	<b>\$ 427,755</b>	<b>\$ 100</b>	<b>\$ 33,477</b>	<b>\$ 765,851</b>
<b>LIABILITIES</b>								
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100	\$ -	\$ 100
Accrued expenses	130	-	-	-	-	-	-	130
Unearned revenue	-	-	-	-	-	-	33,413	33,413
<b>Total Liabilities</b>	<b>130</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>100</b>	<b>33,413</b>	<b>33,643</b>
<b>FUND BALANCE</b>								
Restricted for								
Capital projects	-	-	-	165,236	427,755	-	64	593,055
Economic development	-	-	121,209	-	-	-	-	121,209
Committed to								
Capital outlay	-	13,219	-	-	-	-	-	13,219
Assigned								
Public safety	4,725	-	-	-	-	-	-	4,725
<b>Total Fund Balance</b>	<b>4,725</b>	<b>13,219</b>	<b>121,209</b>	<b>165,236</b>	<b>427,755</b>	<b>-</b>	<b>64</b>	<b>732,208</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 4,855</b>	<b>\$ 13,219</b>	<b>\$ 121,209</b>	<b>\$ 165,236</b>	<b>\$ 427,755</b>	<b>\$ 100</b>	<b>\$ 33,477</b>	<b>\$ 765,851</b>

**CITY OF HARLEM, GEORGIA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS**

DECEMBER 31, 2017

	<b>Confiscation Fund</b>	<b>Technology Fund</b>	<b>Revolving Loan Fund</b>	<b>T-SPLOST Fund</b>	<b>SPLOST 2011-2016 Fund</b>	<b>CHIP Fund</b>	<b>LMIG Fund</b>	<b>Total Non-Major Governmental Funds</b>
Revenue:								
Fines and forfeitures	\$ 630	\$ 2,996	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,626
Intergovernmental revenue	-	-	-	61,281	-	141,531	-	202,812
Uses of money/property	-	8	67	11	212	-	16	314
Total Revenue	<u>630</u>	<u>3,004</u>	<u>67</u>	<u>61,292</u>	<u>212</u>	<u>141,531</u>	<u>16</u>	<u>206,752</u>
Expenditures:								
Current Operating:								
General government	-	1,000	11,900	-	-	141,531	-	154,431
Public safety	4,452	-	-	-	-	-	-	4,452
Capital outlay	-	6,557	-	5,477	61,756	-	-	73,790
Total Expenditures	<u>4,452</u>	<u>7,557</u>	<u>11,900</u>	<u>5,477</u>	<u>61,756</u>	<u>141,531</u>	<u>-</u>	<u>232,673</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,822)</u>	<u>(4,553)</u>	<u>(11,833)</u>	<u>55,815</u>	<u>(61,544)</u>	<u>-</u>	<u>16</u>	<u>(25,921)</u>
Net change in fund balances	(3,822)	(4,553)	(11,833)	55,815	(61,544)	-	16	(25,921)
Fund balance, beginning of year	<u>8,547</u>	<u>17,772</u>	<u>133,042</u>	<u>109,421</u>	<u>489,299</u>	<u>-</u>	<u>48</u>	<u>758,129</u>
Fund balance, end of year	<u>\$ 4,725</u>	<u>\$ 13,219</u>	<u>\$ 121,209</u>	<u>\$ 165,236</u>	<u>\$ 427,755</u>	<u>\$ -</u>	<u>\$ 64</u>	<u>\$ 732,208</u>

**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, 2017, and the related notes to financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 28, 2018.

#### **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 2017-001.

#### **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.

A handwritten signature in black ink that reads "Chung Bekant LLP". The signature is written in a cursive, flowing style.

Augusta, Georgia  
June 28, 2018

**CITY OF HARLEM, GEORGIA**  
**SCHEDULE OF FINDINGS AND RESPONSES**

*YEAR ENDED DECEMBER 31, 2017*

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**Finding 2017-001**

**CONDITION:**

The City of Harlem, Georgia (the "City") did not prepare its financial statements for the year ended December 31, 2017, 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 accounting principles generally accepted in the United States of America ("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**

*YEAR ENDED DECEMBER 31, 2017*

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**Finding 2016-001**

**CONDITION:**

The City of Harlem, Georgia (the "City") did not prepare its financial statements for the year ended December 31, 2016, 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 accounting principles generally accepted in the United States of America ("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 2017-001.



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

*YEAR ENDED DECEMBER 31, 2017*

<b>Project</b>	<b>Original Estimated Cost</b>	<b>Amended Estimated Cost</b>	<b>Prior Year</b>	<b>Current Year</b>	<b>To Date</b>	<b>Percentage of Completion</b>
<b>Tier I</b>						
Vehicles and equipment	\$ 350,000	\$ 325,000	\$ 278,479	\$ 46,521	\$ 325,000	100%
Infrastructure (water and sewer)	718,224	193,224	128,832	-	128,832	67%
Transportation (roads and sidewalks)	200,000	160,000	11,000	-	11,000	7%
Public buildings	850,000	1,480,000	1,672,036	-	1,672,036	113%
Recreation	250,000	210,000	64,596	15,235	79,831	38%
Total - Tier I	<u>2,368,224</u>	<u>2,368,224</u>	<u>2,154,943</u>	<u>61,756</u>	<u>2,216,699</u>	
<b>Tier II</b>						
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>	
<b>Tier III</b>						
Infrastructure (water and 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>\$ 2,154,943</u>	<u>\$ 61,756</u>	<u>\$ 2,216,699</u>	

**CITY OF HARLEM, GEORGIA**  
**SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE**  
**LOCAL OPTION SALES TAX PROCEEDS (2017-2022)**

YEAR ENDED DECEMBER 31, 2017

<b>Project</b>	<b>Original Estimated Cost</b>	<b>Amended Estimated Cost</b>	<b>Prior Year</b>	<b>Current Year</b>	<b>To Date</b>	<b>Percentage of Completion</b>
<b>Tier I</b>						
Public buildings	\$ 1,942,531	\$ 1,955,481	\$ -	\$ 153,462 *	\$ 153,462	8%
Total - Tier I	1,942,531	1,955,481	-	153,462	153,462	
<b>Tier II</b>						
Vehicles and equipment	25,000	25,000	-	-	-	0%
Infrastructure (water and sewer)	25,000	25,000	-	-	-	0%
Transportation (roads and sidewalks)	25,000	25,000	-	-	-	0%
Public Buildings	223,755	262,606	-	-	-	0%
Recreation	25,000	25,000	-	-	-	0%
Total - Tier II	323,755	362,606	-	-	-	
<b>Tier III</b>						
Buildings	283,755	231,954	-	-	-	0%
Transportation (roads and sidewalks)	10,000	10,000	-	-	-	0%
Recreation	10,000	10,000	-	-	-	0%
Vehicles and equipment	10,000	10,000	-	-	-	0%
Infrastructure (water and sewer)	10,000	10,000	-	-	-	0%
Total - Tier III	323,755	271,954	-	-	-	
Grand Total	\$ 2,590,041	\$ 2,590,041	\$ -	\$ 153,462	\$ 153,462	

\*Consistent with the Intergovernmental Agreement with Columbia County, the City is reimbursing the General Fund for capital outlay expenditures for a public building which occurred in previous years.