



**CITY OF HARLEM, GEORGIA**

**ANNUAL FINANCIAL REPORT**

*As of and for the Year Ended December 31, 2016*

*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, 2016, 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, 2016, 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 contribution, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The combining 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 December 28, 2017 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.

Handwritten signature in black ink that reads "Cheryl Bekant LLP". The signature is written in a cursive, flowing style.

Augusta, Georgia  
December 28, 2017

# CITY OF HARLEM, GEORGIA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2016

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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, 2016.

### 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, 2016, by \$16.3 million. Of that amount \$1.7 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 \$159,000 for the year ended December 31, 2016.
- As of December 31, 2016, the City's governmental funds reported combined ending fund balances of approximately \$2.1 million, an increase of \$98,000 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, 2016

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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 resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long-term effect of the government's near-term financing decisions.

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

Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the Special Purpose Local Option Sales Tax ("SPLOST") 2011-2016 Fund, and the non-major funds. The General Fund and the SPLOST 2011-2016 Fund are considered to be major funds.

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

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

#### Other Information

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

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by approximately \$16.3 million at the close of the current fiscal year.

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

DECEMBER 31, 2016

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

By far the largest portion of the City's net position (88%) 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, 2016**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 2,292,876	\$ 2,142,765	\$ 961,629	\$ 783,261	\$ 3,254,505	\$ 2,926,026
Capital assets	10,559,135	10,782,534	7,303,913	7,474,069	17,863,048	18,256,603
Total Assets	12,852,011	12,925,299	8,265,542	8,257,330	21,117,553	21,182,629
Deferred outflows of resources	234,913	97,937	110,547	46,088	345,460	144,025
Long-term liabilities outstanding	2,595,000	2,683,751	1,333,150	1,420,464	3,928,150	4,104,215
Other liabilities	821,332	689,188	361,980	315,736	1,183,312	1,004,924
Total Liabilities	3,416,332	3,372,939	1,695,130	1,736,200	5,111,462	5,109,139
Deferred inflows of resources	4,025	20,959	1,894	9,862	5,919	30,821
Net Position:						
Net investment in capital assets	7,964,135	8,134,190	5,970,763	6,053,605	13,934,898	14,187,795
Restricted	731,810	658,707	-	-	731,810	658,707
Unrestricted	970,622	836,441	708,302	503,751	1,678,924	1,340,192
Total Net Position	\$ 9,666,567	\$ 9,629,338	\$ 6,679,065	\$ 6,557,356	\$ 16,345,632	\$ 16,186,694

**Governmental Activities**

The City's governmental revenues increased by 3% (\$80,234) when compared to 2015.

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 \$757,000 in 2016. These expenses were offset to some extent by revenues from fines and forfeitures which totaled approximately \$95,000. Another significant governmental expense in 2016 was providing for the general government. General government expenses totaled \$529,000, a decrease of 15% from 2015. The decrease in general government expenses is due, in most part, to expenditures made for capital projects in 2015.

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

DECEMBER 31, 2016

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

**Business-Type Activities**

Revenues from the City's business-type activities were \$1.65 million for the year ended December 31, 2016, an increase of 13% over 2015. This increase is due mainly to an increase in service charges related to water and sewer services provided. Expenses for the City's business-type activities were \$1.65 million, an increase of approximately 7% over 2015. This increase is due mainly to increased costs for operation and maintenance of the water and sewer system.

Governmental and business-type activities increased the City's net position by \$159,000. A summary of this increase is as follows:

**Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Charges for services	\$ 635,278	\$ 618,745	\$ 1,646,182	\$ 1,450,243	\$ 2,281,460	\$ 2,068,988
Operating grants	5,966	6,362	-	-	5,966	6,362
Capital grants/ contributions	536,002	518,887	-	-	536,002	518,887
General Revenues:						
Taxes	987,665	958,782	-	-	987,665	958,782
Sales tax	698,803	677,807	-	-	698,803	677,807
Other	42,491	45,388	359	636	42,850	46,024
Total Revenues	2,906,205	2,825,971	1,646,541	1,450,879	4,552,746	4,276,850
Expenses:						
General government	528,851	625,188	-	-	528,851	625,188
Public safety	757,201	799,114	-	-	757,201	799,114
Sanitation	260,577	280,935	-	-	260,577	280,935
Fire	185,587	187,725	-	-	185,587	187,725
Public works	587,418	548,942	-	-	587,418	548,942
Community services	167,113	230,533	-	-	167,113	230,533
Health and welfare	54,088	9,572	-	-	54,088	9,572
Culture and recreation	41,056	39,555	-	-	41,056	39,555
Interest and bond issuance costs	158,252	128,152	-	-	158,252	128,152
Water and sewer	-	-	1,653,665	1,550,158	1,653,665	1,550,158
Total Expenses	2,740,143	2,849,716	1,653,665	1,550,158	4,393,808	4,399,874
Surplus (Deficiency)	166,062	(23,745)	(7,124)	(99,279)	158,938	(123,024)
Transfers	(128,833)	(138,128)	128,833	138,128	-	-
Change in net position	37,229	(161,873)	121,709	38,849	158,938	(123,024)
Net position, beginning	9,629,338	9,791,211	6,557,356	6,518,507	16,186,694	16,309,718
Net position, ending	\$ 9,666,567	\$ 9,629,338	\$ 6,679,065	\$ 6,557,356	\$ 16,345,632	\$ 16,186,694



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

DECEMBER 31, 2016

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

As of December 31, 2016, the City had \$17.9 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 infrastructure consisting of storm drain repairs totaling approximately \$80,000, radio equipment totaling approximately \$177,000, and vehicles totaling approximately \$74,000.

**Capital Assets at Year End**

	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Total</b>
Land	\$ 714,819	\$ 40,277	\$ 755,096
Buildings and improvements	6,287,058	110,460	6,397,518
Vehicle and equipment	1,592,575	540,282	2,132,857
Infrastructure	7,500,789	-	7,500,789
Utility system	-	12,648,681	12,648,681
	<u>16,095,241</u>	<u>13,339,700</u>	<u>29,434,941</u>
Less accumulated depreciation	<u>(5,536,106)</u>	<u>(6,035,787)</u>	<u>(11,571,893)</u>
Total	<u>\$ 10,559,135</u>	<u>\$ 7,303,913</u>	<u>\$17,863,048</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:

	<b>2016</b>	<b>2015</b>
Business-type:		
Notes payable - GEFA	\$ 1,333,150	\$ 1,420,464
Governmental:		
Note payable - BB&T Bank	-	2,683,751
Note payable - Regions Bank	2,595,000	-
	<u>\$ 3,928,150</u>	<u>\$ 4,104,215</u>

Current year activity consisted of scheduled principal and interest payments on long-term debt, as well the refinancing of the note payable with BB&T bank, as discussed in Note 5 to the financial statements.

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

*DECEMBER 31, 2016*

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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 2017 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 2017 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, 2016

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 1,931,574	\$ 872,619	\$ 2,804,193
Receivables, net:			
Taxes	84,856	-	84,856
Accounts	212,978	83,232	296,210
Internal balances	15,115	(15,115)	-
Prepaid expenses	48,353	20,893	69,246
Capital Assets:			
Land	714,819	40,277	755,096
Depreciable, net of accumulated depreciation	9,844,316	7,263,636	17,107,952
<b>Total Assets</b>	<u>12,852,011</u>	<u>8,265,542</u>	<u>21,117,553</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension experience differences	57,633	27,121	84,754
Investment experience differences	45,858	21,580	67,438
Contributions to pension plan	131,422	61,846	193,268
<b>Total Deferred Outflows of Resources</b>	<u>234,913</u>	<u>110,547</u>	<u>345,460</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	175,730	46,918	222,648
Accrued expenses	30,956	9,447	40,403
Other liabilities	4,206	1,400	5,606
Unearned revenue	1,500	1,800	3,300
Noncurrent Liabilities:			
Compensated absences	35,631	32,623	68,254
Due within one year	80,000	91,054	171,054
Due in more than one year	2,515,000	1,242,096	3,757,096
Net pension liability	573,309	269,792	843,101
<b>Total Liabilities</b>	<u>3,416,332</u>	<u>1,695,130</u>	<u>5,111,462</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Changes in pension assumptions	4,025	1,894	5,919
<b>Total Deferred Inflows of Resources</b>	<u>4,025</u>	<u>1,894</u>	<u>5,919</u>
<b>NET POSITION</b>			
Net investment in capital assets	7,964,135	5,970,763	13,934,898
Restricted for:			
Economic development	133,042	-	133,042
Capital Projects	598,768	-	598,768
Unrestricted	970,622	708,302	1,678,924
<b>Total Net Position</b>	<u>\$ 9,666,567</u>	<u>\$ 6,679,065</u>	<u>\$ 16,345,632</u>

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

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

FOR THE YEAR ENDED DECEMBER 31, 2016

	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	\$ 528,851	\$ 70,630	\$ -	\$ 536,002	\$ 77,781	\$ -	\$ 77,781
Public safety	757,201	90,076	3,000	-	(664,125)	-	(664,125)
Fire	185,587	-	-	-	(185,587)	-	(185,587)
Community development	167,113	-	2,966	-	(164,147)	-	(164,147)
Health and welfare	54,088	-	-	-	(54,088)	-	(54,088)
Public works (highways and streets)	587,418	-	-	-	(587,418)	-	(587,418)
Culture and recreation	41,056	47,280	-	-	6,224	-	6,224
Sanitation	260,577	427,292	-	-	166,715	-	166,715
Interest and bond issuance costs	158,252	-	-	-	(158,252)	-	(158,252)
Total Governmental Activities	2,740,143	635,278	5,966	536,002	(1,562,897)	-	(1,562,897)
Business-type Activities:							
Water	1,653,665	1,646,182	-	-	-	(7,483)	(7,483)
Total Business-type Activities	1,653,665	1,646,182	-	-	-	(7,483)	(7,483)
Total Primary Government	\$ 4,393,808	\$ 2,281,460	\$ 5,966	\$ 536,002	(1,562,897)	(7,483)	(1,570,380)
General Revenues:							
Property taxes					610,808	-	610,808
Sales taxes					698,803	-	698,803
Other taxes					376,857	-	376,857
Payments in lieu of taxes					2,948	-	2,948
Unrestricted investment earnings					1,763	359	2,122
Other income					37,780	-	37,780
Total General Revenues					1,728,959	359	1,729,318
Transfers					(128,833)	128,833	-
Total General Revenues & Transfers					1,600,126	129,192	1,729,318
Change in Net Position					37,229	121,709	158,938
Net Position, Beginning of Year					9,629,338	6,557,356	16,186,694
Net Position, End of Year					\$ 9,666,567	\$ 6,679,065	\$ 16,345,632

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

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

DECEMBER 31, 2016

	General	SPLOST 2011-2016 Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,227,323	\$ 440,222	\$ 264,029	\$ 1,931,574
Taxes receivable	84,856	-	-	84,856
Accounts receivable	86,559	120,888	5,531	212,978
Prepaid expenses	48,353	-	-	48,353
Due from other funds	15,215	-	-	15,215
<b>Total Assets</b>	<b>\$ 1,462,306</b>	<b>\$ 561,110</b>	<b>\$ 269,560</b>	<b>\$ 2,292,976</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 103,919	\$ 71,811	\$ -	\$ 175,730
Due to other funds	-	-	100	100
Accrued salaries	7,437	-	630	8,067
Other liabilities	5,076	-	-	5,076
<b>Total Liabilities</b>	<b>116,432</b>	<b>71,811</b>	<b>730</b>	<b>188,973</b>
<b>FUND BALANCE</b>				
Non-spendable:				
Prepaid expenditures	48,353	-	-	48,353
Restricted for:				
Capital projects	-	489,299	109,469	598,768
Economic development	-	-	133,042	133,042
Committed to:				
Museum building repairs	26,089	-	-	26,089
Capital outlay	-	-	17,772	17,772
Assigned to:				
Public safety	-	-	8,547	8,547
Unassigned	1,271,432	-	-	1,271,432
<b>Total Fund Balance</b>	<b>1,345,874</b>	<b>489,299</b>	<b>268,830</b>	<b>2,104,003</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,462,306</b>	<b>\$ 561,110</b>	<b>\$ 269,560</b>	<b>\$ 2,292,976</b>

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

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

DECEMBER 31, 2016

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

Ending fund balances - Governmental funds	<u>\$ 2,104,003</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	16,095,241
Accumulated depreciation	<u>(5,536,106)</u>
	<u>10,559,135</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	234,913
Deferred inflows of resources related to pensions	<u>(4,025)</u>
	<u>230,888</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	(2,595,000)
Compensated absences	(35,631)
Net pension liability	(573,309)
Accrued interest	<u>(23,519)</u>
	<u>(3,227,459)</u>
Net position of governmental activities	<u>\$ 9,666,567</u>

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

FOR THE YEAR ENDED DECEMBER 31, 2016

	General	SPLOST 2011-2016 Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUE</b>				
Taxes	\$ 989,145	\$ -	\$ -	\$ 989,145
Permits and licenses	67,745	-	-	67,745
Fines and forfeitures	90,076	-	5,126	95,202
Intergovernmental revenue	697,823	406,964	128,859	1,233,646
Charges for services	427,842	-	-	427,842
Uses of money/property	-	179	84	263
Culture and recreation	47,280	-	-	47,280
Grants	8,914	-	-	8,914
Other	32,543	-	-	32,543
Total Revenue	<u>2,361,368</u>	<u>407,143</u>	<u>134,069</u>	<u>2,902,580</u>
<b>EXPENDITURES</b>				
Current Operating:				
General government	438,699	-	48,099	486,798
Public safety	838,487	-	1,205	839,692
Fire	134,834	-	-	134,834
Public works (highways and streets)	412,526	-	-	412,526
Health and welfare	54,088	-	-	54,088
Culture and recreation	41,056	-	-	41,056
Sanitation	260,577	-	-	260,577
Community development	135,663	-	-	135,663
Capital outlay	-	138,576	35,621	174,197
Debt service:				
Principal	2,683,751	-	-	2,683,751
Interest	125,395	-	-	125,395
Debt issuance costs	62,006	-	-	62,006
Total Expenditures	<u>5,187,082</u>	<u>138,576</u>	<u>84,925</u>	<u>5,410,583</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,825,714)</u>	<u>268,567</u>	<u>49,144</u>	<u>(2,508,003)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	240,679	-	-	240,679
Transfers (out)	-	(240,679)	-	(240,679)
Refunding bonds issued	2,595,000	-	-	2,595,000
Sale of general capital assets	10,827	-	-	10,827
Total Other Financing Sources (Uses)	<u>2,846,506</u>	<u>(240,679)</u>	<u>-</u>	<u>2,605,827</u>
Net change in fund balances	20,792	27,888	49,144	97,824
Fund balance, beginning of year	1,325,082	461,411	219,686	2,006,179
Fund balance, end of year	<u>\$ 1,345,874</u>	<u>\$ 489,299</u>	<u>\$ 268,830</u>	<u>\$ 2,104,003</u>

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

# CITY OF HARLEM, GEORGIA

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

FOR THE YEAR ENDED DECEMBER 31, 2016

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

Net change in fund balances - total governmental funds	\$	97,824
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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	\$	311,301	
Net book value of disposals and transfers		(6,580)	
Depreciation expense		<u>(528,120)</u>	(223,399)

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.

Issuance of long term debt	\$	(2,595,000)	
Principal payments on long term debt		2,683,751	
Compensated absences		4,205	
Accrued interest		<u>29,149</u>	122,105

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>40,699</u>	
Change in net position of governmental activities	\$	<u><u>37,229</u></u>	



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

FOR THE YEAR ENDED DECEMBER 31, 2016

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
<b>REVENUES</b>				
Taxes	\$ 953,544	\$ 988,389	\$ 989,145	\$ 756
Permits and licenses	43,350	67,565	67,745	180
Fines and forfeitures	115,000	90,000	90,076	76
Intergovernmental	660,000	697,800	697,823	23
Charges for services	401,050	427,500	427,842	342
Use of money/property	1,540	1,665	-	(1,665)
Culture and recreation	45,950	47,125	47,280	155
Grants	2,800	8,865	8,914	49
Other	26,475	30,731	32,543	1,812
Total Revenues	<u>2,249,709</u>	<u>2,359,640</u>	<u>2,361,368</u>	<u>1,728</u>
<b>EXPENDITURES</b>				
General government	433,985	438,880	438,699	181
Public safety	732,588	866,145	838,487	27,658
Fire	133,787	135,002	134,834	168
Public works, highways	451,470	430,870	412,526	18,344
Health and welfare	63,222	63,222	54,088	9,134
Culture and recreation	47,807	48,622	41,056	7,566
Sanitation	240,000	260,600	260,577	23
Community services	144,282	143,467	135,663	7,804
Debt service:				
Principal	111,644	150,757	2,683,751	(2,532,994)
Interest	131,603	125,395	125,395	-
Debt issuance costs	-	-	62,006	(62,006)
Total Expenditures	<u>2,490,388</u>	<u>2,662,960</u>	<u>5,187,082</u>	<u>(2,524,122)</u>
Revenue over (under) expenditures	<u>(240,679)</u>	<u>(303,320)</u>	<u>(2,825,714)</u>	<u>(2,522,394)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	240,679	240,679	240,679	-
Refunding loan issued	-	-	2,595,000	2,595,000
Sale of general capital assets	-	10,827	10,827	-
Fund balance appropriations	-	51,814	-	(51,814)
Total Other Financing Sources	<u>240,679</u>	<u>303,320</u>	<u>2,846,506</u>	<u>2,543,186</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>20,792</u>	<u>\$ 20,792</u>
Fund balance, beginning of year			<u>1,325,082</u>	
Fund balance, end of year			<u>\$ 1,345,874</u>	

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

DECEMBER 31, 2016

**ASSETS**

Current Assets:

Cash and cash equivalents	\$ 872,619
Accounts receivable, net of allowance	83,232
Prepaid expenses	20,893
<b>Total Current Assets</b>	<u>976,744</u>

Capital Assets:

Land	40,277
Depreciable, net of accumulated depreciation	7,263,636
<b>Total Capital Assets</b>	<u>7,303,913</u>
<b>Total Assets</b>	<u>8,280,657</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Pension experience differences	27,121
Investment experience differences	21,580
Contributions to pension plan	61,846
<b>Total Deferred Outflows of Resources</b>	<u>83,426</u>

**LIABILITIES**

Current Liabilities:

Accounts payable	46,918
Accrued expenses	9,447
Due to General Fund	15,115
Compensated absences	32,623
Unearned income and customer deposits	3,200
Construction loan payable - GEFA - current portion	91,054
<b>Total Current Liabilities</b>	<u>198,357</u>

Noncurrent liabilities:

Net pension liability	269,792
Construction loan payable - GEFA	1,242,096
<b>Total Noncurrent Liabilities</b>	<u>1,511,888</u>
<b>Total Liabilities</b>	<u>1,710,245</u>

**DEFERRED INFLOWS OF RESOURCES**

Changes in pension assumptions	1,894
<b>Total Deferred Inflows of Resources</b>	<u>1,894</u>

**NET POSITION**

Net investment in capital assets	5,970,763
Unrestricted	708,302
<b>Total Net Position</b>	<u>\$ 6,679,065</u>

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

*FOR THE YEAR ENDED DECEMBER 31, 2016*

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Operating Revenues:	
Water and sewer sales	\$ 1,563,060
Service charges/penalties	61,522
Other revenues	<u>21,600</u>
Total Operating Revenues	<u>1,646,182</u>
Operating Expense:	
Salaries and wages	371,175
Insurance and pension cost	102,086
Utilities	76,751
Maintenance and repair	193,063
Chemicals	34,530
Postage and supplies	29,833
Miscellaneous	14,452
County water and sewerage charges	339,460
Depreciation	298,989
Professional fees	116,352
Testing and training	10,130
Vehicle expense	<u>8,853</u>
Total Operating Expenses	<u>1,595,674</u>
Operating Income	<u>50,508</u>
Non-operating Revenue (Expense):	
Interest income	359
Interest expense	<u>(57,991)</u>
Total Non-operating Expenses	<u>(57,632)</u>
Loss before transfers and contributions	(7,124)
Capital contributions	<u>128,833</u>
Change in net position	121,709
Net position, beginning of year	<u>6,557,356</u>
Total net position, end of year	<u>\$ 6,679,065</u>

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

*FOR THE YEAR ENDED DECEMBER 31, 2016*

**Cash flows from operating activities:**

Cash received from customers and others	\$ 1,639,936
Cash paid for goods and services	(830,306)
Cash paid to or on behalf of employees	(500,073)
Cash received from other funds	15,090
Net cash from operating activities	<u>324,647</u>

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

Principal paid on long-term debt	(87,314)
Interest paid on long-term debt	(57,991)
Net cash from capital and related financing activities	<u>(145,305)</u>

**Cash flows from investing activities:**

Interest income received	359
Net cash from investing activities	<u>359</u>

Net change in cash and cash equivalents	179,701
Cash and cash equivalents, beginning of year	692,918
Cash and cash equivalents, end of year	<u>\$ 872,619</u>

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

Operating income	\$ 50,508
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	298,989
Net change in assets and liabilities:	
Accounts receivable	(7,646)
Prepaid expenses	(6,111)
Due to/from other funds	15,090
Accounts payable and accrued expenses	(8,432)
Unearned income and customer deposits	1,400
Net pension changes	(19,151)
Net cash from operating activities	<u>\$ 324,647</u>

**Schedule of Noncash Investing, Capital and Financing Activities:**

During the year ended December 31, 2016, the Water and Sewer fund received equipment purchased by the SPLOST fund totaling \$128,833, for use by the Water and Sewer fund.

# CITY OF HARLEM, GEORGIA

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

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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, 2016*

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

The government reports the following 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.

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, 2016

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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, 2016, 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, 2016

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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, 2016

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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, 2016

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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, 2016*

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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 General Fund incurred expenditures in excess of appropriations for principal repayments of \$2,532,994 and debt issuance costs of \$62,006. The expenditures incurred in excess of appropriations were due to a refunding loan issued during 2016 and are offset by other financing sources in excess of budgeted amounts for the refunding loan issued of \$2,595,000.

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, 2016, there were no funds with a deficit fund balance.

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

*DECEMBER 31, 2016*

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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, 2016, the carrying amount of the City's deposits was \$2,804,193 and is classified as cash and cash equivalents and restricted cash in the accompanying statement of net position. As of June 30, 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 2016 that were levied on September 15, 2016, were due November 15, 2016. 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, 2016, totaled \$697,823. 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, 2016

**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, 2016, totaled \$406,964.

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>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Taxes	\$ 84,856	\$ -	\$ 84,856
Accounts	212,978	183,992	396,970
Gross receivables	297,834	183,992	481,826
Less allowance for uncollectible	-	(100,760)	(100,760)
Net Total Receivable	<u>\$ 297,834</u>	<u>\$ 83,232</u>	<u>\$ 381,066</u>

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

DECEMBER 31, 2016

**Note 4—Capital assets**

**A. General government**

A summary of changes in capital assets follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 714,819	\$ -	\$ -	\$ 714,819
Construction in progress	83,472	45,360	(128,832)	-
Total Capital Assets, not being depreciated	<u>798,291</u>	<u>45,360</u>	<u>(128,832)</u>	<u>714,819</u>
Capital assets, being depreciated:				
Infrastructure	7,385,640	115,149	-	7,500,789
Buildings and improvements	6,258,543	28,515	-	6,287,058
Vehicles and equipment	1,385,807	251,109	(44,341)	1,592,575
	<u>15,029,990</u>	<u>394,773</u>	<u>(44,341)</u>	<u>15,380,422</u>
Less accumulated depreciation:				
Infrastructure	(2,868,309)	(251,537)	-	(3,119,846)
Buildings and improvements	(1,270,015)	(161,825)	-	(1,431,840)
Vehicles and equipment	(907,423)	(114,758)	37,761	(984,420)
	<u>(5,045,747)</u>	<u>(528,120)</u>	<u>37,761</u>	<u>(5,536,106)</u>
Total capital assets, being depreciated, net	<u>9,984,243</u>	<u>(133,347)</u>	<u>(6,580)</u>	<u>9,844,316</u>
Governmental activities capital assets, net	<u>\$ 10,782,534</u>	<u>\$ (87,987)</u>	<u>\$ (135,412)</u>	<u>\$ 10,559,135</u>

Depreciation expense for the year ended December 31, 2016, was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 60,718
Public safety	124,673
Fire	50,753
Community services	31,783
Public works	<u>260,193</u>
Total depreciation expense – governmental activities	<u>\$ 528,120</u>

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

DECEMBER 31, 2016

**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
Total Capital Assets, not being depreciated	40,277	-	-	40,277
Capital assets, being depreciated				
Building	110,460	-	-	110,460
Vehicles and equipment	416,449	128,833	(5,000)	540,282
Utility systems	12,648,681	-	-	12,648,681
Total capital assets, being depreciated, net	13,175,590	128,833	(5,000)	13,299,423
Less accumulated depreciation:				
Building	(4,603)	(4,603)	-	(9,206)
Vehicles and equipment	(336,883)	(21,672)	5,000	(353,555)
Utility systems	(5,400,312)	(272,714)	-	(5,673,026)
Total accumulated depreciation	(5,741,798)	(298,989)	5,000	(6,035,787)
Total capital assets, being depreciated, net	7,433,792	(170,156)	-	7,263,636
Capital assets, net	<u>\$ 7,474,069</u>	<u>\$ (170,156)</u>	<u>\$ -</u>	<u>\$ 7,303,913</u>

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

DECEMBER 31, 2016

**Note 5—Long-term debt**

The following is a summary of long-term debt activity for the year ended December 31, 2016:

	Balance	2016		Balance	Due Within
	January 1, 2016	Additions	Reductions	December 31, 2016	
Governmental activities:					
Notes payable	\$ 2,683,751	\$ 2,595,000	\$ 2,683,751	\$ 2,595,000	\$ 80,000
Compensated absences	39,836	35,631	39,836	35,631	35,631
Governmental activities long-term liabilities	<u>\$ 2,723,587</u>	<u>\$ 2,630,631</u>	<u>\$ 2,723,587</u>	<u>\$ 2,630,631</u>	<u>\$ 115,631</u>
Business-type activities:					
2005 GEFA loan	\$ 1,420,464	\$ -	\$ 87,314	\$ 1,333,150	\$ 91,054
Compensated absences	31,772	32,623	31,772	32,623	32,623
Business-type activities long-term liabilities	<u>\$ 1,452,236</u>	<u>\$ 32,623</u>	<u>\$ 119,086</u>	<u>\$ 1,365,773</u>	<u>\$ 123,677</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, 2016, are as follows:

	Principal	Interest	Total Payment
2017	\$ 80,000	\$ 73,489	\$ 153,489
2018	183,000	59,873	242,873
2019	187,000	55,301	242,301
2020	192,000	50,764	242,764
2021	197,000	45,814	242,814
2022-2026	1,057,000	153,008	1,210,008
2027-2029	699,000	26,209	725,209
	<u>\$ 2,595,000</u>	<u>\$ 464,458</u>	<u>\$ 3,059,458</u>



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

DECEMBER 31, 2016

**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, 2016, are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total Payment</b>
2017	\$ 91,054	\$ 54,253	\$ 145,307
2018	94,951	50,354	145,305
2019	99,018	46,288	145,306
2020	103,258	42,049	145,307
2021	107,679	37,627	145,306
2022-2026	611,631	114,900	726,531
2027-2028	225,559	8,101	233,660
	<u>\$ 1,333,150</u>	<u>\$ 353,572</u>	<u>\$ 1,686,722</u>

**Note 6—Interfund receivables/transfers**

As of December 31, 2016, \$15,115 was due to the General Fund from the Water and Sewer Fund and \$100 was due to the General Fund from the CHIP Fund. Additionally, the SPLOST 2011-2016 transferred \$240,679 to the General Fund for the payment of a BB&T loan on a building for which the cost was included in the SPLOST 2011-2016 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 meet the cash flow needs of servicing the debt. The General Fund also transferred capital assets totaling \$128,833 to the Water and Sewer Fund.

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

**Note 7—Risk management**

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

**A. Risk pool**

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

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

DECEMBER 31, 2016

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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, 2016, the Plan membership consisted of the following:

Inactive Plan members or beneficiaries currently receiving benefits	15
Inactive Plan members entitled to, but not receiving benefits	17
Active Plan members	21
	<hr/>
	53
	<hr/>

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

DECEMBER 31, 2016

**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, 2016, the City's contribution rate was 21.94% of annual covered payroll. City contributions to the Plan were \$218,482 for the year ended December 31, 2016.

**D. Net Pension Liability**

The City's net pension liability was measured as of March 31, 2016, which would make it applicable to the fiscal year beginning January 1, 2016 and ending December 31, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016.

**E. Actuarial Assumptions**

The mortality and economic actuarial assumptions used in the July 1, 2016, 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, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The long-term expected rate of return on 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, 2016, are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic equity	45%	6.75%
International equity	20%	7.45%
Real estate	10%	4.55%
Global fixed income	5%	3.30%
Domestic fixed income	20%	1.75%
Total	100%	

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

DECEMBER 31, 2016

**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	\$1,138,120	\$843,101	\$597,246

**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, 2016, 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, 2015	<u>\$2,049,782</u>	<u>\$1,373,168</u>	<u>\$676,614</u>
Changes for the year:			
Service cost	57,426	-	57,426
Interest	154,267	-	154,267
Differences between expected and actual experience	105,065	-	105,065
Contributions – employer	-	152,944	(152,944)
Contributions – employee	-	-	-
Net investment income	-	5,352	(5,352)
Benefit payments, including refunds of employee contributions	(118,472)	(118,472)	-
Administrative expense	-	(8,025)	8,025
Other	-	-	-
Net changes	<u>198,286</u>	<u>31,799</u>	<u>166,487</u>
Balances at March 31, 2016	<u>\$2,248,068</u>	<u>\$1,404,967</u>	<u>\$843,101</u>

The required schedule of changes in the City's net pension liability and related ratios on page 37-39 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, 2016

**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, 2016, the City recognized pension expense of \$117,931. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 84,754	\$ -
Changes of assumptions	-	(5,919)
Net difference between projected and actual earnings on Plan investments	67,438	-
City contributions subsequent to the measurement date	193,268	-
Total	<u>\$ 345,460</u>	<u>\$ (5,919)</u>

City contributions subsequent to the measurement date of \$193,268 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	
2017	\$ 59,486
2018	50,695
2019	15,673
2020	20,419
Total	<u>\$ 146,273</u>

**Note 9—Other Retirement Plans**

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

In December 2012, the City Council approved the adoption of “The Georgia Municipal Association 401(a) Defined Contribution Plan” (the “401(a) Plan”). All full-time employees with six months of service hired after December 17, 2012, are eligible to participate in the plan. The City contributes 3% of total compensation to the 401(a) Plan. Additionally, the City will match 100% of contributions to the 457(b) Plan up to 3% of total compensation through contributions to the 401(a) Plan. Matching and nonmatching contributions are 100% vested after a participant has been employed five years and matching contributions remain 0% vested until the participant satisfies the full vesting period. As of December 31, 2016, there were eleven plan participants. For the year ended December 31, 2016, the City made contributions of \$5,117 to the Defined Contribution Plan.

# CITY OF HARLEM, GEORGIA

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

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### **Note 10—Joint venture**

Under Georgia law, the City, in conjunction with other cities and counties in the Central Savannah River Area, is a member of the Central Savannah River Area Regional Commission (“RC”) and is required to pay annual dues thereto. During the year ended December 31, 2016, 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 11—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 2016, the City received \$2,948 for the 2015 assessment year from the Harlem Housing Authority as payment in lieu of taxes.

### **Note 12—Commitments and contingencies**

#### **A. Commitments**

As of December 31, 2016, the City has no outstanding commitments.

#### **B. Contingencies**

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

### **Note 13—Landfill post-closure cost**

The City contracts with 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 2016 were \$31,444.

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

DECEMBER 31, 2016

	<u>2016</u>	<u>2015</u>
<b>Total pension liability:</b>		
Service Cost	\$ 57,426	\$ 62,619
Interest on total pension liability	154,267	144,614
Differences between expected and actual experience	105,065	44,129
Benefit payments, including refunds of employee contributions	(118,472)	(99,611)
Other	-	(17,758)
<b>Net change in total pension liability</b>	<u>198,286</u>	<u>133,993</u>
Total pension liability - beginning	<u>2,049,782</u>	<u>1,915,789</u>
Total pension liability - ending (a)	<u>\$ 2,248,068</u>	<u>\$ 2,049,782</u>
<b>Plan fiduciary net position:</b>		
Contributions - employer	\$ 152,944	\$ 160,035
Net investment income	5,352	118,891
Benefit payments, including refunds of employee contributions	(118,472)	(99,611)
Administrative expense	(8,025)	(7,582)
<b>Net change in fiduciary net position</b>	<u>31,799</u>	<u>171,733</u>
Plan fiduciary net position - beginning	<u>1,373,168</u>	<u>1,201,435</u>
Plan fiduciary net position - ending (b)	<u>\$ 1,404,967</u>	<u>\$ 1,373,168</u>
<b>Net pension liability (a) - (b)</b>	<u>\$ 843,101</u>	<u>\$ 676,614</u>
Plan fiduciary net position as a percentage of the total pension liability	62.50%	66.99%
Covered-employee payroll	<u>\$ 670,477</u>	<u>\$ 687,814</u>
City's net pension liability as a percentage of covered-employee payroll	125.7%	98.4%

**\*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, 2016*

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	<b>2016</b>	<b>2015</b>
Actuarially determined contribution	\$ 152,944	\$ 152,805
Contributions in relation to the actuarially determined contribution	<u>(152,944)</u>	<u>(152,805)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 670,477	\$ 687,814
Contributions as a percentage of covered-employee payroll	22.81%	22.22%

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



**CITY OF HARLEM, GEORGIA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

*DECEMBER 31, 2016*

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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, 2016

	<b>Confiscation Fund</b>	<b>Technology Fund</b>	<b>Revolving Loan Fund</b>	<b>T-SPLOST Fund</b>	<b>CHIP Fund</b>	<b>LMIG Fund</b>	<b>Combined Totals</b>
<b>ASSETS</b>							
Cash and cash equivalents	\$ 9,177	\$ 17,772	\$ 133,042	\$ 103,890	\$ 100	\$ 48	\$ 264,029
Accounts receivable	-	-	-	5,531	-	-	5,531
<b>Total Assets</b>	<b>\$ 9,177</b>	<b>\$ 17,772</b>	<b>\$ 133,042</b>	<b>\$ 109,421</b>	<b>\$ 100</b>	<b>\$ 48</b>	<b>\$ 269,560</b>
<b>LIABILITIES</b>							
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ 100	\$ -	\$ 100
Accrued expenses	630	-	-	-	-	-	630
<b>Total Liabilities</b>	<b>630</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>100</b>	<b>-</b>	<b>730</b>
<b>FUND BALANCE</b>							
Restricted for							
Capital projects	-	-	-	109,421	-	48	109,469
Economic development	-	-	133,042	-	-	-	133,042
Committed to							
Capital outlay	-	17,772	-	-	-	-	17,772
Assigned							
Public safety	8,547	-	-	-	-	-	8,547
<b>Total Fund Balance</b>	<b>8,547</b>	<b>17,772</b>	<b>133,042</b>	<b>109,421</b>	<b>-</b>	<b>48</b>	<b>268,830</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 9,177</b>	<b>\$ 17,772</b>	<b>\$ 133,042</b>	<b>\$ 109,421</b>	<b>\$ 100</b>	<b>\$ 48</b>	<b>\$ 269,560</b>

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

*DECEMBER 31, 2016*

	<b>Confiscation Fund</b>	<b>Technology Fund</b>	<b>Revolving Loan Fund</b>	<b>T-SPLOST Fund</b>	<b>CHIP Fund</b>	<b>LMIG Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUE</b>							
Fines and forfeitures	\$ 2,241	\$ 2,885	\$ -	\$ -	\$ -	\$ -	\$ 5,126
Intergovernmental revenue	-	-	-	55,307	48,079	25,473	128,859
Uses of money/property	-	8	66	-	-	10	84
Total Revenue	<u>2,241</u>	<u>2,893</u>	<u>66</u>	<u>55,307</u>	<u>48,079</u>	<u>25,483</u>	<u>134,069</u>
<b>EXPENDITURES</b>							
Current Operating							
General government	-	-	-	-	48,079	20	48,099
Public safety	1,205	-	-	-	-	-	1,205
Capital outlay	-	-	-	10,148	-	25,473	35,621
Total Expenditures	<u>1,205</u>	<u>-</u>	<u>-</u>	<u>10,148</u>	<u>48,079</u>	<u>25,493</u>	<u>84,925</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,036</u>	<u>2,893</u>	<u>66</u>	<u>45,159</u>	<u>-</u>	<u>(10)</u>	<u>49,144</u>
Net change in fund balances	1,036	2,893	66	45,159	-	(10)	49,144
Fund balance, beginning of year	7,511	14,879	132,976	64,262	-	58	219,686
Fund balance, end of year	<u>\$ 8,547</u>	<u>\$ 17,772</u>	<u>\$ 133,042</u>	<u>\$ 109,421</u>	<u>\$ -</u>	<u>\$ 48</u>	<u>\$ 268,830</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, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 28, 2017.

**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 2016-001.

**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 "Cheryl Bekant LLP". The signature is written in a cursive, flowing style.

Augusta, Georgia  
December 28, 2017

# **CITY OF HARLEM, GEORGIA**

## **SCHEDULE OF FINDINGS AND RESPONSES**

*FOR YEAR ENDED DECEMBER 31, 2016*

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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.

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**

*FOR YEAR ENDED DECEMBER 31, 2016*

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**Finding 2015-01**

**CONDITION:**

The City of Harlem, Georgia (the "City") did not prepare its financial statements for the year ended December 31, 2015, or its conversion entries related to converting the fund financial statements to the statement of net position and statement of activities. 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 2016-001.

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

FOR YEAR ENDED DECEMBER 31, 2016

<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	\$ 213,778	\$ 64,701	\$ 278,479	86%
Infrastructure (water and sewer)	718,224	193,224	83,472	45,360	128,832	67%
Transportation (roads and sidewalks)	200,000	160,000	11,000	-	11,000	7%
Public buildings	850,000	1,480,000	1,431,357	240,679	1,672,036	113%
Recreation	250,000	210,000	36,081	28,515	64,596	31%
Total - Tier I	<u>2,368,224</u>	<u>2,368,224</u>	<u>1,775,688</u>	<u>379,255</u>	<u>2,154,943</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) sewer	521,749	521,749	-	-	-	0%
Total - Tier III	<u>521,749</u>	<u>521,749</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Grand Total</b>	<u>\$ 3,700,350</u>	<u>\$ 3,700,350</u>	<u>\$ 1,775,688</u>	<u>\$ 379,255</u>	<u>\$ 2,154,943</u>	