

CITY OF HARLEM, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011

CITY OF HARLEM, GEORGIA

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	2-3
MANAGEMENT DISCUSSION AND ANALYSIS	4-10
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of net assets	11
Statement of activities	12
Governmental funds balance sheet	13
Reconciliation of the governmental funds balance to the statement of net assets.....	14
Governmental funds statement of revenues, expenditures, and changes in fund balances.....	15
Reconciliation of the statement of revenue, expenditures, and changes in fund balances of governmental funds to the statement of activities	16
Statement of revenues, expenditures, and changes in fund balance budget and actual - general fund	17
Proprietary funds statement of net assets.....	18
Statement of revenues, expenses, and changes in net assets proprietary fund	19
Statement of cash flows proprietary fund	20
Notes to Financial Statements	21-42
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of funding progress	43
COMPLIANCE SECTION	
Independent Auditor's Report on Compliance and Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	44-45
Schedule of findings and responses	46
Schedule of prior year findings and responses	47
STATE REPORTING SECTION	
Schedule of expenditures of special purpose local option sales tax proceeds (2006-2010)	48
Schedule of expenditures of special purpose local option sales tax proceeds (2011-2016)	49



Independent Auditor's Report

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

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but do not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City, as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the year ended December 31, 2011. As discussed in Note 17 to the financial statements, errors resulting in understatement of beginning net assets as of December 31, 2011, were discovered during the current year. Accordingly, adjustments have been made to beginning net assets as of December 31, 2011, to correct the errors.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2012, 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, contract 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 the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 and schedule of funding progress on page 43 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 the 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.

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 schedules of expenditures of special purpose local option sales tax proceeds are presented for additional analysis as required by the Office Code of Georgia 48-8-121 and are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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. The information has been subjected to the auditing procedures applied in the audit of the 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 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.

Chung, Bekant & Holland, L.L.P.

Augusta, Georgia
December 10, 2012

CITY OF HARLEM, GEORGIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011

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, 2011.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year ending December 31, 2011 by \$18.0 million, of that amount \$3.2 million (unrestricted net assets) may be used to meet the City's ongoing obligations to the citizens and creditors.
- The City's total net assets decreased by \$362,000 for the year ended December 31, 2011. The decrease in net assets was due primarily from operating losses in the proprietary fund.
- As of December 31, 2011, the City's governmental funds reported combined ending fund balances of \$2,822,327 an increase of \$336,050 in comparison with the prior year.
- The City's total long-term liabilities increased \$2,837,937 during the year. Long-term liabilities consisted of two GEFA loans, and two loans loan from BB&T Bank.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the City of Harlem'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 the 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 assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The statement of net assets 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 assets 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 assets 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.

CITY OF HARLEM, GEORGIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

In the statement of net assets 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.

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 assets and the statement of activities) and governmental funds is detailed in a reconciliation following the fund financial statements. The City maintains five individual governmental funds.

Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the SPLOST 2006-2010 Fund, the SPLOST 2011-2016 Fund, the Capital Projects Fund and the CDBG Fund. The General Fund, the SPLOST 2006-2010 Fund, and the SPLOST 2011-2016 Fund are considered to be major funds.

CITY OF HARLEM, GEORGIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Reporting the City's Most Significant Funds (Continued)

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 Assets and Statement of Activities. In fact, the City's enterprise fund (a component of proprietary fund) is identical to the business-type activities that are reported in the government-wide 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. The notes to the basic financial statements can be found beginning on page 21 of this report.

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 the employees. Supplementary information can be found on page 43.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately \$18.0 million at the close of the current fiscal year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

By far the largest portion of the City's net assets (80 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses its capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF HARLEM, GEORGIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011

**Summary of Net Assets
December 31, 2011**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010 Restated	2011	2010 Restated	2011	2010 Restated
Current and other assets	\$ 3,025,278	\$ 2,701,535	\$ 2,166,266	\$ 979,601	\$ 5,191,544	\$ 3,681,136
Capital assets	10,974,379	9,720,749	8,347,621	8,658,566	19,322,000	18,379,315
Total assets	13,999,657	12,422,284	10,513,887	9,638,167	24,513,544	22,060,451
Long-term liabilities outstanding	3,078,998	93,034	2,778,572	2,934,160	5,857,570	3,027,194
Other liabilities	305,046	252,807	285,614	352,914	590,660	605,721
Total liabilities	3,384,044	345,841	3,064,186	3,287,074	6,448,230	3,632,915
Net assets:						
Invested in capital assets, net of related debt	9,319,921	9,614,214	5,414,869	5,577,250	14,734,790	15,191,464
Restricted	156,568	1,309,371	-	-	156,568	1,309,371
Unrestricted	1,139,124	1,152,858	2,034,832	773,843	3,173,956	1,926,701
Total net assets	\$ 10,615,613	\$ 12,076,443	\$ 7,449,701	\$ 6,351,093	\$ 18,065,314	\$ 18,427,536

Governmental Activities

The City's governmental revenues decreased by 15% (\$393,489) when compared to 2010.

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 \$698,986 in 2011. These expenses were offset by revenues from fines and forfeitures, which totaled more than \$89,864. Another significant governmental expense in 2011 was providing for the general government. General government expenses totaled \$472,401, which was offset by revenues from taxes of \$581,284.

Business-type activities

Revenue of the City's business-type activities were \$2,650,530 (including transfers from governmental funds) for the year ended December 31, 2011. Expenses for the City's business-type activities were \$1,551,922 resulting in a net income of \$1,098,608.

CITY OF HARLEM, GEORGIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011

Governmental and business type activities decreased the City's net assets by \$362,222. A summary of this decrease are as follows:

Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010 Restated	2011	2010 Restated	2011	2010 Restated
Revenues:						
Program Revenues:						
Charges for services	\$ 516,477	\$ 516,430	\$ 1,260,408	\$ 1,195,650	\$ 1,776,885	\$ 1,712,080
Operating grants	28,235	95,815	-	79,438	28,235	175,253
General Revenues:						
Taxes	581,284	621,272	-	-	581,284	621,272
Sales tax	1,112,866	1,344,181	-	-	1,112,866	1,344,181
Other	52,243	106,896	695	9,704	52,938	116,600
Total revenues	2,291,105	2,684,594	1,261,103	1,284,792	3,552,208	3,969,386
Expenses:						
General government	472,401	551,870	-	-	472,401	551,870
Public safety	698,986	693,686	-	-	698,986	693,686
Sanitation	235,064	220,185	-	-	235,064	220,185
Fire	118,833	92,007	-	-	118,833	92,007
Public works	627,178	598,960	-	-	627,178	598,960
Community services	65,939	78,222	-	-	65,939	78,222
Health and welfare	30,062	78,522	-	-	30,062	78,522
Culture and recreation	49,003	67,571	-	-	49,003	67,571
Interest on long-term debt	65,042	4,745	-	-	65,042	4,745
Water and sewer	-	-	1,551,922	1,520,422	1,551,922	1,520,422
Total expenses	2,362,508	2,385,768	1,551,922	1,520,422	3,914,430	3,906,190
Excess	(71,403)	298,826	(290,819)	(235,630)	(362,222)	63,196
Transfers	(1,389,427)	(435,509)	1,389,427	435,509	-	-
Increase (decrease) in net assets	\$ (1,460,830)	\$ (136,683)	\$ 1,098,608	\$ 199,879	\$ (362,222)	\$ 63,196

CITY OF HARLEM, GEORGIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2011, the City had \$19.3 million (net of accumulated depreciation). This investment in capital asset includes sheriff and fire equipment, buildings, park facilities, roads, and bridges. Major capital asset additions were the improvements made to a new Public Safety building totaling \$1,570,145, other building improvements totaling \$55,108, and equipment purchases totaling \$35,015.

Capital Assets at year-end

	Governmental Activities	Business-Type Activities	Total
Land	\$ 582,716	\$ 40,277	\$ 622,993
Buildings and improvements	3,695,271	-	3,695,271
Vehicle and equipment	1,370,828	296,041	1,666,869
Infrastructure	7,187,812	-	7,187,812
Construction in progress	1,716,236	-	1,716,236
Utility system	-	12,526,298	12,526,298
	<u>14,552,863</u>	<u>12,862,616</u>	<u>27,415,479</u>
Less accumulated depreciation	<u>(3,578,484)</u>	<u>(4,514,995)</u>	<u>(8,093,479)</u>
Total	<u>\$ 10,974,379</u>	<u>\$ 8,347,621</u>	<u>\$ 19,322,000</u>
This year the major additions were:			
Vehicle and equipment	\$ 35,015	\$ -	\$ 35,015
Construction in progress	1,570,145	-	1,570,145
Buildings and improvements	55,108	-	55,108
	<u>\$ 1,660,268</u>	<u>\$ -</u>	<u>\$ 1,660,268</u>

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

CITY OF HARLEM, GEORGIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Debt

At year end the City had the following debt outstanding:

	<u>2011</u>	<u>2010</u>
Business-type:		
Notes payable - GEFA	\$ 2,932,752	\$ 3,081,315
Governmental:		
Note Payable - BB&T Bank	3,000,000	-
Note Payable - BB&T Bank	<u>93,034</u>	<u>106,534</u>
	<u>\$ 6,025,786</u>	<u>\$ 3,187,849</u>

See the notes to the financial statements for more detailed information on the City's debt.

General Fund Budgetary Highlights

For the year, revenues were \$4,992 less than expected and the expenditures were \$52,333 less than the budgeted amount excluding capital outlays that were paid with SPLOST funds. The decrease in revenue was primarily from property taxes.

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials consider many factors when setting the fiscal year 2011 budget: property tax rates, expected sales tax and insurance premium tax, and various fees that will be collected. One of the factors is the economy. The local economy of the City remains strong. We continue to experience stable economic conditions and a relatively stable 2012 tax digest will provide consistent tax revenue.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Mayor, the City of Harlem, at 320 N. Louisville Street, Harlem, Georgia 30814.

CITY OF HARLEM, GEORGIA

STATEMENT OF NET ASSETS

DECEMBER 31, 2011

	Governmental Activities	Business-Type Activities	Total		Governmental Activities	Business-Type Activities	Total
ASSETS				LIABILITIES			
Current assets				Current liabilities			
Cash & cash equivalents	\$ 2,645,529	\$ 872,945	\$ 3,518,474	Accounts payable	\$ 177,175	\$ 33,881	\$ 211,056
Receivables, net				Accrued expenses	83,742	23,468	107,210
Taxes	102,508	-	102,508	Current portion of			
Accounts	55,103	55,281	110,384	long-term debt	14,036	154,180	168,216
Internal balances	(1,231,737)	1,231,737	-	Compensated absences	27,246	20,160	47,406
Prepaid expenses	15,299	6,303	21,602	Other liabilities	2,847	53,925	56,772
Restricted cash & cash equivalents	1,438,576	-	1,438,576				
				Total current liabilities	305,046	285,614	590,660
Total current assets	3,025,278	2,166,266	5,191,544				
				LONG-TERM LIABILITIES			
				Long-term debt, net of			
				current portion	3,078,998	2,778,572	5,857,570
				Total liabilities	3,384,044	3,064,186	6,448,230
NONCURRENT ASSETS				Net assets			
Capital assets				Invested in capital assets			
Land	582,716	40,277	622,993	net of related debt	9,319,921	5,414,869	14,734,790
Construction in process	1,716,236	-	1,716,236	Restricted for:			
Depreciable, net of				Economic development	156,568	-	156,568
accumulated depreciation	8,675,427	8,307,344	16,982,771	Unrestricted	1,139,124	2,034,832	3,173,956
Total noncurrent assets	10,974,379	8,347,621	19,322,000				
				Total net assets	\$ 10,615,613	\$ 7,449,701	\$ 18,065,314
Total assets	\$ 13,999,657	\$ 10,513,887	\$ 24,513,544				

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

CITY OF HARLEM, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			
	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	\$ 472,401	\$ 33,188	\$ -	\$ -	\$ (439,213)	\$ -	\$ (439,213)
Public safety	698,986	95,364	-	-	(603,622)	-	(603,622)
Fire	118,833	-	-	-	(118,833)	-	(118,833)
Community services	65,939	-	28,235	-	(37,704)	-	(37,704)
Health and welfare	30,062	-	-	-	(30,062)	-	(30,062)
Public works (highways & streets)	627,178	-	-	-	(627,178)	-	(627,178)
Culture & recreation	49,003	47,989	-	-	(1,014)	-	(1,014)
Sanitation	235,064	339,936	-	-	104,872	-	104,872
Interest	65,042	-	-	-	(65,042)	-	(65,042)
Total Governmental Activities	<u>2,362,508</u>	<u>516,477</u>	<u>28,235</u>	<u>-</u>	<u>(1,817,796)</u>	<u>-</u>	<u>(1,817,796)</u>
Business-Type Activities							
Water	1,551,922	1,260,408	-	-	-	(291,514)	(291,514)
Total Business-Type Activities	<u>1,551,922</u>	<u>1,260,408</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(291,514)</u>	<u>(291,514)</u>
Total Primary Government	<u>\$ 3,914,430</u>	<u>\$ 1,776,885</u>	<u>\$ 28,235</u>	<u>\$ -</u>	<u>\$ (1,817,796)</u>	<u>\$ (291,514)</u>	<u>\$ (2,109,310)</u>
General Revenues							
Property taxes					\$ 283,775	\$ -	\$ 283,775
Sales taxes					1,112,866	-	1,112,866
Other taxes					297,509	-	297,509
Unrestricted investment earnings					7,708	695	8,403
Other					44,535	-	44,535
Total General Revenues					<u>1,746,393</u>	<u>695</u>	<u>1,747,088</u>
Transfers					<u>(1,389,427)</u>	<u>1,389,427</u>	<u>-</u>
Total General Revenues & Transfers					<u>356,966</u>	<u>1,390,122</u>	<u>1,747,088</u>
Change in Net Assets					(1,460,830)	1,098,608	(362,222)
Net Assets, Beginning of Year, as previously reported					13,908,495	6,228,432	20,136,927
Prior period adjustment					<u>(1,832,052)</u>	<u>122,661</u>	<u>(1,709,391)</u>
Net Assets, Beginning of Year, as restated					<u>12,076,443</u>	<u>6,351,093</u>	<u>18,427,536</u>
Net Assets, End of Year					<u>\$ 10,615,613</u>	<u>\$ 7,449,701</u>	<u>\$ 18,065,314</u>

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

CITY OF HARLEM, GEORGIA

**GOVERNMENTAL FUNDS
BALANCE SHEET**

FOR THE YEAR ENDED DECEMBER 31, 2011

	General	SPLOST		Nonmajor		Combined Totals
		2006-2010 Fund	2011-2016 Fund	Capital Projects Fund	CDBG Fund	
ASSETS						
Cash and cash equivalents	\$ 1,063,254	\$ 1,138,323	\$ 150,119	\$ 137,265	\$ 156,568	\$ 2,645,529
Taxes receivable	102,508	-	-	-	-	102,508
Accounts receivable	55,103	-	-	-	-	55,103
Prepaid expenses	15,299	-	-	-	-	15,299
Restricted cash & cash equivalents	1,438,576	-	-	-	-	1,438,576
Due from other funds	534,851	-	-	-	-	534,851
Total assets	\$ 3,209,591	\$ 1,138,323	\$ 150,119	\$ 137,265	\$ 156,568	\$ 4,791,866
LIABILITIES						
Accounts payable	\$ 177,175	\$ -	\$ -	\$ -	\$ -	\$ 177,175
Due to other funds	900	1,138,323	534,796	92,569	-	1,766,588
Accrued salaries	22,929	-	-	-	-	22,929
Other liabilities	2,847	-	-	-	-	2,847
Total liabilities	203,851	1,138,323	534,796	92,569	-	1,969,539
Fund balance						
Nonspendable:						
Prepaid expenditures	15,299	-	-	-	-	15,299
Restricted for:						
Economic development	-	-	-	-	156,568	156,568
Committed to:						
Museum building repairs	32,062	-	-	-	-	32,062
Capital outlay	-	-	-	44,696	-	44,696
Unassigned	2,958,379	-	(384,677)	-	-	2,573,702
	<u>3,005,740</u>	<u>-</u>	<u>(384,677)</u>	<u>44,696</u>	<u>156,568</u>	<u>2,822,327</u>
Total liabilities and fund balance	\$ 3,209,591	\$ 1,138,323	\$ 150,119	\$ 137,265	\$ 156,568	\$ 4,791,866

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

CITY OF HARLEM, GEORGIA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO THE STATEMENT OF NET ASSETS**

DECEMBER 31, 2011

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

Ending fund balances - Governmental funds	\$ 2,822,327
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	14,552,863
Accumulated depreciation	<u>(3,578,484)</u>
	10,974,379
Long-term liabilities, including bonds payable and accrued interest, which are not due and payable in the current period and therefore are not reported in the funds	
Notes payable	(3,093,034)
Compensated absences	(27,246)
Accrued interest	<u>(60,813)</u>
	<u>(3,181,093)</u>
Net assets of governmental activities	<u><u>\$ 10,615,613</u></u>

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

CITY OF HARLEM, GEORGIA

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

FOR THE YEAR ENDED DECEMBER 31, 2011

	General	SPLOST		Nonmajor		Combined Totals
		2006-2010 Fund	2011-2016 Fund	Capital Projects Fund	CDBG Fund	
REVENUE						
Taxes	\$ 581,284	\$ -	\$ -	\$ -	\$ -	\$ 581,284
Permits & licenses	33,188	-	-	-	-	33,188
Fines and forfeitures	89,864	-	-	5,500	-	95,364
Intergovernmental revenue	768,239	-	344,627	-	-	1,112,866
Charges for services	340,386	-	-	-	-	340,386
Uses of money/property	3,423	994	-	151	3,140	7,708
Culture and recreation	47,989	-	-	-	-	47,989
Grants	28,235	-	-	-	-	28,235
Other	44,085	-	-	-	-	44,085
Total revenue	1,936,693	994	344,627	5,651	3,140	2,291,105
EXPENDITURES						
Current Operating						
General government	421,399	-	-	-	-	421,399
Public safety	666,761	-	-	144	-	666,905
Fire	83,172	-	-	-	-	83,172
Public works (highways & streets)	376,553	-	-	-	-	376,553
Health and welfare	30,062	-	-	-	-	30,062
Culture and recreation	41,107	-	-	-	-	41,107
Sanitation	232,622	-	-	-	-	232,622
Community services	35,551	-	-	-	-	35,551
Capital outlay	1,056,811	-	603,716	-	-	1,660,527
Debt service - principal	13,501	-	-	-	-	13,501
Debt service - interest	4,229	-	-	-	-	4,229
Total expenditures	2,961,768	-	603,716	144	-	3,565,628
Excess (deficiency) of revenues over expenditures	(1,025,075)	994	(259,089)	5,507	3,140	(1,274,523)
OTHER FINANCING SOURCES (USES)						
Bond proceeds	3,000,000	-	-	-	-	3,000,000
Transfers in	63,700	-	209,791	7,700	-	281,191
Transfers (out)	(209,791)	(1,283,629)	(63,700)	(113,498)	-	(1,670,618)
Total other financing sources (uses)	2,853,909	(1,283,629)	146,091	(105,798)	-	1,610,573
Net change in fund balances	1,828,834	(1,282,635)	(112,998)	(100,291)	3,140	336,050
Fund balance						
Beginning of year, as previously reported (as restated - see note 16)	1,191,518	1,282,635	(271,679)	144,987	153,428	2,500,889
Prior period adjustment	(14,612)	-	-	-	-	(14,612)
Beginning of year, as restated	1,176,906	1,282,635	(271,679)	144,987	153,428	2,486,277
End of year	\$ 3,005,740	\$ -	\$ (384,677)	\$ 44,696	\$ 156,568	\$ 2,822,327

The accompanying notes to the 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, 2011

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

Net change in fund balances - total governmental funds \$ 336,050

Governmental funds report capital outlay as expenditures.

However, in the statement of activities the cost of those assets
are allocated over their estimated useful lives and reported as
depreciation expense.

This is the amount by which capital outlay exceeded depreciation
in the current period.

Capital outlay	1,660,718	
Depreciation expense	<u>(407,087)</u>	
		1,253,631

The issuance of long-term debt (e.g., notes payable) provides current
financial resources to governmental funds, while the repayment of the principal
of long-term debt consumes the current financial resources of governmental funds.

Neither transaction, however has any effect on net assets.

This amount is the net effect of these differences in the treatment
of long-term related accounts.

Notes payable	(2,986,500)	
Compensated absences	(3,198)	
Accrued interest	<u>(60,813)</u>	
		<u>(3,050,511)</u>

Net assets of governmental activities \$ (1,460,830)

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

CITY OF HARLEM, GEORGIA

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

FOR THE YEAR ENDED DECEMBER 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 576,050	\$ 601,050	\$ 581,284	\$ (19,766)
Permits and licenses	41,525	34,025	33,188	(837)
Fines and forfeitures	95,500	95,615	89,864	(5,751)
Intergovernmental	750,000	755,000	768,239	13,239
Charges for services	354,250	334,250	340,386	6,136
Use of money/property	12,000	2,700	3,423	723
Culture and recreation	47,650	47,650	47,989	339
Grants	20,000	29,000	28,235	(765)
Other	21,300	42,395	44,085	1,690
Total revenues	1,918,275	1,941,685	1,936,693	(4,992)
EXPENDITURES				
General government	457,045	458,445	421,399	37,046
Public safety	657,500	658,155	666,761	(8,606)
Public works, highways	380,260	381,660	376,553	5,107
Sanitation	202,000	232,960	232,622	338
Health and welfare	20,000	29,000	30,062	(1,062)
Culture and recreation	48,150	48,150	41,107	7,043
Community services	33,400	38,000	35,551	2,449
Fire	100,990	93,190	83,172	10,018
Capital outlay	1,200	1,577,595	1,056,811	520,784
Debt service - principal	13,501	13,501	13,501	-
Debt service - interest	4,229	4,229	4,229	-
Total expenditures	1,918,275	3,534,885	2,961,768	573,117
Revenue over expenditures	-	(1,593,200)	(1,025,075)	568,125
OTHER FINANCING SOURCES				
Bond proceeds	-	1,568,000	3,000,000	1,432,000
Transfers in	-	88,900	63,700	(25,200)
Transfers (out)	-	(63,700)	(209,791)	(146,091)
	-	1,593,200	2,853,909	1,260,709
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	1,828,834	<u>\$ 1,828,834</u>
Fund balance, beginning of year, as previously reported			1,191,518	
Prior period adjustment			<u>(14,612)</u>	
Fund balance, beginning of year, as restated			<u>1,176,906</u>	
Fund balance, end of year			<u>\$ 3,005,740</u>	

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

CITY OF HARLEM, GEORGIA

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS
WATER & SEWER FUND

DECEMBER 31, 2011

ASSETS

Current assets

Cash & cash equivalents	\$ 872,945
Accounts receivable, net of allowance	55,281
Prepaid expenses	6,303
Due from other funds	1,231,792
Total current assets	<u>2,166,321</u>

Capital assets:

Land	40,277
Depreciable, net of accumulated depreciation	8,307,344
	<u>8,347,621</u>

Total assets \$ 10,513,942

LIABILITIES

Current liabilities

Accounts payable	\$ 33,881
Customer deposits	53,925
Accrued expenses	23,468
Due to other funds	55
Compensated absences	20,160
Notes payable - current portion	154,180
Total current liabilities	<u>285,669</u>

Long-term liabilities

Construction loan payable - GEFA	<u>2,778,572</u>
Total long-term liabilities	<u>2,778,572</u>

Net assets

Invested in capital assets net of related debt	5,414,869
Unrestricted	2,034,832
	<u>7,449,701</u>

Total liabilities and net assets \$ 10,513,942

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

CITY OF HARLEM, GEORGIA

PROPRIETARY FUNDS

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS**

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>
OPERATING REVENUES	
Water and sewer sales	\$ 1,202,991
Sewer taps	6,600
Service charge/penalties	38,380
Other	12,437
	<u>1,260,408</u>
Total operating revenues	<u>1,260,408</u>
OPERATING EXPENSE	
Salaries and wages	285,633
Insurance and pension cost	80,458
Utilities	99,366
Maintenance and repair	154,295
Chemicals	23,017
Postage and supplies	23,542
Miscellaneous	104,140
County water and sewerage charges	269,886
Depreciation	310,945
Professional fees	27,921
Testing and training	13,086
Vehicle expense	20,981
	<u>1,413,270</u>
Total operating expenses	<u>1,413,270</u>
Operating loss	(152,862)
NON-OPERATING REVENUE (EXPENSE)	
Interest income	695
Interest expense	(138,652)
	<u>(137,957)</u>
Total non-operating expenses	<u>(137,957)</u>
Loss before transfers	(290,819)
Transfers in	1,397,127
Transfers (out)	(7,700)
	<u>1,098,608</u>
Change in net assets	1,098,608
Total net assets, beginning of year, as previously reported	6,228,432
Prior period adjustment	122,661
	<u>6,351,093</u>
Total net assets, beginning of year, as restated	<u>6,351,093</u>
Total net assets, end of year	<u>\$ 7,449,701</u>

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

CITY OF HARLEM, GEORGIA

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2011

Cash flows from operating activities:	
Cash received from customers and others	\$ 1,334,722
Cash paid for goods and services	(810,007)
Cash paid to or on behalf of employees	(368,935)
Cash advanced to other funds	<u>(1,231,837)</u>
Net cash used in operating activities	<u>(1,076,057)</u>
Cash flows from noncapital financing activities:	
Net transfers from other funds	<u>1,389,427</u>
Net cash provided by noncapital financing activities	<u>1,389,427</u>
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(148,564)
Interest paid on long-term debt	<u>(138,652)</u>
Net cash used in capital and related financing activities	<u>(287,216)</u>
Cash flows from investing activities:	
Interest income received	<u>695</u>
Net cash provided by investing activities	<u>695</u>
Net increase in cash and cash equivalents	26,849
Cash and cash equivalents, beginning of year	<u>846,096</u>
Cash and cash equivalents, end of year	<u><u>\$ 872,945</u></u>
Reconciling operating loss to net cash provided by operating activities:	
Operating loss	\$ (152,862)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	310,946
Net change in assets and liabilities:	
Accounts receivable	72,223
Prepaid expenses	(317)
Due to/from other funds	(1,231,837)
Increase in accounts and other payables	<u>(74,210)</u>
Net cash used in operating activities	<u><u>\$ (1,076,057)</u></u>

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

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

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 acceptable in the United States of America applicable to state and local governments.

Introduction - The City complies with Generally Accepted Accounting Principles (“GAAP”) pronouncements. Proprietary funds apply Financial Accounting Standards Board (“FASB”) pronouncements and Accounting Principles Board (“APB”) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (“GASB”) pronouncements, in which case, GASB prevails.

The City has no component unit entities for which the City is considered to be financially accountable.

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 for which the City is financially accountable.

B. Government-wide and fund financial statements

The government-wide financial statements include the statement of net assets and statement of activities. Government-wide statements 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: 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 separate columns in the fund financial statements. The combined amounts for these funds are reflected in a single column in the fund balance sheet and statement of revenues, expenditures, and changes in fund balances.

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 1—Summary of significant accounting policies (Continued)

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

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

Governmental fund level 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. Grant revenues availability period is generally considered to be one year. 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 2006-2010 Fund and Sales Tax 2011-2016 Fund are used to account for monies received from intergovernmental revenues (i.e., Special Purpose Sales Taxes) for various City projects.

The government reports the following nonmajor governmental funds:

The Capital Projects Fund accounts for the financial resources to be used for the purchase and construction of major projects lasting longer than one year, other than those accounted for in specific funds.

The CDBG Funds are Capital Projects funds which are used to account for financial resources to be used for the construction of a Community Services Building which will house the Head Start Program. The Community Development Block Grant Program is funded by the Georgia Department of Community Affairs.

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 1—Summary of significant accounting policies (Continued)

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

Proprietary Fund financial statements are used to account for activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position, and cash flows.

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

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

The City reports the following proprietary fund:

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

D. Assets, liabilities, and net assets or equity

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.

The City records investments at fair market value in accordance with provisions of GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. 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 on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior year's levy are shown net of an allowance for uncollectibles.

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

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 1—Summary of significant accounting policies (Continued)

D. Assets, liabilities, and net assets or equity (continued)

2. Receivables and payables (continued)

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

3. Inventories and prepaid expenses

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

4. Capital assets - primary government

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets 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, 2011

Note 1—Summary of significant accounting policies (Continued)

D. Assets, liabilities, and net assets or equity (continued)

5. 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.

6. 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 assets.

7. 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.

8. Fund equity

The City implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, as of January 1, 2011. This new standard changed the overall definitions and classifications of governmental fund balances. Fund equity in the governmental fund financial statements is classified as fund balance. Generally, fund balance represents the difference between current assets and current liabilities. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

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

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 1—Summary of significant accounting policies (Continued)

D. Assets, liabilities, and net assets or equity (continued)

8. Fund equity (continued)

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 assets

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

Invested in capital assets, net of related debt - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduces this category.

Restricted net assets - 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 assets - This category represents the net assets of the City which are 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 assets are available.

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 1—Summary of significant accounting policies (Continued)

D. Assets, liabilities, and net assets or equity (continued)

9. Use of estimates

The preparation of 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 budgetary information

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

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

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

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

The accompanying statement of revenues, expenditures, and changes in fund balances, budget (budgetary basis) and actual, for the General Fund and Proprietary Fund (water and sewer), 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.

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 2—Deposits, investments, and investment policies

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.

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, 2011, the carrying amount of the City's deposits was \$4,957,050. At December 31, 2011, \$4,388,643 of the Government's approximate \$5,029,262, bank balance was uninsured. Of these uninsured deposits, \$4,388,643 was collateralized with securities held by the financial institution, by its trust department or agency, but not in the Government's name.

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.

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 3—Property taxes and other receivables

Receivables

The Columbia County Tax Commissioner bills and collects property taxes, then remits the City its respective share of property taxes. Property taxes for 2011 were levied on September 15, 2011, and were due November 15, 2011. The unpaid taxes became a lien thirty days after the due date. Unpaid property taxes received within 60 days of the year end are recognized and recorded as revenue.

The City receives approximately 4% of a 1% local option sales tax on all retail sales within the City. The proceeds of such tax collected each year are used to reduce, on a dollar for dollar basis, the millage equivalent amount of property taxes to be levied in the subsequent year. Local option sales tax collections collected during the year ended December 31, 2011, totaled \$768,239.

The City also receives approximately 2.7% of 1% (“SPLOST”) funds, special local option sales tax to be used as designated and approved after public hearings. The approved expenditures are generally for capital projects in the City. The special local option sales tax received during the year ended December 31, 2011, totaled \$344,627.

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 GASB Statement No. 34 are as follows:

	Governmental Activities	Business-type Activities	Total
Receivables			
Taxes	\$ 102,508	\$ -	102,508
Accounts	55,103	156,041	211,144
Gross receivables	157,611	156,041	313,652
Less, allowance for uncollectible	-	(100,760)	(100,760)
Net total receivable	\$ 157,611	\$ 55,281	\$ 212,892

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 4—Capital assets

General Government

A summary of changes in capital assets follows:

	Beginning Balance Restated	Increases	Decreases	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 582,716	\$ -	\$ -	\$ 582,716
Construction in progress	146,091	1,570,145	-	1,716,236
	<u>728,807</u>	<u>1,570,145</u>	<u>-</u>	<u>2,298,952</u>
Capital assets, being depreciated				
Infrastructure	7,187,812	-	-	7,187,812
Buildings & improvements	3,639,713	55,558	-	3,695,271
Vehicles & equipment	1,335,813	35,015	-	1,370,828
	<u>12,163,338</u>	<u>90,573</u>	<u>-</u>	<u>12,253,911</u>
Less accumulated depreciation				
Infrastructure	(1,661,317)	(239,594)		(1,900,911)
Buildings & improvements	(682,004)	(94,745)	-	(776,749)
Vehicles & equipment	(828,076)	(72,748)	-	(900,824)
	<u>(3,171,397)</u>	<u>(407,087)</u>	<u>-</u>	<u>(3,578,484)</u>
Total capital assets, being depreciated, net	<u>8,991,941</u>	<u>(316,514)</u>	<u>-</u>	<u>8,675,427</u>
Governmental activities capital assets, net	<u>\$ 9,720,748</u>	<u>\$ 1,253,631</u>	<u>\$ -</u>	<u>\$ 10,974,379</u>

Depreciation expense for year ended December 31, 2011, was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 47,486
Public safety	33,481
Sanitation	2,442
Fire	35,661
Community services	30,388
Public works	249,733
Culture & recreation	<u>7,896</u>
Total depreciation expense – governmental activities	<u>\$ 407,087</u>

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 4—Capital assets (Continued)

Proprietary Fund

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

	Beginning Balance Restated	Increases	Decreases	Ending Balance
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				
Vehicles & equipment	296,041	-	-	296,041
Utility systems	12,526,298	-	-	12,526,298
Total capital assets, being depreciated, net	12,822,339	-	-	12,822,339
Less accumulated depreciation				
Vehicles & equipment	(267,128)	(17,263)	-	(284,391)
Utility systems	(3,936,921)	(293,683)	-	(4,230,604)
Total accumulated depreciation	(4,204,049)	(310,946)	-	(4,514,995)
Total capital assets, being depreciated, net	8,618,290	(310,946)	-	8,307,344
Capital assets, net	\$ 8,658,567	\$ (310,946)	\$ -	\$ 8,347,621

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 5—Long-term debt

The following is a summary of long-term debt activity for the year ended December 31, 2011:

	Balance January 1, 2011 Restated	2011		Balance December 31, 2011	Due Within One Year
		Additions	Reductions		
Governmental activities:					
Notes payable	\$ 106,534	\$ 3,000,000	\$ 13,500	\$ 3,093,034	\$ 14,036
Compensated absences	24,048	27,246	24,048	27,246	27,246
Governmental activities long-term liabilities	<u>\$ 130,582</u>	<u>\$ 3,027,246</u>	<u>\$ 37,548</u>	<u>\$ 3,120,280</u>	<u>\$ 41,282</u>
Business-type activities:					
2001 GEFA loan	\$ 1,274,498	\$ -	\$ 77,061	\$ 1,197,437	\$ 80,797
2005 GEFA loan	1,806,817	-	71,502	1,735,315	73,383
Compensated absences	18,868	20,161	18,869	20,160	20,160
Business-type activities long-term liabilities	<u>\$ 3,100,183</u>	<u>\$ 20,161</u>	<u>\$ 167,432</u>	<u>\$ 2,952,912</u>	<u>\$ 174,340</u>

Governmental Activities Debt

Notes Payable

In July 2009, the City received a 8 year loan from BB&T Bank for the purchase of a fire truck. The interest rate on the loan is 4.88%. The first payment was due in July 2009.

Annual debt service requirements as of December 31, 2011, are as follows:

	Principal	Interest	Total Payment
2012	\$ 14,036	\$ 3,694	\$ 17,730
2013	14,594	3,136	17,730
2014	15,173	2,557	17,730
2015	15,775	1,955	17,730
2016	16,402	1,328	17,730
2016-2017	17,054	677	17,731
	<u>\$ 93,034</u>	<u>\$ 13,347</u>	<u>\$ 106,381</u>

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 5—Long-term debt (Continued)

Governmental Activities Debt (continued)

Notes Payable (continued)

In August 2011, the City received a 20 year loan from BB&T Bank for renovations to the Public Safety Facility as well as the addition of a new fire station. The interest rate on the loan is 4.71%. The first payment was due in February 2012.

Annual debt service requirements as of December 31, 2011, are as follows:

	Principal	Interest	Total Payment
2012	\$ -	\$ 141,300	\$ 141,300
2013	100,549	140,130	240,679
2014	105,340	135,338	240,678
2015	110,360	130,318	240,678
2016	115,620	125,059	240,679
2017-2021	666,187	537,204	1,203,391
2022-2026	840,790	362,603	1,203,393
2027-2031	1,061,154	142,241	1,203,395
	<u>\$ 3,000,000</u>	<u>\$ 1,714,193</u>	<u>\$ 4,714,193</u>

Business-type Activities Debt

Notes Payable

The City applied to the Georgia Environmental Facilities Authority ("GEFA") in 2001 and received a construction loan of \$1,750,000. The proceeds were used to pay a substantial part of the cost of water system improvements. The final draw of \$103,972 was transferred to the City in March 2005. The loan consists of 76 installments of \$35,233. Interest on the construction loan is 5.15%.

Annual debt service requirements as of December 31, 2011, are as follows:

	Principal	Interest	Total Payment
2012	\$ 80,787	\$ 60,147	\$ 140,934
2013	85,086	55,848	140,934
2014	89,526	51,408	140,934
2015	94,227	46,707	140,934
2016	99,151	41,783	140,934
2017-2021	579,671	124,997	704,668
2022-2023	168,989	6,563	175,552
	<u>\$ 1,197,437</u>	<u>\$ 387,453</u>	<u>\$ 1,584,890</u>

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 5—Long-term debt (Continued)

Business-type Activities Debt (continued)

Notes Payable (continued)

In 2005, the City applied for and received a second construction loan from GEFA for improvements to the water and sewer system. The final draw was received by the City in September 2008. 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, 2011, are as follows:

	Principal	Interest	Total Payment
2012	\$ 73,834	\$ 71,473	\$ 145,307
2013	76,995	68,312	145,307
2014	80,292	65,015	145,307
2015	83,730	61,577	145,307
2016	87,315	57,992	145,307
2017-2021	495,961	230,572	726,533
2022-2026	611,632	114,901	726,533
2027-2028	225,556	8,101	233,657
	<u>\$ 1,735,315</u>	<u>\$ 677,943</u>	<u>\$ 2,413,258</u>

Note 6—Interfund receivables/transfers

Interfund receivable and payable balances as of December 31, 2011, are as follows:

Due to	Due From					Total
	General Fund	Water & Sewer Fund	Capital Projects Fund	SPLOST 2006-2010 Fund	SPLOST 2011-2016 Fund	
General Fund	\$ -	\$ 55	\$ -	\$ -	\$ 534,796	\$ 534,851
Water & Sewer Fund	900	-	92,569	1,138,323	-	1,231,792
	<u>\$ 900</u>	<u>\$ 55</u>	<u>\$ 92,569</u>	<u>\$ 1,138,323</u>	<u>\$ 534,796</u>	<u>\$ 1,766,643</u>

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.

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 6—Interfund receivables/transfers (Continued)

Interfund Transfers for the year ended December 31, 2011, consisted of the following:

Transfers between funds were routine and primarily to support the operation of the funds receiving transfers.

Transfers to:	Transfer from:					Total
	General Fund	Capital Projects Fund	SPLOST 2006-2010 Funds	SPLOST 2011-2016 Funds	Water & Sewer Fund	
General Fund	\$ -	\$ -	\$ -	\$ 63,700	\$ -	\$ 63,700
Capital Projects Fund	-	-	-	-	7,700	7,700
SPLOST 2011 -2016	209,791	-	-	-	-	209,791
Water & Sewer Fund	-	113,498	1,283,629	-	-	1,397,127
	<u>\$ 209,791</u>	<u>\$ 113,498</u>	<u>\$ 1,283,629</u>	<u>\$ 63,700</u>	<u>\$ 7,700</u>	<u>\$ 1,678,318</u>

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.

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, 2011

Note 7—Risk management (Continued)

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 cost 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

The City Council approved the adoption of a retirement plan May 11, 1987, and contributes to the Georgia Municipal Employees Benefit System ("GMEBS") Pension Plan ("Plan"), an agent multiple employer defined benefit pension plan that acts as a common investment and administrative agent for cities in the state of Georgia. The City's payroll for employees covered by the Plan for the year ended December 31, 2011, was \$914,579. The City's total payroll for the year ended December 31, 2011, was \$974,814. The required contribution for 2011 was \$123,852.

All full-time City employees are 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 65. 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.

City employees are not required to contribute to the Plan. The City is required to contribute the amounts necessary to fund the Plan using the actuarial basis specified by the Plan.

Summary of employer costs and contributions:

Fiscal Year	Annual Pension Cost	Percentage of Pension Cost Contributed	Actual Contribution	Net Pension Obligation (NPO)
1/1/2012	164,920	N/A	N/A	-
1/1/2011	123,852	100.00%	123,852	-
1/1/2010	100,320	100.00%	100,320	-

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 8—Pension plan (Continued)

Summary of funding progress:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funds Ratio (A/B)	Covered Payroll (C)	UAAL as of Percentage of Covered Payroll (B-A)/(C)
7/1/2011	\$ 828,752	\$ 1,628,090	\$ 799,338	50.90%	\$ 914,579	87.40%

Actual assumptions and method used to determine actual value of assets are:

Valuation date	July 1, 2011
Actuarial cost method	Projected unit credit
Amortization method	Closed level dollar for remaining unfunded liability
Amortization period	Remaining amortization period varies for the bases, with a net effective amortization period of 14 years
Actuarial asset valuation method	Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at end of year. The actuarial value is adjusted, if necessary, to be within 38% of market value for 2011.

Actuarial assumptions:

Investment rate of return	7.75%
Projected salary increases	3.50% plus age and service based merit increases
Cost of living adjustments	2.00%

Funding policy and annual contribution - The Board of Trustees of the GMEBS has adopted an actuarial funding policy for determination of annual contributions and the systematic funding of liabilities arising under the Plan. The annual minimum contribution is the sum of 1) the normal cost (including administrative expenses), 2) the level dollar amortization of the unfunded actuarial accrued liability (initial unfunded actuarial accrued liability over 30 years from 1988 and changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods from the end of the year during which such changes arise), and 3) interest on these amounts from the valuation date to the date contributions are paid (assumed monthly). Well-funded plans may have a full funding credit applied to reduce the recommended contributions.

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 8—Pension plan (Continued)

This credit insures that contributions are not required if a plan's assets exceed the present value of future benefits. The annual recommended contribution is the greater of (1) the minimum contribution described above and (2) normal cost (including administrative expenses) with interest, adjusted by a full funding credit to ensure that contributions are not required if a plan's assets exceed the present value of future benefits.

Current Plan membership - As of July 1, 2011, the date of the actuarial report, the current Plan membership includes the following categories of participants:

Retirees and beneficiaries currently receiving benefits	12
Terminated employees entitled to benefits but not yet receiving those	12
Current active employees	
Vested	11
Nonvested	24
Total membership in the Plan	<u>59</u>

GMEBS issues a separate, stand-alone report which can be obtained from City Hall or from GMEBS.

However, current and historical trend information is designed to provide information about the Plan's progress in accumulating sufficient assets to pay benefits when due. This data is presented as supplemental information on page 43.

Note 9—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 Development Center ("RDC") and is required to pay annual dues thereto. During its year ended December 31, 2011, the City paid \$1,899 in such dues and service charges. Membership in a RDC is required by the Official Code of Georgia Annotated ("OCGA") Section 50-8-34 that provides for the organizational structure of the RDC 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 RDC. Separate financial statements may be obtained from: CSRA Regional Development Center, 3023 River Watch Parkway, Augusta, Georgia 30907.

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 10—Housing authority

The Housing Authority of Harlem, Georgia (the "Housing Authority") is considered a related organization based upon the criteria in GASB No. 14. Pursuant to Official Code of Georgia Annotated (OCGA) 8-3-4, the Housing Authority is a separate legal entity from the City. Further, pursuant to OCGA 8-3-50, the City appoints a voting majority of the Housing Authority members. However, the City is not able to impose its will upon the Housing Authority nor does a financial benefit/burden relationship exist between them. In 2011, the City did not receive funds from the Harlem Housing Authority as payment in lieu of taxes.

Note 11—Commitments and Contingencies

Commitments

The City has a construction contract for \$1,829,076 for a new public safety complex that is included in construction in process at December 31, 2011.

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 12—Landfill postclosure cost

Landfill Closure

The City contracts with the County to dispose of its solid waste materials collected. In prior years the City maintained a landfill; however, it has been closed for several years. The state of Georgia requires the City to perform certain maintenance and monitoring functions at the closed landfill and to make periodic reports to the appropriate agencies. The estimated liability for post closure cost is undeterminable; however, the City believes the maintenance cost is immaterial. However, changes in the post closure care may occur for increases or decreases in cost due to inflation or deflation, changes in technology, changes to post closure care requirements, and changes in the extent of environmental remediation required by law. If at such time that the post closure care cost is determined and is a material liability appropriate disclosure will be reflected in the financial statements. The maintenance costs for 2011 were \$0.

Note 13—Expenditures in excess of budget

The City's financial statements reflect expenditures in excess of budgeted amounts at the department level in the General Fund for the following:

	Final Budget	Actual	Excess
Public Safety	658,155	666,761	(8,606)
Health and Welfare	29,000	30,062	(1,062)

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 14—Related party

The City purchased property from a member of the City Council during the year ended December 31, 2011, for \$300,000 to be used for a new public safety complex.

Note 15—Changes in accounting principle and restatement of prior year’s fund balance

For fiscal year 2011, the City has implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the City’s financial statements.

Restatement of Prior Year’s Fund Balance

The implementation of GASB Statement No. 54 had the following effect on fund balances of funds as they were previously reported.

	Fund Balance at December 31, 2010	Reclassification of Fund due to GASB 54	Restated Fund Balance at December 31, 2010
General Fund	\$ 1,212,965	\$ (21,447)	\$ 1,191,518
Capital Projects Fund	144,987	-	144,987
SPLOST Fund	1,010,956	-	1,010,956
ITT Fund	(21,447)	21,447	-
CDBG Fund	153,428	-	153,428
Total Governmental Funds	<u>2,500,889</u>	<u>-</u>	<u>2,500,889</u>
Water and Sewer Fund	\$ 6,228,432	\$ -	\$ 6,228,432
Total Proprietary Fund	<u>\$ 6,228,432</u>	<u>\$ -</u>	<u>\$ 6,228,432</u>

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 16—Prior period adjustment

The City has restated its previously issued 2010 financial statements to correct mathematical errors made in the calculation of accumulated depreciation related to government-wide and proprietary fund financial statements. The accompanying financial statements for 2011 have been restated to reflect the corrections to the beginning balance of net assets of the governmental activities, business-type activities, and proprietary fund financial statements. Proprietary fund and business-type activities net assets at January 1, 2011, were increased \$141,529 as a result of correcting these errors. Governmental activities net assets at January 1, 2011, were decreased \$135,481 as a result of correcting these errors.

The City has restated its previously issued 2010 financial statements to correct an error made by reporting infrastructure assets under the modified approach. The City recalculated the accumulated depreciation that should have been reported related to governmental activities financial statements. The accompanying financial statements for 2011 have been restated to reflect the corrections to the beginning balance of net assets of the governmental activities financial statements. Governmental activities net assets at January 1, 2011, were decreased \$1,661,563 as a result of correcting this error.

The City has restated its previously issued 2010 financial statements to correct an error made by capitalizing construction cost in the governmental activities financial statements for a project that was not completed. The accompanying financial statements for 2011 have been restated to reflect the corrections to the beginning balance of net assets of the governmental activities financial statements. Governmental activities net assets at January 1, 2011, were increased \$3,652 as a result of correcting this error.

The City has restated its previously issued 2010 financial statements to correct errors for not recording accrued salaries or accrued vacation related to government-wide, general fund and proprietary fund financial statements. The accompanying financial statements for 2011 have been restated to reflect the corrections to the beginning balance of net assets. General fund net assets at January 1, 2011, were decreased \$14,612, proprietary fund net assets at January 1, 2011, were decreased \$18,868, governmental activities net assets at January 1, 2011, were decreased \$38,660 and business-type activities net assets at January 1, 2011, were decreased \$18,868 as a result of correcting these errors.

CITY OF HARLEM, GEORGIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

Note 16—Prior period adjustment (Continued)

The effect of the restatements on the City's previously issued 2010 financial statements is as follows:

	As Previously Reported	Restated	Change
Statement of Net Assets – Governmental Assets:			
Construction in progress	-	146,091	146,091
Depreciable, net of accumulated depreciation	10,931,424	8,991,941	(1,939,483)
Liabilities:			
Accrued expenses	-	14,612	14,612
Compensated absences	-	24,048	24,048
Net assets:			
Invested in capital assets, net of related debt	11,407,606	9,614,214	(1,793,392)
Unrestricted	1,212,965	1,174,305	(38,660)
Statement of Net Assets – Business-Type Capital Assets:			
Accumulated depreciation	4,345,580	4,221,776	(123,804)
Liabilities:			
Accrued expenses	14,518	33,386	18,868
Net assets:			
Invested in capital assets, net of related debt	5,435,721	5,577,250	141,529
Unrestricted	792,711	773,843	(18,868)
Balance Sheet – General Fund:			
Liabilities:			
Accrued expenses	4,410	19,022	14,612
Net assets:			
Unrestricted	1,212,965	1,198,353	(14,612)
Statement of Net Assets – Proprietary Fund:			
Property, plant, and equipment, at cost:			
Depreciable, net of accumulated depreciation	8,476,760	8,618,289	141,529
Liabilities:			
Accrued expenses	14,518	33,386	18,868
Net assets:			
Invested in capital assets, net of related debt	5,435,721	5,577,250	141,529
Unrestricted	792,711	773,843	(18,868)

CITY OF HARLEM, GEORGIA

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS**

DECEMBER 31, 2011

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funds Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as of Percentage of Covered Payroll (B-A)/(C)</u>
7/1/2011	\$ 828,752	\$ 1,628,090	\$ 799,338	50.90%	\$ 914,579	87.40%
7/1/2010	\$ 757,842	\$ 1,158,455	\$ 400,613	65.42%	\$ 889,547	45.04%
10/1/2009	\$ 683,413	\$ 1,027,189	\$ 343,776	66.53%	\$ 819,546	41.95%



**Independent Auditor's Report on Compliance and Internal Control
Over Financial Reporting 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 the financial statements of governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Harlem, Georgia, as of and for the year ended December 31, 2011 which collectively comprise the City of Harlem, Georgia's basic financial statements and have issued our report thereon dated December 10, 2012. 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 of America.

Internal Control over Financial Reporting

Management of the City of Harlem is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Harlem, Georgia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Harlem, Georgia 's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City of Harlem, Georgia's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses as described in 2011-1.

Compliance

As part of obtaining reasonable assurance about whether the City of Harlem, Georgia'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 object 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*.

The City of Harlem, Georgia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City of Harlem, Georgia 's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the audit committee, management, commission and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekant & Holland, L.L.P.

Augusta, Georgia
December 10, 2012

CITY OF HARLEM, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES

FOR YEAR ENDED DECEMBER 31, 2011

Finding 2011-01

CONDITION:

The City of Harlem, Georgia ("City") did not prepare its financial statements for the year ended December 31, 2011 or its conversion entries related to converting the Fund Financial Statements to the statement of net assets and statement of activities. The City also did not reconcile certain balance sheet accounts during the year on a timely basis.

During our audit procedures, significant adjustments were posted to the internal financial statements in order for the financial statements to be in accordance with Generally Accepted Accounting Principles ("GAAP"). Based upon the City's request, we prepared the conversion entries to convert the Fund Financial Statements to the statement of net assets 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 Government 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 auditors 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, 2011

2010-1 EXPENDITURES EXCEEDED APPROPRIATIONS

The expenditures exceeded appropriations in the Administrative Departments, Public Safety Department, Public Works Department, Sanitation Department, Health and Welfare Department, and Fire Department.

Actions taken or planned to correct deficiencies – Mayor and members of the City Council agree with this audit finding and agree to monitor the budget as necessary. Mayor and members of the City Council will amend the budget if necessary to avoid expenditures exceeding appropriations.

Current status – The expenditures exceeded appropriations in the Public Safety Department, Health and Welfare Department, and for capital outlays for the year ended December 31, 2011, and this is disclosed in note 13 of the notes to the financial statements.

2010-2 DEFICIT FUND EQUITY

The ITT Fund had a deficit fund balance of \$21,447 for the year ended December 31, 2010.

Current status – Due to the conversion to GASB 54, the ITT fund is now being reported as part of the General Fund and no funds have a deficit fund balance as of December 31, 2011.

CITY OF HARLEM, GEORGIA

**SCHEDULE OF EXPENDITURES OF SPECIAL PURPOSE
LOCAL OPTION SALES TAX PROCEEDS (2006-2010)**

FOR YEAR ENDED DECEMBER 31, 2011

<u>Project</u>	<u>Original Estimated Cost</u>	<u>Prior Year</u>	<u>Current Year</u>	<u>To Date</u>	<u>Percentage of Completion</u>
Tier I					
Upgrade & Improve Sewer Plant/Repair, Replace & Construction new Sewer/ Water Lines	\$ 1,404,000	\$ 184,678	\$ 1,138,323	\$ 1,323,001	94%
Total - Tier I	1,404,000	184,678	1,138,323	1,323,001	
Tier II					
Public Buildings	189,000	44,507	-	44,507	24%
Generator	50,000	-	-	-	0%
Infrastructure	50,000	515,727	-	515,727	100%
Vehicles (Police, Fire, Public Works)	100,000	-	-	-	0%
Water & Sewer	70,000	-	-	-	0%
Total - Tier II	459,000	560,234	-	560,234	
Tier III					
Water & Sewer	447,000	-	-	-	0%
Vehicles	150,000	-	-	-	0%
Communications	40,000	-	-	-	0%
Public Buildings	200,000	-	-	-	0%
Total - Tier III	837,000	-	-	-	
Grand Total	<u>\$ 2,700,000</u>	<u>\$ 744,912</u>	<u>\$ 1,138,323</u>	<u>\$ 1,883,235</u>	

CITY OF HARLEM, GEORGIA

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

FOR YEAR ENDED DECEMBER 31, 2011

<u>Project</u>	<u>Original Estimated Cost</u>	<u>Prior Year</u>	<u>Current Year</u>	<u>To Date</u>	<u>Percentage of Completion</u>
Tier I					
Vehicles and Equipment	\$ 350,000	\$ 17,100	\$ 23,428	\$ 40,528	12%
Infrastructure (Water & Sewer)	718,224	-	-	-	0%
Transportation (roads and sidewalks)	200,000	-	-	-	0%
Public buildings	850,000	270,162	579,838	850,000	100%
Recreation	250,000	9,473	450	9,923	4%
Total - Tier I	2,368,224	296,735	603,716	900,451	
Tier II					
Vehicles and Equipment	50,000	-	-	-	0%
Infrastructure (Water & Sewer)	610,377	-	-	-	0%
Public Buildings	150,000	-	-	-	0%
Total - Tier II	810,377	-	-	-	
Tier III					
Infrastructure (Water & Sewer)	521,749	-	-	-	0%
Total - Tier III	521,749	-	-	-	
Grand Total	\$ 3,700,350	\$ 296,735	\$ 603,716	\$ 900,451	