



**CITY OF HARLEM, GEORGIA**

**ANNUAL FINANCIAL REPORT**

*For the Year Ended December 31, 2013*

*And Report of Independent Auditor*

# CITY OF HARLEM, GEORGIA

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## Report of Independent Auditor

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harlem, Georgia (the "City") as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2013, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress on pages 3–8 and page 37, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The schedules of expenditures of special purpose local option sales tax proceeds on pages 42 and 43 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Augusta, Georgia  
June 24, 2014

# CITY OF HARLEM, GEORGIA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2013

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As management of the City of Harlem (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the City for the fiscal year ended December 31, 2013.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year ending December 31, 2013 by \$17.3 million. Of that amount \$1.8 million (unrestricted net position) may be used to meet the City's ongoing obligations to the citizens and creditors.
- The City's total net position decreased by \$426,000 for the year ended December 31, 2013. The decrease in net position was due primarily from operating losses in the General fund and proprietary fund.
- As of December 31, 2013, the City's governmental funds reported combined ending fund balances of \$1,939,074 an increase of \$138,471 in comparison with the prior year.
- The City's total long-term liabilities decreased by approximately \$1,308,000 during the year. Long-term liabilities consisted of two GEFA loans and two loans from BB&T Bank. One of the GEFA loans was retired during the fiscal year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to 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 position presents information on all of the City's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The statement of net position combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other nonfinancial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage improvements, and storm drains, etc.), to assess the overall health or financial condition of the City. The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes). Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

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

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

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

# CITY OF HARLEM, GEORGIA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2013

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### OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

#### Reporting the City's Most Significant Funds

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

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

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

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

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

**Notes to the basic financial statements** - The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 19 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 its employees. The required supplementary information can be found on page 37.

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

DECEMBER 31, 2013

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately \$17.3 million at the close of the current fiscal year.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

By far the largest portion of the City's net position (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.

**Summary of Net Position**  
**December 31, 2013**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 2,077,757	\$ 2,026,716	\$ 754,246	\$ 2,057,157	\$ 2,832,003	\$ 4,083,873
Capital assets	11,509,644	11,947,359	7,888,056	8,067,842	19,397,700	20,015,201
Total assets	13,587,401	13,974,075	8,642,302	10,124,999	22,229,703	24,099,074
Long-term liabilities outstanding	2,963,855	3,078,998	1,584,486	2,778,131	4,548,341	5,857,129
Other liabilities	226,651	308,991	156,926	208,765	383,577	517,756
Total liabilities	3,190,506	3,387,989	1,741,412	2,986,896	4,931,918	6,374,885
Net position:						
Net investment in capital assets	8,631,317	9,003,433	6,303,570	5,289,711	14,934,887	14,293,144
Restricted	591,919	156,653	-	-	591,919	156,653
Unrestricted	1,173,659	1,426,000	597,320	1,848,392	1,770,979	3,274,392
Total net position	\$ 10,396,895	\$ 10,586,086	\$ 6,900,890	\$ 7,138,103	\$ 17,297,785	\$ 17,724,189

**Governmental Activities**

The City's governmental revenues increased by 1% (\$19,664) when compared to 2012.

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 \$867,061 in 2013. These expenses were offset by revenues from fines and forfeitures which totaled more than \$79,471. Another significant governmental expense in 2013 was providing for the general government. General government expenses totaled \$511,839 which was offset by revenues from taxes of \$800,432.

**Business-Type Activities**

Revenues from the City's business-type activities were \$1,280,084 for the year ended December 31, 2013. Expenses for the City's business-type activities were \$1,517,297 resulting in a net loss of \$237,213.

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

DECEMBER 31, 2013

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

Governmental and business-type activities decreased the City's net position by \$426,404. A summary of this decrease is as follows:

**Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Charges for services	\$ 538,619	\$ 506,136	\$ 1,279,398	\$ 1,278,607	\$ 1,818,017	\$ 1,784,743
Operating grants	24,506	34,008	-	-	24,506	34,008
Capital grants/ contributions	409,333	481,672	-	-	409,333	481,672
General Revenues:						
Taxes	800,432	606,930	-	-	800,432	606,930
Sales tax	636,777	761,190	-	-	636,777	761,190
Other	40,136	40,203	686	452	40,822	40,655
Total revenues	2,449,803	2,430,139	1,280,084	1,279,059	3,729,887	3,709,198
Expenses:						
General government	511,839	552,731	-	-	511,839	552,731
Public safety	867,061	730,627	-	-	867,061	730,627
Sanitation	256,870	247,579	-	-	256,870	247,579
Fire	180,938	98,135	-	-	180,938	98,135
Public works	541,127	543,845	-	-	541,127	543,845
Community services	73,760	65,987	-	-	73,760	65,987
Health and welfare	3,297	19,971	-	-	3,297	19,971
Culture and recreation	63,074	56,299	-	-	63,074	56,299
Interest on long-term debt	141,028	144,492	-	-	141,028	144,492
Water and sewer	-	-	1,517,297	1,590,657	1,517,297	1,590,657
Total expenses	2,638,994	2,459,666	1,517,297	1,590,657	4,156,291	4,050,323
Increase (decrease) in net position	(189,191)	(29,527)	(237,213)	(311,598)	(426,404)	(341,125)
Net position - beginning	10,586,086	10,615,613	7,138,103	7,449,701	17,724,189	18,065,314
Net position - ending	\$ 10,396,895	\$ 10,586,086	\$ 6,900,890	\$ 7,138,103	\$ 17,297,785	\$ 17,724,189



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

DECEMBER 31, 2013

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

As of December 31, 2013, the City had \$19.4 million (net of accumulated depreciation) of capital assets. This investment in capital assets includes police and fire equipment, buildings, park facilities, roads, and bridges. Major capital asset additions were the utility system purchases totaling \$122,381, infrastructure totaling \$10,000, other improvements totaling \$25,233, and vehicle and equipment purchases totaling \$53,172.

**Capital Assets at Year-End**

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Land	\$ 582,716	\$ 40,277	\$ 622,993
Buildings and improvements	6,495,607	-	6,495,607
Vehicle and equipment	1,735,144	315,957	2,051,101
Infrastructure	7,218,459	-	7,218,459
Utility system	-	12,648,681	12,648,681
	<u>16,031,926</u>	<u>13,004,915</u>	<u>29,036,841</u>
Less accumulated depreciation	<u>(4,522,282)</u>	<u>(5,116,859)</u>	<u>(9,639,141)</u>
Total	<u>\$ 11,509,644</u>	<u>\$ 7,888,056</u>	<u>\$ 19,397,700</u>
This year the major additions were:			
Vehicle and equipment	\$ 47,603	\$ 5,569	\$ 53,172
Infrastructure	10,000	-	10,000
Utility system	-	122,381	122,381
Buildings and improvements	25,233	-	25,233
	<u>\$ 82,836</u>	<u>\$ 127,950</u>	<u>\$ 210,786</u>

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

**Debt**

At year end the City had the following debt outstanding:

	<u>2013</u>	<u>2012</u>
Business-type:		
Notes payable - GEFA	\$ 1,584,486	\$ 2,778,131
Governmental:		
Note Payable - BB&T Bank	2,899,451	3,000,000
Note Payable - BB&T Bank	64,404	78,998
	<u>\$ 4,548,341</u>	<u>\$ 5,857,129</u>

During the fiscal year, the City retired the 2000 GEFA loan. The 2013 note payable amount represents the 2005 GEFA note only. Please refer to the notes to the financial statements for more detailed information on the City's debt.

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

*DECEMBER 31, 2013*

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**CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)**

**General Fund Budgetary Highlights**

For the year, revenues were \$50,511 (2.5%) more than expected and the expenditures were \$223 less than the budgeted amount.

**Economic Factors and Next Year's Budgets and Rates**

The City's elected and appointed officials consider many factors when setting the fiscal year 2013 budget including: property tax rates, expected sales tax and insurance premium tax and various fees that will be collected. Another factor is the economy. The local economy of the City remains strong. We continue to experience stable economic conditions and a relatively stable 2013 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, City of Harlem at 320 N. Louisville Street, Harlem, Georgia 30814.

**CITY OF HARLEM, GEORGIA**  
**STATEMENT OF NET POSITION**

DECEMBER 31, 2013

	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets			
Cash & cash equivalents	\$ 1,747,577	\$ 686,037	\$ 2,433,614
Receivables, net			
Taxes	88,330	-	88,330
Accounts	133,127	61,707	194,834
Internal balances	595	(595)	-
Prepaid expenses	22,600	7,097	29,697
Restricted cash & cash equivalents	85,528	-	85,528
Capital assets			
Land	582,716	40,277	622,993
Depreciable, net of accumulated depreciation	10,926,928	7,847,779	18,774,707
<b>Total assets</b>	<b>13,587,401</b>	<b>8,642,302</b>	<b>22,229,703</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	59,978	39,918	99,896
Accrued expenses	88,769	35,987	124,756
Compensated absences	29,894	22,816	52,710
Other liabilities	2,428	58,205	60,633
Unearned revenue	45,582	-	45,582
Noncurrent liabilities			
Due within one year	120,513	80,292	200,805
Due in more than one year	2,843,342	1,504,194	4,347,536
<b>Total liabilities</b>	<b>3,190,506</b>	<b>1,741,412</b>	<b>4,931,918</b>
<b>NET POSITION</b>			
Net investment in capital assets	8,631,317	6,303,570	14,934,887
Restricted for			
Economic development	156,731	-	156,731
Capital Projects	435,188	-	435,188
Unrestricted	1,173,659	597,320	1,770,979
<b>Total net position</b>	<b>\$ 10,396,895</b>	<b>\$ 6,900,890</b>	<b>\$ 17,297,785</b>

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, 2013

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Functions/Programs							
Governmental Activities							
General government	\$ 511,839	\$ 46,102	\$ -	\$ 409,235	\$ (56,502)	\$ -	\$ (56,502)
Public safety	867,061	79,471	-	-	(787,590)	-	(787,590)
Fire	180,938	-	-	-	(180,938)	-	(180,938)
Community services	73,760	-	16,508	-	(57,252)	-	(57,252)
Health and welfare	3,297	-	-	-	(3,297)	-	(3,297)
Public works (highways & streets)	541,127	-	7,998	-	(533,129)	-	(533,129)
Culture & recreation	63,074	43,801	-	-	(19,273)	-	(19,273)
Sanitation	256,870	369,245	-	-	112,375	-	112,375
Interest	141,028	-	-	98	(140,930)	-	(140,930)
Total Governmental Activities	2,638,994	538,619	24,506	409,333	(1,666,536)	-	(1,666,536)
Business-Type Activities							
Water	1,517,297	1,279,398	-	-	-	(237,899)	(237,899)
Total Business-Type Activities	1,517,297	1,279,398	-	-	-	(237,899)	(237,899)
Total Primary Government	\$ 4,156,291	\$ 1,818,017	\$ 24,506	\$ 409,333	(1,666,536)	(237,899)	(1,904,435)
General Revenues							
Property taxes					473,549	-	473,549
Sales taxes					636,777	-	636,777
Other taxes					326,883	-	326,883
Unrestricted investment earnings					1,748	686	2,434
Other					38,388	-	38,388
Total General Revenues					1,477,345	686	1,478,031
Total General Revenues & Transfers					1,477,345	686	1,478,031
Change in Net Position					(189,191)	(237,213)	(426,404)
Net Position, Beginning of Year					10,586,086	7,138,103	17,724,189
Net Position, End of Year					\$ 10,396,895	\$ 6,900,890	\$ 17,297,785

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

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

DECEMBER 31, 2013

	Nonmajor							Combined Totals
	General	SPLOST 2011-2016 Fund	SPLOST 2006-2010 Fund	Capital Projects Fund	CDBG Fund	T-SPLOST Fund	LMIG Fund	
<b>ASSETS</b>								
Cash and cash equivalents	\$ 1,254,288	\$ 243,207	\$ -	\$ 6,690	\$ 156,731	\$ 41,067	\$ 45,594	\$ 1,747,577
Taxes receivable	88,330	-	-	-	-	-	-	88,330
Accounts receivable	68,677	59,983	-	-	-	4,467	-	133,127
Prepaid expenses	22,600	-	-	-	-	-	-	22,600
Restricted cash & cash equivalents	85,528	-	-	-	-	-	-	85,528
Due from other funds	3,402	-	574	-	-	350	-	4,326
<b>Total Assets</b>	<b>\$ 1,522,825</b>	<b>\$ 303,190</b>	<b>\$ 574</b>	<b>\$ 6,690</b>	<b>\$ 156,731</b>	<b>\$ 45,884</b>	<b>\$ 45,594</b>	<b>\$ 2,081,488</b>
<b>LIABILITIES</b>								
Accounts payable	\$ 59,978	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 59,978
Due to other funds	3,731	-	-	-	-	-	-	3,731
Accrued salaries	30,695	-	-	-	-	-	-	30,695
Other liabilities	2,428	-	-	-	-	-	-	2,428
Unearned revenue	-	-	-	-	-	-	45,582	45,582
<b>Total Liabilities</b>	<b>96,832</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45,582</b>	<b>142,414</b>
<b>FUND BALANCE</b>								
Nonspendable								
Prepaid expenditures	22,600	-	-	-	-	-	-	22,600
Restricted for								
Capital projects	85,528	303,190	574	-	-	45,884	12	435,188
Economic development	-	-	-	-	156,731	-	-	156,731
Committed to								
Museum building repairs	32,078	-	-	-	-	-	-	32,078
Capital outlay	-	-	-	6,690	-	-	-	6,690
Unassigned	1,285,787	-	-	-	-	-	-	1,285,787
<b>Total Fund Balance</b>	<b>1,425,993</b>	<b>303,190</b>	<b>574</b>	<b>6,690</b>	<b>156,731</b>	<b>45,884</b>	<b>12</b>	<b>1,939,074</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,522,825</b>	<b>\$ 303,190</b>	<b>\$ 574</b>	<b>\$ 6,690</b>	<b>\$ 156,731</b>	<b>\$ 45,884</b>	<b>\$ 45,594</b>	<b>\$ 2,081,488</b>

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 POSITION**

*DECEMBER 31, 2013*

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

Ending fund balances - Governmental funds	\$ 1,939,074
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds	
Historical cost of capital assets	16,031,926
Accumulated depreciation	(4,522,282)
	<u>11,509,644</u>
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	(2,963,855)
Compensated absences	(29,894)
Accrued interest	(58,074)
	<u>(3,051,823)</u>
Net position of governmental activities	<u>\$ 10,396,895</u>

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

FOR THE YEAR ENDED DECEMBER 31, 2013

	Nonmajor							Combined Totals
	General	SPLOST 2011-2016 Fund	SPLOST 2006-2010 Fund	Capital Projects Fund	CDBG Fund	T-SPLOST Fund	LMIG Fund	
<b>REVENUE</b>								
Taxes	\$ 800,941	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 800,941
Permits & licenses	42,522	-	-	-	-	-	-	42,522
Fines and forfeitures	79,471	-	-	3,580	-	-	-	83,051
Intergovernmental revenue	636,268	363,309	-	-	-	45,884	-	1,045,461
Charges for services	369,695	-	-	-	-	-	-	369,695
Uses of money/property	1,748	-	42	8	78	-	12	1,888
Culture and recreation	43,801	-	-	-	-	-	-	43,801
Grants	24,506	-	-	-	-	-	-	24,506
Other	37,938	-	-	-	-	-	-	37,938
Total revenue	<u>2,036,890</u>	<u>363,309</u>	<u>42</u>	<u>3,588</u>	<u>78</u>	<u>45,884</u>	<u>12</u>	<u>2,449,803</u>
<b>EXPENDITURES</b>								
Current Operating								
General government	453,260	1,995	-	1,643	-	-	-	456,898
Public safety	770,732	-	-	-	-	-	-	770,732
Fire	131,329	-	-	-	-	-	-	131,329
Public works (highways & streets)	288,757	-	-	-	-	-	-	288,757
Health and welfare	3,297	-	-	-	-	-	-	3,297
Culture and recreation	54,846	-	-	-	-	-	-	54,846
Sanitation	254,427	-	-	-	-	-	-	254,427
Community services	43,033	-	-	-	-	-	-	43,033
Capital outlay	-	49,604	-	-	-	-	-	49,604
Debt service - principal	115,143	-	-	-	-	-	-	115,143
Debt service - interest	143,266	-	-	-	-	-	-	143,266
Total expenditures	<u>2,258,090</u>	<u>51,599</u>	<u>-</u>	<u>1,643</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,311,332</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(221,200)</u>	<u>311,710</u>	<u>42</u>	<u>1,945</u>	<u>78</u>	<u>45,884</u>	<u>12</u>	<u>138,471</u>
Net change in fund balances	(221,200)	311,710	42	1,945	78	45,884	12	138,471
Fund balance								
Beginning of year	1,647,193	(8,520)	532	4,745	156,653	-	-	1,800,603
End of year	<u>\$ 1,425,993</u>	<u>\$ 303,190</u>	<u>\$ 574</u>	<u>\$ 6,690</u>	<u>\$ 156,731</u>	<u>\$ 45,884</u>	<u>\$ 12</u>	<u>\$ 1,939,074</u>

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, 2013

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

Net change in fund balances - total governmental funds \$ 138,471

Governmental funds report capital outlay as expenditures.

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

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

Capital outlay	82,836	
Depreciation expense	<u>(520,551)</u>	
		(437,715)

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 how ever 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	115,143	
Compensated absences	(7,328)	
Accrued interest	<u>2,238</u>	
		<u>110,053</u>

Change in net position of governmental activities \$ (189,191)



**CITY OF HARLEM, GEORGIA**

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

*FOR THE YEAR ENDED DECEMBER 31, 2013*

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
<b>REVENUES</b>				
Taxes	\$ 681,983	\$ 789,333	\$ 800,941	\$ 11,608
Permits and licenses	34,523	38,131	42,522	4,391
Fines and forfeitures	75,000	79,000	79,471	471
Intergovernmental	715,948	626,630	636,268	9,638
Charges for services	348,400	355,700	369,695	13,995
Use of money/property	1,360	1,560	1,748	188
Culture and recreation	41,000	42,890	43,801	911
Grants	17,000	16,500	24,506	8,006
Other	36,830	36,635	37,938	1,303
Total revenues	1,952,044	1,986,379	2,036,890	50,511
<b>EXPENDITURES</b>				
General government	449,766	454,226	453,260	966
Public safety	683,672	766,494	770,732	(4,238)
Fire	112,385	131,454	131,329	125
Public works, highways	320,206	290,036	288,757	1,279
Health and welfare	7,588	3,638	3,297	341
Culture and recreation	57,689	55,979	54,846	1,133
Sanitation	264,816	254,516	254,427	89
Community services	34,591	43,561	43,033	528
Debt service - principal	115,143	115,143	115,143	-
Debt service - interest	143,266	143,266	143,266	-
Total expenditures	2,189,122	2,258,313	2,258,090	223
Revenue over (under) expenditures	(237,078)	(271,934)	(221,200)	50,734
<b>OTHER FINANCING SOURCES</b>				
Transfers in	237,078	271,934	-	(271,934)
	237,078	271,934	-	(271,934)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(221,200)	<u>\$ (221,200)</u>
Fund balance, beginning of year			1,647,193	
Fund balance, end of year			<u>\$ 1,425,993</u>	

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

*DECEMBER 31, 2013*

**ASSETS**

Current assets

Cash & cash equivalents	\$ 686,037
Accounts receivable, net of allowance	61,707
Prepaid expenses	7,097
Due from other funds	3,381
	<hr/>
Total Current Assets	758,222
	<hr/>

Capital assets

Land	40,277
Depreciable, net of accumulated depreciation	7,847,779
	<hr/>
	7,888,056
	<hr/>

<b>Total Assets</b>	<b>8,646,278</b>
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**LIABILITIES**

Current liabilities

Accounts payable	39,918
Accrued expenses	35,987
Compensated absences	22,816
Customer deposits	58,205
Due to other funds	3,976
Construction loan payable- GEFA- current portion	80,292
	<hr/>
Total Current Liabilities	241,194
	<hr/>

Noncurrent liabilities

Construction loan payable - GEFA	1,504,194
	<hr/>
Total Noncurrent Liabilities	1,504,194
	<hr/>

<b>Total Liabilities</b>	<b>1,745,388</b>
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**NET POSITION**

Net investment in capital assets	6,303,570
Unrestricted	597,320
	<hr/>
<b>Total Net Position</b>	<b>\$ 6,900,890</b>
	<hr/>

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

*FOR THE YEAR ENDED DECEMBER 31, 2013*

	<b>2013</b>
Operating revenues	
Water and sewer sales	\$ 1,227,906
Service charges/penalties	31,802
Other	19,690
Total operating revenues	<u>1,279,398</u>
Operating expense	
Salaries and wages	326,260
Insurance and pension cost	109,302
Utilities	88,707
Maintenance and repair	122,646
Chemicals	23,777
Postage and supplies	19,819
Miscellaneous	41,295
County water and sewerage charges	302,187
Depreciation	298,985
Professional fees	46,843
Testing and training	8,765
Vehicle expense	21,358
Total operating expenses	<u>1,409,944</u>
Operating loss	(130,546)
Non-operating revenue (expense)	
Interest income	686
Interest expense	(107,353)
Total non-operating expenses	<u>(106,667)</u>
Change in net position	(237,213)
Total net position, beginning of year	<u>7,138,103</u>
Total net position, end of year	<u>\$ 6,900,890</u>

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

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

*FOR THE YEAR ENDED DECEMBER 31, 2013*

**Cash flows from operating activities:**

Cash received from customers and others	\$ 1,278,357
Cash paid for goods and services	(727,813)
Cash paid to or on behalf of employees	(434,846)
Cash received from other funds	<u>1,114,083</u>
Net cash provided by operating activities	<u>1,229,781</u>

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

Principal paid on long-term debt	(1,193,645)
Interest paid on long-term debt	<u>(111,168)</u>
Net cash used in capital and related financing activities	<u>(1,304,813)</u>

**Cash flows from investing activities:**

Purchase of fixed assets	(119,199)
Interest income received	<u>686</u>
Net cash used in investing activities	<u>(118,513)</u>

Net increase in cash and cash equivalents (193,545)

Cash and cash equivalents, beginning of year 879,582

Cash and cash equivalents, end of year \$ 686,037

**Reconciling operating loss to net cash provided by operating activities:**

Operating loss	\$ (130,546)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	298,985
Net change in assets and liabilities:	
Accounts receivable	(3,256)
Prepaid expenses	(1,461)
Due to/from other funds	1,114,083
Decrease in accounts and other payables	<u>(48,024)</u>

Net cash provided by operating activities \$ 1,229,781

# CITY OF HARLEM, GEORGIA

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

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### **Note 1—Summary of significant accounting policies**

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

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

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 funds for which the City is financially accountable.

#### **B. Government-wide and fund financial statements**

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

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

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

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

*DECEMBER 31, 2013*

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

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

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

Governmental fund 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 2011-2016 Fund is 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 Community Development Block Grant Program (“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 CDBG is funded by the Georgia Department of Community Affairs.

T-SPLOST Funds are used to account for monies received from intergovernmental revenues (i.e., Special Purpose Sales Taxes) for various City infrastructure projects.

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

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

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

DECEMBER 31, 2013

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

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

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

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

The City reports the following proprietary fund:

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

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

**1. Deposits and investments**

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

The City records investments at fair market value in accordance with provisions of the Governmental Accounting Standards Board ("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, 2013

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

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

**2. Receivables and payables (continued)**

Reimbursements for services performed 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, 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:

Assets	Years
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, 2013

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

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

**5. Deferred outflows/inflows of resources**

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

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

**6. Compensated absences and post-retirement benefits**

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

**7. Long-term obligations**

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

**8. Unemployment compensation benefits**

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

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

DECEMBER 31, 2013

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

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

**9. Net position/fund balance**

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

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

**Flow assumptions**

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

**Net position**

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

- *Net investment in capital assets* - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduces this category.
- *Restricted net position* - This category represents external restrictions imposed by creditors, grantors, contributors, laws, or regulations of other governments and restrictions imposed by law through Constitutional provision enabling legislation.

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

DECEMBER 31, 2013

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

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

**9. Net position/fund balance (continued)**

**Net position (continued)**

*Unrestricted net position* - This category represents the net position of the City which is not restricted for any project or other purpose. The City first applies unrestricted resources when an expense is incurred for the purposes for which both restricted and unrestricted net positions are available.

**10. Use of estimates**

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

**E. Stewardship, compliance and accountability**

**1. Budgetary information**

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

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

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

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

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

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

DECEMBER 31, 2013

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

**E. Stewardship, compliance and accountability (continued)**

**2. 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:

	<b>Final</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Excess</b>
Public Safety	<u>766,494</u>	<u>770,732</u>	<u>(4,238)</u>

**3. Fund balance deficit**

As of December 31, 2013, there were no funds with a deficit fund balance.

**Note 2—Deposits, investments, and investment policies**

**A. Primary government**

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

**B. Custodial credit risk - deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. It is the City's policy for cash to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insured Corporation insurance. At December 31, 2013, the carrying amount of the City's deposits was \$2,519,142. At December 31, 2013, \$2,019,591 of the Government's approximate \$2,555,575 bank balance was uninsured. Of these uninsured deposits, \$2,019,591 was collateralized with securities held by the financial institution, by its trust department or agency, but not in the Government's name.

**C. Investments**

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

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

DECEMBER 31, 2013

**Note 3—Property taxes and other receivables**

**A. Receivables**

The Columbia County Tax Commissioner bills and collects property taxes, then remits the City its respective share of property taxes. Property taxes for 2013 were levied on September 15, 2013 and were due November 15, 2013. The unpaid taxes became a lien 30 days after the due date. Unpaid property taxes received within 60 days of the year end are recognized and recorded as revenue.

The City receives approximately 4% of a 1% local option sales tax on all retail sales within the City. The proceeds of such tax collected each year are used to reduce, on a dollar for dollar basis, the millage equivalent amount of property taxes to be levied in the subsequent year. Local option sales tax collections collected during the year ended December 31, 2013, totaled \$636,268.

The City also receives approximately 2.7% of 1% Special Local Option Sales Tax (“SPLOST”) funds to be used as designated and approved after public hearings. The approved expenditures are generally for capital projects in the City. The SPLOST received during the year ended December 31, 2013, totaled \$363,309.

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:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Receivables</b>			
Taxes	\$ 88,330	\$ -	\$ 88,330
Accounts	133,127	162,467	295,594
Gross receivables	221,457	162,467	383,924
Less, allowance for uncollectible	-	(100,760)	(100,760)
Net total receivable	\$ 221,457	\$ 61,707	\$ 283,164

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

DECEMBER 31, 2013

**Note 4—Capital assets**

**A. General government**

A summary of changes in capital assets follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 582,716	\$ -	\$ -	\$ 582,716
Total capital assets, not being depreciated	<u>582,716</u>	<u>-</u>	<u>-</u>	<u>582,716</u>
Capital assets, being depreciated				
Infrastructure	7,208,459	10,000	-	7,218,459
Buildings & improvements	6,470,374	25,233	-	6,495,607
Vehicles & equipment	1,687,541	47,603	-	1,735,144
	<u>15,366,374</u>	<u>82,836</u>	<u>-</u>	<u>15,449,210</u>
Less accumulated depreciation				
Infrastructure	(2,140,849)	(241,825)	-	(2,382,674)
Buildings & improvements	(889,398)	(165,142)	-	(1,054,540)
Vehicles & equipment	(971,484)	(113,584)	-	(1,085,068)
	<u>(4,001,731)</u>	<u>(520,551)</u>	<u>-</u>	<u>(4,522,282)</u>
Total capital assets, being depreciated, net	<u>11,364,643</u>	<u>(437,715)</u>	<u>-</u>	<u>10,926,928</u>
Governmental activities capital assets, net	<u>\$ 11,947,359</u>	<u>\$ (437,715)</u>	<u>\$ -</u>	<u>\$ 11,509,644</u>

Depreciation expense for the year ended December 31, 2013, was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 51,644
Public safety	126,337
Sanitation	2,442
Fire	49,609
Community services	30,727
Public works	251,564
Culture & recreation	<u>8,228</u>
Total depreciation expense – governmental activities	<u>\$ 520,551</u>

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

DECEMBER 31, 2013

**Note 4—Capital assets (Continued)**

**B. Proprietary fund**

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

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 40,277	\$ -	\$ -	\$ 40,277
Construction in progress	8,751	-	(8,751)	-
Total capital assets, not being depreciated	<u>49,028</u>	<u>-</u>	<u>(8,751)</u>	<u>40,277</u>
Capital assets, being depreciated				
Vehicles & equipment	310,388	5,569	-	315,957
Utility systems	12,526,300	122,381	-	12,648,681
Total capital assets, being depreciated, net	12,836,688	127,950	-	12,964,638
Less accumulated depreciation				
Vehicles & equipment	(293,586)	(2,528)	-	(296,114)
Utility systems	(4,524,288)	(296,457)	-	(4,820,745)
Total accumulated depreciation	<u>(4,817,874)</u>	<u>(298,985)</u>	<u>-</u>	<u>(5,116,859)</u>
Total capital assets, being depreciated, net	<u>8,018,814</u>	<u>(171,035)</u>	<u>-</u>	<u>7,847,779</u>
Capital assets, net	<u>\$ 8,067,842</u>	<u>\$ (171,035)</u>	<u>\$ (8,751)</u>	<u>\$ 7,888,056</u>

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

DECEMBER 31, 2013

**Note 5—Long-term debt**

The following is a summary of long-term debt activity for the year ended December 31, 2013:

	Balance January 1, 2013	2013		Balance December 31, 2013	Due Within One Year
		Additions	Reductions		
Governmental activities:					
Notes payable	\$ 3,078,998	\$ -	\$ 115,143	\$ 2,963,855	\$ 120,513
Compensated absences	22,566	29,894	22,566	29,894	29,894
Governmental activities long-term liabilities	<u>\$ 3,101,564</u>	<u>\$ 29,894</u>	<u>\$ 137,709</u>	<u>\$ 2,993,749</u>	<u>\$ 150,407</u>
Business-type activities:					
2000 GEFA loan	\$ 1,116,650	\$ -	\$ 1,116,650	\$ -	\$ -
2005 GEFA loan	1,661,481	-	76,995	1,584,486	80,292
Compensated absences	28,303	22,816	28,303	22,816	22,816
Business-type activities long-term liabilities	<u>\$ 2,806,434</u>	<u>\$ 22,816</u>	<u>\$ 1,221,948</u>	<u>\$ 1,607,302</u>	<u>\$ 103,108</u>

**A. Governmental activities debt**

**1. Notes payable**

In July 2009, the City received an eight-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, 2013, are as follows:

	Principal	Interest	Total Payment
2014	\$ 15,173	\$ 2,557	\$ 17,730
2015	15,776	1,954	17,730
2016	16,402	1,328	17,730
2017	17,053	677	17,730
	<u>\$ 64,404</u>	<u>\$ 6,516</u>	<u>\$ 70,920</u>



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

DECEMBER 31, 2013

**Note 5—Long-term debt (Continued)**

**A. Governmental activities debt (continued)**

**1. Notes payable (continued)**

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

Annual debt service requirements as of December 31, 2013, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2014	\$ 105,340	\$ 135,339	\$ 240,679
2015	110,360	130,319	240,679
2016	115,620	125,059	240,679
2017	121,130	119,549	240,679
2018	126,902	113,777	240,679
2019-2023	731,195	472,199	1,203,394
2024-2028	922,834	280,559	1,203,393
2029-2031	666,070	55,964	722,034
	<u>\$ 2,899,451</u>	<u>\$ 1,432,765</u>	<u>\$ 4,332,216</u>

**B. Business-type activities debt**

**1. 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 consisted of 76 installments of \$35,233. Interest on the construction loan is 5.15%. This loan was paid off during fiscal year with proceeds from an interfund receivable that was repaid to the fund.

In 2005, the City applied for and received a 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, 2013, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2014	\$ 80,292	\$ 65,014	\$ 145,306
2015	83,730	61,576	145,306
2016	87,315	57,991	145,306
2017	91,053	54,253	145,306
2018	94,952	50,354	145,306
2019-2023	539,343	187,190	726,533
2024-2028	607,801	61,774	669,575
	<u>\$ 1,584,486</u>	<u>\$ 538,152</u>	<u>\$ 2,122,638</u>

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

DECEMBER 31, 2013

**Note 6—Interfund receivables/transfers**

Interfund receivable and payable balances as of December 31, 2013, are as follows:

Due to	Due From		Total
	General Fund	Water & Sewer Fund	
General Fund	\$ -	\$ 3,402	\$ 3,402
Water & Sewer Fund	3,381	-	3,381
SPLOST 2006-2010	-	574	574
T-SPLOST	350	-	350
	<u>\$ 3,731</u>	<u>\$ 3,976</u>	<u>\$ 7,707</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.

There were no interfund transfers for the year ended December 31, 2013.

**Note 7—Risk management**

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

**A. Risk pool**

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

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

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

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

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

DECEMBER 31, 2013

**Note 8—Pension plan**

The City Council approved the adoption of a retirement plan May 11, 1987, and closed entry to the plan as of December 17, 2012, 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, 2013, was \$802,976. The City's total payroll for the year ended December 31, 2013, was \$1,060,222. The required contribution for 2013 was \$152,375.

All full-time City employees prior to December 17, 2012 were eligible to participate in the Plan after one year of service. Benefits vest after ten years of service. City employees may retire at age 55 under the early retirement provisions if they have completed ten years of service. Normal retirement is at age 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 Beginning	Annual Pension Cost	Percentage of Pension Cost Contributed	Actual Contribution	Net Pension Obligation (NPO)
1/1/2014	\$ 162,445	N/A	N/A	\$ -
1/1/2013	152,375	N/A	N/A	-
1/1/2012	164,920	N/A	N/A	-

Summary of funding progress as of December 31, 2013:

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)
7/1/2013	\$ 1,055,951	\$ 1,744,304	\$ 688,353	60.54%	\$ 802,976	85.73%

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

*DECEMBER 31, 2013*

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**Note 8—Pension plan (Continued)**

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

Valuation date	July 1, 2013
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 12 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 26% of market value for 2013.

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%

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

DECEMBER 31, 2013

**Note 8—Pension plan (Continued)**

*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.

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, 2013, the date of the actuarial report, the current Plan membership includes the following categories of participants:

Retirees and beneficiaries currently receiving benefits	13
Terminated employees entitled to benefits but not yet receiving those	15
Current active employees	
Vested	10
Nonvested	21
Total membership in the Plan	59

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 38.

As of December 17, 2012, the City Council approved the adoption of "The Georgia Municipal Association 401(a) Defined Contribution Plan". All full-time employees with six months of service hired after December 17, 2012 are eligible to participate in the plan. The City will match 100% of contributions up to 3% of total compensation. Matching contributions are 100% vested after a participant has been employed five years and matching contributions remain 0% vested until the participant satisfies the full vesting period. As of December 31, 2013, there were 4 plan participants.

Georgia Municipal Association, 201 Pryor Street, SW, Atlanta, Georgia 30303, is the Plan administrator for all pension plans.

# CITY OF HARLEM, GEORGIA

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

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### **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 the year ended December 31, 2013, the City paid \$2,666 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.

### **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 2013, the City did not receive funds from the Harlem Housing Authority as payment in lieu of taxes.

### **Note 11—Commitments and contingencies**

#### **A. Commitments**

The City has no outstanding commitments as of December 31, 2013.

#### **B. Contingencies**

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

### **Note 12—Landfill post-closure cost**

#### **A. 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 2013 were \$554.

**CITY OF HARLEM, GEORGIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS**

*DECEMBER 31, 2013*

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (A)</b>	<b>Actuarial Accrued Liability (AAL) (B)</b>	<b>Unfunded AAL (UAAL) (B-A)</b>	<b>Funds Ratio (A/B)</b>	<b>Covered Payroll (C)</b>	<b>UAAL as of Percentage of Covered Payroll (B-A)/(C)</b>
7/1/2013	\$ 1,055,951	\$ 1,744,304	\$ 688,353	60.54%	\$ 802,976	85.73%
7/1/2012	922,173	1,645,723	723,550	56.03%	836,186	86.53%
7/1/2011	828,752	1,628,090	799,338	50.90%	914,579	87.40%

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

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Harlem, Georgia (the "City"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 24, 2014.

**Internal Control over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses as described in 2013-01.



**Compliance and Other Matters**

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

**City of Harlem's Response to Findings**

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

**Purpose of this Report**

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

Handwritten signature in cursive script that reads "Cheryl Bekant LLP".

Augusta, Georgia  
June 24, 2014

# **CITY OF HARLEM, GEORGIA**

## **SCHEDULE OF FINDINGS AND RESPONSES**

*FOR YEAR ENDED DECEMBER 31, 2013*

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### **Finding 2013-01**

#### **CONDITION:**

The City of Harlem, Georgia (the "City") did not prepare its financial statements for the year ended December 31, 2013 or its conversion entries related to converting the fund financial statements to the statement of net position and statement of activities.

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

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

#### **CAUSE:**

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

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

#### **RECOMMENDATION:**

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

#### **MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:**

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

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

*FOR YEAR ENDED DECEMBER 31, 2013*

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**Finding 2012-01**

**CONDITION:**

The City of Harlem, Georgia (the "City") did not prepare its financial statements for the year ended December 31, 2012 or its conversion entries related to converting the Fund Financial Statements to the statement of net position and statement of activities. The City also did not reconcile certain balance sheet accounts during the year on a timely basis.

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

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

**CAUSE:**

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

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

**RECOMMENDATION:**

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

**ACTIONS TAKEN OR PLANNED TO CORRECT DEFICIENCIES:**

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

**CURRENT STATUS:**

Repeat finding at 2013-01.

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

FOR YEAR ENDED DECEMBER 31, 2013

<b>Project</b>	<b>Original Estimated Cost</b>	<b>Prior Year</b>	<b>Current Year</b>	<b>To Date</b>	<b>Percentage of Completion</b>
<b>Tier I</b>					
Upgrade & Improve Sewer Plant/Repair, Replace & Construction new Sewer/ Water Lines	\$ 1,404,000	\$ 1,404,000	\$ -	\$ 1,404,000	100%
Total - Tier I	1,404,000	1,404,000	-	1,404,000	
<b>Tier II</b>					
Public Buildings	189,000	178,883	-	178,883	95%
Generator	50,000	-	-	-	0%
Infrastructure	50,000	661,033	-	661,033	100%
Vehicles (Police, Fire, Public Works)	100,000	-	-	-	0%
Water & Sewer	70,000	70,000	-	70,000	100%
Total - Tier II	459,000	909,916	-	909,916	
<b>Tier III</b>					
Water & Sewer	447,000	194,045	-	194,045	43%
Vehicles	150,000	-	-	-	0%
Communications	40,000	-	-	-	0%
Public Buildings	200,000	-	-	-	0%
Total - Tier III	837,000	194,045	-	194,045	
Grand Total	\$ 2,700,000	\$ 2,507,961	\$ -	\$ 2,507,961	

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

FOR YEAR ENDED DECEMBER 31, 2013

<b>Project</b>	<b>Original Estimated Cost</b>	<b>Prior Year</b>	<b>Current Year</b>	<b>To Date</b>	<b>Percentage of Completion</b>
<b>Tier I</b>					
Vehicles and Equipment	\$ 350,000	\$ 145,511	\$ 40,599	\$ 186,110	53%
Infrastructure (Water & Sewer)	718,224	100,000	-	100,000	14%
Transportation (roads and sidewalks)	200,000	-	11,000	11,000	6%
Public buildings	850,000	850,000	-	850,000	100%
Recreation	250,000	9,923	-	9,923	4%
<b>Total - Tier I</b>	<b>2,368,224</b>	<b>1,105,434</b>	<b>51,599</b>	<b>1,157,033</b>	
<b>Tier II</b>					
Vehicles and Equipment	50,000	-	-	-	0%
Infrastructure (Water & Sewer)	610,377	-	-	-	0%
Public Buildings	150,000	-	-	-	0%
<b>Total - Tier II</b>	<b>810,377</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Tier III</b>					
Infrastructure (Water & Sewer)	521,749	-	-	-	0%
<b>Total - Tier III</b>	<b>521,749</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Grand Total</b>	<b>\$ 3,700,350</b>	<b>\$ 1,105,434</b>	<b>\$ 51,599</b>	<b>\$ 1,157,033</b>	

\* Subsequent to December 31, 2013, Council amended the costs by project, with no impact to Tier subtotal or grand total amounts. Adjustments will be reflected in the 2014 reported amounts.