CITY OF PEMBROKE, GEORGIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Pembroke, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Pembroke, Georgia as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Pembroke'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, the discretely presented component unit, and each major fund of the City of Pembroke, Georgia, as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in the Net Pension Liability and Related Ratios and the Schedule of Contributions on pages 36 and 37 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pembroke, Georgia's basic financial statements. The schedule of projects paid with SPLOST proceeds is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of projects paid with SPLOST proceeds is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic 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 schedule of projects paid with SPLOST proceeds is fairly stated in all material respects in relation to the basic 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 July 19, 2017 on our consideration of the City of Pembroke, Georgia'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 of Pembroke, Georgia's internal control over financial reporting and compliance.

Lanier, Westerfield, Cook & Proctor

Statesboro, Georgia
July 19, 2017

CITY OF PEMBROKE, GEORGIA
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 2,785,794	$ (160,922)	$ 2,624,872	$ 31,576
Restricted cash and cash equivalents	-	419,583	419,583	-
Certificates of deposit	98,661	152,950	251,611	-
Receivables:				
Taxes	205,858	-	205,858	-
Accounts	21,334	84,145	105,479	-
Intergovernmental	349,354	271,975	621,329	-
Internal balances	479,843	(479,843)	-	-
Prepaid insurance	14,678	8,249	22,927	-
Total Current Assets	3,955,522	296,137	4,251,659	31,576
Noncurrent Assets:				
Capital assets:				
Nondepreciable capital assets	522,277	-	522,277	812,500
Depreciable capital assets, net	2,082,226	8,754,869	10,837,095	-
Total Capital Assets	2,604,503	8,754,869	11,359,372	812,500
Total Assets	6,560,025	9,051,006	15,611,031	844,076
DEFERRED OUTFLOWS OF RESOURCES				
Resources related to pensions	116,363	36,464	152,827	-
LIABILITIES				
Current Liabilities:				
Accounts payable	129,347	45,271	174,618	2,500
Accrued payroll	9,518	1,928	11,446	-
Compensated absences payable	3,293	1,757	5,050	-
Customer deposits	-	62,530	62,530	-
Notes payable	32,770	-	32,770	-
Capital leases payable	23,658	14,204	37,862	-
Revenue bonds payable	-	166,786	166,786	-
Total Current Liabilities	198,586	292,476	491,062	2,500
Long-Term Liabilities:				
Compensated absences payable (net of current portion)	13,173	7,028	20,201	-
Notes payable (net of current portion)	26,402	-	26,402	812,500
Revenue bonds payable (net of current portion)	-	3,961,590	3,961,590	-
Capital leases payable (net of current portion)	38,125	30,021	68,146	-
Net pension obligation	288,237	92,868	381,105	-
Total Long-Term Liabilities	365,937	4,091,507	4,457,444	812,500
Total Liabilities	564,523	4,383,983	4,948,506	815,000
DEFERRED INFLOWS OF RESOURCES				
Resources related to pensions	15,870	5,524	21,394	-
NET POSITION				
Net investment in capital assets	2,483,548	4,582,268	7,065,816	-
Restricted for:				
Capital projects	1,808,927	-	1,808,927	-
Public safety	73,048	-	73,048	-
Streets	30,331	-	30,331	-
Debt service	-	269,243	269,243	-
Unrestricted	1,700,141	(153,548)	1,546,593	29,076
Total Net Position	$ 6,095,995	$ 4,697,963	$10,793,958	$ 29,076

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

Program/Function	Expenses	Program Revenues: Fees, Fines, and Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Unit
Primary Government								
Governmental Activities:								
General government	$ 292,581	$ 54,151	-	-	$ (238,430)	-	$ (238,430)	-
Municipal court	25,798	-	-	-	(25,798)	-	(25,798)	-
Public safety	741,686	221,065	$ 1,245	-	(519,376)	-	(519,376)	-
Streets and sanitation	703,922	116,344	141,892	$ 522,422	76,736	-	76,736	-
Recreation and culture	110,117	8,093	1,310	-	(100,714)	-	(100,714)	-
Housing and development	96,170	650	-	-	(95,520)	-	(95,520)	-
Health and welfare	103,644	-	114,526	-	10,882	-	10,882	-
Interest	3,495	-	-	-	(3,495)	-	(3,495)	-
Total Govermental Activites	2,077,413	400,303	258,973	522,422	(895,715)	-	(895,715)	-
Business-Type Activities:								
Water Fund	1,425,952	1,060,951	-	-	-	$ (365,001)	(365,001)	-
Total - Primary Government	$ 3,503,365	$ 1,461,254	$ 258,973	$ 522,422	(895,715)	(365,001)	(1,260,716)	-
Component Unit								
Downtown Development Authority	$ 14,328	$ -	$ 27,541	$ -	-	-	-	$ 13,213
		General Revenues						
		Property taxes levied for:						
		General purposes			568,433	-	568,433	-
		Sales taxes			502,460	-	502,460	-
		Insurance premium tax			137,374	-	137,374	-
		Franchise taxes			129,719	-	129,719	-
		Other taxes			62,559	-	62,559	-
		Interest earned			4,527	1,086	5,613	-
		Gain (loss) on sale of capital assets			11,193	-	11,193	-
		Miscellaneous			55,737	-	55,737	-
		Total General Revenues			1,472,002	1,086	1,473,088	-
		Transfers			(308,646)	308,646	-	-
		Total General Revenues and Transfers			1,163,356	309,732	1,473,088	-
		Change in Net Position			267,641	(55,269)	212,372	13,213
		Net Position Beginning of Year			5,828,354	4,753,232	10,581,586	15,863
		Net Position End of Year			$ 6,095,995	$ 4,697,963	$ 10,793,958	$ 29,076

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General	SPLOST	Total Governmental Funds
ASSETS			
Cash	$ 1,052,746	$ 1,733,048	$ 2,785,794
Certificates of deposit	98,661	-	98,661
Receivables:			
Taxes	205,858	-	205,858
Accounts	21,334	-	21,334
Intergovernmental	261,005	88,349	349,354
Prepaid insurance	14,678	-	14,678
Due from other funds	485,353	-	485,353
TOTAL ASSETS	$ 2,139,635	$ 1,821,397	$ 3,961,032
LIABILITIES			
Accounts payable	$ 122,387	$ 6,960	$ 129,347
Accrued payroll liabilities	9,518	-	9,518
Due to other funds	-	5,510	5,510
TOTAL LIABILITIES	131,905	12,470	144,375
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	45,975	-	45,975
FUND BALANCES			
Nonspendable	14,678	-	14,678
Restricted for:			
Capital projects	-	1,808,927	1,808,927
Public safety	73,048	-	73,048
Streets	30,331	-	30,331
Unassigned	1,843,698	-	1,843,698
TOTAL FUND BALANCES	1,961,755	1,808,927	3,770,682
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 2,139,635	$ 1,821,397	$ 3,961,032

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2016

Amounts reported for governmental activities in the statement of net position are different because:		
Total Governmental Fund Balances		$ 3,770,682
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Cost	$ 5,177,699	
Less accumulated depreciation	(2,573,196)	2,604,503
Other long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenue in the funds:		
Property taxes		45,975
Deferred outflows and deferred inflows related to pensions is not reported in the governmental funds:		
Deferred outflows of revenues	116,363	
Deferred inflows of revenues	(15,870)	100,493
The City's net pension obligation is not reported in the governmental funds but is in the statement of net position.		(288,237)
Liabilities, including notes payable, capital leases payable, and compensated absences are not due and payable in the current period and therefore are not reported in the funds but are reported on the statement of net position:		
Notes payable	(59,172)	
Capital leases payable	(61,783)	
Compensated absences	(16,466)	(137,421)
Net Position Of Governmental Activities		$ 6,095,995

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	General	SPLOST	Total Governmental Funds
REVENUES			
Taxes	$ 1,383,207	-	$ 1,383,207
Licenses and permits	31,183	-	31,183
Intergovernmental	286,749	$ 490,221	776,970
Charges for services	174,767	-	174,767
Fines and forfeitures	194,353	-	194,353
Interest	4,527	1,870	6,397
Other	58,292	-	58,292
Total revenues	2,133,078	492,091	2,625,169
EXPENDITURES			
Current:			
General government	255,656	-	255,656
Municipal court	24,625	-	24,625
Public safety	750,093	-	750,093
Streets and sanitation	690,909	-	690,909
Recreation and culture	87,488	-	87,488
Housing and development	95,232	-	95,232
Health and welfare	103,644	-	103,644
Capital outlay:			
Public safety	-	62,557	62,557
Debt service:			
Principal	49,022	-	49,022
Interest	3,495	-	3,495
Total expenditures	2,060,164	62,557	2,122,721
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	72,914	429,534	502,448
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	11,193	-	11,193
Proceeds from notes and capital leases	44,402	-	44,402
Transfers out	-	(308,646)	(308,646)
Total other financing sources (uses)	55,595	(308,646)	(253,051)
NET CHANGE IN FUND BALANCES	128,509	120,888	249,397
FUND BALANCES, JANUARY 1, 2016	1,833,246	1,688,039	3,521,285
FUND BALANCES, DECEMBER 31, 2016	$ 1,961,755	$ 1,808,927	$ 3,770,682

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Net Changes In Fund Balances - Total Governmental Funds		$ 249,397
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period.		
Depreciation expense	$ (201,190)	
Capital outlay	218,062	16,872
Governmental funds do not report the cost of disposed capital assets but the cost is reported on the statement of activities.		-
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		
Property taxes:		
Unavailable revenue @ 12/31/16	45,975	
Unavailable revenue @ 12/31/15	(28,637)	17,338
Other financing sources for proceeds from notes payable and capital leases are reported on the fund level operating statement but are reported as a liability on the governement-wide financial statements.		(44,402)
Repayment of notes payable and capital leases principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		49,022
The change in the net pension liability and pension related deferred outflows and deferred inflows is reported on the gevernment-wide statement of activities but not in the governmental funds.		(18,332)
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated absences payable:		
Liability @ 12/31/16	(16,466)	
Liability @ 12/31/15	14,212	(2,254)
Change In Net Position of Governmental Activities		$ 267,641

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2016

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Taxes	$ 1,365,161	$ 1,365,161	$ 1,383,207	$ 18,046
Licenses and permits	37,100	37,100	31,183	(5,917)
Intergovernmental	131,000	131,000	286,749	155,749
Charges for services	173,740	173,740	174,767	1,027
Fines and forfeitures	290,110	290,110	194,353	(95,757)
Interest income	4,200	4,200	4,527	327
Miscellaneous	56,500	56,500	58,292	1,792
Total revenues	2,057,811	2,057,811	2,133,078	75,267
EXPENDITURES				
Current:				
General government	291,353	281,353	255,656	25,697
Municipal court	61,890	61,890	24,625	37,265
Public safety	709,072	709,072	750,093	(41,021)
Streets and sanitation	623,271	633,271	690,909	(57,638)
Health and welfare	131,000	131,000	103,644	27,356
Recreation and culture	89,596	89,596	87,488	2,108
Housing and development	97,915	97,915	95,232	2,683
Debt service:				
Principal	49,462	49,462	49,022	440
Interest	5,252	5,252	3,495	1,757
Total expenditures	2,058,811	2,058,811	2,060,164	(1,353)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,000)	(1,000)	72,914	73,914
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	1,000	1,000	11,193	10,193
Proceeds from notes and capital leases	-	-	44,402	44,402
Total other financing sources (uses)	1,000	1,000	55,595	54,595
NET CHANGE IN FUND BALANCE	$ -	$ -	128,509	$ 128,509
FUND BALANCE, JANUARY 1, 2016			1,833,246	
FUND BALANCE, DECEMBER 31, 2016			$ 1,961,755	

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA
STATEMENT OF NET POSITION
WATER AND SEWER FUND
DECEMBER 31, 2016

ASSETS	
Current Assets	
Cash and cash equivalents	$ (160,922)
Restricted cash and cash equivalents	419,583
Certificates of deposit	152,950
Accounts receivable	84,145
Intergovernmental receivable	271,975
Prepaid insurance	8,249
Total Current Assets	775,980
Noncurrent Assets	
Capital Assets	
Water and sewer system	11,900,548
Machinery and equipment	380,662
Less accumulated depreciation	(3,526,341)
Total Capital Assets	8,754,869
Total Assets	9,530,849
DEFERRED OUTFLOWS OF RESOURCES	
Resources related to pensions	36,464
LIABILITIES	
Current Liabilities	
Accounts payable	45,271
Accrued payroll	1,928
Compensated absences payable	1,757
Due to other funds	479,843
Customer deposits	62,530
Revenue bonds payable	166,786
Capital leases payable	14,204
Total Current Liabilities	772,319
Long-term Liabilites	
Compensated absences payable (net of current portion)	7,028
Revenue bonds payable (net of current portion)	3,961,590
Capital leases payable (net of current portion)	30,021
Net pension obligation	92,868
Total Long-term Liabilities	4,091,507
Total Liabilites	4,863,826
DEFERRED INFLOWS OF RESOURCES	
Resources related to pensions	5,524
NET POSITION	
Net investment in capital assets	4,582,268
Restricted for debt service	269,243
Unrestricted	(153,548)
Total Net Position	$ 4,697,963

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

WATER AND SEWER FUND

FOR THE YEAR ENDED DECEMBER 31, 2016

OPERATING REVENUES	
Water and sewer sales	$ 942,081
Other	118,870
Total operating revenues	1,060,951
OPERATING EXPENSES	
Salaries	228,476
Payroll taxes	16,076
Retirement	24,824
Depreciation	328,055
Professional fees	49,101
Utilities	150,327
Rent	50,000
Repair and maintenance	53,421
Insurance	77,288
Chemicals	12,230
Postage	7,028
Lab	6,248
Fuel	9,464
Telephone	6,987
Supplies	39,592
Small equipment	10,934
Prison detail	56,910
Contracted services	40,898
Equipment rental	9,674
Other	18,755
Total operating expenses	1,196,288
OPERATING INCOME (LOSS)	(135,337)
NONOPERATING REVENUE (EXPENSE)	
Interest income	1,086
Bond issuance costs	(89,376)
Interest expense	(140,288)
Total nonoperating revenue (expense)	(228,578)
INCOME (LOSS) BEFORE TRANSFERS	(363,915)
Transfers in	308,646
CHANGE IN NET POSITION	(55,269)
NET POSITION, BEGINNING OF YEAR	4,753,232
NET POSITION, END OF YEAR	$ 4,697,963

See accompanying notes to the basic financial statements.

CITY OF PEMBROKE, GEORGIA
STATEMENT OF CASH FLOWS
WATER AND SEWER FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 1,068,396
Cash payments for employees	(263,585)
Cash payments for goods and services	(567,413)
Net cash provided by operating activities	237,398
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfers in from SPLOST fund	308,646
Proceeds from refunding revenue bonds	4,210,000
Principal payments on long-term debt	(4,467,176)
Bond issuance costs	(89,376)
Interest payments	(146,096)
Net cash used by capital and related financing activities	(184,002)
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in certificates of deposit	(476)
Interest received	1,086
Net cash provided by investing activities	610
NET INCREASE IN CASH AND CASH EQUIVALENTS	54,006
CASH AND CASH EQUIVALENTS, JANUARY 1, 2016	204,655
CASH AND CASH EQUIVALENTS, DECEMBER 31, 2016	$ 258,661
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	$ (135,337)
Adjustments:	
Depreciation	328,055
(Increase) decrease in operating assets:	
Accounts receivable	285
Prepaid insurance	(3,299)
(Increase) decrease in deferred outflow of resources - resources related to pensions	(19,904)
Increase (decrease) in operating liabilities:	
Accounts payable	34,743
Accrued payroll	805
Customer deposits	7,160
Compensated absences payable	(472)
Net pension obligation	27,355
Increase (decrease) in deferred inflow of resources - resources related to pensions	(1,993)
Net cash provided by operating activities	$ 237,398

See accompanying notes to the basic financial statements.

The City of Pembroke was chartered by an act of the General Assembly of the State of Georgia. The City operates under a Council/Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, culture and recreation, planning and zoning, and general administrative services. In addition, the City operates a water and sewer system.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting. The City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, in its government-wide and proprietary fund financial statements, provided they do not conflict with or contradict GASB pronouncements.

The most significant of the City's accounting policies are described below.

1-A. Reporting Entity

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organizations; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units also may include organizations that are fiscally dependent on the City in that the City approves the budget, levies their taxes or issues their debt.

The Downtown Development Authority of the City of Pembroke is a public corporation created to promote industry, trade, and economic growth. The City appoints the members of the authority's board and assists in its funding. Separate financial statements are not prepared.

1-B. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Financial Statements – The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes, grants and the City's general revenues, from business-type activities, generally financed in whole or part with service charges to external customers.

The statement of net position presents the financial position of the governmental and business-type activities of the City.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and for each identifiable activity of the business-type activities of the City. Direct expenses are those that are specifically associated with a function and therefore clearly identifiable to that particular function. The City does not allocate indirect expenses to functions in the statement of activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. For identifying to which function program revenue pertains, the determining factor for *charges for services* is which function *generates* the revenue. For *grants and contributions*, the determining factor is to which function the revenues are *restricted.*

Other revenue sources not properly included with program revenues are reported as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Fund financial statements are provided for governmental and proprietary funds.

Major individual governmental funds are reported in separate columns.

Fund Accounting – The City uses funds to maintain its financial records during the year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The City uses two categories of funds: governmental and proprietary.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between governmental fund assets and liabilities as fund balance. The following are the City's major governmental funds:

General Fund – The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund's fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of the State of Georgia.

SPLOST Fund – This capital projects fund accounts for the special purpose local option sales tax collected to be used for various capital improvements within the City.

Proprietary Funds – Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. The proprietary funds are classified as enterprise funds and internal service funds. The City's only major enterprise fund is the water and sewer fund which accounts for the water and sewer provided to the City's constituents.

1-C. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net position. The statement of activities reports revenues and expenses.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus on both financial reporting levels. All assets and all liabilities associated with the operation of these funds are included on the statements of net position. The statements of changes in fund net position present increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1-D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, the governmental funds use the modified accrual basis in accounting. Proprietary funds use the accrual basis of accounting at both reporting levels. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, the phrase "available for exchange transactions" means expected to be received within 60 days of year-end.

Revenues – Non-exchange Transactions – Non-exchange transactions in which the City receives value without directly giving equal value in return, include sales taxes, property taxes, grants and donations. On an accrual basis, revenue from sales taxes is recognized in the period in which the taxable sale takes place. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions also must be available (i.e., collected within 60 days) before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: property taxes, sales taxes, interest and federal and state grants.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

1-E. Assets, Liabilities, Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Cash, Cash Equivalents, and Investments

Cash and cash equivalents include amounts in demand deposits and short-term investments with an original maturity date within three months of the date acquired by the City.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments are stated at fair value based on quoted market prices.

Georgia law authorizes the City to invest in the following type of obligations:

- Obligations of the State of Georgia or of any other states
- Obligations of the United States Government
- Obligations fully insured or guaranteed by the United States Government or United States Government agency
- Obligations of any corporation of the United States Government
- Prime bankers' acceptances
- The State of Georgia local government investment pool (i.e., Georgia Fund I)
- Repurchase agreements
- Obligations of the other political subdivisions of the State of Georgia

Receivables

All trade and property tax receivables are reported net of an allowance for uncollectible, where applicable.

Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds." These amounts are eliminated in the governmental and business-type activities columns on the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances on this statement. These amounts are ultimately eliminated from the total column on the statement of net position.

Consumable Inventories

On the government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used (i.e., the consumption method).

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2016, are recorded as prepaid items using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. At the fund reporting level, an equal amount of fund balance is reported as nonexpendable as this amount is not available for general appropriation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

Restricted assets represent amounts set aside to meet the requirements of applicable covenants of the water and sewer revenue bonds.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column of the government-wide statement of net position but does not report these assets in the City fund financial statements. Capital assets utilized by the proprietary fund are reported in the business-type activities column of the government-wide statement of net position and in the proprietary fund's statement of net position.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars. The City's infrastructure consists of roads, bridges and water lines. For roads and bridges, the City will only capitalize infrastructure constructed after June 30, 2003. Improvements to capital assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed.

Interest incurred during the construction of capital assets utilized by the enterprise fund is capitalized.

All reported capital assets are depreciated except for land, right-of-ways and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	7-40 years
Machinery and equipment	3-10 years
Infrastructure	10-40 years
Water and sewer system	15-40 years

At the inception of capital leases at the governmental fund reporting level, expenditures and an "other financing source" of an equal amount are reported at the net present value of future minimum lease payments.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for the 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. The City only has one item that qualifies for reporting in this category. It is resources related to pensions reported at the government-wide level for governmental and business-type activities and at the fund level for enterprise funds.

In addition to liabilities, the statement of financial 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. The City has an item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. The City also has deferred inflows of resources related to its pension plan reported at the government-wide level for governmental and business-type activities and at the fund level for its proprietary fund.

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

All compensated absence liabilities include salary-related payments, where applicable.

The total compensated absence liability is reported on the government-wide financial statements. The proprietary fund reports the total compensated liability at the fund reporting level. Governmental funds report the compensated absence liability at the fund reporting level only "*when due.*"

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of those funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year. Capital leases are recognized as a liability in the governmental fund financial statements when due.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Premiums, Discounts and Issuance Costs

On the government-wide statement of net position and the proprietary fund type statement of net position, bond premiums and discounts are netted against bonds payable. On the government-wide and proprietary fund type statement of activities, bond premiums and discounts are amortized over the life of the bonds using the effective interest method and bond issuance costs are expensed in the current period.

At the governmental fund reporting level, bond premiums and discounts are reported as other financing sources and uses, separately from the face amount of the bonds issued. Bond issuance costs are reported as debt service expenditures.

Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

Fund Balance – Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund 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 (i.e., items that are not expected to be converted to cash) 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 either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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 Council through the adoption of a resolution. Only the City Council also may modify or rescind the commitment.

Assigned – Fund balances are reported as assigned when amounts are constrained by the City Council's intent to be used for specific purposes, but are neither restricted nor committed. Only the City Council is authorized to assign fund balance by resolution.

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 only in the general fund. Negative unassigned fund balances may be reported in all funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Flow Assumptions - The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

Net Position – Net position represents the difference between the assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net position is reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the City, these revenues are charges for services for water and sewer. Operating expenses are necessary costs incurred to provide the water and sewer services and includes administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after the non-operating revenues/expenses section in proprietary funds. Repayment from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements (i.e., they are netted).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfers between governmental and business-type activities on the government-wide statement of activities are reported as general revenues. Transfers between funds reported in the governmental activities column are eliminated. Transfers between governmental and business-type activities are eliminated from the total column.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The City adopts an annual operating budget for the general fund and each special revenue fund. The budget resolution reflects the total of each department's appropriation in each fund.

All budgets are adopted on a basis consistent with GAAP.

The legal level of control (the level at which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the department level within each individual fund. Any change in total to a fund or departmental appropriation within a fund requires approval of the City Council.

During the year, the City Council approved budget revisions.

All unexpended annual appropriations lapse at year-end.

Excess of Expenditures over Appropriations

For the year ended December 31, 2016, expenditures exceeded appropriations for the following departments within the general fund:

	Overexpenditures
Public safety	$ 41,021
Streets and sanitation	57,638

The over expenditure in these areas were funded by excess revenues over amounts budgeted and proceeds from a capital lease.

NOTE 3 – DEPOSITS

At December 31, 2016, the carrying amount of the City's deposits (checking and certificates of deposit) was $3,296,066 and the bank balance was $3,281,793. Of the bank balance, $500,000 was covered by federal depository insurance and $2,781,793 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

NOTE 4 – PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Property taxes are billed on or about September 15th of each year and are payable within sixty days. The Bryan County Tax Commissioner bills and collects the City's property taxes. Property tax revenues at the fund reporting level are recognized when levied to the extent that they result in current receivables (i.e., collectible in 60 days). For the year ended December 31, 2016, property taxes were levied on August 25, 2016, and were due November 15, 2016.

NOTE 5 – RECEIVABLES

Receivables at December 31, 2016, consisted of taxes, accounts (billings for user charges) and intergovernmental receivables arising from grants.

Receivables are recorded on the City's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability. The allowance for uncollectible accounts netted against accounts receivable at December 31, 2016 for the water and sewer fund totaled $3,766.

NOTE 6 – INTERFUND BALANCES AND TRANSFERS

Receivable Fund	Payable Fund	Amount
General	SPLOST	$ 5,510
	Water and Sewer	479,843
		$ 485,353

Interfund balances at December 31, 2016 represent charges for services or reimbursable expenses. The City expects to repay all interfund balances within one year.

During the year ended December 31, 2016, the SPLOST fund transferred $308,646 to the water and sewer fund to help fund debt service payments.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	Balance 1/1/16	Additions	Deductions	Balance 12/31/16
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 404,138	$ 5,000	-	$ 409,138
Construction in progress	82,519	62,557	$ 31,937	113,139
Total capital assets not being depreciated	486,657	67,557	31,937	522,277
Capital assets being depreciated:				
Buildings and other improvements	1,835,477	31,937	-	1,867,414
Machinery and equipment	1,194,344	85,858	-	1,280,202
Infrastructure	1,443,159	64,647	-	1,507,806
Total capital assets being depreciated	4,472,980	182,442	-	4,655,422
Total capital assets	4,959,637	249,999	31,937	5,177,699
Accumulated depreciation:				
Buildings and other improvements	1,244,177	43,985	-	1,288,162
Machinery and equipment	825,488	95,818	-	921,306
Infrastructure	302,341	61,387	-	363,728
Total accumulated depreciation	2,372,006	201,190	-	2,573,196
Governmental activities capital assets, net	$ 2,587,631	$ 48,809	$ 31,937	$ 2,604,503

Governmental activities depreciation expense:

General government	$ 35,264
Public safety	57,141
Recreation	26,691
Streets and sanitation	82,094
Total governmental activities depreciation expense	$ 201,190

NOTE 7 – CAPITAL ASSETS (Continued)

The following table presents the changes in capital assets for the City's enterprise fund:

	Balance 1/1/16	Additions	Deductions	Balance 12/31/2016
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
Capital assets being depreciated:				
Water and sewer system	$ 11,900,548	-	-	$ 11,900,548
Machinery and equipment	380,662	-	-	380,662
Total capital assets being depreciated	12,281,210	-	-	12,281,210
Total capital assets	12,281,210	-	-	12,281,210
Accumulated depreciation:				
Water and sewer system	2,934,462	$ 296,330	-	3,230,792
Machinery and equipment	263,824	31,725	-	295,549
Total accumulated depreciation	3,198,286	328,055	-	3,526,341
Business-type activities capital assets, net	$ 9,082,924	$ (328,055)	-	$ 8,754,869

NOTE 8 – NOTES PAYABLE

Governmental Activities

The notes payable outstanding at December 31, 2016, consisted of the following:

	Governmental Activities
Note payable to USDA, payable in monthly installments of $1,315 including interest at 3.125%, through March, 2018, secured by equipment	$ 19,241
Note payable to USDA, payable in monthly installments of $1,541 including interest at 3.50%, through March, 2019, secured by vehicles	39,931
	$ 59,172

NOTE 8 – NOTES PAYABLE (Continued)

As of December 31, 2016, annual debt service requirements for governmental activities are as follows:

Year ending December 31	Principal	Interest	Total
2017	$ 32,770	$ 1,502	$ 34,272
2018	21,832	523	22,355
2019	4,570	18	4,588
	$ 59,172	$ 2,043	$ 61,215

Component Unit

The Downtown Development Authority has a note payable outstanding in the amount of $812,500 payable to the Bryan County Board of Education for the purchase of property from the Bryan County Board of Education. The note requires 180 monthly payments of $6,010 including interest at 4% beginning in July, 2017 and ending in June, 2032. Debt service requirements are as follows:

Year ending December 31	Principal	Interest	Total
2017	$ 19,976	$ 16,084	$ 36,060
2018	41,168	30,952	72,120
2019	42,845	29,275	72,120
2020	44,591	27,529	72,120
2021	46,407	25,712	72,119
2022-2026	261,986	98,611	360,597
2027-2031	319,883	40,714	360,597
2032	35,644	416	36,060
	$ 812,500	$ 269,293	$ 1,081,793

NOTE 9 – WATER AND SEWER REFUNDING REVENUE BOND

In June, 2016, the City issued a City of Pembroke Water and Sewer Refunding Revenue Bond, Series 2016, for $4,210,000. The bond was issued to pay the cost of refunding and defeasing the City of Pembroke Water and Sewer Revenue Bond, Series 2003A; the City of Pembroke Water and Sewer Revenue Bond, Series 2003B; the City of Pembroke Water and Sewer Revenue Bond, Series 2013; and a note from First Bank of Coastal Georgia dated December 14, 2015. Additionally, a portion of the net proceeds was deposited into a debt service reserve account.

The bond has an interest rate of 2.57% for the first 15 years. After that, the interest rate will be at a monthly variable rate equal to 70% of the Wall Street Journal prime rate not to exceed a rate of 10%.

The bond requires monthly principal and interest payments of $22,445 from July, 2016 through June, 2036. The principal amount outstanding at December 31, 2016 was $4,128,376.

NOTE 9 – WATER AND SEWER REFUNDING REVENUE BOND (Continued)

The bond is secured by a lien on the revenues of the water and sewer system. The City will be required to create a special fund designated as the City of Pembroke Water and Sewer Revenue Bond Sinking Fund (Sinking Fund), which will include a debt service and a reserve account.

As of December 31, 2016, annual debt service requirements are as follows:

Year ending December 31	Business-Type Activities		
	Principal	Interest	Total
2017	$ 166,786	$ 102,551	$ 269,337
2018	169,512	99,825	269,337
2019	173,920	95,417	269,337
2020	178,443	90,894	269,337
2021	183,083	86,254	269,337
2022-2026	989,356	357,329	1,346,685
2027-2031	1,124,863	221,823	1,346,686
2032-2036	1,142,413	68,492	1,210,905
	$ 4,128,376	$ 1,122,585	$ 5,250,961

NOTE 10 – CAPITAL LEASES

The City has entered into a lease agreement as lessee for financing the acquisition of a backhoe for the water and sewer fund costing $71,770. The backhoe has a seven year estimated useful life and the related amortization is included in depreciation expense and accumulated depreciation was $18,797 at December 31, 2016. The City has also entered into lease agreements for financing the acquisition of police vehicles and equipment costing $87,044. The assets have a five year estimated useful life and the related amortization is included in depreciation expense and accumulated depreciation was $17,340 at December 31, 2016. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The following is a schedule of future minimum lease payments under the capital leases, and the present value of the net minimum lease payments at December 31, 2016:

Year ending December 31	Governmental Activities	Business-Type Activities
2017	$ 25,529	$ 15,640
2018	11,845	15,640
2019	9,812	15,640
2020	9,812	-
2021	9,812	-
Total minimum lease payments	66,810	46,920
Less amount representing interest	5,027	2,695
Present value of future minimum lease payments	$ 61,783	$ 44,225

NOTE 11 – CHANGES IN LONG-TERM DEBT

	Outstanding January 1, 2016	Additions	Reductions	Outstanding December 31, 2016	Amounts Due in One Year
Governmental Activities					
Compensated absences	$ 14,212	$ 2,254	-	$ 16,466	$ 3,293
Notes payable	90,872	-	$ 31,700	59,172	32,770
Capital leases payable	34,703	44,402	17,322	61,783	23,658
Total Governmental Activities	$ 139,787	$ 46,656	$ 49,022	$ 137,421	$ 59,721
Business-Type Activities					
Compensated absences	$ 9,257	-	$ 472	$ 8,785	$ 1,757
Notes payable	580,780	-	580,780	-	-
Capital lease payable	57,916	-	13,691	44,225	14,204
Revenue bonds payable	3,791,081	$ 4,210,000	3,872,705	4,128,376	166,786
Total Business-Type Activities	$ 4,439,034	$ 4,210,000	$ 4,467,648	$ 4,181,386	$ 182,747

The compensated absences liability and capital lease payments will be paid from the general fund for governmental activities and from the water and sewer fund for business-type activities. Principal and interest payments related to notes payable for governmental activities will be paid from the general fund. Revenue bonds payable for the City's Water and Sewer System are financed from income derived from the operation of the Water and Sewer System.

NOTE 12 – EMPLOYEE RETIREMENT PLAN

Plan Description

The City's defined benefit pension plan, the City of Pembroke Retirement Plan (the "Plan"), provides retirement and disability benefits and death benefits to plan members and beneficiaries. The Plan is affiliated with the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for cities in the State of Georgia. The City is assigned the authority to establish and amend benefit provisions of the Plan. GMEBS issues a publicly available financial report that includes financial statements and required supplementary information. The report can be obtained by writing to Georgia Municipal Association, Risk Management and Employee Benefit Services, 201 Pryor Street, SW, Atlanta, Georgia 30303 or by calling (404) 688-0472.

Benefits Provided

The Plan provides retirement benefits to eligible employees of the City. All regular employees meeting the eligibility requirements are covered under the plan. Municipal legal officers are not eligible to participate in the plan. In order to be eligible for participation, regular employees must work a minimum of thirty hours per week for at least five months per year. Regular employees qualify for immediate participation in the plan and participation is mandatory for all eligible employees.

NOTE 12 – EMPLOYEE RETIREMENT PLAN (Continued)

Plan participants are eligible to receive early retirement benefits at the age of fifty-five with the completion of ten years of total credited service. Normal retirement benefits may be received at the age of sixty-five with five years of total credited service.

Normal retirement benefits are calculated based on a flat percentage of 2.0 percent of final average earnings multiplied by years of total credited service as an eligible regular employee. The number of years of total credited service which may be used to calculate the benefit is not limited. Monthly benefits are paid at $1/12^{th}$ of the calculated amount. The same formula is used for all participants who are regular employees. Final average earnings are the annual average of earnings paid to a participant by the City for the five consecutive years of credited service preceding the participant's most recent termination in which the participant's earnings were the highest. All elected or appointed members of the City eligible to participate will receive $17 per month for each year of total credited service.

For participants electing to receive early retirement benefits, the benefit will be reduced on an actuarially equivalent basis to account for early commencement of benefits.

Disability retirement benefits shall be computed in the same manner as the normal retirement benefit, based upon the participant's accrued benefit as of his disability retirement date. The minimum disability benefit will be no less than 20% of the participant's average monthly earnings for the twelve calendar month period immediately preceding his termination of employment as a result of a disability.

In-service death benefits are payable to the participant's pre-retirement beneficiary, equal to the actuarially equivalent of the reserve required for the participant's anticipated normal retirement benefit. For purposes of computing the actuarial reserve death benefit, the participant's total credited service shall include total credited service accrued prior to the date of the participant's death, plus one-half of the service between such date of death and what would otherwise have been the participant's normal retirement date. Terminated vested death benefits are payable to the participant's pre-retirement beneficiary, equal to the decreased monthly retirement benefit that would have otherwise been payable to the participant had he elected 100% joint and survivor benefit under the plan.

Employees Covered by Benefit Terms
At July 1, 2016, the most recent actuarial valuation, there were 67 participants as follows:

Active participants	29
Retirees and beneficiaries	19
Vested former employees	19
	67

Contributions
The Plan is subject to minimum funding standards of the Public Retirement Systems Standards Law (Georgia Code Section 47-20-10). The estimated minimum annual contribution under these standards is $74,850. This minimum contribution has been determined as the sum of 1) the normal cost (including administrative expenses), 2) the 30-year level percentage of payroll amortization of the unfunded actuarial accrued liability or

NOTE 12 – EMPLOYEE RETIREMENT PLAN (Continued)

the 10-year level percentage of payroll amortization of the surplus, and 3) interest on these amounts from the valuation date to the date contributions are paid (assumed monthly). The GMEBS Board of Trustees has adopted an actuarial funding policy that requires a different funding level than the estimated minimum annual contribution to minimize fluctuations in annual contribution amounts and to accumulate sufficient funds to secure benefits under the Plan. If the employer contributes the recommended contribution developed under the actuarial funding policy each year, the Plan will meet applicable state funding standards.

Net Pension Liability

The City's net pension liability was measured as of March 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016.

Actuarial Assumptions

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	Range of 3.75 to 8.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expenses, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table with sex-distinct rates, set forward two years for males and one year for females.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 to June 30, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates return for each major asset class are summarized in the following table:

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

NOTE 12 – EMPLOYEE RETIREMENT PLAN (Continued)

Discount Rate

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

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a)-(b)
Balance, March 31, 2015	$ 1,394,393	$ 1,132,340	$ 262,053
Changes for the year:			
Service cost	65,475	-	65,475
Interest	104,898	-	104,898
Contributions from the employer	-	77,939	(77,939)
Net investment income	-	3,983	(3,983)
Difference between expected and actual experience	24,858	-	24,858
Benefit payments, including refunds of employee contributions	(81,739)	(81,739)	-
Administrative expenses	-	(5,743)	5,743
Other changes	-	-	-
Net Changes	113,492	(5,560)	119,052
Balance, March 31, 2016	$ 1,507,885	$ 1,126,780	$ 381,105

Sensitivity of the net pension liability to changes in the discount rate

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

	Discount Rate - 1% (6.75%)	Current Discount Rate (7.75%)	Discount Rate + 1% (8.75%)
City's net pension liability	$ 578,518	$ 381,105	$ 218,041

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

For the year ended December 31, 2016, the City recognized pension expense of $108,038. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 12 – EMPLOYEE RETIREMENT PLAN (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions after measurement date	$ 63,499	-
Differences in expected and actual experience	16,572	$ (9,250)
Effects of changes in assumptions	6,032	-
Net differences between projected and actual net investment income	66,724	(12,144)
	$ 152,827	$ (21,394)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30	
2017	$ 82,809
2018	19,310
2019	12,633
2020	16,681
	$ 131,433

NOTE 13 – COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2016 there was no pending litigation that would have a material effect on the financial statements.

NOTE 14 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; workers' compensation claims; and natural disasters. The City has joined the Georgia Interlocal Risk Management Agency, a public entity risk pool currently operating as a common risk management and insurance program for member local governments. This membership allows the city to share liability, crime, motor vehicle and property damage risks.

Chapter 85 of Title 36 of the Official Code of Georgia Annotated authorizes Georgia municipalities to form interlocal risk management agencies. The Georgia Interlocal Risk Management Agency (GIRMA) is a municipal interlocal risk management agency to function as an unincorporated nonprofit instrumentality of its member municipalities – GIRMA establishes and administers one or more group self insurance funds and a risk management service to prevent or lessen the incidence and severity of casualty and property losses occurring in

NOTE 14 – RISK MANAGEMENT (Continued)

the operation of municipal government. GIRMA is to defend and protect in accordance with the member government contract and related coverage descriptions any member of GIRMA against liability or loss.

The City of Pembroke retains the first $1,000 of each risk of loss in the form of a deductible. The City files all claims with GIRMA. GIRMA bills the City for any risk of loss up to the $1,000 deductible.

There have been no settlements exceeding insurance coverage for each of the past three years.

Pursuant to Title 34, Chapter 9, Article 4 of the Official Code of Georgia Annotated, the City of Pembroke became a member of the Georgia Municipal Association Workers' Compensation Self Insurance Fund. The liability of the fund to the employees of any employer (City of Pembroke) is specifically limited to such obligations as are imposed by applicable state laws against the employer for workers' compensation and/or employer's liability.

As part of this risk pool, the City is obligated to pay all contributions and assessments as prescribed by the pool, to cooperate with the pool's agents and attorneys, to follow loss reduction procedures established by the fund, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the fund being required to pay any claim of loss. The City is also to allow the pool's agents and attorneys to represent the City in investigation, settlement discussions and all levels of litigation arising out of any claim made against the City within the scope of loss protection furnished by the fund.

The Fund is to defend, in the name of and on behalf of the members, any suits or other proceedings which may at any time be instituted against them on account of injuries or death within the preview of the Workers' Compensation Law of Georgia, or on the basis of employer's liability, including suits or other proceedings alleging such injuries and demanding compensation therefore, although such suits, other proceedings, allegations or demands be wholly groundless, false or fraudulent. The Fund is to pay all costs assessed against members in any legal proceedings defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

NOTE 15 – JOINT VENTURE

Under Georgia law, the City, in conjunction with other cities and counties in the ten county Southeast Georgia area, is a member of the Coastal Regional Commission of Georgia (RC) and is required to pay annual dues thereto. During the year ended December 31, 2016, the City paid $2,855 in such dues. Membership in a RC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-33 which provides for the organizational structure of the RC in Georgia. The RC Regional Council membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39 provides that the member governments are liable for any debts or obligations of a RC. Separate financial statements may be obtained from:

Coastal Regional Commission of Georgia
1181 Coastal Drive SW
Darien, Georgia 31305

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 19, 2017, which is the date the financial statements were available to be issued. No subsequent events were noted.

CITY OF PEMBROKE, GEORGIA
REQUIRED SUPPLEMENTARY INFORMATION
CITY OF PEMBROKE RETIREMENT PLAN
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016 (1)	2015 (1)
Total pension liability		
Service cost	$ 65,475	$ 50,064
Interest	104,898	99,754
Differences between expected and actual experience	24,858	(18,499)
Changes of assumptions	-	12,064
Benefit payments, including refunds of employee contributions	(81,739)	(72,284)
Net change in total pension liability	113,492	71,099
Total pension liability-beginning	1,394,393	1,323,294
Total pension liability-ending (a)	$ 1,507,885	$ 1,394,393
Plan fiduciary net position		
Contributions-employer	$ 77,939	$ 78,050
Net investment income	3,983	100,213
Benefit payments, including refunds of employee contributions	(81,739)	(72,284)
Administrative expense	(5,743)	(5,274)
Net change in plan fiduciary net position	(5,560)	100,705
Plan fiduciary net position-beginning	1,132,340	1,031,635
Plan fiduciary net position-ending (b)	$ 1,126,780	$ 1,132,340
Net pension liability-ending (a)-(b)	$ 381,105	$ 262,053
Plan fiduciary net position as a percentage of the total pension liability	74.73%	81.21%
Covered-employee payroll	$ 775,601	$ 782,586
Net pension liability as a percentage of covered-employee payroll	49.14%	33.49%

(1) Only fiscal year 2016 and 2015 was available. The City will continue to present information for years available until a full 10-year trend is compiled.

Notes to Schedule:

Changes of assumptions

As a result of the new administrative fee structure approved by the Board, the administrative expense assumption was updated for fiscal years beginning in 2016.

As a result of the plan change to provide immediate participation for Employees, for the Fiscal Year ending in 2015, the eligibility assumption has been changed from one year to immediate. The increase in the Plan's NPL is minimal and has been included in the differences expected and actuarial experience.

Amounts reported for the Fiscal Year ending in 2015 and later reflect the following assumption changes approved by the Board in December, 2014 based on the results of an actuarial experience study covering the period January 1, 2010 to June 30, 2014:

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

Benefit changes

Effective January 1, 2015, the Plan was amended to provide for immediate participation for Employees. This Change has no impact on service credited under the Plan and has no impact on benefits.

CITY OF PEMBROKE, GEORGIA
REQUIRED SUPPLEMENTARY INFORMATION
CITY OF PEMBROKE RETIREMENT PLAN
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016	2015
Actuarially determined contribution	*	$ 76,253
Contributions in relation to the actuarially determined contribution	*	69,899
Contribution deficiency (excess)	*	$ 6,354
Covered-employee payroll	*	$ 782,586
Contributions as a percentage of covered-employee payroll	*	8.93%

*2016 information will be determined after fiscal year end and will be included in the 2017 valuation report

Notes to Schedule:

Valuation Date	The actuarially determined contribution rate was determined as of July 1, 2016, with an interest adjustment to the fiscal year. Contributions in relation to this actuarially determined contribution rate will be reported for the fiscal year ending December 31, 2017.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Closed level dollar for remaining unfunded liability
Remaining Amortization Period	Remaining amortization period varies for the bases, with a net effective amortization period of 10 years
Asset Valuation Method	Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at end of year. The actuarial value is adjusted, if necessary, to be within 20% of market value.
Actuarial Assumptions:	
Net Investment Rate of Return	7.75%
Projected Salary Increases	3.25% plus service based merit increases
Cost of Living Adjustments	0.00%
Retirement Age	See changes of assumptions in the Notes to Schedule of Changes in the Net Pension Liability.
Mortality	RP-2000 Combined Healthy Mortality Table with sex-distinct rates, set forward two years for males and one year for females.

CITY OF PEMBROKE, GEORGIA
SCHEDULE OF PROJECTS PAID
WITH SPLOST PROCEEDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Project	Original Estimated Cost	Current Estimated Cost	Expenditures Prior Years	Expenditures Current Year	Total	Estimated Percentage of Completion
SPLOST V						
CDBG Project (2820) match on water and sewer system improvements	$ 475,315	$ 475,315	$ 475,315	-	$ 475,315	100.0%
CDBG Project (3062) match on water and sewer system improvements	775,000	1,469,651	1,469,651	-	1,469,651	100.0%
Water and sewer debt service payments	-	308,647	-	$ 308,646	308,646	100.0%
Bank check fees	126	126	126	-	126	100.0%
Municipal facilities	535,000	1,395,714	1,395,714	-	1,395,714	100.0%
Totals	$ 1,785,441	$3,649,453	$3,340,806	308,646	$3,649,452	100.0%
SPLOST VI						
Public safety building	$ 1,700,000	$1,654,517	$ 351,979	62,557	$ 414,536	25.1%
TOS theater	905,000	905,000	-	-	-	0.0%
Water sewer projects	445,000	445,000	27,287	-	27,287	6.1%
CDBG project match on water and sewer system improvements	55,000	73,055	73,055	-	73,055	100.0%
Storm drainage improvements	95,000	122,428	122,428	-	122,428	100.0%
Totals	$ 3,200,000	$3,200,000	$ 574,749	62,557	$ 637,306	19.9%
		Total current year expenditures		$ 371,203		

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INDEPENDENT AUDITOR'S REPORT 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*

To the City Council
City of Pembroke, Georgia

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Pembroke, Georgia, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Pembroke, Georgia's basic financial statements, and have issued our report thereon dated July 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Pembroke, Georgia'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 of Pembroke, Georgia's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Pembroke, Georgia'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, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 as 2016-1 through 2016-4 in the accompany schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as 2016-5 in the accompany schedule of findings to be a significant deficiency.

Compliance and Other Matters

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

City of Pembroke, Georgia's Response to Findings

City of Pembroke, Georgia's response to the findings identified in our audit is described in the accompanying schedule of findings. City of Pembroke, Georgia's response was not subjected to the auditing procedures applied in the audit of the financial statements 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lanier, Westerfield, Cook & Proctor

Statesboro, Georgia
July 19, 2017

MATERIAL WEAKNESSES

2016-1 Reconciliation of Accounts to Subsidiary Ledgers

Condition: The City does not reconcile accounts receivable and customer deposits to subsidiary ledgers generated from the computer system for utility billing purposes.

Criteria: The computer system is used to maintain subsidiary ledgers for accounts receivable and customer deposits. As a primary means of preventing and detecting errors or fraud in these accounts, the subsidiary ledgers should be reconciled to their respective general ledger accounts on a monthly basis.

Cause: The City does not have procedures in place to reconcile the subsidiary ledgers to general ledger accounts.

Effect: Without a monthly reconciliation, errors can accumulate in these accounts and become difficult to reconcile at year end.

Auditor's Recommendation: We recommend that the subsidiary ledgers generated from the computer system be utilized each month to perform a reconciliation of all associated accounts receivable and customer deposits accounts.

Views of Responsible Officials and Planned Corrective Actions: We concur with this finding and we will implement procedures to establish effective reconciliation processes for accounts receivable and customer deposits.

2016-2 Recording of Year End Accruals for the Financial Statements

Condition: The City's procedures to make sure all year end accruals such as receivables, payables, prepaid items, and deferred revenue are included in the financial statements are inadequate.

Criteria: All revenues earned and realizable and all expenditures incurred should be recorded at the end of the year via journal entry.

Cause: The City does not have procedures in place to make sure all accruals are recorded at year end for the financial statements.

Effect: Many of the adjusting journal entries needed to record these accruals were material to the City's financial statements.

Auditor's Recommendation: When conducting the year end closing, we recommend the City review for all needed accruals for receivables, payables, prepaid items, and deferred revenue.

Views of Responsible Officials and Planned Corrective Actions: We concur with this finding and we will implement procedures to establish a process for ensuring the completeness of year end accruals for the City's financial statements.

2016-3 Bank Reconciliations

Condition: During our audit, we noted that proper bank reconciliations are not being prepared on a monthly basis.

Criteria: Accurate bank reconciliations should be prepared and reviewed each month in a timely manner to ensure that account balances are correct and all transactions have been recorded in the City's general ledger.

Cause: The Finance Department's procedures for preparing monthly bank reconciliations are inadequate.

Effect: Several adjusting journal entries were needed to properly state cash balances at December 31, 2016.

Auditor's Recommendation: The Finance Department needs to implement procedures to complete accurate bank reconciliations on a monthly basis. Bank reconciliations should list all reconciling items to reconcile the bank balance to the City's general ledger balances.

Views of Responsible Officials and Planned Corrective Actions: We concur with this finding and the Finance Department will implement procedures and obtain proper training as needed to ensure that accurate monthly bank reconciliations are prepared on a timely basis.

2016-4 Unrecorded Transactions

Condition: During our audit, we discovered transactions not posting from the subsidiary ledger to the financial software causing financial records to be inaccurate and incomplete.

Criteria: Daily posting should be reviewed to ensure all transactions are posted to the general ledger.

Cause: Transactions were undistributed during the daily close out and therefore did not process at posting.

Effect: Financial information may not be properly reflected in the general ledger if reports are not closed out correctly.

Auditor's Recommendation: We recommend a member of the Finance Department staff be responsible for the monitoring of daily closing procedures.

Views of Responsible Officials and Planned Corrective Actions: We concur with this finding and the Finance Department will implement procedures to ensure the proper daily posting of transactions to the general ledger.

SIGNFICANT DEFICIENCIES

2016-5 Payroll Liability Accounts

Condition: During our audit, we noted that payroll liability accounts are not reviewed and reconciled on a periodic basis.

Criteria: Payroll liability accounts should be reviewed to ensure accuracy and completeness at the close of each period.

Cause: Transactions posted to payroll liability accounts are not reviewed on a monthly basis to correct for improper postings.

Effect: Payroll tax liabilities may not be properly reported in the City's financial statements.

Auditor's Recommendation: We recommend a member of the Finance Department staff be responsible for the review and reconciliation of payroll liability accounts on a periodic basis.

Views of Responsible Officials and Planned Corrective Actions: We concur with this finding and the Finance Department will implement procedures for the review and reconciliation of payroll liability accounts on at least a quarterly basis.