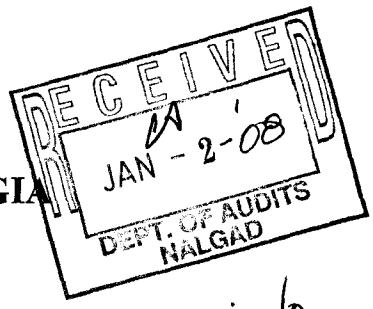


CITY OF CLEVELAND, GEORGIA

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

+ grant info

WALKER & ASSOCIATES, CPA'S, PC

CITY OF CLEVELAND
FISCAL YEAR ENDED JUNE 30, 2007
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Certified Public Accountants

Walker & Associates

A Professional Corporation

American Institute of
Certified Public Accountants
Georgia Society of
Certified Public Accountants
AICPA Employee Benefit
Quality Audit Center

William D. Walker, CPA
Laura A. Wallace, CPA
Gail Stepp
Martha P. Smith
Amy Greene
Teresa Standridge

Independent Auditor's Report

To the City Council
City of Cleveland, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Cleveland, Georgia, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Cleveland, Georgia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material aspects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Cleveland, Georgia, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 6, 2007 on our consideration of the City of Cleveland, Georgia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit. In addition, in accordance with the Official Code of Georgia, we have issued a report dated December 6, 2007 on the schedule of Special Purpose Local Option Sales Tax.

The City of Cleveland, Georgia has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The management's budgetary comparison information on pages 21 through 22 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cleveland's basic financial statements. The combining nonmajor fund financial statements, are presented for purposes of additional analysis and are not required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material aspects in relation to the basic financial statements taken as a whole.

Sincerely,

Walker & Associates
Certified Public Accountants
December 6, 2007

CITY OF CLEVELAND

Statement of Net Assets

June 30, 2007

	Primary Government			Component
	Governmental Activities	Business-Activities	Total	Unit
Assets				
Cash and cash equivalents	$ 3,378,515	$ 1,897,377	$ 5,275,892	$ -
Receivables (net)	356,528	150,640	507,168	-
Other current assets	-	98,559	98,559	-
Construction in progress	-	537,581	537,581	-
Nondepreciable capital assets	13,429	158,299	171,728	-
Depreciable capital assets, net	315,836	3,432,558	3,748,394	-
Total assets	4,064,308	6,275,014	10,339,322	-
Liabilities				
Current Liabilities:				
Accounts payable and other liabilities	67,666	196,024	263,690	-
Internal balances	(33,853)	33,853	-	-
Accrued balances	54,013	37,739	91,752	-
Total current liabilities	87,826	267,616	355,442	-
Long term liabilities:				
Due within one year	-	134,005	134,005	-
Due in more than one year	-	840,407	840,407	-
Total long term liabilities	-	974,412	974,412	-
Total liabilities	87,826	1,242,028	1,329,854	-
Net assets				
Invested in capital assets, net of related debt	315,836	2,458,144	2,773,980	-
Restricted for:				
Capital projects	2,899,856	-	2,899,856	-
Unrestricted	760,790	2,574,842	3,335,632	-
Total net assets	$ 3,976,482	$ 5,032,986	$ 9,009,468	$ -

The accompanying notes are an integral part of these financial statements.

CITY OF CLEVELAND
Statement of Activities
For the Year Ended June 30, 2007

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants Constributions	Net (Expenses) Revenues and Changes in Net Assets: Primary Government: Governmental Acitivities	Business-Type Activities	Total	Component Unit
Primary government:								
Governmental activities								
General government	$ 645,785	$ 721,732	$ -	$ -	$ 75,947		$ 75,947	
Public safety	810,278	93,637	-	-	(716,641)		(716,641)	
Streets and sanitation	394,654	-	-	-	(394,654)		(394,654)	
Health and welfare	-	-	-	-	-		-	
Culture and recreation	6,484	-	-	-	(6,484)		(6,484)	
Miscellaneous government	-	-	-	-	-		-	
Interest on long term debt	-	-	-	-	-		-	
Total governmental activities	1,857,201	815,369	-	-	(1,041,832)		(1,041,832)	
Business-type activities								
Water and Sewer	1,196,991	1,660,574	-	-		$ 463,583	463,583	
Total business-type activities	1,196,991	1,660,574	-	-		463,583	463,583	
Total primary government	$ 3,054,192	$ 2,475,943	$ -	$ -			(578,249)	
Component units:								
Downtown Development Authority	$ -	$ -	$ -	$ -				$ -
Total component units	$ -	$ -	$ -	$ -				$ -
General revenues:								
Taxes:								
Property taxes, levied for general purposes					339,051	-	339,051	
Franchise tax					30,440	-	30,440	
Sales taxes					1,366,687	-	1,366,687	
Interest and investment earnings					178,448	-	178,448	
Miscellaneous					41,504	-	41,504	
Transfers					(333,843)	333,843	-	
Total general revenues, special items, and transfers					1,622,287	333,843	1,956,130	
Change in net assets					580,455	797,426	1,377,881	
Beginning net assets					3,396,027	4,212,302	7,608,329	-
Prior period adjustment					-	23,258	23,258	-
Adjustment beginning balances					3,396,027	4,235,560	7,631,587	$ -
Ending net assets					$ 3,976,482	$ 5,032,986	$ 9,009,468	$ -

The accompanying notes are an integral part of these financial statements

CITY OF CLEVELAND
Balance Sheet
Governmental Funds

June 30, 2007

Assets	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Cash	$ 615,928	$ 2,762,587	$ -	$ 3,378,515
Due from other governments	117,810	146,859	-	264,669
Receivables (net)	91,859	-	-	91,859
Other assets	13,429	-	-	13,429
Due from other funds	89,997	-	26,701	116,698
Total assets	$ 929,023	$ 2,909,446	$ 26,701	$ 3,865,170
Liabilities				
Accounts payable	$ 58,076	$ 9,590	$ -	$ 67,666
Accrued expenses	12,532	-	-	12,532
Due to other funds	26,701	56,144	-	82,845
Deferred revenue	106,385	63,744	-	170,129
Total liabilities	203,694	129,478	-	333,172
Fund balance				
Capital project funds	-	2,779,968	-	2,779,968
Special revenue funds				
Hotel/Motel tax-Tourism	-	-	1,701	1,701
Grant fund-Downtown development	-	-	25,000	25,000
Unreserved and undesignated	725,329	-	-	725,329
Total fund balance	725,329	2,779,968	26,701	3,531,998
Total liabilities and fund equity	$ 929,023	$ 2,909,446	$ 26,701	$ 3,865,170

The accompanying notes are an integral part of these financial statements.

CITY OF CLEVELAND

Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets

June 30, 2007

Total fund balances - governmental funds	$	3,531,998
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets		1,288,472
Less: Accumulated depreciation		(972,636)
Accrued personal leave not reported in governmental funds		(41,481)
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		170,129
Net assets of governmental activities	$	3,976,482

The accompanying notes are an integral part of these financial statements.

CITY OF CLEVELAND

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

For the Year Ended June 30, 2007

Revenues	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Property taxes	$ 327,736	$ -	$ -	$ 327,736
Sales taxes	612,691	759,046	-	1,371,737
Franchise tax	30,440	-	-	30,440
Fines and forfeitures	93,637	-	-	93,637
Charges for services	701,842	-	19,890	721,732
Interest	29,599	148,849	-	178,448
Miscellaneous	30,422	-	-	30,422
Total Revenue	1,826,367	907,895	19,890	2,754,152
Expenditures				
Current				
General government	592,855	-	20,098	612,953
Public safety	787,438	-	-	787,438
Streets and sanitation	275,572	-	-	275,572
Culture and recreation	3,853	-	-	3,853
Capital outlay	-	100,911	-	100,911
Total Expenditures	1,659,718	100,911	20,098	1,780,727
Excess revenues over (expenditures)	166,649	806,984	(208)	973,425
Other financing sources (uses)				
Transfers out	-	333,843	-	333,843
Total other financing sources and uses	-	333,843	-	333,843
Net change in fund balance	166,649	473,141	(208)	639,582 ✓
Beginning fund balances	605,196 ✓	2,283,569 ✓	26,909 ✓	2,915,674
Prior period adjustments	(46,516)	23,258	-	(23,258)
Adjusted beginning fund balances	558,680	2,306,827	-	2,865,507
Ending fund balances	$ 725,329 ✓	$ 2,779,968 ✓	$ 26,701 ✓	$ 3,531,998

The accompanying notes are an integral part of these financial statements.

CITY OF CLEVELAND

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2007

Net change in fund balances-total governmental funds	$	639,582
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation ($64,815) exceeded capital outlay ($29,823) in the current period.		(34,992)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures		
Compensated absence liability		(41,481)
Because some revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.		
Accrued interest		11,081
Deferred revenues changed by this amount this year.		6,265
Net change in assets of governmental activities	$	580,455

The accompanying notes are an integral part of these financial statements.

CITY OF CLEVELAND

Statement of Net Assets

Proprietary Fund

June 30, 2007

	Water and Sewer Enterprise Fund
Assets	
Current Assets:	
Cash	$ 1,897,377
Accounts Receivable (net)	137,258
Due from others	13,382
Accrued Revenue	69,772
Total Current Assets	2,117,789
Noncurrent Assets:	
Capital assets	
Land	158,299
Buildings and improvements	5,662,116
Machinery and equipment	919,690
Construction in progress	537,581
Less accumulated depreciation	(3,149,250)
Total capital assets (net of accumulated depreciation)	4,128,436
Deferred Charge	28,789
Total noncurrent assets	4,157,225
Total Assets	$ 6,275,014
Liabilities	
Current Liabilities:	
Accounts Payable	$ 48,026
Accrued Expenses	37,739
Due to Other Funds	33,853
Due to Others	13,955
Current Portion of Long Term Debt	134,005
Total Current Liabilities	267,578
Noncurrent Liabilities:	
Customer Deposits	134,043
Notes payable (Net of Current Portion)	840,407
Total Noncurrent Liabilities	974,450
Total Liabilities	1,242,028
Net assets	
Invested in capital assets, net of related debt	2,458,144
Unrestricted	2,574,842
Total net assets	$ 5,032,986

The accompanying notes are an integral part of these financial statements.

CITY OF CLEVELAND

Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2007

	Water and Sewer Enterprise Fund
Operating revenue	
Charges for service	$ 1,481,550
Connection fees	77,465
Miscellaneous income	47,196
Total operating revenue	1,606,211
Operating expenese	
Personal services	
Compensation	334,394
Employment taxes	23,533
Benefits	79,481
Total Personal Services	437,408
Expenses	
Purchased water	87,274
Supplies	73,828
Repairs and maintenance	48,202
Utilities	133,994
Miscellaneous	8,260
Depreciation	193,472
Insurance	32,815
Engineering, lab fees and training	135,515
Total expenses	713,360
Total operating expenses	1,150,768
Operating income	455,443
Nonoperating revenues (expenses)	
Interest income	54,363
Interest expense on loans	(46,223)
Total nonoperating revenues (expenses)	8,140
Transfer in	333,843
Change in net assets	797,426 ✓
Begining net assets	4,212,302 ✓
Prior period adjustment	23,258
Adjusted beginning balances	4,235,560
Ending net assets	$ 5,032,986 ✓

The accompanying notes are an integral part of these financial statements.

CITY OF CLEVELAND
Statement of Cash Flows
Proprietary Fund
For The Year Ended June 30, 2007

	Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	$ 1,549,736
Payments to suppliers	(528,327)
Payments to employees	(334,394)
Net cash provided (used) by operating activities:	687,015
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfer in	333,843
Net cash provided by noncapital financing activities	333,843
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of capital assets	(392,383)
Debt payments, principal and interest and deferred charge	(174,995)
Net cash provided (used) by capital and related financing activities	(567,378)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	54,363
Net cash provided by investing activities	54,363
Net increase in cash and cash equivalents	507,843
Balances - beginning of year	1,389,534
Balances - end of year	$ 1,897,377
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	$ 455,443
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	193,472
Changes in assets and liabilities:	
Receivables and accrued revenue	(73,796)
Accounts payable	44,728
Accrued expenses	11,137
Other liabilities	56,031
Net cash provided by operating activities	$ 687,015

The accompanying notes are an integral part of these financial statements.

CITY OF CLEVELAND, GEORGIA

Notes to Financial Statements

June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of City of Cleveland, Georgia, have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The City's reporting entity applies all relevant Governmental Accounting Standard Board (GASB) pronouncements and Accounting Principles Board (APB) opinions, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The more significant of the government's accounting policies are described below.

1-A The Reporting Entity

The City of Cleveland, Georgia is a municipal corporation governed by an elected mayor and four member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of a primary government.

The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

Discretely presented component units. The Downtown Development Authority is governed by a separate board and is a separate legal, public body corporate and politic created and existing under instrumentality of the City of Cleveland for the purpose of revitalizing and developing the central business district of Cleveland, Georgia.

The above component unit's financial statements are reflected on the City's Financial Statements under the Discretely Presented Component Unit caption. The Authority is currently inactive and is without assets, liabilities, revenue or expenditures. No separate statements are available.

Organizations for which a primary government is accountable because that government appoints a voting majority of the board, but is not financially accountable, are related organizations. The following entity is a related organization of the City of Cleveland, Georgia and operations are not included in this report:

Cleveland Housing Authority

Based upon GASB criteria, the following entities are not considered component units of the City of Cleveland, Georgia and operations are not included in this report:

Turner Creek Water Treatment Plant Management Fund

1-B Basis of Presentation, Basis of Accounting

- **Basis of Presentation-Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Projects Fund. This fund accounts for *Special Purpose Local Option Sales Tax* financial resources expended for purposes approved by referendum.

The City reports the following major enterprise fund:

Water and Sewer Fund. This fund accounts for the operations of The City's water and sewer services.

Proprietary fund operating revenues and expenses result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non operating revenues and expenses, such as subsides, investment earnings or interest expense, result from non exchange transactions or ancillary activities.

Measurement, Focus, Basis of Accounting

Government-wide and Proprietary Financial Statements. The government-wide and proprietary financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within thirty days after year-end except for property taxes for which sixty days after year end applies. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and adjustments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursements grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All business-type activities and enterprise funds of the City follow FASB Statements and interpretations issued before or after November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Accounting Change

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statemets-and Management's Discussion and Analysis-for State and Local Governments.* Certain of the significant changes in the Statement include the following:

Currently the financial statements should include:

A Management Discussion and Analysis (MD&A) section providing an analysis of The City's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the City's activities, including reporting infrastructure assets (roads, bridges, etc.).

A change in the fund financial statements to focus on the *major* funds.

1-C Assets, Liabilities, and Equity [Primary government]

Cash and Cash Equivalents

The City considers short-term liquid investment that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates – only investments with original maturities of three months or less meet this definition.

Investments

As of June 30, 2007 the City did not have any investments.

Restricted Assets

These assets are held in the capital project and special revenue funds for specific purposes defined by statute, referendum, or grant contract and not generally available for general government operations.

Receivables and Payables

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e., the current portion of interfold loans) or "advances to / from other funds" (i.e., the non-current portion of interfold loans.) All other outstanding balances between funds are reported as "due to / from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables, including those for the City of Cleveland, are shown net of an allowance for uncollectibles. Trade accounts receivable, in the Water and Sewer Fund, in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles,,for that fund. In the General Fund the property tax receivable allowance is equal to 1 percent of outstanding property taxes at June 30, 2007.

Property Tax Calendar

The City set its milage rate for 2006 on July 24, 3006 at 3.457 mils. Property tax bills were mailed on September 27, 2006 and were due December 20, 2006. Penalties and interest are due on all accounts not paid by the due date. Fifa's on delinquent tax accounts could be filed on December 21, 2006. The City contracts with the White County Tax Commissioner's office to process tax bills, collect and remit tax payments. The fee for this service is $5.00 per tax bill.

Inventories and Prepaid Items

Inventories are valued at the lower of cost or market. In the governmental funds, the cost of inventory items are recorded as expenditures at the time of purchase. The City maintains no significant inventories. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than $1,000 (amount not rounded) and an estimated useful life in excess of two years. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	50
Building Improvements	20
Public domain infrastructure	50
System infrastructure	30
Vehicles	5
Office equipment	5
Computer equipment	5

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Retirement Plans

The City's pension retirement plan, City of Cleveland, Pension Plan, is a defined contribution pension plan, and covers substantially all employees. At June 30, 2007 there were 26 employees participating in the Plan. Contributions to the Plan are funded on a monthly basis. The City is required to contribute on behalf of each participant 10% of annual compensation. All employees of the City are eligible to participate in the plan once they have completed one (1) year of service (as defined by the provisions of the plan) and have reached the age of 21. Contributions required and paid to the plan during the plan year ending June 30, 2007, were $72,350.04, which is 8.79% of total compensation, $822,721.41 and 10% of covered compensation, $723,503.04. The City of Cleveland is the administrator for this plan and may amend the plan at it's discretion. Contributions are paid into a trust which holds and invests the assets. Investment decisions are made by an employee benefits committee made up of city employees. Employee contributions are not permitted.

The City also sponsors the Deferred Compensation Plan of the City of Cleveland, a Section 457 defined contribution plan for the benefit of its employees. At June 30, 2007 there was one employee participating in the plan. Contributions to the plan are funded on a monthly basis. The City does not match employee contributions. All employees are eligible to participate in the plan. Employees can begin to participate in the plan the following month after employment begins. The plan holds its assets in a separate trust invested in annuity contracts in the name of each participant and consequently is not reported on the City's financial statements. As administrator of the plan, the City, may amend the plan at its discretion. For the year ending June 30, 2007 the employees contributed $480 to the plan.

NOTE 2. CASH [Primary government]

The City's cash balance is classified into three categories of credit risk: 1) cash that is insured or collateralized with securities held by the City or by its agent in its name, 2) cash collateralized with securities held by the pledging financial institution's trust department or agent in the City's name, and 3) uncollateralized bank accounts including any bank balance that is collateralized with securities held by the pledging institution's trust department or agent but not in the City's name.

At June 30, 2007 the carrying amount of the City's deposits was $5,275,892 and the related bank deposits totaled $4,553,180. Of these bank deposits, $4,553,180 was fully covered by FDIC insurance or collateral held by the City's agent in the City's name.

NOTE 3. RECEIVABLES [Primary government]

The following is a summary of amounts due from others at June 30, 2007.

Receivable from:	
Governmental funds:	
Due from other governments	$253,044
Taxes receivable, net	49,942
Accounts receivable, net	53,542
	356,528
Business-Type funds:	
Accounts receivable, net	150,640
	$507,168

NOTE 4. LITIGATION [Primary government]

The Attorneys for the City have advised that there are no known legal matters which will have a material effect on the City's financial condition. No provision has been made to provide reserves for litigation settlements.

NOTE 5. DEFERRED CHARGE [Primary government]

Debt issuance cost in the proprietary fund is capitalized as a deferred charge on the balance sheet and is amortized over the life of the bonded indebtedness. The amount reported on the balance sheet is net of amortization of $28,789.

NOTE 6. LONG TERM DEBT [Primary government]

The City's long term debt consist of a loan from the Georgia Environmental Facilities Authority to construct the City's sewer processing plant. The City constructed and operates a sewerage treatment plant with the loan proceeds which has a historical cost of $2,378,602 and accumulated depreciation of $807,733 at 6/30/07.

Long Term Debt Details	Total	Current Portion	Long-Term Portion
Business Type Activities			
Note Payable to Georgia Environmental Facilities Authority, Matures 11/01/13. Eight quarterly payments of $42,746. Interest rate is 4.00%; unsecured. Original loan proceeds - $2,346,263.	$974,412	$134,005	$840,407

Business Type Activiteies

Five year repayment schedule:

Year Ending	Total Payments	Principal	Interest
6/30/2008	170,985	134,002	36,983
6/30/2009	170,985	139,442	31,543
6/30/2010	170,985	145,105	25,880
6/30/2011	170,985	150,996	19,989
6/30/2012	170,985	157,127	13,858
2013-2014	256,471	247,740	8,731
Totals	$1,111,396	$974,412	$136,984

Business Type Activities

Summary of Debt Activity:	July 1, 2006	Additions	Reductions	June 30, 2007	Due within one year
GEFA note	$1,103,182	$0	$128,770	$974,412	$134,005

NOTE 7. RISK MANAGEMENT [Primary government]

The City purchases Workers Compensation Insurance through the Georgia Municipal Association Worker's Compensation Self Insurance Fund. The City's policy year starts on January 1st and ends on December 31st of each year. The premium for the policy year of 2007 was $39,073.

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

The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member government contract and in accordance with the worker's compensation law of Georgia. The funds are to pay all cost taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

With respect to other types of risk including torts, theft or destruction of assets, errors of omissions, and acts of God, the City has purchased sufficient insurance and, therefore, transferred risk of loss. There have been no settlements in the previous three years in excess of insurance.

NOTE 8. COMPENSATED ABSENCES [Primary government]

Governmental Accounting Standards Board Statement 16, effective for fiscal years beginning after June 15, 1993, requires that such benefits be accrued when: (1) the employer's obligation to employees' right to receive compensation for future benefits is attributable to employees' service already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated. Accrued Vacation and Personal Leave in the amount of $73,831 is included in the government wide financial statements.

NOTE 9. HOTEL-MOTEL TAX COMPLIANCE [Primary government]

The City collects a 5 percent hotel/motel tax of which 40 percent is required to be spent on promotion of tourism and trade. At June 30, 2007 the City funds the White County Historical Society and the White County Chamber of Commerce with tax proceeds. The amount spent for the promotion of tourism and trade was 101% of the tax collected.

Tax Collections:	$ 19,890 ✓
Amount Provided to both organizations	$ 20,098 ✓
Promotion Expenditures:	$ 20,098

NOTE 10. CAPITAL ASSETS [Primary government]

Depreciation expense was charged to functions as follows:

Governmental activities:		Business-type activities:	
General government	$ 19,553	Water and Sewer	$193,472 ✓
Public safety	30,034		
Streets and sanitation	12,597		
Culture and recreation	2,631		
Total depreciation	$ 64,815 ✓		

Note 10. CAPITAL ASSETS (Continued)

Capital asset activity for the year ended June 30, 2007, was as follows:

Primary Government

	Beginning Balances 7/1/2006	Increases	Decreases	Ending Balances 6/30/2007
Governmental activities:				
Capital assets not being depreciated:				
Land	13,429	-	-	13,429
Total capital assets not being depreciated	13,429	-	-	13,429
Capital assets being depreciated:				
Buildings	285,611	-	-	285,611
Vehicles	405,760	29,800	22,288	413,272
Equipment	589,566	-	-	589,566
Total capital assets being depreciated	1,280,937	29,800	22,288	1,288,449
Total capital assets	1,294,366	29,800	22,288	1,301,878
Accumulated depreciation:				
Buildings	292,456	7,132	-	299,588
Vehicles	361,709	25,686	22,288	365,107
Equipment	275,921	31,997	-	307,918
Total accumulated depreciation	930,086	64,815	22,288	972,613
Total governmental capital assets being depreciated, net	350,851	(35,015)	-	315,836
Total governmental capital assets	364,280 ✓	29,823	-	329,265 ✓
Business-type activities:				
Water and Sewer				
Capital assets not being depreciated:				
Land	158,299	-	-	158,299
Construction in Progress	193,622	343,958	-	537,580
Total capital assets not being depreciated	351,921	343,958	-	695,879
Capital assets being depreciated:			-	
Vehicles	12,240	15,061	-	27,301
Buildings	8,000	-	-	8,000
Equipment	859,028	33,363	-	892,391
Sewerage treatment plant/water lines	5,654,116	-	-	5,654,116
Total capital assets being depreciated	6,533,384	48,424	-	6,581,808
Total capital assets	6,885,305	392,382	-	7,277,687
Accumulated depreciation:				
Vehicles	7,664	5,666	-	13,330
Buildings	1,400	200	-	1,600
Equipment	324,107	187,604	-	511,711
Water and sewer system	2,622,609	-	-	2,622,609
Total accumulated depreciation	2,955,780	193,470	-	3,149,250
Total capital assets being depreciated, net	3,577,604	(145,046)	-	3,432,558
Business-type activity assets, net	3,929,525 ✓	198,912	-	4,128,437 ✓

NOTE 11. BUDGETS [Primary government]
The following are Governmental Funds for which budgets were legally adopted:

	Budgeted Expenditures and other Financing Uses	Actual Expenditures and Other Financing Uses	Actual in Excess of Appropriations
General Fund (at the legal level of control)	$ 2,039,995	$1,659,717	-
Hotel/Motel Tax Special Revenue Fund	$ 18,000	$ 20,098	$2,098
Grant Fund	$ 25,000	$ 0	-

Note 12. DEFERRED REVENUE (Primary Government)

Deferred revenue in the governmental fund financial statements:

Sales tax	$119,314	Taxes earned in the current year but received beyond the City's period of availability.
Property tax revenues	50,815	Taxes earned in the current year but received beyond the City's period of availability.
Total	$170,129 ✓	

NOTE 13. COMPLIANCE [Primary government]

The City was not in compliance with state statutes concerning collateralization of public funds.

NOTE 14. INTERNAL FUND BALANCES AND TRANSFERS

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.This government reports interfund transfers between many of its funds. Some of the transfers are considered immaterial and are aggregated into a single column or row titled All Others. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements.

These transfers have been eliminated from the government wide financial statements.

		Due from General Fund	Due from Water and Sewer	Due from Capital Projects	Total
Due to	General Fund	$ -	$ 33,853	$ 56,144	$ 89,997 ✓
	Capital Projects		-		-
	Hotel/Motel	1,701	-		1,701 ✓
	Water and Sewer Enterprise Fund	-	-	-	-
	Grant Fund	25,000	-		25,000 ✓
	Total	$ 26,701 ✓	$ 33,853 ✓	$ 56,144 ✓	$ 116,698

Interfund Transfers

		Transfer To Water and Sewer
Transfer From	Capital Projects	$333,843 ✓

NOTE 15 - ALLOWANCE FOR UNCOLLECTABLE TAXES AND ACCOUNTS

The balance of taxes and accounts receivable at June 30, 2007 are net of the following allowances for doubtful accounts.

Fund	Taxes	Accounts
General	$ 504	$8,228
Enterprise	-0-	37,484
	$ 504	$45,712

NOTE 16 - JOINT VENTURES

Under Georgia law, the City in conjunction with other cities and counties in the northeast Georgia area, is a member of the Georgia Mountains Regional Development center (RDC) and required to pay annual dues thereto. Membership in an RDC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the RDC in Georgia. The RDC Board membership includes the chief elected official of each city and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of an RDC. Separate financial statements may be obtained from:

Georgia Mountains Regional Development Center
1310 W. Ridge Road
Gainesville, GA 30501

NOTE 17 – PRIOR PERIOD ADJUSTMENTS

To correct interfund receivables and payables in the governmental fund financial statements.

CITY OF CLEVELAND

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Budget to Differences	Actual	Variance with Final Budget
	Original	Final	Budgetary Basis	Over / (Under)	GAAP Basis	Positive / (Negative)
REVENUES						
Property Taxes	$ 346,830	$ 346,830	$ 327,736	$ -	$ 327,736	$ (19,094)
Sales Taxes	680,000	680,000	612,691	-	612,691	(67,309)
Franchise Taxes	30,300	30,300	30,440	-	30,440	140
Fines and Forfeitures	92,145	92,145	93,637	-	93,637	1,492
Fund Balance	169,300	169,300	-	-	-	(169,300)
Charges for Services	701,620	701,620	701,842	-	701,842	222
Interest	8,800	8,800	29,599	-	29,599	20,799
Miscellaneous	11,000	11,000	30,422	-	30,422	19,422
Total Revenues	$ 2,039,995	$ 2,039,995	$ 1,826,367	$ -	$ 1,826,367	$ (213,628)
EXPENDITURES						
Current Operating:						
General Government	$ 739,210	$ 739,210	$ 592,855	$ -	$ 592,855	$ 146,355
Public Safety	859,855	859,855	787,438	-	787,438	72,417
Streets and Sanitation	404,280	404,280	275,572	-	275,572	128,708
Culture and Recreation	36,650	36,650	3,853	-	3,853	32,797
Total Expenditures	$ 2,039,995	$ 2,039,995	$ 1,659,718	$ -	$ 1,659,718	$ 380,277

See accompanying notes are an integral part of these financial statements.

Certified Public Accountants

Walker & Associates

A Professional Corporation

American Institute of
Certified Public Accountants
Georgia Society of
Certified Public Accountants
AICPA Employee Benefit
Quality Audit Center

William D. Walker, CPA
Laura A. Wallace, CPA
Gail Stepp
Martha P. Smith
Amy Greene
Teresa Standridge

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Mayor and City Council
City of Cleveland
Cleveland, Georgia

We have audited the financial statements of the City of Cleveland, Georgia as of and for the year ended June 30, 2007 and have issued our report thereon dated December 6, 2007. 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.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Cleveland's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement in the City of Cleveland's financial statements that is more than inconsequential will not be prevented or detected by the City of Cleveland's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting noted as B-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Cleveland's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the aforementioned significant deficiency also to be a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the City of Cleveland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item A-1.

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

Walker & Associates CPA's, PC
December 6, 2007

CITY OF CLEVELAND
Schedule of Findings and Responses
For the Year Ended June 30, 2007

FINDINGS-FINANCIAL STATEMENT AUDIT

Compliance

A-1	Condition:	The City does not have legally binding security agreements with banking depositories nor did it have sufficient stated collateral in excess of stated FDIC coverages.
	Criteria:	Georgia law requires that all depositories collateralize public funds at 110% of deposits. In addition, without perfected security agreements the FDIC may, at its discretion, repudiate any collateral agreement.
	Effect:	The City is not in compliance with state law and, with out perfected security agreements, does not have a legally enforceable collateral contract.
	Recommendation:	The City should obtain the necessary perfected security agreements and establish a monitoring system to assure adequate collateralization.

Internal Control

B-1	Condition:	The City does not possess adequate capabilties to prepare financial statements in accordance with accounting principals generally accepted in the United States.
	Criteria:	The City should possess the abiltity to prepare its own financial statements or have access with someone with adequate technical training and education to review the financial statements prepared by others.
	Effect:	The City does not possess the ability to detect material misstatements in financial statements prepared by others.
	Recommendation:	The City should consider employing someone or contracting with another entity to review the financial statements prepared by the auditor.

Management Response: See page 30 "Plan of Corrective Action"

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INDEPENDENT AUDITOR'S REPORT ON SPECIAL PURPOSE
LOCAL OPTION
ONE PERCENT SALES AND USE TAX

To the Board of Commissioners
City of Cleveland, Georgia

We have audited the accompanying Schedule of Special Purpose Local Option Sales Tax for the City of Cleveland, Georgia for the year ended June 30, 2007. This schedule is the responsibility of the City of Cleveland, Georgia's management. Our responsibility is to express an opinion on the Schedule of Special Purpose Local Option Sales Tax based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 Schedule of Special Purpose Local Option Sales Tax is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Special Purpose Local Option Sales Tax. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Schedule of Special Purpose Local Option Sales Tax was prepared for the purpose of complying with the Official Code of Georgia Annotated, 48-8-121 on the modified accrual basis of accounting as described on Note 1 and is not intended to be a complete presentation of the City of Cleveland, Georgia's revenues and expenditures.

In our opinion, the Schedule of Special Purpose Local Option Sales Tax referred to above presents fairly, in all material respects, the original estimated cost, the current estimated cost, and the current and prior year expenditures for each project in the City of Cleveland, Georgia's resolution or ordinance calling for the tax for the year ended June 30, 2007, in conformity with accounting principles generally accepted in the United States of America..

Walker & Associates
Certified Public Accountants
Gainesville, Georgia
December 6, 2007

CITY OF CLEVELAND

Schedule of Special Purpose Option Sales Tax
Estimated Cost of Expenditure Summary
For the Year Ended June 30, 2007

	Estimated Cost		Expenditures		
	Original	Current	Prior Years	Current Year	Total
SPLOST 1999					
Construction and repair of roads, streets and bridges	$ 2,800,000	$ 2,800,000	$ 1,440,303	$ 84,641	$ 1,524,944
SPLOST 2004					
Water and Sewer Improvements	$ 2,600,000	$ 2,600,000	$ 184,220	$ 333,843	$ 518,063
Downtown Redevelopment	400,000	400,000	52,478	16,270	68,748
Total SPLOST 2004	$ 3,000,000	$ 3,000,000	$ 236,698	$ 350,113	$ 586,811

MAYOR
Donald Stanley

CITY CLERK
Connie Tracas

CITY ADMINISTRATOR

CITY OF CLEVELAND, GA.
GATEWAY TO THE MOUNTAINS

COUNCIL MEMBERS
Bradley Greene
Rush Mauney
Annie Sutton
Edward Young

85 South Main Street
Cleveland, GA 30528
Telephone 706-865-2017
Fax 706-219-3220

Mr. Ed Blaha, Director
Georgia Department of Audits and Accounts
Nonprofit and Local Government Audits
254 Washington Street, S.W., Suite 322
Atlanta, GA 30334-8400

Re: Planned Corrective Action
Fiscal Year Ending June 30, 2007

Dear Mr. Blaha:

City of Cleveland respectfully submits the following corrective action plan for the year ending June 30, 2007. The firm of Walker & Associates, CPA's, PC Post Office Box 385, Gainesville, Georgia 30501 has conducted an audit for the period ending June 30, 2007. The findings are numbered consistently with the numbers assigned in the schedule.

Compliance:

A-1: Condition: The City does not have legally binding security agreements with banking depositories nor did it have sufficient stated collateral in excess of stated FDIC coverages.

Criteria: Georgia law requires that all depositories collateralize public funds at 110% of deposits. In addition, without perfected security agreements the FDIC may, at its discretion, repudiate any collateral agreement.

Effect: The City is not in compliance with state law and, with out perfected security agreements, does not have a legally enforceable collateral contract.

Recommendation: The City should obtain the necessary perfected security agreements and establish a monitoring system to assure adequate collateralization.

Plan of Action: The City is in the process of working with the banking facility to obtain a binding security agreement. If an agreement cannot be made, the City will pull any funds from this facility and deposit with a banking facility that will provide the security agreement.

Internal Control:

B-1 Condition: The City does not possess adequate capabilities to prepare financial statements in accordance with accounting principals generally accepted in the United States.

Criteria: The City should possess the ability to prepare its own financial statements or have access with someone with adequate technical training and education to review the financial statements prepared by others.

Effect: The City does not possess the ability to detect material misstatements in financial statements prepared by others.

Recommendation: The City should consider employing someone or contracting with another entity to review the financial statements prepared by the auditor.

Plan of Action: The City will research and consider this option.

If you have any questions regarding the Plan of Corrective Action, please contact me at 706-865-2017.

Sincerely,

Mayor Donald Stanley

File