CITY OF CLEVELAND, GEORGIA

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

WALKER & ASSOCIATES, CPA'S, PC

CITY OF CLEVELAND
FISCAL YEAR ENDED JUNE 30, 2011
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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 unit, each major fund and the aggregate remaining fund information of City of Cleveland, Georgia, as of and for the year ended June 30, 2011, 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, 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, each major fund and the aggregate remaining fund information of the City of Cleveland, Georgia, as of June 30, 2011, and the respective changes in financial position, 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 November 30,2011, on our consideration of the City of Cleveland, 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 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 considered in assessing the results of our audit.

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cleveland, Georgia's financial statements as a whole. The accompanying schedule of expenditures of special purpose local option sales tax proceeds is presented for purposes of additional analysis as required by Official Code of Georgia 48-8-121 and is not a required part of the basic financial statements. The schedule of expenditures of special purpose local option sales tax proceeds has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The budget comparison information on pages 22 through 23 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Walker & Associates

Walker & Associates, CPA's, PC
Gainesville, Georgia
November 30, 2011

CITY OF CLEVELAND, GEORGIA

Statement of Net Assets
June 30, 2011

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit
Assets				
Cash and cash equivalents	$ 3,037,552	$ 2,973,029	$ 6,010,581	$ -
Receivables (net)	259,302	150,972	410,274	-
Other current assets	13,429	70,845	84,274	-
Prepaid Expenses	11,207	-	11,207	-
Construction in progress	5,000	435,899	440,899	-
Nondepreciable capital assets	-	158,299	158,299	-
Depreciable capital assets, net	943,964	4,860,258	5,804,222	-
Total assets	4,270,454	8,649,302	12,919,756	-
Liabilities				
Current Liabilities:				
Accounts payable and other liabilities	91,071	210,908	301,979	-
Deferred Revenue	-	40,718	40,718	-
Internal balances	(42,826)	42,826	-	-
Accrued balances	27,331	10,518	37,849	-
Total current liabilities	75,576	304,970	380,546	-
Noncurrent liabilities:				
Due within one year	-	157,127	157,127	-
Compensated absenses	61,857	54,486	116,343	-
Due in more than one year	-	247,738	247,738	-
Total long term liabilities	61,857	459,351	521,208	-
Total liabilities	137,433	764,321	901,754	-
Net assets				
Invested in capital assets,net of related debt	948,964	5,049,591	5,998,555	-
Restricted for:				
Capital projects	2,375,489	-	2,375,489	-
Law enforcement	953	-	953	-
Unrestricted	807,615	2,835,390	3,643,005	-
Total net assets	$ 4,133,021	$ 7,884,981	$12,018,002	$ -

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

CITY OF CLEVELAND, GEORGIA

Statement of Activities

For the Year Ended June 30, 2011

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants & Contributions	Net (Expenses) Revenues and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expenses) Revenues and Changes in Net Assets: Primary Government: Business-Type Activities	Net (Expenses) Revenues and Changes in Net Assets: Primary Government: Total	Net (Expenses) Revenues and Changes in Net Assets: Component Unit
Primary government:								
Governmental activities								
General government	$ 711,930	$ 549,694	$ -	$ 437,020	$ 274,784		$ 274,784	
Public safety	984,558	74,506	-	147,500	(762,552)		(762,552)	
Streets and sanitation	307,075	-	-	30,600	(276,475)		(276,475)	
Health and welfare	-	-	-	-	-		-	
Culture and recreation	7,536	-	-	-	(7,536)		(7,536)	
Housing and development	10,052	-	-	-	(10,052)		(10,052)	
Interest on long term debt	-	-	-	-	-		-	
Total governmental activities	2,021,151	624,200	-	615,120	(781,831)		(781,831)	
Business-type activities								
Water and Sewer	1,388,075	1,452,539	-	-		$ 64,464	64,464	
Total business-type activities	1,388,075	1,452,539	-	-		64,464	64,464	
Total primary government	$ 3,409,226	$ 2,076,739	$ -	$ 615,120			(717,367)	
Component units:								
Downtown Development Authority	$ -	$ -	$ -	$ -				$ -
Total component units	$ -	$ -	$ -	$ -				$ -
General revenues:								
Taxes:								
Property taxes, levied for general purposes					344,118	-	344,118	
Franchise tax					174,754	-	174,754	
Sales taxes					677,056	-	677,056	
Loss on disposition of capital assets					-	(147,916)	(147,916)	
Interest and investment earnings					21,114	10,908	32,022	
Miscellaneous					30,237	35,858	66,095	
Transfers					(39,320)	39,320	-	
Total general revenues, special items, and transfers					1,207,959	(61,830)	1,146,129	
Change in net assets					426,128	2,634	428,762	
Beginning net assets					3,706,893	7,882,347	11,589,240	-
Ending net assets					$ 4,133,021	$ 7,884,981	$12,018,002	$ -

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

CITY OF CLEVELAND, GEORGIA

Balance Sheet
Governmental Funds

June 30, 2011

Assets	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Cash	$ 775,889	$ 2,260,710	$ 953	$ 3,037,552
Due from other governments	62,747	77,350	-	140,097
Receivables (net)	119,205	-	-	119,205
Prepaid expenses	11,207	-	-	11,207
Other assets	13,429	-	-	13,429
Due from other funds	16,715	26,111	29,544	72,370
Total assets	$ 999,192	$ 2,364,171	$ 30,497	$ 3,393,860
Liabilities				
Accounts payable	$ 72,845	$ 14,233	$ 3,993	$ 91,071
Accrued expenses	27,331	-	-	27,331
Due to other funds	29,544	-	-	29,544
Deferred revenue	83,955	-	-	83,955
Total liabilities	213,675	14,233	3,993	231,901
Fund balance				
Nonspendable:				
Land	13,429	-	-	13,429
Prepaid expenses	11,207	-	-	11,207
Restricted for:				
Capital projects	-	2,349,938	-	2,349,938
Tourism	-	-	-	-
Downtown Streetscape	-	-	25,551	25,551
Law Enforcement	-	-	953	953
Unassigned	760,881	-	-	760,881
Total fund balance	785,517	2,349,938	26,504	3,161,959
Total liabilities and fund balance	$ 999,192	$ 2,364,171	$ 30,497	$ 3,393,860

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

CITY OF CLEVELAND, GEORGIA

Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets

June 30, 2011

Total fund balances - governmental funds	$ 3,161,959
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	2,341,371
Less: Accumulated depreciation	(1,392,407)
Accrued personal leave not reported in governmental funds	(61,857)
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.	83,955
Net assets of governmental activities	$ 4,133,021

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

CITY OF CLEVELAND, GEORGIA

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

For the Year Ended June 30, 2011

Revenues	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Property taxes	$ 344,118	$ -	$ -	$ 344,118
Sales taxes	672,359	-	-	672,359
Intergovernmental	147,500	437,020	-	584,520
Franchise tax	174,754	-	-	174,754
Fines and forfeitures	74,506	-	-	74,506
Charges for services	542,091	-	7,603	549,694
Interest	5,245	15,866	3	21,114
Contributions	30,600	-	-	30,600
Miscellaneous	30,237	-	-	30,237
Total Revenue	2,021,410	452,886	7,606	2,481,902
Expenditures				
Current				
General government	687,316	-	4,675	691,991
Public safety	1,058,209	-	-	1,058,209
Streets and sanitation	313,383	10,795	-	324,178
Culture and recreation	4,905	-	-	4,905
Housing and Development	-	-	10,052	10,052
Capital outlay	-	5,000	-	5,000
Total Expenditures	2,063,813	15,795	14,727	2,094,335
Excess revenues over (under) expenditures	(42,403)	437,091	(7,121)	387,567
Other financing sources (uses)				
Transfers in	100,000	-	4,675	104,675
Transfers out	(2,337)	(141,658)	-	(143,995)
Total other financing sources (uses)	97,663	(141,658)	4,675	(39,320)
Net change in fund balance	55,260	295,433	(2,446)	348,247
Beginning fund balances	730,257	2,054,505	28,950	2,813,712
Ending fund balances	$ 785,517	$ 2,349,938	$ 26,504	$ 3,161,959

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

CITY OF CLEVELAND, GEORGIA

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

For the Year Ended June 30, 2011

Net change in fund balances-total governmental funds	$	348,247
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 net capital outlay ($215,303) exceeded depreciation ($135,755) in the current period.		79,548
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 changed by this amount from prior year		(6,364)
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.		
Deferred revenues changed by this amount from prior year		4,697
Change in net assets of governmental activities	$	426,128

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

CITY OF CLEVELAND, GEORGIA

Statement of Fund Net Assets

Proprietary Fund

June 30, 2011

Assets	Water and Sewer Enterprise Fund
Current Assets:	
Cash	$ 2,973,029
Accounts Receivable (net)	137,590
Due from others	13,382
Accrued Revenue	59,780
Total Current Assets	3,183,781
Noncurrent Assets:	
Capital assets	
Land	158,299
Infrastructure	1,581,310
Buildings and improvements	6,021,995
New facilities	191,916
Machinery and equipment	1,008,538
Construction in progress	435,899
Less accumulated depreciation	(3,943,501)
Total capital assets (net of accumulated depreciation)	5,454,456
Deferred Charge	11,065
Total noncurrent assets	5,465,521
Total Assets	8,649,302
Liabilities	
Current Liabilities:	
Accounts Payable	69,132
Accrued Expenses	10,518
Deferred Revenue	40,718
Due to Other Funds	42,826
Current Portion of Long-Term Debt	157,127
Total Current Liabilities	320,321
Noncurrent Liabilities:	
Customer Deposits	141,776
Compensated absences	54,486
Notes payable (Net of Current Portion)	247,738
Total Noncurrent Liabilities	444,000
Total Liabilities	764,321
Fund net assets	
Invested in capital assets, net of related debt	5,049,591
Unrestricted	2,835,390
Total fund net assets	$ 7,884,981

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

CITY OF CLEVELAND, GEORGIA

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2011

	Water and Sewer Enterprise Fund
Operating revenues	
Charges for service	$ 1,439,124
Connection fees	13,415
Miscellaneous income	35,858
Total operating revenues	1,488,397
Operating expenses	
Personal services	
Compensation	413,126
Employment taxes	29,451
Benefits	97,687
Total Personal Services	540,264
Expenses	
Purchased water	162,043
Supplies	86,630
Repairs and maintenance	75,074
Utilities	146,700
Miscellaneous	29,350
Depreciation	239,966
Insurance	36,546
Engineering, lab fees and training	46,075
Total expenses	822,384
Total operating expenses	1,362,648
Operating income	125,749
Non-operating revenues (expenses)	
Interest income	10,908
Loss on disposition of capital assets	(147,916)
Interest expense on loans	(25,427)
Total non-operating revenues (expenses)	(162,435)
Income before contributions and transfers	(36,686)
Transfers out	(102,338)
Transfers in	141,658
Change in fund net assets	2,634
Total fund net assets - beginning	7,882,347
Total fund net assets - ending	$ 7,884,981

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

CITY OF CLEVELAND, GEORGIA

Statement of Cash Flows
Proprietary Fund
For The Year Ended June 30, 2011

	Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	$ 1,486,517
Receipts from interfund services	249,654
Payments to suppliers	(541,290)
Payments to employees	(540,264)
Net cash provided (used) by operating activities:	654,617
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Transfer out	(102,338)
Transfer in	141,658
Net cash provided by non-capital financing activities	39,320
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of capital assets	(180,262)
Debt payments, principal and interest and deferred charge	(176,423)
Net cash provided (used) by capital and related financing activities	(356,685)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	10,908
Net cash provided by investing activities	10,908
Net increase in cash and cash equivalents	348,160
Cash and cash equivalents - beginning of year	2,624,869
Cash and cash equivalents - end of year	$ 2,973,029
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	$ 125,749
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	239,966
Changes in assets and liabilities:	
Decrease in receivables, accrued revenue, and other assets	304,168
Decrease in accounts payable	(41,128)
Increase in accrued expenses	4,172
Increase in other liabilities	21,690
Net cash provided by operating activities	$ 654,617

Non-cash capital activity:
Write off of discarded assets $147,916

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

CITY OF CLEVELAND, GEORGIA

Notes to Financial Statements

June 30, 2011

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 a 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, Georgiafor 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 activities) 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.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continued)

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 proprietary 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 proprietary 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 subsidies, investment earnings or interest expense, result from non-exchange transactions or ancillary activities.

Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the flow of 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-reimbursement 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.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continued)

All business-type activities and proprietary 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.

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

Cash and Cash Equivalents

The City considers short-term liquid investments 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 to be cash equivalents. Only investments with original maturities of three months or less meet this definition.

Investments

As of June 30, 2011, the City did not have any investments.

Restricted Assets

These assets are held in the capital projects and special revenue funds for specific purposes defined by statute, referendum, or grant contract and are 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 interfund loans) or "advances to / from other funds" (i.e., the non-current portion of interfund 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, Georgia 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, 2011.

Property Tax Calendar

The City set its mileage rate for 2010 on July 29, 2010 at 3.475 mils. Property tax bills were mailed on August 6, 2010 and were due November 15, 2010. 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 16, 2010. 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.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continued)

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 $5,000 (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.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continued)

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, 2011, there were 34 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, 2011, were $103,022, which is 8.36% of total compensation, $1,232,425, and 10% of covered compensation, $1,030,220. 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, 2011, there were three employees 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, 2011, the employees contributed $2,940 to the plan.

1-D 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 assets."

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

Nonspendable - Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally 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. The City Council also may modify or rescind the commitment.

Assigned - Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City's finance officer to assign fund balances.

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

1-D Fund Equity(continued)

When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order:

Committed
Assigned
Unassigned

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the City has spent) for the acquisition, construction or improvement of those assets. Net assets are reported as restricted as described in the fund balance section above. All other net assets are reported as unrestricted.

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

Note 2. CASH [Primary government]

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties or municipalities.

The City's custodial credit risk policy is to require all banks to collateralize the City's deposits at 110% of account balances and to have a perfected security agreement supporting the collateral agreement with the bank. The City does not have foreign credit risk.

At June 30, 2011, all bank deposits were insured or fully collateralized.

Note 3. RECEIVABLES [Primary government]

The following is a summary of amounts due from others at June 30, 2011.

Receivable from:		
Governmental funds:		
Due from other governments		$140,097
Taxes receivable, net		86,381
Accounts receivable, net		32,824
	Total	$ 259,302
Business-Type funds:		
Receivables, net		$150,972
	Total	$150,972

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 net amount reported at June 30, 2011, is $11,065.

Note 6. LONG-TERM DEBT [Primary government]

The City's long-term debt consists 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 $1,045,593 at June 30, 2011.

Long term debt details:

Governmental activities:	July 1, 2010	Additions	Reductions	June 30, 2011	Due within One year
Compensated Absenses	$ 55,493	$ 6,364	$ -	$ 61,857	$ -

Business-type activities:

	Total	Current Portion	Long-term Portion
Note payable to Georgia Environmental Facilities Authority, matures 11/01/2013. Quarterly payments of $42,746. Interest rate is 4.0%; unsecured. Original loan proceeds - $2,346,263.	$ 404,865	$ 157,127	$ 247,738

Five year payment schedule

Year Ending	Total Payments	Principal	Interest
6/30/2012	$ 170,985	$ 157,127	$ 13,858
6/30/2013	170,985	163,507	7,478
6/30/2014	85,073	84,231	842
	$ 427,043	$ 404,865	$ 22,178

	July 1, 2010	Additions	Reductions	June 30, 2011	Due within One year
Compensated absenses	$ 46,428	$ 8,058	$ -	$ 54,486	$ -
GEFA note	555,861	-	150,996	404,865	157,127
Totals	$ 602,289	$ 8,058	$ 150,996	$ 459,351	$ 157,127

Note 7. RISK MANAGEMENT [Primary government]

The City purchases Workers Compensation Insurance through Public Risk Underwriters. The City's policy year starts on January 1st and ends on December 31st of each year. The premium for the policy year of 2011 was $32,030.

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 costs taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.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 $116,343 is included in the government-wide financial statements, under noncurrent liabilities.

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

The City adopted a resolution changing the Hotel/Motel Tax rate to 8%. The Chamber of Commerce has contracted to expend 43.75% and the White County Historical Society has contracted to expend 37.5% on the promotion of tourism and trade. The City retains 18.75% to be spent on tourism and trade. The amount spent for the promotion of tourism and trade was 100% of the tax collected.

	Reported in General Fund	Reported in Hotel/Motel Tax Fund
Tax Collections	$ 6,246	$ 7,603
Tax Expenditures per statute	$ 6,246	$ 7,603

Note 10. CAPITAL ASSETS [Primary government]

Depreciation expense was charged to these functions in the Government Wide Financial Statements, as follows:

Governmental Activities:		Business-type activities:	
General government	$ 19,200	Water and Sewer	$ 239,966
Public Safety	103,101		
Streets and sanitation	10,823		
Culture and recreation	2,631		
	$ 135,755		

Note 10. CAPITAL ASSETS (Continued)

Capital asset activity for the year ended June 30, 2011, was as follows:

Primary Government	Beginning Balances 7/1/2010	Increases	Decreases	Ending Balances 6/30/2011
Governmental activities:				
Capital assets not being depreciated:				
Land	$ -	$ -	$ -	$ -
Construction in progress	-	5,000		5,000
Total capital assets not being depreciated	-	5,000	-	5,000
Capital assets being depreciated:				
Buildings	562,775	-	-	562,775
Infrastructure	418,100	30,600	-	448,700
Equipment	1,162,162	179,703	16,969	1,324,896
Total capital assets being depreciated	2,143,037	210,303	16,969	2,336,371
Accumulated depreciation:				
Buildings	410,667	7,132	-	417,799
Infrastructure	6,033	9,482	-	15,515
Equipment	856,921	119,141	16,969	959,093
Total accumulated depreciation	1,273,621	135,755	16,969	1,392,407
Total governmental capital assets being depreciated, net	869,416	74,548	-	943,964
Total governmental activities capital assets, net	$ 869,416	$ 79,548	$ -	$ 948,964
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 158,299	$ -	$ -	$ 158,299
Construction in progress	294,241	141,658	-	435,899
Total capital assets not being depreciated	452,540	141,658	-	594,198
Capital assets being depreciated:				
Buildings	8,000	-	-	8,000
Equipment	879,814	18,040	79,310	818,544
Sewerage treatment plant/water lines	8,113,635	20,564	156,984	7,977,215
Total capital assets being depreciated	9,001,449	38,604	236,294	8,803,759
Accumulated depreciation:				
Buildings	2,200	200	-	2,400
Equipment	829,635	65,437	64,816	830,256
Water and sewer system	2,960,078	174,329	23,562	3,110,845
Total accumulated depreciation	3,791,913	239,966	88,378	3,943,501
Total capital assets being depreciated, net	5,209,536	(201,362)	147,916	4,860,258
Total Business-type activities capital assets, net	$ 5,662,076	$ (59,704)	$ 147,916	$ 5,454,456

Note 11. BUDGETS [Primary government]

The following are Governmental Funds for which budgets, at the departmental control level, were legally adopted:

	Budgeted Expenditures and other Financing Uses	Actual Expenditures and Other Financing Uses	Actual in Excess of Appropriations
General Fund			
General government	792,630	687,316	-
Public safety	969,110	1,058,209	(89,099)
Streets and sanitation	417,475	313,383	-
Culture and recreation	16,000	4,905	-
Transfers	-	2,337	(2,337)
Hotel/Motel tax fund	18,000	7,603	-
Grant fund	25,000	7,124	-
Confiscated assets fund	-	-	-

Note 12. DEFERRED REVENUE (Primary Government)

Deferred revenue in the governmental fund financial statements:

Property tax revenues	$83,955	Taxes earned in the current year but received beyond the City's period of availability.
Total	$83,955	

Note 13. 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.

Interfund Balances

		Due from				
		General Fund	Water and Sewer	Capital Projects	Grant Fund	Total
Due to	General Fund	$ -	$ 16,715	$ -	$ -	$ 16,715
	Capital Projects	-	26,111	-	-	26,111
	Hotel/Motel	3,993	-	-	-	3,993
	Water and Sewer	-	-	-	-	-
	Enterprise Fund	-	-	-	-	-
	Grant Fund	25,551	-	-	-	25,551
	Total	$ 29,544	$ 42,826	$ -	$ -	$ 72,370

Note 13. INTERNAL FUND BALANCES AND TRANSFERS (cont)

Interfund Transfers

		Transfer To				
		General Fund	Water and Sewer	Capital Projects	Grant Fund	Totals
Transfer From	Capital Projects	$ -	$ 141,658	$ -	$ -	$ 141,658
	Water and Sewer	100,000	-	-	2,338	102,338
	General Fund	-	-	-	2,337	2,337
	Total	$ 100,000	$ 141,658	$ -	$ 4,675	$ 246,333

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) provide unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 14. ALLOWANCE FOR UNCOLLECTABLE TAXES AND ACCOUNTS

The balances of taxes and accounts receivable at June 30, 2011, are net of the following allowances for doubtful accounts.

Fund	Taxes	Accounts
General	$ 872	$15,934
Enterprise	-0-	83,657
	$ 872	$ 99,591

Note 15. 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. During its year ended June 30, 2011, the City paid $2,914 in such dues. 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 16. COMPLIANCE

The City is not in compliance with O.C.G.A. 48-8-110 which governs the use of SPLOST funds. The City inadvertently deposited a splost tax receipt into the general fund. The error was detected and corrected.

The City is not compliance with O.C.G.A. 36-81-2(14) which prohibits the expenditure of governmental funds in excess of that appropriated. The budget for the year ended June 30, 2011 will be amended.

CITY OF CLEVELAND, GEORGIA

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Budget to GAAP Differences	Actual Amounts	Variance with Final Budget
	Original	Final	Budgetary	Over / (Under)	GAAP Basis	Over / (Under)
Revenues						
Property Taxes	$ 362,825	$ 362,825	$ 344,118	$ -	$ 344,118	$ (18,707)
Sales Taxes	620,000	620,000	672,359	-	672,359	52,359
Intergovernmental	-	-	147,500	-	147,500	147,500
Franchise Taxes	180,000	180,000	174,754	-	174,754	(5,246)
Fines and Forfeitures	71,775	71,775	74,506	-	74,506	2,731
Fund Balance	318,795	318,795	-	-	-	(318,795)
Charges for Services	525,320	525,320	542,091	-	542,091	16,771
Interest	6,500	6,500	5,245	-	5,245	(1,255)
Contributions	-	-	30,600	-	30,600	30,600
Miscellaneous	10,000	10,000	30,237	-	30,237	20,237
Transfers In	100,000	100,000	100,000	-	100,000	-
Total Revenues	2,195,215	2,195,215	2,121,410	-	2,121,410	(73,805)
Expenditures						
Current Operating:						
General Government	792,630	792,630	687,316	-	687,316	(105,314)
Public Safety	969,110	969,110	1,058,209	-	1,058,209	89,099
Streets and Sanitation	417,475	417,475	313,383	-	313,383	(104,092)
Culture and Recreation	16,000	16,000	4,905	-	4,905	(11,095)
Transfers Out	-	-	2,337	-	2,337	2,337
Total Expenditures	2,195,215	2,195,215	2,066,150	-	2,066,150	(129,065)
Other Financing Sources						
Net change in fund balances	-	-	55,260	-	55,260	55,260
Fund Balance - Beginning	730,257	730,257	730,257	-	730,257	-
Fund Balance - Ending	$ 730,257	$ 730,257	$ 785,517	$ -	$ 785,517	$ 55,260

CITY OF CLEVELAND, GEORGIA
Notes to Required Supplementary Information
on Budgetary Accounting and Control
Year Ended June 30, 2011

BUDGETARY ACCOUNTING AND CONTROL

Budget Law

The City prepares its annual operating budget under the provisions of the official Code of Georgia. In accordance with those provisions, the following process is used to adopt the annual budget:

(a). Prior to June 1, the City Finance Officer submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

(b). Public hearings are conducted at regular Commission meetings to obtain taxpayer comments. Public hearings are normally scheduled no later than 15 days prior to the beginning of the budget year.

(c). Subsequent to the public hearings, the budget is legally enacted through the passage of a resolution by the City Council.

All governmental funds with revenues and/or expenditures as defined by State law are required to have annual budgets. The legal level of control at which expenditures may not legally exceed appropriations is at the department level within a fund.

Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

BUDGET AMENDMENTS

There were no budget amendments for the year ending June 30, 2011.

Fund Type	Original Budget	Supplemental Appropriations	Supplemental Decreases	Revised Appropriations
General Fund	$ 2,195,215	$ -	$ -	$ 2,195,215

CITY OF CLEVELAND, GEORGIA

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	Special Revenue Funds			
	Hotel/Motel Tax Fund	Grant Fund	Confiscated Asset Fund	Totals
Assets				
Cash	$ -	$ -	$ 953	$ 953
Due from General Fund	3,993	-	-	3,993
Due from Other Funds	-	25,551	-	25,551
Total assets	$ 3,993	$ 25,551	$ 953	$ 30,497
Liabilities				
Accounts Payable	$ 3,993	$ -	$ -	$ 3,993
Due to other funds	-	-	-	-
Total liabilities	3,993	-	-	3,993
Fund Balance				
Restricted for:				
Law Enforcement	-	-	953	953
Downtown Streetscape Grant	-	25,551	-	25,551
Tourism	-	-	-	-
	-	25,551	953	26,504
Total liabilities and fund balances	$ 3,993	$ 25,551	$ 953	$ 30,497

CITY OF CLEVELAND, GEORGIA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year ended June 30, 2011

	Special Revenue Funds			
	Hotel/Motel Tax Fund	Grant Fund	Confiscated Asset Fund	Total
Revenues				
Revenue	$ 7,603	$ -	$ 3	$ 7,606
Total revenues	7,603	-	3	7,606
Expenditures				
Current:				
General government	-	4,675	-	4,675
Housing and Development	7,603	2,449	-	10,052
Total expenditures	7,603	7,124	-	14,727
Excess (deficiency) of revenues over expenditures	-	(7,124)	3	(7,121)
Other financing sources and				
Transfers in	-	4,675	-	4,675
Transfers out	-	-	-	-
Total other financing sources and uses	-	4,675	-	4,675
Net changes in fund balance	-	(2,449)	3	(2,446)
Fund balance - beginning	-	28,000	950	28,950
Fund balance - ending	$ -	$ 25,551	$ 953	$ 26,504

Walker and Associates
Certified Public Accountants

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 Mayor and City Council
City of Cleveland
Cleveland, Georgia

We have audited the financial statements of the governmental activities the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Cleveland, Georgia as of and for the year ended June 30, 2011, and have issued our report thereon dated November 30, 2011. 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, Georgia's internal control over financial reporting as a basis for designing our auditing procedures 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 Cleveland, Georgia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Cleveland, Georgia's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or its 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Finding and Responses, items 2011-1 through 2011-2, that we consider to be a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cleveland, Georgia's financial statements are free of 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 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 items 2011-3 through 2011-4.

The City of Cleveland, Georgia's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the City of Cleveland, Georgia's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, 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

Walker & Associates, CPA's, PC
Gainesville, Georgia
November 30, 2011

Findings – Financial Statement Audit

Internal Control

2011-1	Condition:	The City does not maintain an inventory of its fixed assets, nor does it conduct a periodic physical inventory of those assets.
	Criteria:	The City should maintain an inventory list of all its fixed assets.
	Cause:	The City does not devote the personnel resources to create the inventory list and to conduct a periodic physical inventory.
	Effect:	The lack of stewardship over its fixed assets does not allow a timely detection of missing or lost assets.
	Recommendation:	The City should create a inventory list and conduct, at least annually, a physical inventory.
	Response:	The City agrees with the finding.
2011-2	Condition:	The City does not possess adequate capabilities to prepare financial statements in accordance with accounting principles generally accepted in the United States.
	Criteria:	The City should possess the ability to prepare its own financial statements or have access to someone with adequate technical training and education to review the financial statements prepared by others.
	Cause:	The City staff does not have the accounting skills necessary to prepare financial statements in accordance with accounting principles generally accepted in the United States.
	Effect:	The City does not possess adequate capabilities to prepare financial statements in accordance with accounting principles generally accepted in the United States.
	Recommendation:	The City should consider employing someone or contracting with another entity to review the financial statements prepared by the auditor.
	Response:	While the City agrees with the finding, it is not economically feasible to follow this recommendation.

Compliance

2011-3	Condition:	The City was not in compliance with O.C.G.A. 48-8-110 relating to an unauthorized use of SPLOST tax proceeds.
	Criteria:	Georgia statutes specifically prohibit interfund loans of SPLOST tax proceeds.
	Cause:	There existed inadequate internal control over receipt of tax proceeds.
	Effect:	Non-compliance with relevant statutes could subject the City to litigation.
	Recommendation:	The City should review their internal control procedures over the use of SPLOST tax receipts and immediately repay the inappropriate loan.
	Response:	The City agrees with this finding.

City of Cleveland, Georgia

Schedule of Findings and Responses
For the Year Ended June 30, 2011

2011-4	Condition:	The City was not in compliance with O.C.G.A. 36-81-2(14) relating to the expenditure of governmental funds in excess of budget appropriations.
	Criteria:	Georgia statutes specifically prohibit governmental expenditures in excess of appropriated budgets at the legal level of control.
	Cause:	There existed inadequate internal control over expenditure monitoring.
	Effect:	Non-compliance with relevant statutes could subject the City to litigation.
	Recommendation:	The City should review their internal control procedures over expenditures.
	Response:	The City agrees with this finding.

CITY OF CLEVELAND, GEORGIA

Schedule of Special Purpose Local Option Sales Tax
Estimated Cost and Expenditure Summary
For the Year Ended June 30, 2011

Project Description	Estimated Cost		Expenditures		
	Original	Current	Prior Years	Current Year	Total
SPLOST 1999					
Construction and repair of streets and bridges	$2,800,000	$ 2,800,000	$2,250,520	$ 10,794	$2,261,314
SPLOST 2004					
Water and Sewer Improvements	2,600,000	2,600,000	2,088,389	18,780	2,107,169
Downtown Redevelopment	400,000	400,000	392,931	-	392,931
Total SPLOST 2004	3,000,000	3,000,000	2,481,320	18,780	2,500,100
SPLOST 2009					
Purchase of Administrative, police and fire facilities	250,000	250,000	-	5,000	5,000
Water and Sewer Infrastructure	3,130,000	3,130,000	273,921	122,879	396,800
Total SPLOST 2009	3,380,000	3,380,000	273,921	127,879	401,800
Total SPLOST	$9,180,000	$ 9,180,000	$5,005,761	$ 157,453	$5,163,214