CITY OF CLEVELAND, GEORGIA

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

WALKER & ASSOCIATES, CPA'S, PC

CITY OF CLEVELAND
FISCAL YEAR ENDED JUNE 30, 2012
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Walker and Associates
Certified Public Accountants

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 unit, each major fund and the aggregate remaining fund information of City of Cleveland, Georgia, as of and for the year ended June 30, 2012, 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, 2012, and the respective changes in financial position and, where applicable, cash flows 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 28, 2012, 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 governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information..

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
December 19, 2012

CITY OF CLEVELAND, GEORGIA

Statement of Net Position

June 30, 2012

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Unit
Assets				
Cash and cash equivalents	$ 2,748,024	$ 3,058,817	$ 5,806,841	$ -
Receivables (net)	296,089	170,565	466,654	-
Other assets	13,429	77,403	90,832	-
Restricted cash	-	145,318	145,318	-
Prepaid Expenses	11,352	-	11,352	-
Construction in progress	-	627,340	627,340	-
Nondepreciable capital assets	424,091	171,336	595,427	-
Depreciable capital assets, net	916,556	4,622,774	5,539,330	-
Total assets	4,409,541	8,873,553	13,283,094	-
Deferred outflows of resources	-	-	-	-
Liabilities				
Accounts payable and other liabilities	104,214	176,842	281,056	-
Internal balances	(110,422)	110,422	-	-
Accrued balances	18,334	5,607	23,941	-
Noncurrent liabilities:				
Due within one year	-	163,507	163,507	-
Due in more than one year	65,807	147,017	212,824	-
Total liabilities	77,933	603,395	681,328	-
Deferred inflows of resources	-	-	-	-
Net Position				
Net Investment in capital assets	1,340,647	5,173,715	6,514,362	-
Restricted for:				
Capital projects	2,346,405	-	2,346,405	-
Tourism	6,715	-	6,715	-
Law enforcement	957	-	957	-
Unrestricted	636,884	3,096,443	3,733,327	-
Total Net Position	$ 4,331,608	$ 8,270,158	$12,601,766	$ -

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

CITY OF CLEVELAND, GEORGIA

Statement of Activities

For the Year Ended June 30, 2012

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants & Contributions	Net (Expenses) Revenues and Changes in Net Position: Primary Government: Governmental Activities	Net (Expenses) Revenues and Changes in Net Position: Primary Government: Business-Type Activities	Net (Expenses) Revenues and Changes in Net Position: Primary Government: Total	Component Unit
Primary government:								
Governmental activities								
General government	$ 751,519	$ 557,897	$ 3,000	$ 465,180	$ 274,558		$ 274,558	
Public safety	1,086,113	77,886	-	-	(1,008,227)		(1,008,227)	
Streets and sanitation	355,055	-	-	-	(355,055)		(355,055)	
Health and welfare	-	-	-	-	-		-	
Culture and recreation	4,812	-	-	-	(4,812)		(4,812)	
Housing and development	17,725	-	-	-	(17,725)		(17,725)	
Interest on long term debt	-	-	-	-	-		-	
Total governmental activities	2,215,224	635,783	3,000	465,180	(1,111,261)		(1,111,261)	
Business-type activities								
Water and Sewer	1,344,599	1,625,907	-	-		$ 281,308	281,308	
Total business-type activities	1,344,599	1,625,907	-	-		281,308	281,308	
Total primary government	$ 3,559,823	$ 2,261,690	$ 3,000	$ 465,180			(829,953)	
Component units:								
Downtown Development Authority	$ -	$ -	$ -	$ -				$ -
Total component units	$ -	$ -	$ -	$ -				$ -
General revenues:								
Taxes:								
Property taxes, levied for general purposes					344,333	-	344,333	
Hotel/Motel taxes					26,245	-	26,245	
Sales Taxes					744,569	-	744,569	
Alcoholic beverage taxes					33,048	-	33,048	
Franchise tax					198,523	-	198,523	
Gain on disposition of capital assets					10,550	-	10,550	
Interest and investment earnings					4,214	16,315	20,529	
Miscellaneous					31,571	4,349	35,920	
Transfers					(83,205)	83,205	-	
Total general revenues and transfers					1,309,848	103,869	1,413,717	
Change in net position					198,587	385,177	583,764	
Beginning net position					4,133,021	7,884,981	12,018,002	-
Ending net position					$ 4,331,608	$ 8,270,158	$12,601,766	$ -

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

CITY OF CLEVELAND, GEORGIA

Balance Sheet
Governmental Funds

June 30, 2012

Assets	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Cash	$ 375,383	$ 2,364,969	$ 7,672	$ 2,748,024
Due from other governments	61,874	80,049	-	141,923
Receivables (net)	154,166	-	-	154,166
Prepaid expenses	11,352	-	-	11,352
Other assets	13,429	-	-	13,429
Due from other funds	230,154	-	25,000	255,154
Total assets	846,358	2,445,018	32,672	3,324,048
Deferred outflows of resources	-	-	-	-
Total assets and deferred outflows	$ 846,358	$ 2,445,018	$ 32,672	$ 3,324,048
Liabilities				
Accounts payable	$ 100,333	$ 3,881	$ -	$ 104,214
Accrued expenses	18,334	-	-	18,334
Due to other funds	25,000	119,732	-	144,732
Deferred revenue	136,097	-	-	136,097
Total liabilities	279,764	123,613	-	403,377
Deferred inflows of resources	-	-	-	-
Total liabilities and deferred inflows	279,764	123,613	-	403,377
Fund balance				
Nonspendable:				
Land	13,429	-	-	13,429
Prepaid expenses	11,352	-	-	11,352
Restricted for:				
Capital projects	-	2,321,405	-	2,321,405
Tourism	-	-	6,715	6,715
Downtown Streetscape	-	-	25,000	25,000
Law Enforcement	-	-	957	957
Unassigned	541,813	-	-	541,813
Total fund balance	566,594	2,321,405	32,672	2,920,671
Total liabilities, deferred inflows and fund balance	$ 846,358	$ 2,445,018	$ 32,672	$ 3,324,048

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 Position

June 30, 2012

Total fund balances - governmental funds	$ 2,920,671
Amounts reported for governmental activities in the statement of net position 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	2,821,739
Less: Accumulated depreciation	(1,481,092)
Accrued personal leave not reported in governmental funds	(65,807)
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.	136,097
Net position of governmental activities	$ 4,331,608

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, 2012

Revenues	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Property taxes	$ 344,333	$ -	$ -	$ 344,333
Sales taxes	692,427	-	-	692,427
Intergovernmental	-	452,842	-	452,842
Franchise tax	198,523	-	-	198,523
Fines and forfeitures	52,885	-	-	52,885
Charges for services	582,898	-	-	582,898
Excise Taxes	33,048	-	-	33,048
Interest	4,210	12,338	4	16,552
Miscellaneous	31,571	-	29,245	60,816
Total Revenue	1,939,895	465,180	29,249	2,434,324
Expenditures				
Current				
General government	981,899	-	-	981,899
Public safety	1,018,084	-	-	1,018,084
Streets and sanitation	291,231	44,206	-	335,437
Culture and recreation	4,812	-	-	4,812
Housing and Development	-	-	17,725	17,725
Capital outlay	-	245,000	-	245,000
Total Expenditures	2,296,026	289,206	17,725	2,602,957
Excess revenues over (under) expenditures	(356,131)	175,974	11,524	(168,633)
Other financing sources (uses)				
Sale of assets	10,550	-	-	10,550
Transfers in	126,658	-	-	126,658
Transfers out	-	(204,507)	(5,356)	(209,863)
Total other financing sources (uses)	137,208	(204,507)	(5,356)	(72,655)
Net change in fund balance	(218,923)	(28,533)	6,168	(241,288)
Beginning fund balances	785,517	2,349,938	26,504	3,161,959
Ending fund balances	$ 566,594	$ 2,321,405	$ 32,672	$ 2,920,671

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, 2012

Net change in fund balances-total governmental funds	$	(241,288)
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 ($541,103) exceeded depreciation ($149,420) in the current period.		391,683
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.		(3,950)
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.		52,142
Change in net position of governmental activities	$	198,587

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

CITY OF CLEVELAND, GEORGIA

Statement of Net Position

Proprietary Fund

June 30, 2012

	Water and Sewer Enterprise Fund
Assets	
Current Assets:	
Cash	$ 3,058,817
Accounts Receivable (net)	170,565
Due from other Funds	107,117
Restricted cash	145,318
Prepaid Expenses	4,196
Accrued Revenue	66,573
Total Current Assets	3,552,586
Noncurrent Assets:	
Capital assets:	
Land	171,336
Infrastructure	1,581,310
Buildings and improvements	6,021,995
New facilities	191,916
Machinery and equipment	1,005,438
Construction in progress	627,340
Less accumulated depreciation	(4,177,885)
Total capital assets	5,421,450
Deferred Charge	6,634
Total noncurrent assets	5,428,084
Total Assets	8,980,670
Deferred outflows of resources	-
Liabilities	
Accounts Payable	31,524
Accrued Expenses	5,607
Due to Other Funds	217,539
Current Portion of Long Term Debt	163,507
Noncurrent Liabilities:	
Customer Deposits	145,318
Compensated absences	62,789
Due in more than one year	84,228
Total Liabilities	710,512
Deferred inflows of resources	-
Net Position	
Net invested in capital assets	5,173,715
Unrestricted	3,096,443
Total net position	$ 8,270,158

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

CITY OF CLEVELAND, GEORGIA

Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2012

	Water and Sewer Enterprise Fund
Operating revenues	
Charges for service	$ 1,615,166
Connection fees	10,741
Miscellaneous income	4,349
Total operating revenues	1,630,256
Operating expenses	
Personal services	
Compensation	436,326
Employment taxes	31,875
Benefits	100,952
Total Personal Services	569,153
Expenses	
Purchased water	97,221
Supplies	82,768
Repairs and maintenance	46,993
Utilities	158,352
Miscellaneous	54,448
Depreciation	237,484
Insurance	50,228
Engineering, lab fees and training	30,304
Total expenses	757,798
Total operating expenses	1,326,951
Operating income	303,305
Non-operating revenues (expenses)	
Interest income	16,315
Interest expense on loans	(17,648)
Total non-operating revenues (expenses)	(1,333)
Income before contributions and transfers	301,972
Transfers out	(121,302)
Transfers in	204,507
Change in net position	385,177
Total net position - beginning	7,884,981
Total net position - ending	$ 8,270,158

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, 2012

	Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	$ 1,663,231
Payments to suppliers	(650,832)
Payments to employees	(569,153)
Net cash provided (used) by operating activities:	443,246
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Transfer out	(121,302)
Advances from other funds	67,596
Transfer in	29
Net cash provided by non-capital financing activities	(53,677)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Transfer in	204,478
Purchase of capital assets	(204,478)
Debt payments, principal and interest and deferred charge	(174,778)
Net cash provided (used) by capital and related financing activities	(174,778)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	16,315
Net cash provided by investing activities	16,315
Net increase in cash and cash equivalents	231,106
Cash and cash equivalents - beginning of year	2,973,029
Cash and cash equivalents - end of year	$ 3,204,135
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	$ 303,305
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	237,484
Changes in assets and liabilities:	
Increase in receivables, accrued revenue, and other assets	(21,955)
Decrease in accounts payable	(37,608)
Decrease in deferred revenue	(40,718)
Decrease in accrued expenses	(804)
Increase in other liabilities	3,542
Net cash provided by operating activities	$ 443,246

Non-cash capital activity:

Write off of discarded assets $3,100

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

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, Georgia 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 position 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.

Receivables from and payables to external parties are reported separately and not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

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.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continued)

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 position 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.

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. The city has not formally adopted deposit and investment policies that limit the City's allowable deposits or investments.

Investments

As of June 30, 2012, 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. In addition, restricted assets are also held in the proprietary fund and the business-type activities of the government-wide financial statements in amounts required to pay customer deposit balances.

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, 2012.

Property Tax Calendar

The City set its mileage rate for 2011 on July 28, 2011 at 3.637 mils. Property tax bills were mailed on August 22, 2011 and were due November 15, 2011. Penalties and interest are due on all accounts not paid by the due date. Fifa's on delinquent tax accounts could be filed on November 16, 2011. 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 $2.50 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.

Compensated absences

General leave for the City includes both vacation and sick pay. General leave is based on an employee's length of employment and is earned ratably during the span of employment. Upon termination, employees are paid full value for any accrued leave earned not to exceed the number of leave hours outlined in the employee policy manual.

Vested or accumulated general leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated general leave that are not expected to be liquidated with expendable available financial resources are maintained separately and represents a reconciling item between the fund and government-wide presentations. Vested or accumulated general leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. The balance of compensated absences is recorded as a noncurrent liability and disclosed as a long term debt.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continued)

position that applies to a future period(s) and so will not be recognized as an outflow of resources(expense/expenditure) until then. Currently the City does not have any items that qualify for reporting in this category.

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

Recently Issued Accounting Pronouncements

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements.* GASBS No. 60 provides financial reporting guidance for service concession arrangements (SCAs). SCAs are defined as an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This Statement is effective for periods beginning after December 15, 2011. The City does not have any SCAs and therefore the adoption of GASBS No. 60 does not have any impact on the City's financial statements.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements no. 14 and No. 34.* GASBS No. 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This Statement is effective for periods beginning after June 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In December 2010, the GASB issued Statement No. 62,*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The provisions of Statement 62 are effective for periods beginning after December 15, 2011. Early application is encouraged which Management has elected to do.

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, 2012, there were 37 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, 2012, were $125,845, which is 8.39% of total compensation, $1,498,995, and 10% of covered compensation, $1,258,450. 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, 2012, 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, 2012, the employees contributed $1,535 to the plan.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continued)

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 position."

Fund Balance - Generally fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund 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.

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 position - Net position represent the difference between assets and liabilities. Net position 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 position are reported as restricted as described in the fund balance section above. All other net position are reported as unrestricted.

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

Note 2. CASH [Primary government](continued)
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, 2012, 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, 2012:

Governmental Activities:	
Due from other Governments	$141,923
Fines	105,156
Taxes, net	8,606
Accounts receivable, net	40,404
	$296,089
Business-Type Activities	$170,565

The following is a summary of the allowance for doubtful accounts for the relevant receivable accounts:

Governmental Activities:	
Fines	$ 35,055
Taxes	87
Accounts receivable	15,908
	$ 51,050
Business-Type Activities;	$ 90,143

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, 2012, is $6,634.

Note 6. 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 Commission and required to pay annual dues thereto. During its year ended June 30, 2012, the City paid $3,142 in such dues. Membership in the Commission is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the Regional Commissions in Georgia. The Commission 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 the Commission. Separate financial statements may be obtained from:

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

Note 7. 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 $1,105,058 at June 30, 2012.

Governmental activities:	July 1, 2011	Additions	Reductions	June 30, 2012	Due within One year
Compensated Absenses	$ 61,857	$ 3,950	$ -	$ 65,807	$ -

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.	$ 247,735	$ 163,507	$ 84,228

Five year payment schedule

Year Ending	Total Payments	Principal	Interest
6/30/2013	$ 170,985	$ 163,507	$ 7,478
6/30/2014	85,073	84,228	845
	$ 256,058	$ 247,735	$ 8,323

Interest cost of the long term debt in the business-type activity is expensed in the current period. For the year ending June 30, 2012 that interest cost was $17,648.

	July 1, 2011	Additions	Reductions	June 30, 2012	Due within One year
Compensated absenses	$ 54,486	$ 8,303	$ -	$ 62,789	$ -
GEFA note	404,865	-	157,130	247,735	163,507
Totals	$ 459,351	$ 8,303	$ 157,130	$ 310,524	$ 163,507

Note 8. 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 2012 was $31,096.

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 9. HOTEL-MOTEL TAX COMPLIANCE [Primary government]

The City's Hotel/Motel Tax rate is 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 City collected for the year ending June 30, 2012 $26,245 and expended for tourism 81.85% of collections. For the year ending June 30, 2012, the City is in compliance with state statutes authorizing this tax.

Note 10. BUDGETS [Primary government]

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

	Budgeted Expenditures and other Financing Uses	Actual Expenditures and Other Financing Uses	Actual in Excess of Appropriations
General Fund			
General government	848,530	981,899	(133,369)
Public safety	1,015,305	1,018,084	(2,779)
Streets and sanitation	413,630	291,231	-
Culture and recreation	61,000	4,812	-
Transfers	-	-	-
Hotel/Motel tax fund	18,000	19,530	(1,530)
Grant fund	25,000	3,551	-
Confiscated assets fund	-	-	-

Note 10. DEFERRED REVENUE (Primary Government)

Deferred revenue in the governmental fund financial statements:

Property tax revenues	$ 4,860	Taxes earned in the current year but received beyond the City's period of availability.
Fines	131,237	Uncollected fines outstanding at the end of the City's period of availability.
Total	$136,097	

Note 11. COMPLIANCE

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, 2012 will be amended.

Note 12. 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	$ 10,363	Water and Sewer	$ 237,484
Public Safety	122,553		
Streets and sanitation	16,504		
Culture and recreation	-		
	$ 149,420		

Note 13. CAPITAL ASSETS [Primary government](continued)

Capital asset activity for the year ended June 30, 2012, was as follows:

Primary Government	Beginning Balances 7/1/2011	Increases	Decreases	Ending Balances 6/30/2012
Governmental activities:				
Capital assets not being depreciated:				
Land	$ -	$ 424,091	$ -	$ 424,091
Construction in progress	5,000	-	5,000	-
Total capital assets not being depreciated	5,000	424,091	5,000	424,091
Capital assets being depreciated:				
Buildings	562,775	63,370	-	626,145
Infrastructure	448,700	-	-	448,700
Equipment	1,324,896	58,642	60,735	1,322,803
Total capital assets being depreciated	2,336,371	122,012	60,735	2,397,648
Accumulated depreciation:				
Buildings	417,799	8,452	-	426,251
Infrastructure	15,515	10,006	-	25,521
Equipment	959,093	130,962	60,735	1,029,320
Total accumulated depreciation	1,392,407	149,420	60,735	1,481,092
Total governmental capital assets being depreciated, net	943,964	(27,408)	-	916,556
Total governmental activities capital assets, net	$ 948,964	$ 396,683	$ 5,000	$ 1,340,647
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 158,299	$ 13,037	$ -	$ 171,336
Construction in progress	435,899	191,441	-	627,340
Total capital assets not being depreciated	594,198	204,478	-	798,676
Capital assets being depreciated:				
Buildings	8,000	-	-	8,000
Equipment	818,544	-	3,100	815,444
Sewerage treatment plant/water lines	7,977,215	-	-	7,977,215
Total capital assets being depreciated	8,803,759	-	3,100	8,800,659
Accumulated depreciation:				
Buildings	2,400	200	-	2,600
Equipment	830,256	-	14,812	815,444
Water and sewer system	3,110,845	248,996	-	3,359,841
Total accumulated depreciation	3,943,501	249,196	14,812	4,177,885
Total capital assets being depreciated, net	4,860,258	(249,196)	(11,712)	4,622,774
Total Business-type activities capital assets, net	$ 5,454,456	$ (44,718)	$ (11,712)	$ 5,421,450

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.

Interfund Balances

		Due from			
		General Fund	Water and Sewer	Capital Projects	Total
Due to	General Fund	$ -	$ 217,539	$ 12,615	$ 230,154
	Enterprise Fund	-	-	107,117	107,117
	Grant Fund	25,000	-	-	25,000
	Total	$ 25,000	$ 217,539	$ 119,732	$ 362,271

Interfund Transfers

		Transfer To		
		General Fund	Water and Sewer	Totals
Transfer From	Capital Projects	$ -	$ 204,507	$ 204,507
	Water and Sewer	121,302	-	121,302
	Hotel/Motel Tax	5,356		5,356
	Total	$ 126,658	$ 204,507	$ 331,165

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 15. SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 15, 2012

CITY OF CLEVELAND, GEORGIA

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2012

	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	$ 357,495	$ 357,495	$ 344,333	$ -	$ 344,333	$ (13,162)
Sales taxes	670,000	670,000	692,427	-	692,427	22,427
Franchise taxes	180,000	180,000	198,523	-	198,523	18,523
Fines and forfeitures	71,805	71,805	52,885	-	52,885	(18,920)
Fund balance	444,345	444,345	-	-	-	(444,345)
Charges for services	495,320	495,320	582,898	-	582,898	87,578
Excise taxes	-	-	33,048	-	33,048	33,048
Interest	4,500	4,500	4,210	-	4,210	(290)
Miscellaneous	115,000	115,000	31,571	-	31,571	(83,429)
Total Revenues	2,338,465	2,338,465	1,939,895	-	1,939,895	(398,570)
Expenditures						
Current Operating:						
General government	848,530	848,530	981,899	-	981,899	133,369
Public safety	1,015,305	1,015,305	1,018,084	-	1,018,084	2,779
Streets and sanitation	413,630	413,630	291,231	-	291,231	(122,399)
Culture and recreation	61,000	61,000	4,812	-	4,812	(56,188)
Total Expenditures	2,338,465	2,338,465	2,296,026	-	2,296,026	(42,439)
Other Financing Sources (Uses)						
Sale of assets	-	-	10,550	-	10,550	10,550
Transfers in	-	-	126,658	-	126,658	126,658
Transfers out	-	-	-	-	-	-
Total Other Financing Sources	-	-	137,208	-	137,208	137,208
Net change in fund balances	-	-	(218,923)	-	(218,923)	(218,923)
Fund Balance - beginning	785,517	785,517	785,517	-	785,517	-
Fund Balance - ending	$ 785,517	$ 785,517	$ 566,594	$ -	$ 566,594	$ -218,923

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, 2012.

Fund type	Original Budget	Supplemental Appropriations	Supplemental Decreases	Revised Appropriations
General Fund	$2,338,465	$ -	$ -	$ 2,338,465

EXCESS EXPENDITURES

The general government department of the general fund has incurred a material excess of expenditures over appropriations for the year ending June 30, 2012 in the amount of $133,369. The City Council will appropriate the necessary funds to cover these expenditures.

CITY OF CLEVELAND, GEORGIA

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	Special Revenue Funds			
	Hotel/Motel Tax Fund	Grant Fund	Confiscated Asset Fund	Totals
Assets				
Cash	$ 6,715	$ -	$ 957	$ 7,672
Restricted cash	-	-	-	-
Due from Other Funds	-	25,000	-	25,000
Total assets	6,715	25,000	957	32,672
Deferred outflows of resources	-	-	-	-
Total assets and deferred outflows	$ 6,715	$ 25,000	$ 957	$ 32,672
Liabilities				
Due to other funds	-	-	-	-
Total liabilities	-	-	-	-
Deferred inflows of resources	-	-	-	-
Total liabilities and deferred inflows	-	-	-	-
Fund Balance				
Restricted for:				
Law Enforcement	-	-	957	957
Downtown Streetscape Grant	-	25,000	-	25,000
Tourism	6,715	-	-	6,715
Total liabilities ,deferred inflows and fund balances	$ 6,715	$ 25,000	$ 957	$ 32,672

CITY OF CLEVELAND, GEORGIA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year ended June 30, 2012

	Special Revenue Funds			
	Hotel/Motel Tax Fund	Grant Fund	Confiscated Asset Fund	Total
Revenues				
Revenue	$ 26,245	$ 3,000	$ 4	$ 29,249
Total revenues	26,245	3,000	4	29,249
Expenditures				
Current:				
General government	-	-	-	-
Housing and Development	14,174	3,551	-	17,725
Total expenditures	14,174	3,551	-	17,725
Excess (deficiency) of revenues over expenditures	12,071	(551)	4	11,524
Other financing sources and				
Transfers in	-	-	-	-
Transfers out	(5,356)	-	-	(5,356)
Total other financing sources and uses	(5,356)	-	-	(5,356)
Net changes in fund balance	6,715	(551)	4	6,168
Fund balance - beginning	-	25,551	953	26,504
Fund balance - ending	$ 6,715	$ 25,000	$ 957	$ 32,672

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, 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, 2012, which collectively comprise the City of Cleveland, Georgia's basic financial statements, and have issued our report thereon dated December 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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.

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

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. We consider the deficiency, 2012-1, described in the accompanying schedule of findings and responses to be a material weakness.

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 one instance, 2012-2 described in the accompanying schedule of findings and responses, of noncompliance that are required to be reported under *Government Auditing Standards.*.

We noted certain other matters that we reported to management of the City of Cleveland, Georgia in a separate letter dated December 19, 2012.

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
December 19, 2012

City of Cleveland, Georgia
Schedule of Findings and Responses
For the Year Ended June 30, 2012

Findings – Financial Statement Audit

Internal Control

2012-1	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

2012-2	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 and will amend the appropriate budget.

CITY OF CLEVELAND, GEORGIA

Schedule of Special Purpose Local Option Sales Tax
Estimated Cost and Expenditure Summary
For the Year Ended June 30, 2012

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	$2,261,314	$ 22,801	$2,284,115
SPLOST 2004					
Water and Sewer Improvements	2,600,000	2,600,000	2,107,169	21,405	2,128,574
Downtown Redevelopment	400,000	400,000	392,931	-	392,931
Total SPLOST 2004	3,000,000	3,000,000	2,500,100	21,405	2,521,505
SPLOST 2009					
Purchase of Administrative, police and fire facilities	250,000	250,000	5,000	245,000	250,000
Water and Sewer Infrastructure	3,130,000	3,130,000	396,800	204,507	601,307
Total SPLOST 2009	3,380,000	3,380,000	401,800	449,507	851,307
Total SPLOST	$9,180,000	$ 9,180,000	$5,163,214	$ 493,713	$5,656,927