CITY OF CLEVELAND, GEORGIA

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

WALKER & ASSOCIATES, CPA'S, PC

CITY OF CLEVELAND, GEORGIA
FISCAL YEAR ENDED JUNE 30, 2013
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Walker and Associates
Certified Public Accountants

Independent Auditor's Report

To the City Council
City of Cleveland, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cleveland, Georgia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cleveland, Georgia, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information. Accounting principles generally accepted in the United States also requires that budgetary comparison information, on pages 23-24, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an

opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cleveland, Georgia's basic financial statements. The Combining non-major fund financial statements and the Schedule of Expenditures of Special Purpose Local Option Sales Tax, as required by O.C.G.A. 48-8-121as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The Schedule of Expenditures of Special Purpose Local Option Sales Tax is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Special Purpose Local Option Sales Tax is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Cleveland's internal control over financial reporting and compliance.

Walker & Associates

Walker & Associates, CPA's, PC
Gainesville, Georgia
November 20, 2013

CITY OF CLEVELAND, GEORGIA

Statement of Net Position
June 30, 2013

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit
Assets				
Cash and cash equivalents	$ 3,308,399	$ 2,850,886	$ 6,159,285	$ -
Receivables (net)	290,637	183,343	473,980	-
Other assets	13,429	127,883	141,312	-
Restricted cash	-	250,425	250,425	-
Prepaid Expenses	36,147	-	36,147	-
Construction in progress	-	599,071	599,071	-
Nondepreciable capital assets	424,091	171,336	595,427	-
Depreciable capital assets, net	923,914	5,034,599	5,958,513	-
Total assets	4,996,617	9,217,543	14,214,160	-
Deferred outflows of resources	-	-	-	-
Liabilities				
Accounts payable and other liabilities	107,100	185,970	293,070	-
Unearned revenue-other	28,223	-	28,223	-
Internal balances	107,317	(107,317)	-	-
Accrued balances	18,878	5,043	23,921	-
Noncurrent liabilities:				
Due within one year	-	84,227	84,227	-
Due in more than one year	67,376	69,124	136,500	-
Total liabilities	328,894	237,047	565,941	-
Deferred inflows of resources	-	-	-	-
Net Position				
Net Investment in capital assets	1,348,005	5,720,779	7,068,784	-
Restricted for:				
Capital projects	2,622,481	-	2,622,481	-
Tourism	8,617	-	8,617	-
Law enforcement	419	-	419	-
Unrestricted	688,201	3,259,717	3,947,918	-
Total Net Position	$ 4,667,723	$ 8,980,496	$13,648,219	$ -

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

CITY OF CLEVELAND, GEORGIA

Statement of Activities

For the Year Ended June 30, 2013

	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	Primary Government: Business-Type Activities	Primary Government: Total	Component Unit
Primary government:								
Governmental activities								
General government	$ 641,245	$ 557,014	$ -	$ 448,269	$ 364,038		$ 364,038	
Public safety	1,138,488	89,824	-	-	(1,048,664)		(1,048,664)	
Streets and sanitation	301,239	-	-	-	(301,239)		(301,239)	
Health and welfare	-	-	-	-	-		-	
Culture and recreation	5,176	-	-	-	(5,176)		(5,176)	
Housing and development	7,945	-	-	-	(7,945)		(7,945)	
Interest on long term debt	-	-	-	-	-		-	
Total governmental activities	2,094,093	646,838	-	448,269	(998,986)		(998,986)	
Business-type activities								
Water and Sewer	1,523,661	1,649,811	-	435,619		$ 561,769	561,769	
Total business-type activities	1,523,661	1,649,811	-	435,619		561,769	561,769	
Total primary government	$ 3,617,754	$ 2,296,649	$ -	$ 883,888			(437,217)	
Component units:								
Downtown Development Authority	$ -	$ -	$ -	$ -				$ -
Total component units	$ -	$ -	$ -	$ -				$ -
General revenues:								
Taxes:								
Property taxes, levied for general purposes					363,867	-	363,867	
Hotel/Motel taxes					18,106	-	18,106	
Sales Taxes					676,768	-	676,768	
Alcoholic beverage taxes					103,247	-	103,247	
Franchise tax					193,946	-	193,946	
Loss on disposition of capital assets					(8,068)	-	(8,068)	
Interest and investment earnings					2,495	6,176	8,671	
Miscellaneous					119,212	7,921	127,133	
Transfers					(134,472)	134,472	-	
Total general revenues and transfers					1,335,101	148,569	1,483,670	
Change in net position					336,115	710,338	1,046,453	
Beginning net position					4,331,608	8,270,158	12,601,766	-
Ending net position					$ 4,667,723	$ 8,980,496	$13,648,219	$ -

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

CITY OF CLEVELAND, GEORGIA

Balance Sheet
Governmental Funds
June 30, 2013

Assets	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Cash	$ 608,018	$ 2,690,935	$ 9,446	$ 3,308,399
Due from other governments	56,819	72,915	-	129,734
Receivables (net)	160,903	-	-	160,903
Prepaid expenses	36,147	-	-	36,147
Other assets	13,429	-	-	13,429
Due from other funds	-	-	8,155	8,155
Total assets	875,316	2,763,850	17,601	3,656,767
Deferred outflows of resources	-	-	-	-
Total assets and deferred outflows	$ 875,316	$ 2,763,850	$ 17,601	$ 3,656,767
Liabilities				
Accounts payable	$ 100,861	$ 6,029	$ 210	$ 107,100
Accrued expenses	18,878	-	-	18,878
Due to other funds	8,155	107,117	200	115,472
Unearned revenue	99,947	28,223	-	128,170
Total liabilities	227,841	141,369	410	369,620
Deferred inflows of resources	-	-	-	-
Total liabilities and deferred inflows	227,841	141,369	410	369,620
Fund balance				
Nonspendable:				
Land	13,429	-	-	13,429
Prepaid expenses	36,147	-	-	36,147
Restricted for:				
Capital projects	-	2,622,481	-	2,622,481
Tourism	-	-	8,617	8,617
Downtown Streetscape	-	-	8,155	8,155
Law Enforcement	-	-	419	419
Unassigned	597,899	-	-	597,899
Total fund balance	647,475	2,622,481	17,191	3,287,147
Total liabilities, deferred inflows and fund balance	$ 875,316	$ 2,763,850	$ 17,601	$ 3,656,767

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, 2013

Total fund balances - governmental funds	$ 3,287,147
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	2,920,883
Less: Accumulated depreciation	(1,572,878)
Accrued personal leave not reported in governmental funds	(67,376)
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 reported as deferred inflows of resources.	99,947
Net position of governmental activities	$ 4,667,723

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, 2013

Revenues	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Property taxes	$ 359,944	$ -	$ -	$ 359,944
Sales taxes	676,768	-	-	676,768
Intergovernmental	-	437,479	-	437,479
Franchise tax	193,946	-	-	193,946
Fines and forfeitures	92,194	-	-	92,194
Charges for services	594,717	-	-	594,717
Excise Taxes	103,247	-	-	103,247
Interest	2,493	10,790	2	13,285
Miscellaneous	119,212	-	18,106	137,318
Total Revenue	2,142,521	448,269	18,108	2,608,898
Expenditures				
Current				
General government	713,615	-	-	713,615
Public safety	1,093,257	-	540	1,093,797
Streets and sanitation	275,070	9,502	16,845	301,417
Culture and recreation	5,176	-	-	5,176
Housing and Development	-	-	7,945	7,945
Total Expenditures	2,087,118	9,502	25,330	2,121,950
Excess revenues over (under) expenditures	55,403	438,767	(7,222)	486,948
Other financing sources (uses)				
Sale of assets	14,000	-	-	14,000
Transfers in	11,478	-	-	11,478
Transfers out	-	(137,691)	(8,259)	(145,950)
Total other financing sources (uses)	25,478	(137,691)	(8,259)	(120,472)
Net change in fund balance	80,881	301,076	(15,481)	366,476
Beginning fund balances	566,594	2,321,405	32,672	2,920,671
Ending fund balances	$ 647,475	$ 2,622,481	$ 17,191	$ 3,287,147

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, 2013

Net change in fund balances-total governmental funds	$	366,476
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 ($153,827) exceeded depreciation ($124,401) in the current period.		29,426
The net effect of various miscellaneous transactions involving capital assets (i.e. sales and disposal) is to decrease net assets, due to disposition of fire truck.		(22,068)
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.		(1,569)
Because some revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available". These revenues are reported as unearned revenues.		
Unearned revenues changed by this amount from prior year.		(36,150)
Change in net position of governmental activities	$	336,115

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

CITY OF CLEVELAND, GEORGIA

Statement of Net Position

Proprietary Fund

June 30, 2013

Assets	Water and Sewer Enterprise Fund
Current Assets:	
Cash	$ 2,850,886
Accounts Receivable (net)	183,343
Due from other Funds	107,317
Restricted cash	250,425
Prepaid Expenses	60,118
Accrued Revenue	67,765
Total Current Assets	3,519,854
Noncurrent Assets:	
Capital assets:	
Land	171,336
Infrastructure	8,592,293
Buildings and improvements	57,881
Machinery and equipment	815,443
Construction in progress	599,071
Less accumulated depreciation	(4,431,018)
Total capital assets	5,805,006
Total noncurrent assets	5,805,006
Total Assets	9,324,860
Deferred outflows of resources	-
Liabilities	
Accounts Payable	35,264
Accrued Expenses	5,043
Current Portion of Long Term Debt	84,227
Noncurrent Liabilities:	
Customer Deposits	150,706
Compensated absences	69,124
Total Liabilities	344,364
Deferred inflows of resources	-
Net Position	
Net invested in capital assets	5,720,779
Unrestricted	3,259,717
Total net position	$ 8,980,496

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, 2013

	Water and Sewer Enterprise Fund
Operating revenues	
Charges for service	$ 1,643,641
Connection fees	6,170
Miscellaneous income	7,921
Total operating revenues	1,657,732
Operating expenses	
Personal services	
Compensation	427,226
Employment taxes	30,486
Benefits	98,653
Total Personal Services	556,365
Expenses	
Purchased water	115,167
Administrative	100,000
Supplies	81,807
Repairs and maintenance	110,553
Utilities	167,585
Miscellaneous	44,793
Depreciation	253,133
Insurance	55,384
Engineering, lab fees and training	25,296
Total expenses	953,718
Total operating expenses	1,510,083
Operating income	147,649
Non-operating revenues (expenses)	
Interest income	6,176
Interest expense on loans	(13,578)
Total non-operating revenues (expenses)	(7,402)
Income before contributions and transfers	140,247
Capital contributions	435,619
Transfers out	(3,219)
Transfers in	137,691
Change in net position	710,338
Total net position - beginning	8,270,158
Total net position - ending	$ 8,980,496

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, 2013

	Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	$ 1,644,954
Payments to suppliers	(739,135)
Payments to employees	(560,030)
Net cash provided (used) by operating activities:	345,789
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Transfer out	(3,219)
Repayment of advances from other funds	(217,539)
Advances to other funds	(200)
Net cash provided by non-capital financing activities	(220,958)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital contribution	435,619
Transfer in	137,691
Acquisition and construction of capital assets	(636,689)
Debt payments, principal and interest and deferred charge	(170,452)
Net cash provided (used) by capital and related financing activities	(233,831)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	6,176
Net cash provided by investing activities	6,176
Net increase (decrease) in cash and cash equivalents	(102,824)
Cash and cash equivalents - beginning of year	3,204,135
Cash and cash equivalents - end of year	$ 3,101,311
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	$ 147,649
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	253,133
Changes in assets and liabilities:	
Increase in receivables, accrued revenue, and other assets	(69,892)
Increase in accounts payable	3,740
Decrease in accrued expenses	(564)
Increase in other liabilities	11,723
Net cash provided by operating activities	$ 345,789

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 Standards 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 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.

Activity between governmental funds that are representative of lending / borrowing arrangements or interfund transfers are eliminated from the government-wide financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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.

Basis of presentation-fund financial statements

The fund financial statements provide information about the government's funds. Separate statements for each fund category-governmental and proprietary-are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary fund:

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

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.

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.

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 sixty days after year-end. 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 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, 2013, the City did not have 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

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 one(1) percent of outstanding property taxes at June 30, 2013.

Property Tax Calendar

The City set its mileage rate for 2012 on July 26, 2012 at 3.637 mils. Property tax bills were mailed on August 3rd and 6th, 2012 and were due November 15, 2012. Penalties and interest are due on all accounts not paid by the due date. Fifa's on delinquent tax accounts could be filed on March 11, 2013. 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.

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 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 City does not have any items that qualify for reporting in this category.

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, 2013, there were 36 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, 2013, were $121,364, which is 8.74% of total compensation, $1,389,256, 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, 2013, there was one employee participating in the plan. Contributions to the plan are funded on a monthly basis. The City does not match employee contributions. All employees are eligible to participate in the plan. Employees can begin to participate in the plan the following month after employment begins. The plan holds its assets in a separate trust invested in annuity contracts in the name of each participant and consequently is not reported on the City's financial statements. As administrator of the plan, the City may amend the plan at its discretion. For the year ending June 30, 2013, the employee contributed $1,200 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 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**

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, 2013, all bank deposits were insured or fully collateralized.

Note 3. **Receivables**

The following is a summary of amounts due from others at June 30, 2013:

Governmental Activities:	
Due from other Governments	$ 129,734
Fines	100,154
Taxes, net	10,349
Accounts receivable, net	50,400
	$ 290,637
Business-Type Activities	$ 183,343

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

Governmental Activities:	
Fines	$ 42,928
Taxes	105
Accounts receivable	16,399
	$ 59,432
Business-Type Activities;	$ 92,927

Note 4. **Litigation**

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. **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, 2013, the City paid $3,751 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 6. **Long-Term Debt**

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 $1,164,523 at June 30, 2013.

Governmental activities:	July 1, 2012	Additions	Reductions	June 30, 2013	Due within One year
Compensated absenses	$ 65,807	$ 1,569	$ -	$ 67,376	$ -

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.	$ 84,227	$ 84,227	$ -

Five year payment schedule

Year Ending	Total Payments	Principal	Interest
6/30/2014	85,072	84,227	845
	$ 85,072	$ 84,227	$ 845

Interest cost of the long term debt in the business-type activity is expensed in the current period. For the year ending June 30, 2013, that interest cost was $13,578.

	July 1, 2012	Additions	Reductions	June 30, 2013	Due within One year
Compensated absenses	$ 62,789	$ 6,335	$ -	$ 69,124	$ -
GEFA note	247,735	-	163,508	84,227	84,227
Totals	$ 310,524	$ 6,335	$ 163,508	$ 153,351	$ 84,227

Note 7. **Risk Management**

The City purchases Workers Compensation Insurance through Key Risk Insurance Company. The City's policy year starts on January 1st and ends on December 31st of each year. The premium for the policy year of 2013 was $38,269.

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. **Hotel/Motel Tax Compliance**

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, 2013, $18,106 and expended for tourism 88.34% of collections. For the year ending June 30, 2013, the City is in compliance with state statutes authorizing this tax.

Note 9. **Budget Compliance**

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	795,240	713,615	-
Public safety	1,133,110	1,093,257	-
Streets and sanitation	382,680	275,070	-
Culture and recreation	14,000	5,176	-
Transfers	-	-	-
Hotel/Motel tax fund	18,000	15,994	-
Grant fund	25,000	16,845	-
Confiscated assets fund	-	540	540

Note 10. **Unearned revenue**

Unearned revenue in the governmental fund financial statements:

General Fund:

Property tax revenues	$ 8,783	Taxes earned but not available
Fines	91,164	Uncollected fines outstanding at the end of the City's period of availability.
Total	$ 99,947	

Capital Projects Fund:

Unearned grant proceeds	$28,223

Note 11. **Capital assets**

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

Governmental Activities:		Business-type activities:	
General government	$ 13,384	Water and Sewer	$ 253,133
Public Safety	94,338		
Streets and sanitation	16,679		
Culture and recreation	-		
	$ 124,401		

Capital asset activity for the year ended June 30, 2013, was as follows:

Primary Government	Beginning Balances 7/1/2012	Increases	Decreases	Ending Balances 6/30/2013
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 424,091	$ -	$ -	$ 424,091
Construction in progress	-	-	-	-
Total capital assets not being depreciated	424,091	-	-	424,091
Capital assets being depreciated:				
Buildings	626,145	-	-	626,145
Infrastructure	448,700	16,845	-	465,545
Equipment	1,322,803	136,982	54,683	1,405,102
Total capital assets being depreciated	2,397,648	153,827	54,683	2,496,792
Accumulated depreciation:				
Buildings	426,251	8,717	-	434,968
Infrastructure	25,521	12,583	-	38,104
Equipment	1,029,320	103,101	32,615	1,099,806
Total accumulated depreciation	1,481,092	124,401	32,615	1,572,878
Total governmental capital assets being depreciated, net	916,556	29,426	22,068	923,914
Total governmental activities capital assets, net	$ 1,340,647	$ 29,426	$ 22,068	$ 1,348,005
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 171,336	$ -	$ -	$ 171,336
Construction in progress	627,340	-	28,269	599,071
Total capital assets not being depreciated	798,676	-	28,269	770,407

Capital assets being depreciated:				
Buildings	8,000	49,881	-	57,881
Equipment	815,444	-	1	815,443
Infrastructure	7,977,215	615,078	-	8,592,293
Total capital assets being depreciated	8,800,659	664,959	1	9,465,617
Accumulated depreciation:				
Buildings	2,600	7,467	-	10,067
Equipment	815,444	15,664	149,093	682,015
Infrastructure	3,359,841	379,095	-	3,738,936
Total accumulated depreciation	4,177,885	402,226	149,093	4,431,018
Total capital assets being depreciated, net	4,622,774	262,733	(149,092)	5,034,599
Total Business-type activities capital assets, net	$ 5,421,450	$ 262,733	$ (120,823)	$ 5,805,006

Note 12. 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	Capital Projects	Grant Fund	Total
Due to	Enterprise Fund	$ -	$ 107,117	$ 200	$ 107,317
	Grant Fund	8,155	-	-	8,155
	Total	$ 8,155	$ 107,117	$ 200	$ 115,472

Interfund Transfers

		Transfer To		
		General Fund	Water and Sewer	Totals
Transfer From	Capital Projects	$ -	$ 137,691	$ 137,691
	Water and Sewer	3,219	-	3,219
	Hotel/Motel Tax	8,259		8,259
	Total	$ 11,478	$ 137,691	$ 149,169

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 13. **Subsequent events**

Subsequent events have been evaluated through November 20, 2013.

CITY OF CLEVELAND, GEORGIA

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Budgetary	Budget to GAAP Differences Over / (Under)	Actual Amounts GAAP Basis	Variance with Final Budget Over / (Under)
Revenues						
Property taxes	$ 349,575	$ 349,575	$ 359,944	$ -	$ 359,944	$ 10,369
Sales taxes	650,000	650,000	676,768	-	676,768	26,768
Franchise taxes	200,000	200,000	193,946	-	193,946	(6,054)
Fines and forfeitures	69,650	69,650	92,194	-	92,194	22,544
Fund balance	331,285	331,285	-	-	-	(331,285)
Charges for services	605,520	605,520	594,717	-	594,717	(10,803)
Excise taxes	-	-	103,247	-	103,247	103,247
Interest	4,000	4,000	2,493	-	2,493	(1,507)
Miscellaneous	115,000	115,000	119,212	-	119,212	4,212
Total Revenues	2,325,030	2,325,030	2,142,521	-	2,142,521	(182,509)
Expenditures						
Current Operating:						
General government	795,240	795,240	713,615	-	713,615	(81,625)
Public safety	1,133,110	1,133,110	1,093,257	-	1,093,257	(39,853)
Streets and sanitation	382,680	382,680	275,070	-	275,070	(107,610)
Culture and recreation	14,000	14,000	5,176	-	5,176	(8,824)
Total Expenditures	2,325,030	2,325,030	2,087,118	-	2,087,118	(237,912)
Other Financing Sources (Uses)						
Sale of assets	-	-	14,000	-	14,000	14,000
Transfers in	-	-	11,478	-	11,478	11,478
Transfers out	-	-	-	-	-	-
Total Other Financing Sources	-	-	25,478	-	25,478	25,478
Net change in fund balances	-	-	80,881	-	80,881	80,881
Fund Balance - beginning	566,594	566,594	566,594	-	566,594	-
Fund Balance - ending	$ 566,594	$ 566,594	$ 647,475	$ -	$ 647,475	$ 80,881

CITY OF CLEVELAND, GEORGIA
Notes to Required Supplementary Information
on Budgetary Accounting and Control
Year Ended June 30, 2013

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, 2013.

Fund type	Original Budget	Supplemental Appropriations	Supplemental Decreases	Revised Appropriations
General Fund	$2,325,030	$ -	$ -	$ 2,325,030

CITY OF CLEVELAND, GEORGIA

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2013

	Special Revenue Funds			
	Hotel/Motel Tax Fund	Grant Fund	Confiscated Asset Fund	Totals
Assets				
Cash	$ 8,827	$ 200	$ 419	$ 9,446
Restricted cash	-	-	-	-
Due from Other Funds	-	8,155	-	8,155
Total assets	8,827	8,355	419	17,601
Deferred outflows of resources	-	-	-	-
Total assets and deferred outflows	$ 8,827	$ 8,355	$ 419	$ 17,601
Liabilities				
Accounts Payable	$ 210	$ -	$ -	$ 210
Due to other funds	-	200	-	200
Total liabilities	210	200	-	410
Deferred inflows of resources	-	-	-	-
Total liabilities and deferred inflows	210	200	-	410
Fund Balance				
Restricted for:				
Law Enforcement	-	-	419	419
Downtown Streetscape Grant	-	8,155	-	8,155
Tourism	8,617	-	-	8,617
	8,617	8,155	419	17,191
Total liabilities ,deferred inflows and fund balances	$ 8,827	$ 8,355	$ 419	$ 17,601

CITY OF CLEVELAND, GEORGIA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year ended June 30, 2013

	Special Revenue Funds			
	Hotel/Motel Tax Fund	Grant Fund	Confiscated Asset Fund	Total
Revenues				
Revenue	$ 18,106	$ -	$ 2	$ 18,108
Total revenues	18,106	-	2	18,108
Expenditures				
Current:				
General government	-	-	-	-
Streets and Sanitation	-	16,845	-	16,845
Housing and Development	7,945	-	540	8,485
Total expenditures	7,945	16,845	540	25,330
Excess (deficiency) of revenues over (under) expenditures	10,161	(16,845)	(538)	(7,222)
Other financing sources and (uses)				
Transfers in	-	-	-	-
Transfers out	(8,259)	-	-	(8,259)
Total other financing sources and uses	(8,259)	-	-	(8,259)
Net changes in fund balance	1,902	(16,845)	(538)	(15,481)
Fund balance - beginning	6,715	25,000	957	32,672
Fund balance - ending	$ 8,617	$ 8,155	$ 419	$ 17,191

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*

Independent Auditor's Report

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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 as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Cleveland's basic financial statements, and have issued our report thereon dated November 20, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency, 2013-2, 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results

of our tests disclosed one instances of noncompliance, 2013-1 ,described in the accompanying Schedule of Findings and Responses.

We noted certain matters that we reported to management of the City of Cleveland, Georgia in a separate letter dated November 20, 2013.

The City of Cleveland's Response to Findings

The City of Cleveland, Georgia's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The City of Cleveland, Georgia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Walker & Associates

Walker & Associates, CPA's, PC
Gainesville, Georgia
November 20, 2013

City of Cleveland, Georgia
Schedule of Findings and Responses
For the Year Ended June 30, 2013

Findings – Financial Statement Audit

Compliance

2013-1 Condition: The City had expenditures in excess of appropriations in the confiscated assets fund.

Criteria: Georgia code OCGA 36-81-3 requires limiting expenditures to the legally approved budget amounts.

Cause: The City did not amend its budget to authorize expenditures in excess of its original budget.

Effect: At June 30, 2013, the City was not in compliance with OCGA 36-81-3.

Recommendation: We recommend the City comply with all relevant statutes concerning the operation of a local government in order to reduce the risk of litigation and other unforeseen actions.

Response: The City agrees with the finding and will amend its budget.

Internal Control

2013-2 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.

CITY OF CLEVELAND, GEORGIA

Schedule of Special Purpose Local Option Sales Tax
Estimated Cost and Expenditure Summary
For the Year Ended June 30, 2013

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	$2,284,115	$ 9,502	$2,293,617
SPLOST 2004					
Water and Sewer Improvements	2,600,000	2,600,000	2,128,574	37,832	2,166,406
Downtown Redevelopment	400,000	400,000	392,931	-	392,931
Total SPLOST 2004	3,000,000	3,000,000	2,521,505	37,832	2,559,337
SPLOST 2009					
Purchase of Administrative, police and fire facilities	250,000	250,000	250,000	-	250,000
Water and Sewer Infrastructure	3,130,000	3,130,000	601,307	99,859	701,166
Total SPLOST 2009	3,380,000	3,380,000	851,307	99,859	951,166
Total SPLOST	$9,180,000	$ 9,180,000	$5,656,927	$ 147,193	$5,804,120