CITY OF CLEVELAND, GEORGIA

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

WALKER, PIERCE & TUCK, CPA'S, PC

CITY OF CLEVELAND, GEORGIA
FISCAL YEAR ENDED JUNE 30, 2014
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Walker Pierce & Tuck
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

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 City of Cleveland, Georgia, as of and for the year ended June 30, 2014, 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 on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cleveland, Georgia, as of June 30, 2014, 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 of America require that budgetary comparison information, on pages 27-28, 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 nonmajor fund financial statements, schedule of special purpose local option sales tax estimated cost and expenditure summary and the source and application of funds schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements, schedule of expenditures of federal awards, schedule of special purpose local option sales tax estimated cost and expenditure summary and the source and application of funds schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements, schedule of expenditures of federal awards, schedule of special purpose local option sales tax estimated cost and expenditure summary and the source and application of funds schedule are 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 December 18, 2014, 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 City of Cleveland, Georgia's internal control over financial reporting and compliance.

Walker, Pierce & Tuck, CPA's, PC

Walker, Pierce & Tuck, CPA's, PC
Gainesville, Georgia
December 18, 2014

CITY OF CLEVELAND, GEORGIA

Statement of Net Position
June 30, 2014

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit
Assets				
Cash and cash equivalents	$ 2,532,882	$ 2,766,583	$ 5,299,465	$ -
Receivables (net)	275,790	170,196	445,986	-
Grant Receivable	-	366,668	366,668	-
Other assets	13,429	121,501	134,930	-
Restricted cash	-	184,049	184,049	-
Prepaid Expenses	33,916	-	33,916	-
Net Pension Asset	7,471	-	7,471	-
Construction in progress	-	3,790,816	3,790,816	-
Nondepreciable capital assets	424,091	171,336	595,427	-
Depreciable capital assets, net	931,277	5,693,546	6,624,823	-
Total assets	4,218,856	13,264,695	17,483,551	-
Deferred outflows of resources	-	-	-	-
Liabilities				
Accounts payable and other liabilities	152,573	322,367	474,940	-
Unearned revenue	28,223	-	28,223	-
Internal balances	(169,107)	169,107	-	-
Accrued balances	18,789	154,893	173,682	-
Noncurrent liabilities:				
Due within one year	-	783,842	783,842	-
Due in more than one year	71,904	78,502	150,406	-
Total liabilities	102,382	1,508,711	1,611,093	-
Deferred inflows of resources	-	-	-	-
Net Position				
Net Investment in capital assets	1,355,368	8,871,856	10,227,224	-
Restricted for:				
Debt service	-	26,358	26,358	
Capital projects	1,924,633	-	1,924,633	-
Downtown Streetscape	8,155	-	8,155	-
Tourism	11,195	-	11,195	-
Law enforcement	19	-	19	-
Unrestricted	817,104	2,857,770	3,674,874	-
Total Net Position	$ 4,116,474	$ 11,755,984	$15,872,458	$ -

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

CITY OF CLEVELAND, GEORGIA

Statement of Activities

For the Year Ended June 30, 2014

	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	$ 694,819	$ 573,948	$ -	$ 442,577	$ 321,706		$ 321,706	
Public safety	1,131,897	93,729	-	35,908	(1,002,260)		(1,002,260)	
Streets and sanitation	537,366	-	-	-	(537,366)		(537,366)	
Health and welfare	-	-	-	-	-		-	
Culture and recreation	5,513	-	-	-	(5,513)		(5,513)	
Housing and development	8,834	-	-	-	(8,834)		(8,834)	
Interest on long term debt	-	-	-	-	-		-	
Total governmental activities	2,378,429	667,677	-	478,485	(1,232,267)		(1,232,267)	
Business-type activities								
Water and Sewer	1,529,654	1,668,786	-	1,692,113		$ 1,831,245	1,831,245	
Total business-type activities	1,529,654	1,668,786	-	1,692,113		1,831,245	1,831,245	
Total primary government	$ 3,908,083	$ 2,336,463	$ -	$ 2,170,598			598,978	
Component units:								
Downtown Development Authority	$ -	$ -	$ -	$ -				$ -
Total component units	$ -	$ -	$ -	$ -				$ -
General revenues:								
Taxes:								
Property taxes, levied for general purposes					452,964	-	452,964	
Hotel/Motel taxes					20,347	-	20,347	
Sales Taxes					670,289	-	670,289	
Alcoholic beverage taxes					107,816	-	107,816	
Franchise tax					193,517	-	193,517	
Interest and investment earnings					2,804	5,783	8,587	
Miscellaneous					158,334	13,407	171,741	
Transfers					(925,053)	925,053	-	
Total general revenues and transfers					681,018	944,243	1,625,261	
Change in net position					(551,249)	2,775,488	2,224,239	
Beginning net position					4,667,723	8,980,496	13,648,219	-
Ending net position					$ 4,116,474	$11,755,984	$15,872,458	$ -

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

CITY OF CLEVELAND, GEORGIA

Balance Sheet
Governmental Funds
June 30, 2014

Assets	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Cash	$ 453,775	$ 2,067,893	$ 11,214	$ 2,532,882
Due from other governments	20,358	72,000	-	92,358
Receivables (net)	183,432	-	-	183,432
Prepaid expenses	33,916	-	-	33,916
Other assets	13,429	-	-	13,429
Due from other funds	308,192	-	8,155	316,347
Total assets	1,013,102	2,139,893	19,369	3,172,364
Deferred outflows of resources	-	-	-	-
Total assets and deferred outflows	$ 1,013,102	$ 2,139,893	$ 19,369	$ 3,172,364
Liabilities				
Accounts payable	$ 104,621	$ 47,952	$ -	$ 152,573
Accrued expenses	18,789	-	-	18,789
Due to other funds	8,155	139,085	-	147,240
Unearned revenue	-	28,223	-	28,223
Total liabilities	131,565	215,260	-	346,825
Deferred inflows of resources	128,986	-	-	128,986
Total liabilities and deferred inflows	260,551	215,260	-	475,811
Fund balance				
Nonspendable:				
Land	13,429	-	-	13,429
Prepaid expenses	33,916	-	-	33,916
Restricted for:				
Capital projects	-	1,924,633	-	1,924,633
Tourism	-	-	11,195	11,195
Downtown Streetscape	-	-	8,155	8,155
Law Enforcement	-	-	19	19
Unassigned	705,206	-	-	705,206
Total fund balance	752,551	1,924,633	19,369	2,696,553
Total liabilities, deferred inflows and fund balance	$ 1,013,102	$ 2,139,893	$ 19,369	$ 3,172,364

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, 2014

Total fund balances - governmental funds	$ 2,696,553
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	3,045,043
Less: Accumulated depreciation	(1,689,675)
Accrued personal leave not reported in governmental funds	(71,904)
Excess funding of estimated net pension liability	7,471
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 unearned revenue.	128,986
Net position of governmental activities	$ 4,116,474

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, 2014

Revenues	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Property taxes	$ 458,557	$ -	$ -	$ 458,557
Sales taxes	670,289	-	-	670,289
Intergovernmental	35,908	432,763	-	468,671
Franchise tax	193,517	-	-	193,517
Fines and forfeitures	59,097	-	-	59,097
Charges for services	573,948	-	-	573,948
Excise Taxes	107,816	-	-	107,816
Interest	2,804	9,814	-	12,618
Hotel/Motel tax	-	-	20,347	20,347
Miscellaneous	158,334	-	-	158,334
Total Revenue	2,260,270	442,577	20,347	2,723,194
Expenditures				
Current				
General government	704,040	-	-	704,040
Public safety	1,081,441	-	400	1,081,841
Streets and sanitation	376,430	212,077	-	588,507
Culture and recreation	5,513	-	-	5,513
Housing and Development	-	-	8,834	8,834
Total Expenditures	2,167,424	212,077	9,234	2,388,735
Excess revenues over (under) expenditures	92,846	230,500	11,113	334,459
Other financing sources (uses)				
Transfers in	12,230	-	-	12,230
Transfers out	-	(928,348)	(8,935)	(937,283)
Total other financing sources (uses)	12,230	(928,348)	(8,935)	(925,053)
Net change in fund balance	105,076	(697,848)	2,178	(590,594)
Beginning fund balances	647,475	2,622,481	17,191	3,287,147
Ending fund balances	$ 752,551	$ 1,924,633	$ 19,369	$ 2,696,553

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, 2014

Net change in fund balances-total governmental funds	$	(590,594)
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 ($124,160) exceeded depreciation ($116,797) in the current period.		7,363
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.		(4,528)
Excess funding of the estimated net pension obligation		7,471
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 deferred inflows of resources.		
Unearned revenues changed by this amount from prior year.		29,039
Change in net position of governmental activities	$	(551,249)

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

CITY OF CLEVELAND, GEORGIA

Statement of Net Position
Proprietary Fund
June 30, 2014

Assets	Water and Sewer Enterprise Fund
Current Assets:	
Cash	$ 2,766,583
Accounts Receivable (net)	170,196
Grant Receivable	366,668
Prepaid Expenses	55,336
Accrued Revenue	66,165
Total Current Assets	3,424,948
Noncurrent Assets:	
Restricted cash	184,049
Capital assets:	
Land	171,336
Infrastructure	9,100,650
Buildings and improvements	57,881
Machinery and equipment	815,443
Construction in progress	3,790,816
Less accumulated depreciation	(4,280,428)
Total capital assets	9,655,698
Total noncurrent assets	9,839,747
Total Assets	13,264,695
Deferred outflows of resources	-
Liabilities	
Accounts Payable	164,676
Accrued Expenses	154,893
Due to Other Funds	169,107
Current Portion of Long Term Debt	783,842
Noncurrent Liabilities:	
Customer Deposits	157,691
Compensated absences	78,502
Total Liabilities	1,508,711
Deferred inflows of resources	-
Net Position	
Net invested in capital assets	8,871,856
Restricted for:	
Debt service	26,358
Unrestricted	2,857,770
Total net position	$ 11,755,984

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, 2014

	Water and Sewer Enterprise Fund
Operating revenues	
Charges for service	$ 1,668,786
Miscellaneous income	13,407
Total operating revenues	1,682,193
Operating expenses	
Personal services	
Compensation	465,060
Employment taxes	32,658
Benefits	91,884
Total Personal Services	589,602
Expenses	
Purchased water	108,036
Administrative	100,000
Supplies	80,567
Repairs and maintenance	108,002
Utilities	182,980
Miscellaneous	28,687
Depreciation	249,642
Insurance	60,892
Engineering, lab fees and training	20,255
Total expenses	939,061
Total operating expenses	1,528,663
Operating income	153,530
Non-operating revenues (expenses)	
Interest income	5,783
Interest expense on loans	(991)
Total non-operating revenues (expenses)	4,792
Income before contributions and transfers	158,322
Capital contributions	1,692,113
Transfers out	(3,295)
Transfers in	928,348
Change in net position	2,775,488
Total net position - beginning	8,980,496
Total net position - ending	$ 11,755,984

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, 2014

	Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	$ 1,695,340
Payments to suppliers	(754,080)
Payments to employees	(589,602)
Net cash provided (used) by operating activities:	351,658
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Transfer out	(3,295)
Increase in due to other funds	169,107
Decrease in due from other funds	107,317
Net cash provided by non-capital financing activities	273,129
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital contribution	1,692,113
Transfer in	928,348
Proceeds from debt	783,842
Acquisition and construction of capital assets	(4,100,334)
Debt payments	(85,218)
Net cash provided (used) by capital and related financing activities	(781,249)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	5,783
Net cash provided by investing activities	5,783
Net increase (decrease) in cash and cash equivalents	(150,679)
Cash and cash equivalents - beginning of year	3,101,311
Cash and cash equivalents - end of year	$ 2,950,632
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	$ 153,530
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	249,642
Changes in assets and liabilities:	
Decrease in receivables, accrued revenue, and other assets	19,529
Increase in accounts payable	129,412
Increase in grant receivable	(366,668)
Increase in accrued expenses	149,850
Increase in customer deposits	6,985
Increase in compensated absences	9,378
Net cash provided by operating activities	$ 351,658

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 entity is not considered a component unit 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, 2014, the City did not have investments, nor were any authorized.

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.) Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances" and eliminated on the Statement of Position.

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 accounts receivable for the City of Cleveland, are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles.

Property Tax Calendar

The City set its mileage rate for 2013 on July 25, 2013 at 4.5 mils. Property tax bills were mailed on July 30, 2013 and were due November 15, 2013. Penalties and interest are due on all accounts not paid by the due date. Fifa's on delinquent tax accounts could be filed on December 15, 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 has a defined contribution plan and a defined benefit plan sponsored by the Georgia Municipal Association. The City also has an additional section 457 defined contribution plan. See Note 14 for a description of each 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, 2014, all bank deposits were insured or fully collateralized.

Note 3. **Receivables**

The following is a summary of amounts due from others at June 30, 2014:

Governmental Activities:	
Due from other Governments	$ 92,358
Fines, net	134,796
Taxes, net	4,690
Accounts receivable, net	43,946
	$275,790
Business-Type Activities	$170,196

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

Governmental Activities:	
Fines	$ 57,770
Taxes	39
Accounts receivable	10,644
	$ 68,453
Business-Type Activities;	$ 78,056

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, 2014, the City paid $3,768 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. **Construction Loan**

On July 12, 2013, the City signed a loan agreement with the Clean Water State Revolving Fund, administered by the Georgia Environmental Facilities Authority to borrow $2,100,828 to finance the costs of acquiring, constructing, and installing the environmental facilities that consist of installing gravity sewers, force mains, a 700 gpm pump station, a standby generator, and all other equipment to make it complete and appurtenant to work. Construction on the project is scheduled to be completed in June 2015. As of June 30, 2014, the City had taken draws from GEFA loan totaling $ 783,842. At the completion of the construction project, the short term debt will be replaced with permanent long term financing. The loan carries an interest rate of 1.82%. Accrued interest on this note shall be payable monthly on the first day of each calendar month until the first day of the calendar month following the earlier of (1) the completion date, (2) July 1, 2015, or (3) the date that the loan evidenced by this note is fully disbursed (the "amortization commencement date"). At that time, principal of and interest on this note shall be payable in 239 consecutive monthly installments equal to the installment amount, commencing on the first day of the calendar month following the amortization commencement date, and continuing to be due on the first day of each succeeding calendar month thereafter, together with a final installment equal to the entire remaining unpaid principal balance of and all accrued interest on this Note, which shall be due and payable on the date that is 20 years from the amortization commencement date (the "maturity date").

Business-Type Activities:	July 1, 2013	Additions	Reductions	June 30, 2014
Construction Loan	$ -	$ 783,842	$ -	$ 783,842

Note 7. **Long-Term Debt**

The City's long-term debt consisted 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 $1,223,988 at June 30, 2014. In prior years, the General Fund has been used to liquidate compensated absences occurring in the governmental funds.

Governmental activities:	July 1, 2013	Additions	Reductions	June 30, 2014	Due within One year
Compensated Absences	$ 67,376	$ 4,528	$ -	$ 71,904	$ -

Interest cost of the long term debt in the business-type activity is expensed in the current period. For the year ending June 30, 2014, that interest cost was $911.

Business-type activities:	July 1, 2013	Additions	Reductions	June 30, 2014	Due within One year
Compensated absences	$ 69,124	$ 9,378	$ -	$ 78,502	$ -
GEFA note	84,227	-	84,227	-	-
Totals	$ 153,351	$ 9,378	$ 84,227	$ 78,502	$ -

Note 8. **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 2014 was $71,861.

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**

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. For the year ending June 30, 2014, the City is in compliance with OCGA 48-13-51 which requires the City to spend tax receipts monies on tourism.

Tax collections	$ 20,347
Amount provided to the White County Historical Society	$ 8,834
City tourism promotion expenditures	$ 2,907

Note 10. **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	829,160	704,040	-
Public safety	1,118,295	1,081,441	-
Streets and sanitation	377,190	376,430	-
Culture and recreation	72,500	5,513	-
Transfers	-	-	-
Hotel/Motel tax fund	18,000	17,769	-
Confiscated assets fund	400	400	-

Note 11. **Unearned revenue/Deferred inflows of Resources**

Fund financial statements:

General Fund-Deferred Inflows of Resources:

Property tax revenues	$ 3,190	Imposed Non-exchange Transaction-taxes earned but not available
Fines	125,796	Imposed Non-exchange Transaction-fines outstanding but not available.
Total deferred inflows	$ 128,986	

Capital Projects Fund-Unearned Revenue:

Unearned grant proceeds	$28,223	A government mandated non-exchange transaction with both time and purpose restrictions.

Government-wide financial statements:		
Unearned grant proceeds	$28,223	A government mandated non-exchange transaction with both time and purpose restrictions.

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 Fund	Enterprise Fund	Total
Due to	Grant Fund	8,155	-	-	8,155
	General Fund	-	139,085	169,107	308,192
	Total	$ 8,155	$ 139,085	$ 169,107	$ 316,347

Interfund Transfer

		Transfer To		
		General Fund	Enterprise Fund	Total
Transfer From	Hotel/Motel Tax Fund	$ 8,935	$ -	$ 8,935
	Capital Projects	-	928,348	928,348
	Enterprise Fund	3,295	-	3,295
	Total	$ 12,230	$ 928,348	$ 940,578

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. **Capital assets**

Capital asset activity for the year ended June 30, 2014, was as follows:

Primary Government	Beginning Balances 7/1/2013	Increases	Decreases	Ending Balances 6/30/2014
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	465,545	-	-	465,545
Equipment	1,405,102	124,160	-	1,529,262
Total capital assets being depreciated	2,496,792	124,160	-	2,620,952
Accumulated depreciation:				
Buildings	434,968	8,519	-	443,487
Infrastructure	38,104	14,125	-	52,229
Equipment	1,099,806	94,153	-	1,193,959
Total accumulated depreciation	1,572,878	116,797	-	1,689,675
Total governmental capital assets being depreciated, net	923,914	7,363	-	931,277
Total governmental activities capital assets, net	$ 1,348,005	$ 7,363	$ -	$ 1,355,368
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 171,336	$ -	$ -	$ 171,336
Construction in progress	599,071	3,191,745	-	3,790,816
Total capital assets not being depreciated	770,407	3,191,745	-	3,962,152
Capital assets being depreciated:				
Buildings	57,881	-	-	57,881
Equipment	815,443	-	-	815,443
Infrastructure	8,592,293	908,589	400,232	9,100,650
Total capital assets being depreciated	9,465,617	908,589	400,232	9,973,974
Accumulated depreciation:				
Buildings	10,067	4,315	-	14,382
Equipment	682,015	46,451	-	728,466
Infrastructure	3,738,936	198,876	400,232	3,537,580
Total accumulated depreciation	4,431,018	249,642	400,232	4,280,428
Total capital assets being depreciated, net	5,034,599	658,947	-	5,693,546
Total Business-type activities capital assets, net	$ 5,805,006	$ 3,850,692	$ -	$ 9,655,698

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

Governmental Activities:		Business-type activities:	
General government	$ 18,857	Water and Sewer	$ 249,642
Public Safety	81,122		
Streets and sanitation	16,818		
Culture and recreation	-		
	$ 116,797		

Note 14. **Retirement Plans**

The City of Cleveland terminated its sole employer self-administered defined contribution pension plan as of June 30, 2013 and adopted both a new defined contribution and a defined benefit pension plan as of October, 1, 2013. The new plans are sponsored by the Georgia Municipal Association and are named the GMA 401(a) Defined Contribution Plan and the GMEBS Defined Benefit Retirement Plan, respectively. The Defined Benefit Plan is an agent multi-employer public employee retirement plan that acts as a common investment and administrative agent for participating cities and is administered by the Georgia Municipal Association, of which the City of Cleveland is a member. The defined contribution plan is a volume submitter plan sponsored by GMA and in which the City of Cleveland is a participating employer.

Participant/employees of the City as of October 1, 2013 were given the option of participating in the defined contribution plan only or in both the defined contribution plan and the defined benefit plan. The City has committed to funding the retirement plans at a rate of 10% of compensation for each eligible employee. For those employees choosing to participate in both plans, the initial rate of contribution is divided with 5.61% being contributed to the defined benefit plan and 4.39% to the defined contribution plan. Those employees choosing to participate only in the defined contribution plan will receive an allocation of 10% to that plan.

Participation in both plans is mandatory for all eligible employees employed after October 1, 2013.

Since these are new plans, a formal actuarial valuation has yet to be completed. The first such report will be completed as of January 1, 2015 for the Fiscal Year Beginning July 15, 2014. The information provided herein as estimates are based upon results from the benefit study completed on February 18, 2014, and subsequent plan documentation provided.

The Board of Trustees of the Georgia Municipal Employees Benefit System (GMEBS) is authorized to amend the "Plan" documents pursuant to a formally adopted resolution. The adoption agreements, executed by the City Council, establish the specific benefit provisions of the Defined Benefit Plan and may be amended by a formally adopted resolution by the City Council and approved by the Plan Board of Trustees. The Plan provides for benefits upon retirement, death, disablement, and termination of employment.

A copy of the Pension Plan financial reports can be obtained from:

Georgia Municipal Association
201 Pryor Street, NW
Atlanta, Ga. 30303-3606

Defined Benefit Plan

Funding Policy

The City is required to contribute an actuarially determined amount annually to the Plan's trust. The Contribution amount is determined using actuarial methods and assumptions provided for by the adoption agreement and intended to satisfy the minimum contribution requirements set forth in controlling State of Georgia statutes.

For employees employed by the City on or after October 1, 2013, participation is mandatory after meeting the eligibility requirements. Employees employed before October 1, 2013 will be considered as participants as of October 1, 2013 and will be credited with past service Benefits fully (100%) vest after five years of service. Normal retirement age is 65 and 5 years of Total Credited Service and the qualification of Early Retirement is age 55 with 10 years of Total Credited Service.

Upon eligibility to retire, participants are entitled to a monthly benefit in the amount of 1/12 of 1.75% of Final Average Earnings multiplied by Years of Credited Service as an Eligible Regular Employee. Final Average Earnings is defined as the annual average of earnings paid to a participant by the City for the 5 consecutive years of Credited Service preceding the participant's most recent termination in which his or her earnings were the highest.

Annual Pension Cost:

Since this is a new plan without prior operations , the current annual pension cost is estimated to be the estimated actuarial accrued liability of $29,571.

Basis of Valuation:

First Valuation date	January 1, 2015
Benefit study date for disclosure purposes	February 18, 2014
Assumptions:	
Net Investment Rate of Return	7.75%
Projected Salary Increases	Age and service based merit increases plus 3.5% inflation.
Cost of living adjustments	0.00%
Asset Valuation Method to be used	Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at end of year. The actuarial value is adjusted, if necessary, to be within 20% of market value.
Remaining amortization period	Remaining amortization period varies for the bases, With a net effective amortization period of 30 years.
Amortization method	Closed level dollar for remaining unfunded liability.
Actuarial cost method	Projected Unit Credit.

Derivation of Annual Pension Cost:

	January 1, 2014	January 1, 2013
Annual Required Contribution*	$29,571	**
Interest on Net Pension Obligation*	-0-	**
Amortization of Net Pension Obligation*	-0-	**
Annual Pension Cost*	$29,571	**

*This is a new plan without prior pension obligations. The required contribution is an estimate based on a benefit study by the actuary.

**The current defined benefit plan was adopted as of October 1, 2013, consequently no prior year information is available.

The City's payroll for employees covered by the Plan as of February 18, 2014, the date of the funding study, was $768,146.

Net Pension Obligation:

Fiscal Year Beginning	Annual Pension Cost	Actual Contribution	Percentage of APC Contributed	Net Pension Obligation
January 1, 2014 (Initial Plan Year)	$29,571	$37,042	117%	($7,471)*

*Excess pension contribution reported as Net Pension Asset.

The required Schedule of Funding Progress is presented immediately following the Notes to Financial Statements. The Schedule is intended to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits, however, in as much as this is the initial year of the plan, no prior year information is presented.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Defined Contribution Plan

The City also sponsors a defined contribution plan for all eligible employees. There were 18 employees participating in the plan as of June 30, 2014. Contributions to the plan are funded on a monthly basis. Employees are not permitted to contribute, consequently, the City does not have a matching obligation. All employees are eligible to participate once they become eligible. Employees become eligible upon completion of a year of service and are 100% vested after being employed as an eligible employee for 5 years.

The City has authorized the Georgia Municipal Association through its legal counsel to amend the Defined Contribution Plan on its behalf with the approval of the Plan Trustees.

The Plan holds assets in a separate trust in the name of each participant. The assets of the trust are not reported on the City's financial statements. The adoption agreement can be amended by a formal resolution of the City Council and the Board of Trustees of GMEBS. For the year ending June 30, 2014, the City contributed on behalf of participating employees $82,068.

In addition to the above defined contribution plan, 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, 2014, 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, 2014, the employee contributed $1,200 to the plan.

Note 15. **Subsequent events**

Subsequent events have been evaluated through December 15, 2014.

CITY OF CLEVELAND, GEORGIA

Defined Benefit Retirement Plan
Required Supplementary Information
Schedule of Funding Progress
June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Surplus) AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
01/01/2014 (Initial Year)	$0	$29,571	$29,571	0.00%	$768,146	3.85%

CITY OF CLEVELAND, GEORGIA

Defined Benefit Retirement Plan
Required Supplementary Information
Schedule of Employer Contributions
June 30, 2014

Year Ended 12/31	Annual Required Contribution	Percentage Contributed
Initial year	No prior information	

CITY OF CLEVELAND, GEORGIA

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2014

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences Over / (Under)	Actual Amounts GAAP Basis	Variance with Final Budget Over / (Under)
Revenues						
Property taxes	$ 366,120	$ 366,120	$ 458,557	$ -	$ 458,557	$ 92,437
Sales taxes	630,000	630,000	670,289	-	670,289	40,289
Intergovernmental	-	-	35,908	-	35,908	35,908
Franchise taxes	200,000	200,000	193,517	-	193,517	(6,483)
Fines and forfeitures	53,140	53,140	59,097	-	59,097	5,957
Charges for services	533,195	533,195	573,948	-	573,948	40,753
Excise taxes	100,000	100,000	107,816	-	107,816	7,816
Interest	2,600	2,600	2,804	-	2,804	204
Miscellaneous	140,000	175,000	158,334	-	158,334	(16,666)
Fund Balance	337,090	337,090	-	-	-	(337,090)
Total Revenues	2,362,145	2,397,145	2,260,270	-	2,260,270	(136,875)
Expenditures						
Current Operating:						
General government	829,160	829,160	704,040	-	704,040	(125,120)
Public safety	1,118,295	1,118,295	1,081,441	-	1,081,441	(36,854)
Streets and sanitation	342,190	377,190	376,430	-	376,430	(760)
Culture and recreation	72,500	72,500	5,513	-	5,513	(66,987)
Total Expenditures	2,362,145	2,397,145	2,167,424	-	2,167,424	(229,721)
Excess (Deficiency) of Revnues Over (Under) Expenditures	-	-	92,846	-	92,846	92,846
Other Financing Sources (Uses)						
Sale of assets	-	-	-	-	-	-
Transfers in	-	-	12,230	-	12,230	12,230
Transfers out	-	-	-	-	-	-
Total Other Financing Sources (Uses)	$ -	$ -	$ 12,230	$ -	12,230	$ 12,230
Net Change in Fund Balance					105,076	
Fund Balance - beginning					647,475	
Fund Balance - ending					$ 752,551	

CITY OF CLEVELAND, GEORGIA
Notes to Required Supplementary Information
on Budgetary Accounting and Control
Year Ended June 30, 2014

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

Fund type	Original Budget	Supplemental Appropriations	Supplemental Decreases	Revised Appropriations
General Fund	$2,362,145	$ 35,000	$ -	$ 2,397,145

CITY OF CLEVELAND, GEORGIA

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2014

	Special Revenue Funds			
	Hotel/Motel Tax Fund	Grant Fund	Confiscated Asset Fund	Totals
Assets				
Cash	$ 11,195	$ -	$ 19	$ 11,214
Restricted cash	-	-	-	-
Due from Other Funds	-	8,155	-	8,155
Total assets	11,195	8,155	19	19,369
Deferred outflows of resources	-	-	-	-
Total assets and deferred outflows	$ 11,195	$ 8,155	$ 19	$ 19,369
Liabilities				
Due to other funds	$ -	$ -	$ -	$ -
Total liabilities	-	-	-	-
Deferred inflows of resources	-	-	-	-
Total liabilities and deferred inflows	-	-	-	-
Fund Balance				
Restricted for:				
Law Enforcement	-	-	19	19
Downtown Streetscape Grant	-	8,155	-	8,155
Tourism	11,195	-	-	11,195
	11,195	8,155	19	19,369
Total liabilities ,deferred inflows and fund balances	$ 11,195	$ 8,155	$ 19	$ 19,369

CITY OF CLEVELAND, GEORGIA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year ended June 30, 2014

	Special Revenue Funds			
	Hotel/Motel Tax Fund	Grant Fund	Confiscated Asset Fund	Total
Revenues				
Revenue	$ 20,347	$ -	$ -	$ 20,347
Total revenues	20,347	-	-	20,347
Expenditures				
Current:				
Public Safety	-	-	400	400
Housing and Development	8,834	-	-	8,834
Total expenditures	8,834	-	400	9,234
Excess (deficiency) of revenues over (under) expenditures	11,513	-	(400)	11,113
Other financing sources and (uses)				
Transfers in	-	-	-	-
Transfers out	(8,935)	-	-	(8,935)
Total other financing sources and uses	(8,935)	-	-	(8,935)
Net changes in fund balance	2,578	-	(400)	2,178
Fund balance - beginning	8,617	8,155	419	17,191
Fund balance - ending	$ 11,195	$ 8,155	$ 19	$ 19,369

Walker Pierce & Tuck
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council
City of Cleveland, Georgia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cleveland, Georgia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Cleveland, Georgia's basic financial statements and have issued our report thereon dated December 18, 2014.

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 City of Cleveland, Georgia's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Cleveland, Georgia's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We consider the deficiency, 2014-1, described in the accompanying schedule of findings and questioned cost 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain other matters that we reported to the management of the City of Cleveland, Georgia in a separate letter dated December 18, 2014.

City of Cleveland, Georgia's Response to Findings

City of Cleveland, Georgia's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned cost. City of Cleveland, Georgia's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Purpose of this Report

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

Walker, Pierce & Tuck, CPA's, P.C.

Walker, Pierce & Tuck, CPA's, P.C.
Gainesville, Georgia
December 18, 2014

City of Cleveland, Georgia
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

Section I: Summary of Auditor's Results

1. The Auditor's report expresses an unmodified opinion on the financial statement of the City of Cleveland, Georgia.
2. Compliance (financial statements) – No material instances of noncompliance.
3. Internal control (financial statements) - No significant deficiencies.
4. Internal control (major programs) - No material weaknesses.
5. The auditor's report on compliance for the major federal award programs for the City of Cleveland, Georgia expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include:

   Clean Water State Revolving Loan CFDA # 66.458
   Economic Development Facilities Program CFDA # 11.300
8. The threshold used for distinguishing between Type A and B programs was $300,000.
9. The City of Cleveland, Georgia did not qualify as a low-risk auditee.

Section II: Financial Statement Findings

Material Weakness - Internal Control

2014-1 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.

Section III: Federal Award Findings and Questioned Cost

None Reported.

Walker Pierce & Tuck
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the City Council
City of Cleveland, Georgia

Report on Compliance for Each Major Federal Program

We have audited the City of Cleveland, Georgia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Cleveland, Georgia's major federal programs for the year ended June 30, 2014. The City of Cleveland, Georgia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Cleveland, Georgia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Cleveland, Georgia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Cleveland, Georgia's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Cleveland, Georgia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the City of Cleveland, Georgia, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Cleveland, Georgia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Cleveland, Georgia's internal control over compliance.

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A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Walker, Pierce & Tuck, CPA's, PC

Walker, Pierce & Tuck, CPA's, PC
Gainesville, Georgia
December 18, 2014

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City of Cleveland, Georgia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Environmental Protection Agency			
Pass-through programs			
Georgia Environmental Facilities Authority			
State Revolving Loan			
Clean Water State Revolving Fund Cluster	66.458	CWSRF 10-004	$ 783,842
Total Pass-through programs			783,842
Total U.S. Environmental Protection Agency			783,842
U.S. Department of Commerce			
Direct programs			
Investment for Public Works and Economic Development Facilities Program			
Economic Development Cluster	11.300		1,242,113
Total U.S. Department of Commerce			1,242,113
U.S. Department of Homeland Security			
Pass-through programs			
Georgia Emergency Management Agency			
Hazard Mitigation Grant	97.039	HHM973009	15,909
Total Pass-through programs			15,909
Total U.S.Department of Homeland Security			15,909
U.S. Department of Transportation			
Pass-through programs			
Georgia Department of Transportation			
State and Community Highway Safety Program			
Highway Safety Cluster	20.600	GA-2013-0000-00428	12,500
Total Pass-through programs			12,500
Total U.S. Department of Transportation			12,500
Total expenditures of federal awards			$ 2,054,364

See accompanying notes to the schedule of expenditures of federal awards.

City of Cleveland, Georgia

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Cleveland, Georgia and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Cleveland, Georgia, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Cleveland, Georgia.

Note 2 – Summary of Significant Accounting Policies

a. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

b. Pass-through entity identifying numbers are presented where available.

CITY OF CLEVELAND, GEORGIA

Schedule of Special Purpose Local Option Sales Tax
Estimated Cost and Expenditure Summary
For the Year Ended June 30, 2014

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	$2,293,617	$ 212,077	$2,505,694
SPLOST 2004					
Water and Sewer Improvements	2,600,000	2,600,000	2,166,406	928,348	3,094,754
Downtown Redevelopment	400,000	400,000	392,931	-	392,931
Total SPLOST 2004	3,000,000	3,000,000	2,559,337	928,348	3,487,685
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	701,166	-	701,166
Total SPLOST 2009	3,380,000	3,380,000	951,166	-	951,166
Total SPLOST	$9,180,000	$ 9,180,000	$5,804,120	$1,140,425	$6,944,545

City of Cleveland, Georgia
Source and Application of Funds Schedule
For the Year Ending June 30, 2014

Source of Funding through June 30, 2014	
Local funds-City	$ 507,713
One Georgia 12gq-154-2-4701	450,000
Federal Grants EDA #04-01-06664	1,242,113
Georgia Environmental Facilities Authority-Loan CWSRF 10-004	783,842
Total of Funds Received	$ 2,983,668

Application of Funds Received	Construction	Engineering	Easement Acquisition	Legal Fees	Inspection	Grant Preparation	Grant Administration	Project Totals
Expenditures as of June 30, 2014	$ 2,669,242	202,669	12,568	1,503	-	-	97,686	$ 2,983,668