**CITY OF COMMERCE, GEORGIA**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**CITY OF COMMERCE, GEORGIA**
**AUDITED FINANCIAL STATEMENTS**
**TABLE OF CONTENTS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**


| | |
|---|---|
| **Independent Auditors' Report** | **1** |
| **MANAGEMENT'S DISCUSSION AND ANALYSIS** | **3** |
| **BASIC FINANCIAL STATEMENTS:** | |
| **Statement of Net Assets** | **10** |
| **Statement of Activities** | **11** |
| **Balance Sheet - Governmental Funds** | **12** |
| **Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities** | **13** |
| **Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds** | **14** |
| **Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities** | **15** |
| **Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund** | **16** |
| **Statement of Fund Net Assets - Proprietary Funds** | **17** |
| **Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds** | **18** |
| **Statement of Cash Flows - Proprietary Funds** | **19** |
| **Notes to Financial Statements** | **21** |
| **REQUIRED AND OTHER SUPPLEMENTARY INFORMATION** | |
| **Combining Balance Sheet - Nonmajor Governmental Funds** | **59** |
| **Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds** | **60** |
| **Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Confiscated Assets Fund** | **61** |
| **Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Fire District Fund** | **62** |
| **Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Debt Service Fund** | **63** |
| **Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Special Purpose Local Option Sales Tax - Old Fund From Inception** | **64** |
| **Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Library Expansion Fund From Inception** | **65** |
| **Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - 2005 Special Purpose Local Option Sales Tax Fund From Inception** | **66** |

**CITY OF COMMERCE, GEORGIA**
**AUDITED FINANCIAL STATEMENTS**
**TABLE OF CONTENTS - CONTINUED**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**REPORTS AND SCHEDULES REQUIRED BY GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133:**


| | |
|---|---|
| **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*** | **67** |
| **Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133** | **69** |
| **Schedule of Expenditures of Federal Awards** | **71** |
| **Auditors' Schedule of Findings and Questioned Costs** | **72** |
| **Summary Schedule of Prior Year Audit Findings** | **73** |
| **Corrective Action Plan** | **74** |


**SCHEDULES REQUIRED BY THE STATE OF GEORGIA:**


| | |
|---|---|
| **Schedule of Projects Constructed with Special Purpose Local Option Sales Tax Proceeds - SPLOST Old** | **75** |
| **Schedule of Projects Constructed with Special Purpose Local Option Sales Tax Proceeds - 2005 SPLOST** | **76** |

**WILCOX & BIVINGS, P.C.**
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## Independent Auditors' Report

**To the Honorable Mayor and Members of the City Council**
**City of Commerce, Georgia**

**We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Commerce, Georgia as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Commerce, Georgia's management. Our responsibility is to express opinions on these financial statements based on our audit.**

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

**In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the City of Commerce, Georgia as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.**

**In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2010, on our consideration of the City of Commerce, Georgia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.**

**Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 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.**

**To the Honorable Mayor and Members of the City Council**
**City of Commerce, Georgia**

**Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Commerce, Georgia's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and the Schedules of Projects Constructed and Expenditures Incurred with Special Sales Tax Proceeds on pages 75 and 76 are presented for purpose of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for the 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 financial statements. The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and the Schedules of Projects Constructed and Expenditures Incurred with Special Sales Tax Proceeds are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.**

*Wilcox & Birings, P.C.*

**Suwanee, Georgia**
**October 27, 2010**

**CITY OF COMMERCE, GEORGIA**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**FOR THE YEAR ENDED JUNE 30, 2010**

**Management of the City of Commerce, Georgia (the "City") provides this Management Discussion and Analysis, as prescribed by the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). This narrative overview and analysis of the City's primary government financial activities is for the fiscal year ending June 30, 2010. Please consider this information in conjunction with the City's basic financial statements, which follow.**

**FINANCIAL HIGHLIGHTS**

- **The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $50,962,694 (presented as "net assets"). Of this amount, $7,345,263 was reported as "unrestricted net assets". Unrestricted net assets represent the amount available to be used to meet the City's obligations to citizens and creditors. $35,058,434 of net assets consisted of investments in capital assets. The remainder of net assets consisted of amounts restricted by state law or debt agreements, and totaled $8,558,997.**

- **The City's total net assets decreased by $406,735 in fiscal year 2010.**

- **As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $4,755,412. Of this amount, 27% of this total amount $1,306,743 is unreserved and available for use within the City's designation and policies.**

- **At the end of the current fiscal year, unreserved fund balance for the general fund was $1,306,743 or 27% of the total general fund expenditures.**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

**This discussion and analysis is intended to serve as an introduction to the City's primary government financial statements. The City's primary government financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.**

**<u>Government-wide financial statements</u>**
**The government-wide financial statements are designed to provide readers with a broad view of the City's finances, in a manner similar to a private-sector business.**

**The Statement of Net Assets presents information on all of the City's primary government assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.**

**The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods, such as uncollected property taxes and earned but unused compensated absences.**

**Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues ("governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges ("business-type activities"). The governmental activities of the City include general government and administration, public safety, public services, library, parks and recreation, planning and development, and downtown development expenditures. The business-type activities of the City include the City's Natural Gas, Electric, Water and Sewer Systems operations, and Revolving Loan Activities.**

**The government-wide financial statements include not only the primary government, but also a legally separate authority, the Downtown Development Authority ("DDA"), for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.**

**The government-wide financial statements can be found on pages 10 and 11 of this report.**

**Fund financial statements**

**A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories – governmental funds and proprietary funds.**

**Governmental Funds**

**Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.**

**Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.**

**The City maintains six governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Confiscated Assets, Fire District, SPLOST Old, SPLOST 2005, Library Expansion, and Debt Service funds. The General Fund and SPLOST 2005 Fund are the only major funds.**

**The basic governmental fund financial statements can be found on pages 12 to 16 of this report.**

**Proprietary Funds**

**The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its natural gas, electric, water and sewer system operations, and revolving loan activities.**

**Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the natural gas, electric, water and sewer funds, and revolving loan fund. The natural gas, electric, and water and sewer funds are considered to be major funds of the City.**

**The basic proprietary fund financial statements can be found on pages 17 to 20 of this report.**

**Notes to the Financial Statements**

**The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 to 58 of this report.**

**Other Information**

**In addition to the primary government financial statements and accompanying notes, this report also presents certain supplementary information. Supplementary information can be found on pages 59 to 76 of this report.**

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

**As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City's primary government financial statements, assets exceeded liabilities by $50,962,694 as of June 30, 2010 and by $51,369,429 as of June 30, 2009.**

**The largest portion of the City's net assets reflects its investments in capital assets (such as land, buildings and improvements, furniture, machinery and equipment, computer equipment, and vehicles), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.**

### CITY OF COMMERCE, GEORGIA'S NET ASSETS – PRIMARY GOVERNMENT

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | As restated 2009 | 2010 | As restated 2009 |
| Current and other assets | $ 5,492,190 | $ 4,408,177 | $ 13,198,481 | $ 13,177,493 | $ 18,690,671 | $ 17,585,670 |
| Capital assets | 15,885,657 | 16,544,033 | 37,673,534 | 38,098,654 | 53,559,191 | 54,642,687 |
| Total assets | 21,377,847 | 20,952,210 | 50,872,015 | 51,276,147 | 72,249,862 | 72,228,357 |
| Long-term liabilities | 352,216 | 274,755 | 19,021,368 | 19,084,913 | 19,373,584 | 19,359,668 |
| Other liabilities | 838,811 | 545,593 | 1,074,773 | 953,667 | 1,913,584 | 1,499,260 |
| Total liabilities | 1,191,027 | 820,348 | 20,096,141 | 20,038,580 | 21,287,168 | 20,858,928 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 15,545,840 | 16,236,960 | 19,512,594 | 20,044,709 | 35,058,434 | 36,281,669 |
| Restricted | 3,087,088 | 2,497,594 | 5,471,909 | 6,144,281 | 8,558,997 | 8,641,875 |
| Unrestricted | 1,553,892 | 1,397,308 | 5,791,371 | 5,048,577 | 7,345,263 | 6,445,885 |
| Total net assets | $ 20,186,820 | $ 20,131,862 | $ 30,775,874 | $ 31,237,567 | $ 50,962,694 | $ 51,369,429 |

**An additional portion of the City's net assets (16.8%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets $7,345,263, may be used to meet the government's ongoing obligations to citizens and creditors.**

**As of June 30, 2010 and June 30, 2009, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate categories - governmental and business-type activities.**

**Analysis of the City's Operations**

**The following table provides a summary of the City's operations for the years ended June 30, 2010 and June 30, 2009. For the year ended June 30, 2010 governmental activities increased the City's net assets by $54,958. For the year ended June 30, 2009 governmental activities decreased the City's net assets by $52,635. Business-type activities decreased the City's net assets by $461,893 for the year ended June 30, 2010 and by $1,050,264 for the year ended June 30, 2009.**

**CITY OF COMMERCE, GEORGIA'S CHANGES IN NET ASSETS – PRIMARY GOVERNMENT**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | As restated 2009 | 2010 | As restated 2009 |
| **Revenues:** | | | | | | |
| **Program revenues:** | | | | | | |
| Charges for services | $ 1,712,230 | $ 1,846,332 | $ 12,586,004 | $ 14,567,681 | $ 14,298,234 | $ 16,414,013 |
| Operating grants and Contributions | 37,989 | 48,308 | - | - | 37,989 | 48,308 |
| Capital grants and Contributions | 12,813 | 22,837 | 743,177 | - | 755,990 | 22,837 |
| **General revenues:** | | | | | | |
| Taxes | 2,936,170 | 2,917,044 | - | - | 2,936,170 | 2,917,044 |
| Investment revenue | 64,366 | 103,391 | 402,422 | 474,921 | 466,788 | 578,312 |
| Gain on sale of assets | - | 6,028 | - | - | - | 6,028 |
| Other | 95,663 | 112,539 | - | - | 95,663 | 112,539 |
| **Total revenues** | 4,859,231 | 5,056,479 | 13,731,603 | 15,042,602 | 18,590,834 | 20,099,081 |
| **Expenses:** | | | | | | |
| General government | 478,155 | 568,573 | - | - | 478,155 | 568,573 |
| Public safety | 2,334,325 | 2,608,320 | - | - | 2,334,325 | 2,608,320 |
| Public services | 1,571,182 | 1,660,109 | - | - | 1,571,182 | 1,660,109 |
| Library | 222,410 | 210,785 | - | - | 222,410 | 210,785 |
| Parks and recreation | 534,879 | 586,778 | - | - | 534,879 | 586,778 |
| Planning and Development | 263,529 | 267,415 | - | - | 263,529 | 267,415 |
| Downtown development | 170,600 | 196,378 | - | - | 170,600 | 196,378 |
| Intergovernmental | - | - | - | - | - | - |
| Interest | 12,282 | 17,656 | - | - | 12,282 | 17,656 |
| Natural gas system | - | - | 3,790,123 | 5,617,068 | 3,790,123 | 5,617,068 |
| Electric system | - | - | 5,122,572 | 4,975,637 | 5,122,572 | 4,975,637 |
| Water and sewer System | - | - | 4,402,574 | 4,493,261 | 4,402,574 | 4,493,261 |
| Revolving loan | - | - | 94,938 | - | 94,938 | - |
| **Total expenses** | 5,587,362 | 6,116,014 | 13,410,207 | 15,085,966 | 18,997,569 | 21,201,980 |
| **Excess (deficiency) in net assets before contributions and transfers** | ( 728,131) | ( 1,059,535) | 321,396 | ( 43,364) | ( 406,735) | ( 1,102,899) |
| **Contributions** | ( 290,787) | ( 85,100) | 290,787 | 85,100 | - | - |
| **Transfers** | 1,073,876 | 1,092,000 | ( 1,073,876) | ( 1,092,000) | - | - |
| **Change in net assets** | 54,958 | ( 52,635) | ( 461,693) | ( 1,050,264) | ( 406,735) | ( 1,102.899) |
| **Net assets July 1,** | 20,131,862 | 20,184,497 | 31,237,567 | 32,287,831 | 51,369,429 | 52,472,328 |
| **Net assets June 30** | $ 20,186,820 | $ 20,131,862 | $ 30,775,874 | $ 31,237,567 | $ 50,962,694 | $ 51,369,429 |

## FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

**Governmental funds**

**The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.**

**At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $4,755,412. Approximately 27% of this total amount or $1,306,743 constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to pay for capital projects ($3,132,094), 2) to pay for prepaid items ($52,171), 3) to pay for public safety ($254,404), and 4) to pay for cemetery maintenance ($10,000).**

**The General Fund is the chief fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was $1,306,743, while total fund balance reached $1,368,914. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to the fund's total operational expenditures. Unreserved fund balance represents 27% of total expenditures, while total fund balance represents 28% of that same amount.**

**The General Fund's fund balance increased by $111,082 during the current fiscal year. Key factors in this increase are as follows:**

- **Total revenues increased by $69,811 for a percentage decrease of 1.9%. This increase was mainly due to an increase in fines and forfeitures. Fines and forfeitures revenue increased by $87,433 for a percentage increase of 21.3%.**

- **Total expenditures decreased by $246,019 for a percentage decrease of 4.8%. This decrease was mainly due to decreases in general government and public service expenditures. General government expenditures decreased by $133,701 and public service expenditures decreased by $73,645. Expenditures decreased mostly due to a decrease in capital expenditures.**

**The other governmental funds' fund balances increased by $610,577 during the current fiscal year. The increases were mainly due to fund balance increases in the SPLOST 2005 Fund. The increase in the SPLOST 2005 Fund was due to the fund collecting more tax revenue than spending on capital projects.**

**Proprietary funds**

**The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.**

**Unrestricted net assets of the respective proprietary funds are Natural Gas System - $1,670,229, Electric System - $2,188,992, Water and Sewer System - $1,667,259, and Revolving Loan Fund - $264,891. The Electric System had an increase in fund net assets of $151,907. The Natural Gas System, Water and Sewer System, and Revolving Loan Funds had decreases in fund net assets of $426,420, $104,711, and $82,469. The decrease in net assets of the Natural Gas System was due to a decrease in charges for services and utilities purchased for resale. The decrease in the Water and Sewer System was due to the costs to run the system and debt service costs. The decrease in the Revolving Loan Fund was due to the return of revolving loan funds back to the Georgia Department of Community Affairs.**

**General Fund Budgetary Highlights**

**The City made revisions to the original appropriations approved by the City Council. Overall these changes resulted in an increase in budgeted revenues of $10,924, an increase in budgeted expenditures of $10,924, an increase in budgeted transfers in of $42,788, and an increase in budgeted transfers out of $42,788. The largest budget revision was for the transfers in to the General Fund from the Fire District Fund of $42,788 and the increase in transfers out of the General Fund to the Debt Service Fund of $42,788. These revisions were made to pay for debt service on a capital lease for the purchase of a new fire truck. No other budget revisions were material.**

## CAPITAL ASSETS

**The City's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounts to $53,559,191 net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements, furniture, machinery and equipment, computer equipment, utility infrastructure, infrastructure assets, and vehicles.**

**The City has implemented all phases of GASB Statement No. 34. GASB Statement No. 34 requires the reporting and depreciation of all of the City's governmental capital assets.**

**Major capital asset events during the current fiscal year included the following:**

- **The City spent $225,194 for vehicles.**
- **The City spent $220,495 on water and sewer system improvements.**
- **The City spent $161,614 on machinery and equipment.**

**CAPITAL ASSETS AT YEAR-END**
**NET OF ACCUMULATED DEPRECIATION – PRIMARY GOVERNMENT**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | $ 2,616,689 | $ 2,616,689 | $ 319,770 | $ 319,770 | $ 2,936,459 | $ 2,936,459 |
| Construction in progress | - | 14,410 | 1,299,965 | 145,170 | 1,299,965 | 159,580 |
| Buildings and improvements | 6,348,008 | 6,348,008 | 16,813,570 | 16,813,570 | 23,161,578 | 23,161,578 |
| Utility system infrastructure | - | - | 37,558,461 | 37,302,202 | 37,558,461 | 37,302,202 |
| Furniture, fixtures and equipment | 2,857,609 | 2,864,824 | 14,625 | 14,625 | 2,872,234 | 2,879,449 |
| Machinery and equipment | - | - | 2,898,527 | 2,736,913 | 2,898,527 | 2,736,913 |
| Computers and equipment | 357,766 | 377,866 | 469,759 | 430,838 | 827,525 | 808,704 |
| Infrastructure | 8,541,151 | 8,488,174 | - | - | 8,541,151 | 8,488,174 |
| Vehicles | 1,604,506 | 1,507,416 | 497,967 | 503,821 | 2,102,473 | 2,011,237 |
| Accumulated depreciation | ( 6,440,072) | ( 5,673,354) | ( 22,199,110) | ( 20,168,255) | ( 28,639,182) | ( 25,841,609) |
| Total | $ 15,885,657 | $ 16,544,033 | $ 37,673,534 | $ 38,098,654 | $ 53,559,191 | $ 54,642,687 |

**Additional information on the City's capital assets can be found in note 5 of this report.**

**DEBT ADMINISTRATION**

**At the end of the current fiscal year, the City had $19, in outstanding debt consisting of revenue bonds, capital leases and notes payable. All of the debt was secured by specific revenue sources or capital assets.**

**CITY OF COMMERCE, GEORGIA'S OUTSTANDING DEBT – PRIMARY GOVERNMENT**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Revenue bonds | $ - | $ - | $ 15,493,018 | $ 15,679,401 | $ 15,493,018 | $ 15,679,401 |
| Notes payable | 40,028 | 94,363 | 318,504 | - | 358,532 | 94,363 |
| Capital leases payable | 299,789 | 212,710 | 3,290,579 | 3,459,664 | 3,590,368 | 3,672,374 |
| Total | $ 339,817 | $ 307,073 | $ 19,102,101 | $ 19,139,065 | $ 19,441,918 | $ 19,446,138 |

**The City's total debt (including compensated absences and other long-term operating liabilities) increased by $13,916, during the current fiscal year mostly attributable to the repayment of long-term debt being offset by additional debt borrowings. Additional information on the City's long-term debt can be found in note 6.**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

**In the 2010-2011 budget, General Fund revenues and transfers in are budgeted to decrease by 3.4% from the 2009-2010 budget year with taxes making up about 42% of general fund budgeted revenues and transfers in. The 2010-2011 General Fund Budget includes an increase of $22,000 in tax revenue. The 2010-2011 budget also includes $1,220,000 in local option sales tax revenues, and $1,193,907 in transfers from its business type activities. General Fund expenditures are budgeted to decrease by 3.3% from the 2009-2010 budget.**

**The City has budgeted $15,862,781 in revenues for its business-type activities for the 2010-2011 year. This is an increase of 4.4% from the 2009-2020 budget year with charges for services making up 88% of budgeted revenues. The increase in revenues is mostly attributable to an increase in water and sewer rates. The City has budgeted $4,631,669 in expenditures for its Natural Gas System Fund, $5,643,325 in expenditures for it's Electric System Fund, and $5,574,161 in expenditures in it's Water and Sewer System Fund.**

**Subsequent to year end the City was awarded a Community Development Block Grant in the amount of $500,000 for the rehabilitation of the sewer collection system for two low to moderate income neighborhoods. The City is required to match $103,004 of the project costs. This City also subsequently entered into a note payable agreement with the Georgia Environmental Facilities Authority in the amount of $575,000 for the purchase of leak detection equipment and meters for its Water and Sewer System. $287,500 of the loan is forgivable.**

**REQUEST FOR INFORMATION**

**This financial report is designed to provide our citizens, customers, investors and creditors with general overview of the City's primary government finances. If you have questions about this report or need any additional information, contact the City Clerk at P.O. Box 348, Commerce, Georgia 30529.**

**BASIC FINANCIAL STATEMENTS**

**CITY OF COMMERCE, GEORGIA**
**STATEMENT OF NET ASSETS**
**JUNE 30, 2010**

| | Primary Government | | | Component Unit |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total | Downtown Development Authority |
| **ASSETS** | | | | |
| Cash and investments | $ 1,244,813 | $ 4,969,384 | $ 6,214,197 | $ 54,980 |
| Receivables, net | 538,626 | 1,084,470 | 1,623,096 | 1,520 |
| Prepaid expenses | 52,171 | 17,647 | 69,818 | - |
| Inventory | 30,824 | - | 30,824 | - |
| Internal balances | 467,727 | ( 467,727) | - | - |
| Due from component unit | 2,960 | - | 2,960 | - |
| Restricted cash and investments | 3,155,069 | 7,026,504 | 10,181,573 | - |
| Long-term receivables | - | 227,544 | 227,544 | - |
| Unamortized portion of debt issue costs | - | 340,659 | 340,659 | - |
| Nondepreciable capital assets | 2,616,689 | 1,619,735 | 4,236,424 | 319,907 |
| Depreciable capital assets | 13,268,968 | 36,053,799 | 49,322,767 | 654,231 |
| Total assets | $ 21,377,847 | $ 50,872,015 | $ 72,249,862 | $ 1,030,638 |
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ 492,329 | $ 541,452 | $ 1,033,781 | $ - |
| Accrued expenses | 130,520 | 158,834 | 289,354 | 10,582 |
| Deferred revenue | 12,611 | - | 12,611 | - |
| Due to related party | 72,305 | - | 72,305 | - |
| Due to primary government | - | - | - | 2,960 |
| Capital leases | 91,018 | 176,933 | 267,951 | - |
| Notes payable | 40,028 | 6,171 | 46,199 | 25,560 |
| Revenue bonds payable | - | 191,383 | 191,383 | - |
| Total current liabilities | 838,811 | 1,074,773 | 1,913,584 | 39,102 |
| Noncurrent liabilities: | | | | |
| Customer deposits | - | 214,244 | 214,244 | - |
| Compensated absences | 143,445 | 79,510 | 222,955 | - |
| Capital leases | 208,771 | 3,113,646 | 3,322,417 | - |
| Notes payable | - | 312,333 | 312,333 | 223,612 |
| Revenue bonds payable | - | 15,301,635 | 15,301,635 | - |
| Total noncurrent liabilities | 352,216 | 19,021,368 | 19,373,584 | 223,612 |
| Total liabilities | 1,191,027 | 20,096,141 | 21,287,168 | 262,714 |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | 15,545,840 | 19,512,594 | 35,058,434 | 724,966 |
| Restricted for: | | | | |
| Capital projects | 2,914,147 | - | 2,914,147 | - |
| Debt service | - | 1,408,862 | 1,408,862 | - |
| Restricted assets | - | 4,063,047 | 4,063,047 | - |
| Public safety | 172,941 | - | 172,941 | - |
| Unrestricted | 1,553,892 | 5,791,371 | 7,345,263 | 42,958 |
| Total net assets | 20,186,820 | 30,775,874 | 50,962,694 | 767,924 |
| Total liabilities and net assets | $ 21,377,847 | $ 50,872,015 | $ 72,249,862 | $ 1,030,638 |

**SEE NOTES TO FINANCIAL STATEMENTS.**

**CITY OF COMMERCE, GEORGIA**
**STATEMENT OF ACTIVITIES**
**FOR THE YEAR ENDED JUNE 30, 2010**

| Functions/Programs | Expenses | Indirect Expense Allocation | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions |
|---|---|---|---|---|
| **Primary government** | | | | |
| **Governmental activities:** | | | | |
| General government | $ 1,335,155 | $( 857,000) | $ 351,918 | $ - |
| Public safety | 2,487,325 | ( 153,000) | 792,863 | 30,457 |
| Public services | 1,571,182 | - | 466,681 | - |
| Library | 222,410 | - | 14,977 | 7,532 |
| Parks and recreation | 534,879 | - | 61,409 | - |
| Planning and development | 263,529 | - | 24,382 | - |
| Downtown development authority | 170,600 | - | - | - |
| Interest | 12,282 | - | - | - |
| **Total governmental activities** | 6,597,362 | ( 1,010,000) | 1,712,230 | 37,989 |
| **Business-type activities** | | | | |
| Gas system | 3,525,123 | 265,000 | 4,042,494 | - |
| Electric system | 4,772,572 | 350,000 | 5,354,898 | - |
| Water and sewer system | 4,007,574 | 395,000 | 3,188,612 | - |
| Revolving loan | 94,938 | - | - | - |
| **Total business-type activities** | 12,400,207 | 1,010,000 | 12,586,004 | - |
| **Total primary government** | $ 18,997,569 | $ - | $ 14,298,234 | $ 37,989 |
| **Component Unit** | | | | |
| Downtown Development Authority | $ 164,246 | $ - | $ - | $ 1,200 |

**General revenues:**
- **Taxes:**
  - Local option sales
  - Special purpose local option sales
  - Insurance premium
  - Property
  - Franchise
  - Beer and wine
  - Motor vehicle
  - Other
- **Payments from City of Commerce**
- **Investment return**
- **Other**

**Contributions**

**Transfers**

**Total general revenues, contributions and transfers**

**Change in net assets**

**Net assets – beginning, as restated**

**Net assets – ending**

| Net (Expense) Revenue and Changes in Net Assets | | | | |
|---|---|---|---|---|
| | Primary Government | | | Component Unit |
| Capital grants and Contributions | Governmental Activities | Business-Type Activities | Total | Downtown Development Authority |
| $ - | $( 126,237) | $ - | $( 126,237) | $ - |
| - | ( 1,511,005) | - | ( 1,511,005) | - |
| - | ( 1,104,501) | - | ( 1,104,501) | - |
| 12,813 | ( 187,088) | - | ( 187,088) | - |
| - | ( 473,470) | - | ( 473,470) | - |
| - | ( 239,147) | - | ( 239,147) | - |
| - | ( 170,600) | - | ( 170,600) | - |
| - | ( 12,282) | - | ( 12,282) | - |
| 12,813 | ( 3,824,330) | - | ( 3,824,330) | - |
| - | - | 252,371 | 252,371 | - |
| - | - | 232,326 | 232,326 | - |
| 743,177 | - | ( 470,785) | ( 470,785) | - |
| - | - | ( 94,938) | ( 94,938) | - |
| 743,177 | - | ( 81,026) | ( 81,026) | - |
| $ 755,990 | $( 3,824,330) | $( 81,026) | $( 3,905,356) | $ - |
| $ 70,000 | $ - | $ - | $ - | $( 93,046) |
| | $ 1,163,889 | $ - | $ 1,163,889 | $ - |
| | 854,721 | - | 854,721 | - |
| | 293,405 | - | 293,405 | - |
| | 251,556 | - | 251,556 | - |
| | 171,316 | - | 171,316 | - |
| | 171,391 | - | 171,391 | - |
| | 19,014 | - | 19,014 | - |
| | 10,878 | - | 10,878 | - |
| | - | - | - | 170,600 |
| | 64,366 | 402,422 | 466,788 | 706 |
| | 95,663 | - | 95,663 | 15,594 |
| | ( 290,787) | 290,787 | - | 1,690 |
| | 1,073,876 | ( 1,073,876) | - | - |
| | 3,879,288 | ( 380,667) | 3,498,621 | 188,590 |
| | 54,958 | ( 461,693) | ( 406,735) | 95,544 |
| | 20,131,862 | 31,237,567 | 51,369,429 | 672,380 |
| | $ 20,186,820 | $ 30,775,874 | $ 50,962,694 | $ 767,924 |

SEE NOTES TO FINANCIAL STATEMENTS.

**CITY OF COMMERCE, GEORGIA**
**BALANCE SHEET**
**GOVERNMENTAL FUNDS**
**JUNE 30, 2010**

| | General | SPLOST 2005 | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 1,163,350 | $ - | $ 81,463 | $ 1,244,813 |
| Property taxes receivable | 34,712 | - | - | 34,712 |
| Other taxes receivable | 230,118 | 217,947 | - | 448,065 |
| Other receivables | 55,849 | - | - | 55,849 |
| Prepaid expenses | 52,171 | - | - | 52,171 |
| Inventory | 30,824 | - | - | 30,824 |
| Due from other funds | 523,097 | - | 2,317 | 525,414 |
| Due from component unit | 2,960 | - | - | 2,960 |
| Restricted cash and cash equivalents | - | 2,808,688 | 346,381 | 3,155,069 |
| Total assets | $ 2,093,081 | $ 3,026,635 | $ 430,161 | $ 5,549,877 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Accounts payable | $ 492,329 | $ - | $ - | $ 492,329 |
| Accrued expenses | 128,203 | - | 2,317 | 130,520 |
| Deferred revenue | 29,013 | - | 12,611 | 41,624 |
| Due to other funds | 2,317 | 40,097 | 15,273 | 57,687 |
| Due to related party | 72,305 | - | - | 72,305 |
| Total liabilities | 724,167 | 40,097 | 30,201 | 794,465 |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Capital projects | - | 2,986,538 | 145,556 | 3,132,094 |
| Prepaid items | 52,171 | - | - | 52,171 |
| Cemetery | 10,000 | - | - | 10,000 |
| Public safety | - | - | 254,404 | 254,404 |
| Unreserved | 1,306,743 | - | - | 1,306,743 |
| Total fund balances | 1,368,914 | 2,986,538 | 399,960 | 4,755,412 |
| Total liabilities and fund balances | $ 2,093,081 | $ 3,026,635 | $ 430,161 | $ 5,549,877 |

**SEE NOTES TO FINANCIAL STATEMENTS**

**CITY OF COMMERCE, GEORGIA**
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE**
**TO NET ASSETS OF GOVERNMENTAL ACTIVITIES**
**JUNE 30, 2010**

| | | |
|---|---|---|
| **Total Governmental Fund Balances** | **$** | **4,755,412** |
| **Amounts reported for governmental activities in the statement of net assets are different because:** | | |
| **Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of $6,440,072.** | | **15,885,657** |
| **Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:** | | |
| **Property taxes receivable** | | **29,013** |
| **Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:** | | |
| **Compensated absences** | **(** | **143,445)** |
| **Capital leases payable** | **(** | **299,789)** |
| **Notes payable** | **(** | **40,028)** |
| **Net assets of governmental activities** | **$** | **20,186,820** |

**SEE NOTES TO FINANCIAL STATEMENTS**

**CITY OF COMMERCE, GEORGIA**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**
**GOVERNMENTAL FUNDS**
**FOR THE YEAR ENDED JUNE 30, 2010**

| | General | SPLOST 2005 | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Taxes | $ 2,074,599 | $ - | $ - | $ 2,074,599 |
| Charges for services | 592,960 | - | 207,118 | 800,078 |
| Fines and forfeitures | 497,898 | - | 33,334 | 531,232 |
| Late payment fees | 191,908 | - | - | 191,908 |
| Licenses and permits | 131,002 | - | - | 131,002 |
| Intergovernmental | 55,989 | 854,721 | 12,813 | 923,523 |
| Other | 135,673 | - | - | 135,673 |
| Investment return | 10,513 | 50,029 | 3,824 | 64,366 |
| Total revenues | 3,690,542 | 904,750 | 257,089 | 4,852,381 |
| **EXPENDITURES** | | | | |
| Current operating | | | | |
| General government | 262,473 | - | - | 262,473 |
| Public safety | 2,297,894 | - | 29,770 | 2,327,664 |
| Public services | 1,227,055 | - | - | 1,227,055 |
| Library | 192,308 | - | - | 192,308 |
| Parks and recreation | 454,183 | - | - | 454,183 |
| Planning and development | 277,063 | - | - | 277,063 |
| Downtown development | 170,600 | - | - | 170,600 |
| Capital Outlay | - | 293,472 | 20,242 | 313,714 |
| Debt Service | | | | |
| Principal | - | - | 206,022 | 206,022 |
| Interest | - | - | 12,282 | 12,282 |
| Total expenditures | 4,881,576 | 293,472 | 268,316 | 5,443,364 |
| Excess (deficiency) of revenues over (under) expenditures | ( 1,191,034) | 611,278 | ( 11,227) | ( 590,983) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Proceeds from debt | 238,766 | - | - | 238,766 |
| Transfers in | 1,248,658 | - | 218,304 | 1,466,962 |
| Transfers out | ( 185,308) | - | ( 207,778) | ( 393,086) |
| Net other financing sources (uses) | 1,302,116 | - | 10,526 | 1,312,642 |
| Net changes in fund balance | 111,082 | 611,278 | ( 701) | 721,659 |
| Fund balance - beginning of year | 1,257,832 | 2,375,260 | 400,661 | 4,033,753 |
| Fund balance - end of year | $ 1,368,914 | $ 2,986,538 | $ 399,960 | $ 4,755,412 |

**SEE NOTES TO FINANCIAL STATEMENTS.**

**CITY OF COMMERCE, 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, 2010**

| | | |
|---|---|---|
| **Amounts reported for governmental activities in the statement of activities are different because:** | | |
| **Net change in fund balances – total governmental funds** | **$** | **721,659** |
| **Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:** | | |
| **Capital asset purchases capitalized** | | **296,023** |
| **Depreciation expense** | **(** | **944,866)** |
| **The net effect of the casualty loss of capital assets is to decrease net assets** | **(** | **9,533)** |
| **A certain amount of property tax revenues in the statement of activities that does not provide current financial resources and is not reported as revenue in the funds** | | **6,850** |
| **Long-term compensated absences were reported in the statement of activities, but they did not require the use of current financial resources. Therefore, long-term compensated absences were not reported as expenditures in governmental funds** | | **17,569** |
| **Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets:** | | |
| **Capital leases payable** | | **151,687** |
| **Notes payable** | | **54,335** |
| **The issuance of long-term debt provides current financial resources to governmental funds, which increases long-term liabilities on the statement of activities:** | | |
| **Capital leases payable** | **(** | **238,766)** |
| **Change in Net Assets of Governmental Activities** | **$** | **54,958** |

**SEE NOTES TO FINANCIAL STATEMENTS**

**CITY OF COMMERCE, GEORGIA**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**
**BUDGET AND ACTUAL - GENERAL FUND**
**FOR THE YEAR ENDED JUNE 30, 2010**

| | General Fund | | | |
|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance with Final budget Over (Under) |
| **REVENUES** | | | | |
| Taxes | $ 2,255,492 | $ 2,255,492 | $ 2,074,599 | $( 180,893) |
| Charges for services | 633,500 | 633,500 | 592,960 | ( 40,540) |
| Fines and forfeitures | 456,800 | 456,800 | 497,898 | 41,098 |
| Late payment fees | 190,000 | 190,000 | 191,908 | 1,908 |
| Licenses and permits | 128,250 | 128,250 | 131,002 | 2,752 |
| Intergovernmental | 56,250 | 56,250 | 55,989 | ( 261) |
| Other | 101,125 | 112,049 | 135,673 | 23,624 |
| Investment return | 70,000 | 70,000 | 10,513 | ( 59,487) |
| Total revenues before budgeted surplus carryover | 3,891,417 | 3,902,341 | 3,690,542 | ( 211,799) |
| Budgeted surplus carryover | 125,000 | 125,000 | 125,000 | - |
| Total revenues and budgeted surplus Carryover | 4,016,417 | 4,027,341 | 3,815,542 | ( 211,799) |
| **EXPENDITURES** | | | | |
| Current operating | | | | |
| General government | 389,226 | 389,226 | 262,473 | 126,753 |
| Public safety | 2,507,836 | 2,518,760 | 2,297,894 | 220,866 |
| Public services | 1,370,041 | 1,370,041 | 1,227,055 | 142,986 |
| Library | 217,864 | 217,864 | 192,308 | 25,556 |
| Parks and recreation | 493,426 | 493,426 | 454,183 | 39,243 |
| Planning and development | 295,619 | 295,619 | 277,063 | 18,556 |
| Downtown development | 177,351 | 177,351 | 170,600 | 6,751 |
| Total expenditures | 5,451,363 | 5,462,287 | 4,881,576 | 580,711 |
| Excess (deficiency) of revenues over (under) expenditures (budgetary basis) | ( 1,434,946) | ( 1,434,946) | ( 1,060,034) | 368,912 |
| Adjustments | | | | |
| To adjust for budgeted surplus carryover | - | - | ( 125,000) | ( 125,000) |
| Excess (deficiency) of revenues over (under) Expenditures (GAAP basis) | ( 1,434,946) | ( 1,434,946) | ( 1,191,034) | 243,912 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Proceeds from capital leases | 263,000 | 263,000 | 238,766 | ( 24,234) |
| Sales of surplus property | 7,000 | 7,000 | - | ( 7,000) |
| Transfers in | 1,316,801 | 1,359,589 | 1,248,658 | ( 110,931) |
| Transfers out | ( 145,855) | ( 188,643) | ( 185,308) | 3,335 |
| Net other financing sources (uses) | 1,440,946 | 1,440,946 | 1,302,116 | ( 138,830) |
| Net change in fund balance | 6,000 | 6,000 | 111,082 | 105,082 |
| Fund balance - beginning of year | 1,257,832 | 1,257,832 | 1,257,832 | - |
| Fund balance - end of year | $ 1,263,832 | $ 1,263,832 | $ 1,368,914 | $ 105,082 |

**SEE NOTES TO FINANCIAL STATEMENTS.**

**CITY OF COMMERCE, GEORGIA**
**STATEMENT OF FUND NET ASSETS**
**PROPRIETARY FUNDS**
**JUNE 30, 2010**

| | BUSINESS-TYPE ACTIVITIES | | | | |
|---|---|---|---|---|---|
| | NATURAL GAS SYSTEM | ELECTRIC SYSTEM | WATER AND SEWER SYSTEM | OTHER ENTERPRISE FUND REVOLVING LOAN FUND | TOTALS |
| **ASSETS** | | | | | |
| **Current assets:** | | | | | |
| Cash and investments | $ 1,696,777 | $ 2,291,630 | $ 980,977 | $ - | $ 4,969,384 |
| Accounts receivable, net | 149,406 | 295,738 | 167,068 | - | 612,212 |
| Other receivables | - | - | - | 61 | 61 |
| Notes receivable | - | - | - | 37,286 | 37,286 |
| Intergovernmental receivable | - | - | 434,911 | - | 434,911 |
| Prepaid expenses | 3,724 | 3,215 | 10,708 | - | 17,647 |
| Total current assets | 1,849,907 | 2,590,583 | 1,593,664 | 37,347 | 6,071,501 |
| **Noncurrent assets:** | | | | | |
| Restricted cash and investments | 66,413 | 4,018,363 | 2,697,152 | 244,576 | 7,026,504 |
| Notes receivable | - | - | - | 227,544 | 227,544 |
| Unamortized portion of debt issue costs | 23,121 | - | 317,538 | - | 340,659 |
| Net capital assets | 8,769,015 | 5,836,748 | 23,067,771 | - | 37,673,534 |
| Total noncurrent assets | 8,858,549 | 9,855,111 | 26,082,461 | 472,120 | 45,268,241 |
| **Total assets** | $ 10,708,456 | $ 12,445,694 | $ 27,676,125 | $ 509,467 | $ 51,339,742 |
| **LIABILITIES** | | | | | |
| **Current liabilities:** | | | | | |
| Accounts payable | $ 152,914 | $ 376,729 | $ 11,809 | $ - | $ 541,452 |
| Accrued expenses | 29,500 | 7,252 | 122,082 | - | 158,834 |
| Due to other funds | 2,010 | 1,685 | 360,387 | 103,645 | 467,727 |
| Capital leases | 176,933 | - | - | - | 176,933 |
| Note payable | - | - | 6,171 | - | 6,171 |
| Revenue bonds payable | - | - | 191,383 | - | 191,383 |
| Total current liabilities | 361,357 | 385,666 | 691,832 | 103,645 | 1,542,500 |
| **Noncurrent liabilities:** | | | | | |
| Customer deposits | 66,413 | 96,247 | 51,584 | - | 214,244 |
| Compensated absences | 18,375 | 15,925 | 45,210 | - | 79,510 |
| Capital leases | 3,113,646 | - | - | - | 3,113,646 |
| Note payable | - | - | 312,333 | - | 312,333 |
| Revenue bonds payable | - | - | 15,301,635 | - | 15,301,635 |
| Total noncurrent liabilities | 3,198,434 | 112,172 | 15,710,762 | - | 19,021,368 |
| **Total liabilities** | 3,559,791 | 497,838 | 16,402,594 | 103,645 | 20,563,868 |
| **FUND NET ASSETS** | | | | | |
| Invested in capital assets, net of related debt | 5,478,436 | 5,836,748 | 8,197,410 | - | 19,512,594 |
| Restricted for debt service | - | - | 1,408,862 | - | 1,408,862 |
| Restricted for restricted assets | - | 3,922,116 | - | 140,931 | 4,063,047 |
| Unrestricted | 1,670,229 | 2,188,992 | 1,667,259 | 264,891 | 5,791,371 |
| **Total fund net assets** | 7,148,665 | 11,947,856 | 11,273,531 | 405,822 | 30,775,874 |
| **Total liabilities and fund net assets** | $ 10,708,456 | $ 12,445,694 | $ 27,676,125 | $ 509,467 | $ 51,339,742 |

**SEE NOTES TO FINANCIAL STATEMENTS.**

**CITY OF COMMERCE, GEORGIA**
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**
**PROPRIETARY FUNDS**
**FOR THE YEAR ENDED JUNE 30, 2010**

| | BUSINESS-TYPE ACTIVITIES | | | | |
|---|---|---|---|---|---|
| | NATURAL GAS SYSTEM | ELECTRIC SYSTEM | WATER AND SEWER SYSTEM | OTHER ENTERPRISE FUND REVOLVING LOAN FUND | TOTALS |
| **OPERATING REVENUES** | | | | | |
| Charges for services | $ 4,019,182 | $ 5,326,295 | $ 3,165,139 | $ - | $ 12,510,616 |
| Other | 23,312 | 28,603 | 23,473 | - | 75,388 |
| Total operating revenues | 4,042,494 | 5,354,898 | 3,188,612 | - | 12,586,004 |
| **OPERATING EXPENSES** | | | | | |
| Personal services | 650,641 | 684,953 | 1,515,739 | - | 2,851,333 |
| Contractual services | 41,969 | 41,917 | 163,465 | - | 247,351 |
| Utilities purchased for resale | 2,468,768 | 3,894,474 | - | - | 6,363,242 |
| Utilities | 10,555 | 9,139 | 228,178 | - | 247,872 |
| Repairs and maintenance | 13,084 | 41,572 | 172,815 | - | 227,471 |
| Materials and supplies | 32,642 | 69,102 | 237,130 | - | 338,874 |
| Depreciation | 404,547 | 336,343 | 1,317,740 | - | 2,058,630 |
| Bad debt | 11,753 | 45,072 | 27,561 | - | 84,386 |
| Total operating expenses | 3,633,959 | 5,122,572 | 3,662,628 | - | 12,419,159 |
| Operating income (loss) | 408,535 | 232,326 | ( 474,016) | - | 166,845 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | |
| Interest and investment earnings | 32,232 | 271,468 | 86,253 | 12,469 | 402,422 |
| Intergovernmental expense | - | - | - | ( 94,938) | ( 94,938) |
| Interest expense | ( 154,365) | - | ( 710,834) | - | ( 865,199) |
| Amortization | ( 1,799) | - | ( 29,112) | - | ( 30,911) |
| Total nonoperating revenues (expenses) | ( 123,932) | 271,468 | ( 653,693) | ( 82,469) | ( 588,626) |
| Income (loss) before contributions and transfers | 284,603 | 503,794 | ( 1,127,709) | ( 82,469) | ( 421,781) |
| **CAPITAL CONTRIBUTIONS** | - | - | 1,033,964 | - | 1,033,964 |
| **TRANSFERS** | ( 711,023) | ( 351,887) | ( 10,966) | - | ( 1,073,876) |
| Change in fund net assets | ( 426,420) | 151,907 | ( 104,711) | ( 82,469) | ( 461,693) |
| Total fund net assets – beginning, as restated for Electric System | 7,575,085 | 11,795,949 | 11,378,242 | 488,291 | 31,237,567 |
| Total fund net assets – ending | $ 7,148,665 | $ 11,947,856 | $ 11,273,531 | $ 405,822 | $ 30,775,874 |

**SEE NOTES TO FINANCIAL STATEMENTS.**

**CITY OF COMMERCE, GEORGIA**
**STATEMENT OF CASH FLOWS**
**PROPRIETARY FUNDS**
**FOR THE YEAR ENDED JUNE 30, 2010**

| | BUSINESS-TYPE ACTIVITIES | | | | |
|---|---|---|---|---|---|
| | NATURAL GAS SYSTEM | ELECTRIC SYSTEM | WATER AND SEWER SYSTEM | OTHER ENTERPRISE FUND REVOLVING LOAN FUND | TOTALS |
| ***CASH FLOWS FROM OPERATING ACTIVITIES*** | | | | | |
| Receipts from customers | $ 4,013,582 | $ 5,323,307 | $ 3,212,820 | $ 24,806 | $ 12,574,515 |
| Payments to suppliers | ( 2,902,481) | ( 4,551,585) | ( 1,175,475) | - | ( 8,629,541) |
| Payments to employees | ( 278,869) | ( 227,806) | ( 815,905) | - | ( 1,322,580) |
| Net cash provided (used) by operating activities | 832,232 | 543,916 | 1,221,440 | 24,806 | 2,622,394 |
| ***CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES*** | | | | | |
| Transfers to other funds | ( 711,023) | ( 351,887) | ( 10,966) | - | ( 1,073,876) |
| Net cash provided (used) by noncapital financing activities | ( 711,023) | ( 351,887) | ( 10,966) | - | ( 1,073,876) |
| ***CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES*** | | | | | |
| Receipts of capital contributions | - | - | 599,053 | - | 599,053 |
| Proceeds from capital debt | - | - | 318,504 | - | 318.504 |
| Closing costs paid on capital debt | - | - | ( 14,666) | - | ( 14,666) |
| Purchases of capital assets | ( 16,278) | ( 71,489) | ( 1,509,173) | - | ( 1,596,940) |
| Principal paid on capital debt | ( 169,085) | - | ( 195,000) | - | ( 364,085) |
| Interest paid on capital debt | ( 155,764) | - | ( 710,409) | - | ( 866,173) |
| Net cash provided (used) by capital and related financing activities | ( 341,127) | ( 71,489) | ( 1,511,691) | - | ( 1,924,307) |
| ***CASH FLOWS FROM INVESTING ACTIVITIES*** | | | | | |
| Proceeds from sales of investments | - | 492,882 | 3,701,811 | - | 4,194,693 |
| Purchase of investments | - | ( 911,164) | ( 3,704,438) | - | ( 4,615,602) |
| Lending of notes receivable | - | - | - | ( 175,549) | ( 175,549) |
| Investment earnings | 32,232 | 283,633 | 111,124 | 12,445 | 439,434 |
| Net cash provided (used) by investing activities | 32,232 | ( 134,649) | 108,497 | ( 163,104) | ( 157,024) |
| Increase (decrease) in cash and cash Equivalents | ( 187,686) | ( 14,109) | ( 192,720) | ( 138,298) | ( 532,813) |
| Cash and cash equivalents – beginning of year | 1,950,876 | 319,422 | 2,399,439 | 373,215 | 5,052,611 |
| Cash and cash equivalents – end of year | $ 1,763,190 | $ 305,313 | $ 2,206,719 | $ 244,576 | $ 4,519,798 |

**SEE NOTES TO FINANCIAL STATEMENTS**

**CITY OF COMMERCE, GEORGIA**
**STATEMENT OF CASH FLOWS**
**PROPRIETARY FUNDS**
**FOR THE YEAR ENDED JUNE 30, 2010**

| | BUSINESS-TYPE ACTIVITIES | | | | |
|---|---|---|---|---|---|
| | NATURAL GAS SYSTEM | ELECTRIC SYSTEM | WATER AND SEWER SYSTEM | OTHER ENTERPRISE FUND REVOLVING LOAN FUND | TOTALS |
| ***RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES*** | | | | | |
| Operating income (loss) | $ 408,535 | $ 232,326 | $( 474,016) | $ - | $ 166,845 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | | |
| Cash flows reported in other categories: | | | | | |
| Depreciation expense | 404,547 | 336,343 | 1,317,740 | - | 2,058,630 |
| Change in assets and liabilities: | | | | | |
| Accounts receivable | ( 29,077) | ( 28,817) | 24,643 | - | ( 33,251) |
| Notes receivable | - | - | - | 24,806 | 24,806 |
| Prepaid expenses | ( 3,724) | ( 3,215) | ( 10,708) | | ( 17,647) |
| Accounts payable | 50,574 | 5,972 | 11,809 | - | 68,355 |
| Accrued expenses | ( 963) | ( 147) | ( 730) | - | ( 1,840) |
| Internal balances | 2,010 | 1,685 | 360,387 | - | 364,082 |
| Customer deposits | 165 | ( 2,774) | ( 435) | - | ( 3,044) |
| Compensated absences | 165 | 2,543 | ( 7,250) | - | ( 4,542) |
| Net cash provided by operating activities | $ 832,232 | $ 543,916 | $ 1,221,440 | $ 24,806 | $ 2,622,394 |
| ***RECONCILIATION OF CASH AND INVESTMENTS TO STATEMENT OF NET ASSETS*** | | | | | |
| Cash and investments | $ 1,696,777 | $ 2,291,630 | $ 980,977 | $ - | $ 4,969,384 |
| Restricted cash and investments | 66,413 | 4,018,363 | 2,697,152 | 244,576 | 7,026,504 |
| Total cash and investments | 1,763,190 | 6,309,993 | 3,678,129 | 244,576 | 11,995,888 |
| Less: investments and restricted investments | - | ( 6,004,680) | ( 1,471,410) | - | ( 7,476,090) |
| Total cash and cash equivalents, end of year | $ 1,763,190 | $ 305,313 | $ 2,206,719 | $ 244,576 | $ 4,519,798 |

**SEE NOTES TO FINANCIAL STATEMENTS.**

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**The financial statements of the primary government of the City have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are not applied in the preparation of the financial statements in accordance with GASB Statement No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.**

**These financial statements are prepared in accordance with GASB issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments.* This Statement has established financial reporting requirements for state and local governments throughout the United States. As part of the implementation of GASB Statement No. 34, the City has prepared required supplementary information titled *Management's Discussion and Analysis, which* precedes the primary government financial statements.**

### REPORTING ENTITY

**In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate holding entities) for which the City may or not be financially accountable and, as such, be includable with the City's financial statements in accordance with generally accepted accounting principles. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose a specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are, in substance, part of the City's operations, and accordingly, data from these units are combined with data of the City. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government. The component unit discussed below should be included in the City's reporting entity because of its operational or financial relationship with the City.**

### Discretely Presented Component Unit

***Commerce Downtown Development Authority* - The Commerce Downtown Development Authority ("DDA"), is governed by a board appointed by the City Council and Mayor. The DDA was created for the purpose of administering activities with regard to the revitalization and promotion of downtown Commerce. The DDA provides community promotions, streetscape maintenance, downtown beautification, and building oversight and maintenance for the City owned cultural center. The DDA is required to submit a budget to the City Council for approval. The City Council determines a monthly allocation that it pays to the DDA for its operations. The City also pays the salary and some other expenses related to downtown development. The DDA is a component unit of the City.**

**The DDA did not issue separate financial statements for the year ended June 30, 2010.**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**BASIS OF PRESENTATION**

**Government-wide Financial Statements**

**The government-wide financial statements (the statement of net assets and the statement of activities) report information of all the nonfiduciary activities of the primary government and its component unit. The effect of Interfund activity, within the governmental and business-type activities columns, has been removed from these statements. 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.**

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

**Fund Financial Statements**

**The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.**

**Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:**

***General Fund* - The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.**

***SPLOST 2005 Fund* - The SPLOST 2005 Fund is a capital projects fund. It is used to account for all activities related to the 2005 Special Purpose Local Option Sales Tax (SPLOST) as restricted by law. SPLOST is the primary revenue of the fund, and capital outlay expenditures for water and sewer system and roads and bridges improvements are the primary expenditures of the fund.**

**Proprietary funds**

**Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary funds:**

***Natural Gas System Fund* – The Natural Gas System Fund is used to account for the provision of natural gas services to the residents of the City. Activities of the fund include administration, operations and maintenance of the gas system and billing and collection activities. This fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for gas system debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**BASIS OF PRESENTATION – Continued**

**Proprietary funds - continued**

***Electric System Fund*** **- The Electric System Fund is used to account for the provision of electricity services to the residents of the City. Activities of the fund include administration, operations and maintenance of the electric system and billing and collection activities. This fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for electric system debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.**

***Water and Sewer System Fund*** **– The Water and Sewer System Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. This fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer system debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.**

**Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.**

**MEASUREMENT FOCUS/BASIS OF ACCOUNTING**

**Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.**

**The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.**

**Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.**

**The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.**

**When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**BUDGETS AND BUDGETARY ACCOUNTING**

**Annual budgets are adopted for the General, Special Revenue, Debt Service and Proprietary (Enterprise) Funds. The budgets for the General Fund, Special Revenue, and Debt Service Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). The budget for the Proprietary (Enterprise) Funds are adopted on a GAAP basis, except that long-term debt borrowings are budgeted as revenues and depreciation expense is not budgeted. Budget amounts are as originally adopted, or as amended by the Mayor and City Council. Some individual revisions were material in relation to the original appropriations.**

**A legally authorized, non-appropriated budget is prepared for the SPLOST Old, SPLOST 2005, and Library Expansion Capital Project Funds. Expenditures for these funds are controlled on a project basis and are carried forward each year until the project is completed.**

**Budgeting Policy**

- **The City Manager submits to the Mayor and City Council a proposed operating budget for the upcoming fiscal year. The operating budget includes proposed expenditures and revenues for the General Fund, Special Revenue, Debt Service and Proprietary (Enterprise) Funds.**
- **Public hearings are conducted to obtain taxpayer comments.**
- **The budget is then approved by the Mayor and City Council, and becomes the basis for the millage levied by them.**
- **Management may not make any budget revisions without the prior approval of the City Council. Budget revisions that alter the total expenditures of any department or line item within a department must be approved by the City Council.**
- **Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service, and Proprietary (Enterprise) Funds.**
- **All appropriations lapse at the end of the fiscal year.**

**Encumbrances**

**Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration in the General, Special Revenue, or Proprietary Funds. Encumbrances outstanding at year-end are reservations of fund balances since they do not constitute expenditures or liabilities. The City of Commerce has no recorded encumbrances at June 30, 2010.**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**CASH AND CASH EQUIVALENTS AND INVESTMENTS**

**The City has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agents. Additionally, the City considers all highly liquid investments with original maturities of three months or less and certificates of deposit that are not restricted to be cash and cash equivalents. Investments are reported at fair value based on the last reported sales price as of the balance sheet date.**

**ACCOUNTS RECEIVABLE AND DEFERRED REVENUE**

**Accounts receivable are recorded in the General and Proprietary Funds. Receivables are stated at their net realizable value (face value less the allowance for uncollectible accounts). Delinquent taxes receivable are fully reserved by the deferral of the related revenues until payment is received. Utility receivables are recognized only when billed. No accrual of earned, but unbilled receivables is made at year-end. The City had no allowances for doubtful accounts at June 30, 2010.**

**PREPAID EXPENSES**

**Payments made for services that will benefit periods beyond June 30, 2010 are recorded as prepaid expenses.**

**RESTRICTED CASH AND INVESTMENTS**

**Certain funds are held by the General and Enterprise Funds in accounts restricted for customer deposits, debt service, capital expenditures, and the Municipal Competitive Trust Agreement with the Municipal Electric Authority of Georgia. These funds are held in cash and/or investments as allowed by State law and the requirements of the related debt agreements. The investments are stated at fair value and the City records all investment revenue earned on these investments in the appropriate Fund.**

**INVENTORIES**

**The governmental fund type fuel inventory is valued at cost using the first-in first-out or FIFO method with fuel inventory charged to expenditures when consumed. All other governmental fund type inventories are accounted for using the purchase method, whereby inventories are charged to expenditures when purchased.**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**CAPITAL ASSETS**

**Capital assets which include land, buildings and improvements, furniture, machinery and equipment, office equipment, computer equipment, infrastructure assets, utility systems infrastructure, and vehicles. The City defines capital assets as assets with an initial individual cost of more than $5,000 and an estimated useful life of 5 years or more. Capital assets are recorded at historical cost, appraised value, or estimated historical cost or replacement cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Repairs and maintenance are recorded as expenditures; renewal and betterments are capitalized. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:**

| | |
|---|---|
| **Buildings** | **20 - 40 years** |
| **Natural Gas system** | **10 - 40 years** |
| **Electric system** | **10 - 33 years** |
| **Water and sewer system** | **10 - 30 years** |
| **Machinery and equipment** | **5 - 10 years** |
| **Furniture, fixtures and equipment** | **10 - 15 years** |
| **Computer equipment** | **5 - 10 years** |
| **Other infrastructure** | **20 - 40 years** |
| **Vehicles** | **5 - 15 years** |

**The City has elected not to capitalize collections and works of art. Collections such as works of art and historical artifacts meet the definition of a capital asset. The requirement for capitalization is waived, however, for collections that meet the following conditions:**

- **The collection is held for reasons other than financial gain.**
- **The collection is protected, kept unencumbered, cared for, and preserved.**
- **The collection is subject to an organizational policy requiring that the proceeds from sales of collection items be used to acquire other items for collections.**

**The sale or disposal of capital assets is recorded by removing the cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.**

**The City capitalizes interest costs as part of the cost of construction of various construction projects when material.**

**GASB Statement No. 34 requires the City to report and depreciate new infrastructure assets. Infrastructure assets include roads, bridges, drainage, sidewalks, etc. The City fully implemented the provisions of GASB Statement No. 34 in the fiscal year ending June 30, 2007.**

**Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**INTEREST EXPENSE AND CAPITALIZED INTEREST**

**Interest expense on long-term debt has been included as a direct function expense in the governmental and business-type activities. Total interest expense from governmental activities was $12,282. Total interest expense from business-type activities was $865,199. Of this amount, $154,365 was charged to the natural gas system and $710,834 was charged to the water and sewer system.**

**Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Total interest costs incurred by the City's proprietary funds for the year ended June 30, 2010 were $866,250. Of this amount, $865,199 of interest costs were charged to expense, and $1,051 of interest costs were capitalized by the proprietary funds for the year ended June 30, 2010.**

**BOND DISCOUNTS AND ISSUANCE COSTS**

**Proprietary Fund bond discounts and issuance costs are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bond discounts are presented as unamortized portion of bond issue costs; whereas, issuance costs are recorded as deferred charges.**

**COMPENSATED ABSENCES**

**City employees are entitled to receive, upon termination of or retirement from employment, all accumulated annual leave up to 250 hours. The estimated portion of the liability for accumulated leave attributable to the City's governmental activities and business-type activities are recorded as long-term liabilities in the government-wide statement of net assets. Current amounts due are not recorded in the governmental-wide statement of net assets due to their immaterial nature. The amounts attributable to proprietary funds are charged to expense and a corresponding liability in the applicable fund. Estimated liabilities of required salary related payments are not recognized due to their immaterial nature.**

**LONG-TERM DEBT**

**Long-term debt is recorded on the statement of net assets in the government-wide and proprietary fund financial statements, and any related interest expense is recorded on the statement of activities in the government-wide financial statements and the statement of revenues, expenses, and changes in net assets in the proprietary fund financial statements.**

**Long-term liabilities expected to be financed from governmental fund types are not recorded in the governmental fund financial statements. Payments of principal and interest are recorded as expenditures on the statement of revenues, expenditures and changes in fund balance in the governmental fund financial statements.**

**RESERVES OF FUND BALANCE/NET ASSETS**

**The City records reserves to indicate that a portion of the fund balance/net assets is legally segregated for a specific use.**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**INTERFUND TRANSACTIONS**

**Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.**

**USE OF ESTIMATES**

**The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures or expenses during the reporting period. Accordingly, actual results could differ from those estimates.**

**USE OF RESTRICTED/UNRESTRICTED NET ASSETS**

**When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.**

**REVENUE RECOGNITION**

***Property Taxes* - City property tax revenues are recognized when levied to the extent that they result in current receivables. Receivables outstanding more than 60 days after year-end are recorded as deferred revenue. Property taxes attach as an enforceable lien on property 91 days after their due date. Taxes were levied on October 12, 2009, which is the date that the millage rate was established, and were billed on October 20, 2009 and were payable by December 20, 2009. Jackson County bills and collects property taxes for the City. The millage rate for the 2009 tax digest was set at 1.50 mills.**

***Sales Taxes* - Sales tax is considered to be measurable when they have been collected by the State and are recognized as revenue at that time.**

***Licenses and Permits, Charges for Services, Fines and Forfeitures and Miscellaneous Revenues (Except Investment Earnings)* - are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.**

**ALLOCATION OF INDIRECT COSTS**

**The City allocates indirect costs for general government services, such as finance, personnel, purchasing, legal, technology, management, etc., to its business-type activities. Allocations are charged to programs based on use of general government services determined by various allocation methodologies. These charges are separately reported in the statement of activities.**

## NOTE 2 - CASH AND INVESTMENTS

### *Cash*

***Custodial credit risk*** **for cash deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. State statutes require all deposits to be 110% collateralized by depository insurance, obligations of the United States or certain obligations guaranteed by the U.S. Government, obligations of the State of Georgia, or industrial revenue bonds or bonds of public or development authorities, counties, or municipalities of the State of Georgia. The collateral pledged by the banks' trust department but not in the City's name is composed of bonds of U.S. Government Agencies. The City has no policy on custodial credit risk other than it complies with the State of Georgia requirements.**

**At June 30, 2010, the carrying amount of the City's cash was $8,919,680 and the bank balance was $9,469,220. The bank balances differ from the carrying amounts due to outstanding checks and deposits, and reconciling items. The City's deposits are covered by Federal Depository Insurance or by collateral held by pledging financial institution or it's agent in the City's name. The City has not adopted a formal deposit policy.**

**The carrying amounts of deposits for the Downtown Development Authority, a discretely presented component unit, were $54,980 and the bank balance was $56,042. The entire bank balance was covered by Federal Depository Insurance at June 30, 2010.**

### *Investments*

**State statutes authorize the City to invest only in certificates of deposit of banks and savings and loan associations which have deposits insured by the FDIC with any uninsured amounts collateralized by direct obligations of the United States or the State of Georgia; obligations of the United States and of its agencies and instrumentalities; or bonds or certificates of indebtedness of the State of Georgia and of its agencies and its instrumentalities. The City has not adopted a formal investment policy.**

**As of June 30, 2010, the City had the following investments:**

| Investment | Rating | Maturity | Fair Value |
|---|---|---|---|
| Primary Government | | | |
| Business-type activities | | | |
| Federated US Treasury Cash Reserves SS | AAAm | 07/01/10-01/31/10 | $ 196,427 |
| Total cash equivalents | | | $ 196,427 |
| FNMA Partn Cert Pool | Not Rated | 08/02/10 | $ 1,471,410 |
| Municipal Competitive Trust: | | | |
| Short-term Portfolio | Not Rated | 07/01/10-10/25/10 | 1,288,461 |
| Intermediate Portfolio | Not Rated | 07/01/10-12/15/14 | 2,792,526 |
| Intermediate Tax Restricted Portfolio | Not Rated | 07/01/10-12/15/15 | 1,923,693 |
| Total investments | | | $ 7,476,090 |

**NOTE 2 - CASH AND INVESTMENTS – Continued**

**The City is involved in an external investment pool, the Municipal Competitive Trust, which is administered by the Municipal Electric Authority of Georgia ("MEAG"), a governmental entity. Due to the anticipated deregulation of the retail sale of electricity in the state of Georgia, the City entered into a Municipal Competitive Trust agreement with the Municipal Electric Authority of Georgia ("MEAG"). The City purchases for resale, electric power from MEAG. The City is a beneficiary of this trust, and the City and MEAG deposit monies in the trust from time to time. All monies are held by the trustee, Wachovia Bank, for the City's benefit and are invested in investment securities. The pool is not registered with the SEC as an investment company. The City has recorded the assets in the Electric System Enterprise Fund. The Municipal Competitive Trust permits the investment of funds in direct obligations of the United States Government, direct and general obligations of states, certain Federal agency discount notes and repurchase agreements collateralized by securities, which would otherwise by permissible under the laws of the State of Georgia. The fair value of the City's position in the pool changes with market conditions, and is calculated based on the fair market value of net assets held in the pool at the close of each business day. The pool determines participant's shares sold and redeemed based on the market value per share at the close of the business day of the sale or redemption.**

***Credit Risk.*** **The City has no policy regarding credit risk. The investment in the Federated US Treasury Cash Reserves SS is rated AAAm by Standard and Poor's. The City's investments in the FNMA Partn Cert Pool and the Municipal Competitive Trust are not rated. The FNMA Partn Cert Pool invests in obligations backed by the United States Government. The Municipal Competitive Trust permits the investment of funds in direct obligations of the United States Government, direct and general obligations of states, certain Federal agency discount notes and repurchase agreements collateralized by securities, which would otherwise by permissible under the laws of the State of Georgia.**

***Custodial Credit Risk.*** **For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's $196,427 investment in Federated US Treasury Cash Reserves SS is an investment in money market funds. An investment in money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of the investment at $1.00 per share, it is possible to lose money by investing in the funds. Fund shares are not guaranteed by the US Government. The fund is a managed portfolio and its holdings are subject to change. The fund shares are held in an investment account in the City's name. The City's investments in the FNMA Partn Cert Pool are invested in obligations backed by the United States Government, therefore, they are guaranteed by the US Government. Custodial Credit Risk is not required for external investment pools, therefore, the Municipal Competitive Trust is exempt from this requirement. The City has no policy on custodial credit risk.**

***Interest Rate Risk.*** **Interest rate risk is the risk that changes in interest rates may adversely affect an investment's fair value. Since the price of a bond fluctuates with market interest rates, the risk that an investor faces is that the price of a bond held in a portfolio will decline if market interest rates rise. The City uses the specific identification of maturity of its investments. The Federated US Treasury Cash Reserves SS maturity range is from 07/01/10 – 1/31/11, the FNMA Partn Cert Pool investment matures 08/02/10, the Municipal Competitive Trust Short-term Portfolio maturity range is from 07/01/10 – 10/25/10, the Municipal Competitive Trust Intermediate Portfolio maturity range is from 07/01/10 – 12/15/14, and the Municipal Competitive Trust Intermediate Tax Restricted Portfolio maturity range is from 07/01/10 – 12/15/15.**

***Concentration of Credit Risk.*** **The City places no limit on the amount that the City may invest in any one issuer. More than 5% of the City's investments are in the FNMA Partn Cert Pool that mature 08/02/10. This investment is 19.7% of the City's total investments. External investment pools are excluded from the concentration of credit risk requirement, therefore, the Municipal Competitive Trust is exempt from this requirement.**

***Foreign Currency Risk.*** **The City has no foreign currency risk as all investments are in U.S. dollar-denominated assets.**

**NOTE 2 - CASH AND INVESTMENTS – Continued**

**The City's cash and investments are reported as follows:**

| | |
|---|---|
| Cash and cash equivalents | $ 8,919,680 |
| Investments | 7,476,090 |
| Total cash and investments | $ 16,395,770 |

| | Governmental Activities | Business-Type Activities | Total Cash and Investments |
|---|---|---|---|
| Cash and investments | $ 1,244,813 | $ 4,969,384 | $ 6,214,197 |
| Restricted cash and investments | 3,155,069 | 7,026,504 | 10,181,573 |
| Total | $ 4,399,882 | $ 11,995,888 | $ 16,395,770 |

**NOTE 3 - RECEIVABLES**

| | Governmental Activities | | | |
|---|---|---|---|---|
| | General | SPLOST 2005 | Business-type Activities | Total |
| Current receivables: | | | | |
| Property taxes | $ 34,712 | $ - | $ - | $ 34,712 |
| Sales and other taxes | 230,118 | 217,947 | - | 448,065 |
| Accounts | - | - | 612,212 | 612,212 |
| Intergovernmental | - | - | 434,911 | 434,911 |
| Notes | - | - | 37,286 | 37,286 |
| Other | 55,849 | - | 61 | 55,910 |
| Total current | 320,679 | 217,947 | 1,084,470 | 1,623,096 |
| Long-term receivables: | | | | |
| Notes | - | - | 227,544 | 227,544 |
| Total receivables | $ 320,679 | $ 217,947 | $ 1,312,014 | $ 1,850,640 |

**NOTE 3 – RECEIVABLES - Continued**

**The notes receivable in the business-type activities consisted of the following at June 30, 2010:**

| | | |
|---|---|---|
| Note receivable made to a local business throught the Community Development Block Grant – Employment Incentive Program. Original amount of note was $108,000. Payments receivable in monthly installments of $1,043 over 10 years, Including interest at 3.0%. Collateralized by furniture, fixtures, equipment and personal guarantees of the principals of the company. The note matures April 8, 2020. | $ | 106,453 |
| Note receivable made to a local business through the Community Development Block Grant – Employment Incentive Program. Original amount of note was $76,256. Payments receivable in monthly installments of $851 over 10 years, including interest at 3%. Collateralized by personal guarantees of the principals of the Company. The note matures February 1, 2020. | | 73,085 |
| Note receivable made to a local business through the Community Development Block Grant – Employment Incentive Program. Original amount of note was $160,762. Payments receivable in monthly installments of $1,552 over 10 years, including interest at 3%. Collateralized by personal guarantees of the principals of the company. The note matures September 1, 2014. | | 72,876 |
| Note receivable made to a local business through the Community Development Block Grant – Employment Incentive Program. Original amount Of note was $15,000. Payments receivable in monthly installments of $270 Over 5 years, including interest at 3%. Collateralized by personal property. The note matures May 20, 2014. | | 12,416 |
| Total note receivable | | 264,830 |
| Less: Current portion | | ( 37,286) |
| Long-term portion | $ | 227,544 |

**At June 30, 2010, scheduled maturities of the notes receivable were the following:**

| | | |
|---|---|---|
| 2011 | $ | 37,286 |
| 2012 | | 37,928 |
| 2013 | | 39,082 |
| 2014 | | 40,001 |
| 2015 | | 22,509 |
| 2016 - 2020 | | 88,024 |
| Total maturities of note receivable | $ | 264,830 |

**NOTE 4 - INTERFUND BALANCES**

**Interfund balances resulted from the time lag between the dates that Interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded, and payment between funds are made.**

**Interfund receivables and payables consisted of the following at June 30, 2010:**

| Fund | Interfund Receivables | Interfund Payables |
|---|---|---|
| **GENERAL FUND** | | |
| Due from SPLOST 2005 Fund | $ 40,097 | $ - |
| Due from Confiscated Asset Fund | 7,654 | - |
| Due to Debt Service Fund | - | 2,317 |
| Due from SPLOST Old Fund | 7,619 | - |
| Due from Gas System Fund | 2,010 | - |
| Due from Electric System Fund | 1,685 | - |
| Due from Water & Sewer System Fund | 360,387 | - |
| Due from Revolving Loan Fund | 103,645 | - |
| Total General Fund | $ 523,097 | $ 2,317 |
| **SPLOST 2005 FUND** | | |
| Due from General Fund | $ - | $ 40,097 |
| Total SPLOST 2005 Fund | $ - | $ 40,097 |
| **OTHER GOVERNMENTAL FUNDS** | | |
| **Special Revenue Fund** | | |
| Confiscated Asset Fund | | |
| Due to General Fund | $ - | $ 7,654 |
| Total Confiscated Asset Fund | - | 7,654 |
| **Debt Service Fund** | | |
| Due from General Fund | 2,317 | - |
| Total Debt Service Fund | 2,317 | - |
| **Capital Project Fund** | | |
| SPLOST Old Fund | | |
| Due to General Fund | - | 7,619 |
| Total SPLOST Old Fund | - | 7,619 |
| Total Other Governmental Funds | $ 2,317 | $ 15,273 |

**NOTE 4 - INTERFUND BALANCES - Continued**

| Fund | Interfund Receivables | Interfund Payables |
|---|---|---|
| **PROPRIETARY FUNDS** | | |
| **Gas System Fund** | | |
| Due to General Fund | $ - | $ 2,010 |
| **Total Gas System Fund** | - | 2,010 |
| **Electric System Fund** | | |
| Due to General Fund | - | 1,685 |
| **Total Electric System Fund** | - | 1,685 |
| **Water & Sewer System Fund** | | |
| Due to General Fund | - | 360,387 |
| **Total Water & Sewer System Fund** | - | 360,387 |
| **Revolving Loan Fund** | | |
| Due to General Fund | - | 103,645 |
| **Total Revolving Loan Fund** | - | 103,645 |
| **Total Proprietary Funds** | $ - | $ 467,727 |

**NOTE 5 - CAPITAL ASSETS**

***GOVERNMENTAL ACTIVITIES***

**Following is a summary of changes in the capital assets of governmental activities:**

| | Balance July 1 2009 | Increases | Decreases | Balance June 30, 2010 |
|---|---|---|---|---|
| **GOVERNMENTAL ACTIVITIES:** | | | | |
| **Not being depreciated:** | | | | |
| **Land** | $ 2,616,689 | $ - | $ - | $ 2,616,689 |
| **Construction in progress** | 14,410 | - | ( 14,410) | - |
| **Subtotal** | 2,631,099 | - | ( 14,410) | 2,616,689 |
| **Other capital assets:** | | | | |
| **Buildings and improvements** | 6,348,008 | - | - | 6,348,008 |
| **Infrastructure** | 8,488,174 | 52,977 | - | 8,541,151 |
| **Furniture, fixtures and equipment** | 2,864,824 | 2,685 | ( 9,900) | 2,857,609 |
| **Computer equipment and software** | 377,866 | 43,881 | ( 63,981) | 357,766 |
| **Vehicles** | 1,507,416 | 210,890 | ( 113,800) | 1,604,506 |
| **Subtotal** | 19,586,288 | 310,433 | ( 187,681) | 19,709,040 |
| **Accumulated depreciation:** | | | | |
| **Buildings and improvements** | ( 1,453,189) | ( 175,592) | - | ( 1,628,781) |
| **Infrastructure** | ( 926,655) | ( 284,041) | - | ( 1,210,696) |
| **Furniture, fixtures and equipment** | ( 2,308,577) | ( 254,382) | 9,900 | ( 2,553,059) |
| **Computer equipment and software** | ( 216,808) | ( 66,161) | 63,981 | ( 218,988) |
| **Vehicles** | ( 768,125) | ( 164,690) | 104,267 | ( 828,548) |
| **Subtotal** | ( 5,673,354) | ( 944,866) | 178,148 | ( 6,440,072) |
| **Net other capital assets** | 13,912,934 | ( 634,433) | ( 9,533) | 13,268,968 |
| **Total governmental activities capital assets** | $ 16,544,033 | $( 634,433) | $( 23,943) | $ 15,885,657 |

**Depreciation was charged to functions as follows:**

| | |
|---|---|
| **Governmental activities:** | |
| **General government** | $ 220,612 |
| **Public safety** | 261,177 |
| **Public services** | 345,326 |
| **Library** | 28,619 |
| **Parks and recreation** | 79,522 |
| **Planning and development** | 9,610 |
| **Total governmental activities depreciation expense** | $ 944,866 |

**NOTE 5 - CAPITAL ASSETS - Continued**

***BUSINESS-TYPE ACTIVITIES***

**Following is a summary of changes in the capital assets of business-type activities:**

| | Balance July 1, 2009 | Increases | Decreases | Balance June 30, 2010 |
|---|---|---|---|---|
| **BUSINESS-TYPE ACTIVITIES:** | | | | |
| **Not being depreciated:** | | | | |
| **Land** | $ 319,770 | $ - | $ - | $ 319,770 |
| **Construction in progress** | 145,170 | 1,154,795 | - | 1,299,965 |
| **Subtotal** | 464,940 | 1,154,795 | - | 1,619,735 |
| **Other capital assets:** | | | | |
| **Buildings and improvements** | 16,813,570 | - | - | 16,813,570 |
| **Electric system** | 8,645,779 | 24,594 | - | 8,670,373 |
| **Gas system** | 10,601,229 | 11,170 | - | 10,612,399 |
| **Water and sewer system** | 18,055,194 | 220,495 | - | 18,275,689 |
| **Machinery and equipment** | 2,736,913 | 161,614 | - | 2,898,527 |
| **Furniture and fixtures** | 14,625 | - | - | 14,625 |
| **Computer equipment and software** | 430,838 | 46,538 | ( 7,617) | 469,759 |
| **Vehicles** | 503,821 | 14,304 | ( 20,158) | 497,967 |
| **Subtotal** | 57,801,969 | 478,715 | ( 27,775) | 58,252,909 |
| **Accumulated depreciation:** | | | | |
| **Buildings and improvements** | ( 3,836,004) | ( 438,604) | - | ( 4,274,608) |
| **Electric system** | ( 2,931,775) | ( 283,039) | - | ( 3,214,814) |
| **Gas system** | ( 1,696,944) | ( 367,319) | - | ( 2,064,263) |
| **Water and sewer system** | ( 8,860,217) | ( 616,790) | - | ( 9,477,007) |
| **Machinery and equipment** | ( 2,221,267) | ( 279,240) | - | ( 2,500,507) |
| **Furniture and fixtures** | ( 6,947) | ( 1,462) | - | ( 8,409) |
| **Computer equipment and software** | ( 209,252) | ( 45,873) | 7,617 | ( 247,508) |
| **Vehicles** | ( 405,849) | ( 26,303) | 20,158 | ( 411,994) |
| **Subtotal** | ( 20,168,255) | ( 2,058,630) | 27,775 | ( 22,199,110) |
| **Net other capital assets** | 37,633,714 | ( 1,579,915) | - | 36,053,799 |
| **Net business-type activities capital assets** | $ 38,098,654 | $( 425,120) | $ - | $ 37,673,534 |

**Depreciation was charged to functions as follows:**

| | |
|---|---|
| **Business-type activities:** | |
| **Gas System** | $ 404,547 |
| **Electric System** | 336,343 |
| **Water and Sewer System** | 1,317,740 |
| **Total business-type activities depreciation expense** | $ 2,058,630 |

**NOTE 5 - CAPITAL ASSETS - Continued**

***COMPONENT UNIT ACTIVITIES***

**Following is a summary of changes in the capital assets of component unit activities:**

| | Balance July 1, 2009 | Increases | Decreases | Balance June 30, 2010 |
|---|---|---|---|---|
| **COMPONENT UNIT:** | | | | |
| **Not being depreciated:** | | | | |
| **Land** | $ 319,907 | $ - | $ - | $ 319,907 |
| **Subtotal** | 319,907 | - | - | 319,907 |
| **Other capital assets:** | | | | |
| **Buildings and improvements** | 595,159 | 122,200 | - | 717,359 |
| **Park improvements** | 78,646 | - | - | 78,646 |
| **Furniture, fixtures & equipment** | 9,600 | 8,746 | ( 9,600) | 8,746 |
| **Computer equipment** | 2,466 | - | - | 2,466 |
| **Subtotal** | 685,871 | 130,946 | ( 9,600) | 807,217 |
| **Accumulated depreciation:** | | | | |
| **Buildings and improvements** | ( 124,128) | ( 17,927) | - | ( 142,055) |
| **Park improvements** | ( 5,898) | ( 3,932) | - | ( 9,830) |
| **Furniture, fixtures & equipment** | ( 8,800) | ( 873) | 9,600 | ( 73) |
| **Computer equipment** | ( 535) | ( 493) | - | ( 1,028) |
| **Subtotal** | ( 139,361) | ( 23,225) | 9,600 | ( 152,986) |
| **Net other capital assets** | 546,510 | 107,721 | - | 654,231 |
| **Net component unit capital assets** | $ 866,417 | $ 107,721 | $ - | $ 974,138 |

**Depreciation was charged to functions as follows:**

| | |
|---|---|
| **Component unit:** | |
| **Downtown Development authority** | $ 23,225 |
| **Total component unit depreciation expense** | $ 23,225 |

**NOTE 6 - LONG-TERM DEBT**

**The following is a summary of changes in long-term debt for the year ended June 30, 2010:**

| Type of Debt | Balance July 1, 2009 | Additions | Deductions | Balance June 30, 2010 | Amounts Due within One Year |
|---|---|---|---|---|---|
| Governmental activities: | | | | | |
| Notes payable | $ 94,363 | $ - | $( 54,335) | $ 40,028 | $ 40,028 |
| Capital lease obligations | 212,710 | 238,767 | ( 151,688) | 299,789 | 91,018 |
| Compensated absences | 161,014 | - | ( 17,569) | 143,445 | - |
| Total general long-term debt | $ 468,087 | $ 238,767 | $( 223,592) | $ 483,262 | $ 131,046 |
| Business-type activities: | | | | | |
| Revenue bonds payable | $ 15,740,000 | $ - | $( 195,000) | $15,545,000 | $ 200,000 |
| Less: unamortized issue costs, discounts, and premiums | ( 60,599) | 8,617 | - | ( 51,982) | ( 8,617) |
| Revenue bonds payable, net | 15,679,401 | 8,617 | ( 195,000) | 15,493,018 | 191,383 |
| Capital lease obligations | 3,459,664 | - | ( 169,085) | 3,290,579 | 176,933 |
| Notes payable | - | 1,061,681 | ( 743,177) | 318,504 | 6,171 |
| Compensated absences | 84,052 | - | ( 4,542) | 79,510 | - |
| Total proprietary fund debt | $ 19,223,117 | $ 1,070,298 | $(1,111,804) | $19,181,611 | $ 374,487 |
| Component Unit | | | | | |
| Notes payable | $ 277,135 | $ 345 | $( 28,308) | $ 249,172 | $ 25,560 |
| Total component unit debt | $ 277,135 | $ 345 | $( 28,308) | $ 249,172 | $ 25,560 |

**The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities, amounts to be repaid from business-type activities, and amounts to be repaid from component units.**

***GOVERNMENTAL ACTIVITIES:***

**As of June 30, 2010, the governmental long-term debt of the financial reporting entity consisted of the following:**

**NOTE PAYABLE**

| | |
|---|---|
| Note payable to First Commerce Bank in the original amount of $40,028 dated June 30, 2010, unsecured, interest rate of 4.00% with final maturity dated June 30, 2011. The note was used to finance the replacement of the City Hall roof. | $ 40,028 |
| Total note payable | $ 40,028 |
| Current portion | $ 40,028 |
| Noncurrent portion | - |
| Total note payable | $ 40,028 |

**NOTE 6 - LONG-TERM DEBT - Continued**

***GOVERNMENTAL ACTIVITIES: - Continued:***

**CAPITAL LEASE OBLIGATIONS**

**The City has financed vehicles and equipment under capital lease agreements. In accordance with Financial Accounting Standards Board (FASB) Statement No. 23, the capital leases payable and the related assets have been recorded at the present value of the future minimum lease payments at the inception of the leases, which in these cases are $35,370, $33,495, $101,570, $34,106, $37,876, and $200,890. The leases payable were incurred for the lease of vehicles and equipment in the original amounts of $35,370, $33,495, $101,570, $34,106, $37,876, and $200,890. The following is a schedule of future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2010:**

| | |
|---|---|
| June 30, 2011 | $ 101,926 |
| June 30, 2012 | 77,951 |
| June 30, 2013 | 69,813 |
| June 30, 2014 | 59,842 |
| June 30, 2015 | 17,054 |
| Total minimum lease payments | 326,586 |
| Amount representing interest | ( 26,797) |
| Present value of lease obligations for governmental activities | 299,789 |
| Less: current maturities | 91,018 |
| Long-term maturities | $ 208,771 |

**Leased assets under capital leases in capital assets at June 30, 2010, include the following:**

| | |
|---|---|
| Vehicles | $ 405,431 |
| Furniture, fixtures, & equipment | 37,876 |
| Less: accumulated depreciation | ( 65,199) |
| Total | $ 378,108 |

**Total depreciation expense on the assets for the year ended June 30, 2010, was $38,564. This depreciation is included in the total depreciation expense shown in Note 5.**

**COMPENSATED ABSENCES**

**City employees are entitled to receive, upon termination of or retirement from employment, all accumulated annual leave as referred to in Note 1. The General Fund has been used to liquidate compensated absences from Governmental Activities in prior years.**

| | |
|---|---|
| Noncurrent portion | $ 143,445 |

**NOTE 6 - LONG-TERM DEBT - Continued**

***BUSINESS-TYPE ACTIVITIES:***

**As of June 30, 2010, the long-term debt payable from proprietary fund resources consisted of the following:**

**REVENUE BONDS PAYABLE**

**Water and Sewerage Revenue Refunding Bonds Series 2002**
**On April 8, 2002, the City issued the City of Commerce, GA Water and Sewerage Revenue Refunding Bonds Series 2002. The bonds bear interest at an average interest rate of 3.77%, payable semi-annually on June 1 and December 1. Principal payments on the bonds are due each December 1.**

**The $4,230,000 original issue amount of bond proceeds of the City of Commerce, GA Water and Sewerage Revenue Refunding Bonds Series 2002, along with $16,603 of accrued interest on those bonds, less $32,550 of original issue discount on those bonds and $343,800 from the Sinking Fund Account of the Public Utility Bonds Series 1993, were used as follows:**

- **$4,060,701 was deposited in the City of Commerce, GA Water and Sewerage Revenue Refunding Bonds Series 2002 Refunding Escrow Account to refund $3,955,000 of the Public Utility Bonds Series 1993 plus $39,550 in bond premiums.**

  **The City advance refunded the Public Utility Bonds Series 1993 to borrow an additional $275,000 and to reduce its total debt service payments over the next 19 years by $226,711. However, because the City advance refunding the bonds, it incurred a loss on the advance refunding as follows:**

| | | |
|---|---|---|
| **Reacquisition price of 1993 series bonds** | | **$ 3,994,550** |
| **Net carrying amount of 1993 series bonds:** | | |
| **Principal balance** | **$ 3,955,000** | |
| **Unamortized bond issue cost and bond discounts** | **( 168,805)** | |
| | | **3,786,195** |
| **Loss on advance refunding** | | **$ 208,355** |

- **$16,603 was deposited in the City of Commerce, GA Water and Sewerage Revenue Refunding Bonds Series 2002 Sinking Fund Account.**
- **$348,356 was deposited into the City of Commerce, GA Water and Sewerage Revenue Refunding Bonds Series 2002 Debt Service Reserve Account.**
- **The remaining $132,193 was used to pay issuance costs and other related costs.**

**As part of the bond ordinance for the 2002 series bonds, the City is required to make monthly cash transfers to the City of Commerce, GA Water and Sewerage Refunding Bonds Series 2002 Debt Service Account. The purpose of the debt service account is to pay principal and interest as they become due. As of June 30, 2010, all required transfers have been made to the sinking fund.**

**The bond ordinance also requires the City to maintain a debt service coverage ratio of at least 1.20 to 1.00. At June 30, 2010 the City's debt service coverage ratio was .93 to 1.00 leaving the City .27 to 1.00 under the required ratio. The City raised its water and sewer rates in May 2010 with the anticipation that this rate covenant will be in compliance in the subsequent fiscal year.**

**NOTE 6 - LONG-TERM DEBT - Continued**

***BUSINESS-TYPE ACTIVITIES - Continued:***

**REVENUE BONDS PAYABLE - Continued**

**Water and Sewerage Revenue Refunding Bonds Series 2002 - Continued**

**Also, as part of the bond ordinance, the City has placed into effect a schedule of rates for the Water and Sewerage System and will revise them as necessary to (a) operate and maintain said System on a sound business like basis (b) to make payments into the Sinking Fund equal to 120% of the amounts sufficient to discharge the payment of the principal of and the interest on the Series 2002 Bonds and any future parity issues as the same become due and payable in the then current Sinking Fund Year, (c) to pay an amount equal to 100% of principal of and interest on junior lien obligations, including, but not limited to any loans made by the Georgia Environmental Facilities Authority and the State Revolving Fund and any existing loans having a lien on the net revenues of the System, (d) to create and maintain a debt service reserve therefore in the amount as required by the debt service agreement in any proceedings authorizing any such issues of parity bonds, and (e) to create and maintain a reserve for extensions and improvements to the System. At June 30, 2010, the City has complied with these requirements. The City's water and sewerage revenues are used as security for the revenue bonds.**

**Water and Sewerage Revenue Refunding and Improvement Bonds Series 2006:**

**On June 29, 2006, the City issued the City of Commerce, GA Water and Sewerage Revenue Refunding and Improvement Bonds Series 2006. The bonds bear interest at variable rates ranging from 3.625% to 5.00%, payable semi-annually on June 1 and December 1. Principal payments on the bonds are due each December 1.**

**The $12,770,000 original issue amount of bond proceeds of the City of Commerce, GA Water and Sewerage Revenue and Improvement Refunding Bonds Series 2006, along with a net premium of $180,787 on those bonds, were used as follows:**

- **$1,546,673 was deposited in the Construction Fund.**
- **$10,064,218 was paid to the Georgia Environmental Facilities Authority to prepay outstanding loans.**
- **$959,807 was deposited in the Debt Service Reserve Account.**
- **$89,390 was retained by the Underwriter as the Bond discount.**
- **$123,090 was paid to the Bond Insurer as payment of the premium for the Policy.**
- **$167,609 was deposited in the Cost of Issuance Account to pay for Bond issuance costs.**

**As part of the bond ordinance for the 2006 series bonds, the City is required to make monthly cash transfers to the Debt Service Account. The purpose of the debt service account is to pay principal and interest as they become due. As of June 30, 2010, all required transfers have been made to the sinking fund.**

**Also, as part of the bond ordinance, the City has placed into effect a schedule of rates for the Water and Sewerage System and will revise them as necessary to (i) maintain and operate the System on a sound business like basis; (ii) to pay an amount equal to 100% of the principal of and interest on junior lien obligations referred to in the Bond Ordinance; (iii) to create and maintain a reserve therefore in the amount as required in the Bond Ordinance or such larger amounts as may be required in any proceedings authorizing such issue or issues of parity bonds; (iv)to make payments into the Sinking Fund equal to at least 120% of the amounts sufficient to discharge the payment of the principal of and the interest on the Series 2002 Bonds and the Series 2006 Bonds and any future parity issues as the same become due and payable in the then current Sinking Fund Year; and (v) to create and maintain a reserve for extensions and improvements to the System. At June 30, 2010, the City has complied with these requirements. The City's water and sewerage revenues are used as security for the revenue bonds.**

**NOTE 6 - LONG-TERM DEBT - Continued**

***BUSINESS-TYPE ACTIVITIES - Continued:***

**REVENUE BONDS PAYABLE - Continued**

**The following is a summary of the maturity of revenue bonds and interest thereon:**

| | Revenue Bonds Series 2002 | Revenue Bonds Series 2006 | Total |
|---|---|---|---|
| Amount of original issue | $ 4,230,000 | $ 12,770,000 | $ 17,000,000 |
| Less: amount redeemed | ( 1,455,000) | - | ( 1,455,000) |
| Amount outstanding June 30, 2010 | 2,775,000 | 12,770,000 | 15,545,000 |
| Add: unamortized premium | - | 147,977 | 147,977 |
| Less: unamortized discount | ( 17,131) | ( 73,167) | ( 90,298) |
| Less: unamortized deferred loss on advance refunding | ( 109,661) | - | ( 109,661) |
| Net amount outstanding, June 30, 2010 | 2,648,208 | 12,844,810 | 15,493,018 |
| Less: current maturities | 187,321 | 4,062 | 191,383 |
| Long-term maturities | $ 2,460,887 | $ 12,840,748 | $ 15,301,635 |

| Year Ending June 30, | Principal | Interest | Total Debt Service Requirements |
|---|---|---|---|
| 2011 | $ 200,000 | $ 703,759 | $ 903,759 |
| 2012 | 585,000 | 688,759 | 1,273,759 |
| 2013 | 600,000 | 666,115 | 1,266,115 |
| 2014 | 630,000 | 642,075 | 1,272,075 |
| 2015 | 650,000 | 616,560 | 1,266,560 |
| 2016-2020 | 3,675,000 | 2,639,889 | 6,314,889 |
| 2021-2025 | 4,625,000 | 1,657,014 | 6,282,014 |
| 2026-2029 | 4,580,000 | 426,787 | 5,006,787 |
| Totals | $15,545,000 | $ 8,040,958 | $ 23,585,958 |

**NOTE 6 - LONG-TERM DEBT - Continued**

***BUSINESS-TYPE ACTIVITIES - Continued:***

**NOTES PAYABLE**

| | |
|---|---|
| Note payable to Georgia Environmental Facilities Authority in the original amount of $1,100,000, interest rate of 3.0%, secured by water and sewer system, accrued interest only due January 1, 2011. Draws on the note were $1,061,681 as of June 30, 2010. The note is 70% forgivable through the American Recovery and Reinvestment Act of 2009. Therefore, the note balance is stated At 30% of the original amount. Beginning January 1, 2011 monthly payments of principal and interest in the approximate amount of $1,860 will be due through December 1, 2030. The note payable is being used for upgrades to the Holiday Inn and Davis House wastewater treatment plants. | $ 318,504 |
| Total notes payable | 318,504 |
| Less: current maturities | 6,171 |
| Long-term maturities | $ 312,333 |

**CAPITAL LEASE OBLIGATIONS**

The City has financed the construction of utility infrastructure under capital lease agreements. In accordance with Financial Accounting Standards Board (FASB) Statement No. 23, the capital lease payable and the related asset has been recorded at the present value of the future minimum lease payments at the inception of the leases, which in this case is $3,000,000 and $1,000,000. The following is a schedule of future minimum lease payments under this capital lease, and the present value of the net minimum lease payments at June 30, 2010:

| | |
|---|---|
| June 30, 2011 | $ 324,848 |
| June 30, 2012 | 324,849 |
| June 30, 2013 | 324,848 |
| June 30, 2014 | 324,849 |
| June 30, 2015 | 324,848 |
| June 30, 2016-2020 | 1,624,243 |
| June 30, 2021-2025 | 1,218,033 |
| Total minimum lease payments | 4,466,518 |
| Amount representing interest | ( 1,175,939) |
| Present value of lease obligations for business-type activities | 3,290,579 |
| Less: current maturities | 176,933 |
| Long-term maturities | $ 3,113,646 |

Leased equipment under capital leases in capital assets at June 30, 2010, include the following:

| | |
|---|---|
| Utility infrastructure | $ 4,000,000 |
| Less: accumulated depreciation | ( 441,667) |
| Total | $ 3,558,333 |

Total depreciation expense on the equipment for the year ended June 30, 2010, was $100,000. This depreciation is included in the total depreciation expense shown in note 5.

**NOTE 6 - LONG-TERM DEBT - Continued**

***BUSINESS-TYPE ACTIVITIES - Continued:***

**COMPENSATED ABSENCES**

**City employees are entitled to receive, upon termination of or retirement from employment, all accumulated annual leave as referred to in Note 1. The Gas System Fund, Electric System Fund, and the Water and Sewer System Fund have been used to liquidate compensated absences from Business-type Activities in prior years.**

| | |
|---|---|
| **Noncurrent portion** | **$ 79,510** |

***COMPONENT UNIT***

**NOTES PAYABLE**

| | |
|---|---|
| **Note payable to Community Bank & Trust in the original amount of $157,332 dated October 19, 2009, secured by land, interest rate of 6.00% with final maturity dated October 19, 2011. The note payable was used to to finance the purchase of land.** | **$ 157,332** |
| **Note payable to Northeast Georgia Bank in the original amount of $91,840 dated December 11, 2009, secured by building and land, interest rate of 6.00% with maturity dated December 1, 2011. The note payable was used to finance the purchase of a building and land.** | **91,840** |
| **Total notes payable** | **$ 249,172** |
| **Current portion** | **$ 25,560** |
| **Noncurrent portion** | **223,612** |
| **Total note payable** | **$ 249,172** |

**ANNUAL DEBT SERVICE REQUIREMENTS**

**The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2010, are as follows:**

**NOTES PAYABLE**

| | Governmental Activities | | Business-type Activities | | |
|---|---|---|---|---|---|
| **Year Ending June 30,** | **Principal** | **Interest** | **Principal** | **Interest** | **Total** |
| **2011** | **$ 40,028** | **$ 1,601** | **$ 6,171** | **$ 4,995** | **$ 52,795** |
| **2012** | **-** | **-** | **12,623** | **9,709** | **22,332** |
| **2013** | **-** | **-** | **13,007** | **9,325** | **22,332** |
| **2014** | **-** | **-** | **13,403** | **8,929** | **22,332** |
| **2015** | **-** | **-** | **13,810** | **8,522** | **22,332** |
| **2016-2020** | **-** | **-** | **75,613** | **36,047** | **111,660** |
| **2021-2025** | **-** | **-** | **87,834** | **23,826** | **111,660** |
| **2026-2030** | **-** | **-** | **96,043** | **4,452** | **100,495** |
| **Total** | **$ 40,028** | **$ 1,601** | **$ 318,504** | **$ 105,805** | **$ 465,938** |

**NOTE 6 - LONG-TERM DEBT – Continued**

**ANNUAL DEBT SERVICE REQUIREMENTS - Continued**

**NOTES PAYABLE – Continued**

| | Component Unit | | |
|---|---|---|---|
| Year Ending June 30, | Principal | Interest | Total |
| 2011 | $ 25,560 | $ 14,950 | $ 40,510 |
| 2012 | 223,612 | 13,417 | 237,029 |
| Total | $ 249,172 | $ 28,367 | $ 277,539 |

**CAPITAL LEASES PAYABLE**

| | Governmental Activities | | Business-type Activities | | |
|---|---|---|---|---|---|
| Year Ending June 30, | Principal | Interest | Principal | Interest | Total |
| 2011 | $ 91,018 | $ 10,909 | $ 176,933 | $ 147,915 | $ 426,775 |
| 2012 | 70,411 | 7,540 | 184,860 | 139,989 | 402,800 |
| 2013 | 64,846 | 4,967 | 193,760 | 131,088 | 394,661 |
| 2014 | 57,148 | 2,694 | 202,786 | 122,062 | 384,690 |
| 2015 | 16,366 | 687 | 212,233 | 112,616 | 341,902 |
| 2016-2020 | - | - | 1,218,631 | 405,612 | 1,624,243 |
| 2021-2025 | - | - | 1,101,376 | 116,657 | 1,218,033 |
| Total | $ 299,789 | $ 26,797 | $ 3,290,579 | $ 1,175,939 | $ 4,793,104 |

**REVENUE BONDS PAYABLE**

| | Business-type Activities | | |
|---|---|---|---|
| Year Ending June 30, | Principal | Interest | Total |
| 2011 | $ 200,000 | $ 703,759 | $ 903,759 |
| 2012 | 585,000 | 688,759 | 1,273,759 |
| 2013 | 600,000 | 666,115 | 1,266,115 |
| 2014 | 630,000 | 642,075 | 1,272,075 |
| 2015 | 650,000 | 616,560 | 1,266,560 |
| 2015-2019 | 3,675,000 | 2,639,889 | 6,314,889 |
| 2020-2024 | 4,625,000 | 1,657,014 | 6,282,014 |
| 2025-2029 | 4,580,000 | 426,787 | 5,006,787 |
| Total | $ 15,545,000 | $ 8,040,958 | $ 23,585,958 |

**CONDUIT DEBT**

***COMPONENT UNIT***

**The Downtown Development Authority has issued multiple limited recourse promissory notes to provide financial assistance to local businesses for the purpose of financing capital improvements to the businesses property. The promissory notes are secured by the property financed and are payable by the revenues of the projects. The DDA is not obligated for the repayment of the notes. The DDA merely served as an intermediary to assist the local businesses in obtaining financing for its capital improvements. Accordingly, the notes are not reported as liabilities in these financial statements.**

**NOTE 7 - INTERFUND TRANSACTIONS AND BALANCES**

| | Transfers In | Transfers Out |
|---|---|---|
| **General Fund:** | | |
| Electric System Fund | $ 340,880 | $ - |
| Gas System Fund | 700,000 | - |
| Fire District Fund | 173,642 | - |
| Confiscated Assets Fund | 34,136 | - |
| Debt Service Fund | - | 185,308 |
| **Total General Fund** | 1,248,658 | 185,308 |
| **Confiscated Assets Fund** | | |
| General Fund | - | 34,136 |
| **Total Confiscated Assets Fund** | - | 34,136 |
| **Fire District Fund:** | | |
| General Fund | - | 173,642 |
| **Total Fire District Fund** | - | 173,642 |
| **Debt Service Fund:** | | |
| General Fund | 185,308 | - |
| Gas System Fund | 11,023 | - |
| Electric System Fund | 11,007 | - |
| Water and Sewer System Fund | 10,966 | - |
| **Total Debt Service Fund** | 218,304 | - |
| **Enterprise Funds:** | | |
| Gas System Fund: | | |
| General Fund | - | 700,000 |
| Debt Service Fund | - | 11,023 |
| Electric System Fund: | | |
| General Fund | - | 340,880 |
| Debt Service Fund | - | 11,007 |
| Water and Sewer System Fund: | | |
| Debt Service Fund | - | 10,966 |
| **Total Enterprise Funds** | - | 1,073,876 |
| **Totals** | $ 1,466,962 | $ 1,466,962 |

**Transfers are primarily used to move funds from:**

- **The proprietary funds to the General Fund for an allocated amount of information technology services and salaries and wages and related costs of personnel who perform administrative services.**
- **The Fire District Fund to subsidize the operations of the Fire Department.**
- **Between the General Fund and Debt Service Fund to fund payments of debt service.**
- **Between the Proprietary Funds and Debt Service Fund to fund payments of debt service.**
- **Between the Confiscated Assets Fund and the General Fund to fund payments of debt service.**

**NOTE 7 - INTERFUND TRANSACTIONS AND BALANCES- Continued**

**During the year ended June 30, 2010, the City made transfers of $185,308 from the General Fund to the Debt Service Fund for the net amount of debt borrowings over debt service payments. In addition, the City made transfers of $173,642 from the Fire District Fund to the General Fund to subsidize Fire Department operations. The City made transfers of $11,023, $11,007, and $10,966 from the Gas System, Electric System, and Water and Sewer System Funds to assist in repayment of debt service. The City also made transfers of $700,000 from the Gas System Fund and $340,880 from the Electric System Fund to subsidize information technology services and salaries and wages and related costs of personnel who perform administrative services. Additionally, the City made transfers of $34,136 from the Confiscated Assets Fund to the General Fund to assist in the repayment of debt service.**

**NOTE 8 - RESTRICTED GOVERNMENT-WIDE ASSETS**

**Governmental activities**

**Restricted assets are composed of the following at June 30, 2010:**

| | Cash | Total |
|---|---|---|
| SPLOST 2005 Account | $ 2,808,688 | $ 2,808,688 |
| Confiscated Asset Accounts | 193,206 | 193,206 |
| Library Expansion Fund Account | 97,947 | 97,947 |
| SPLOST Old Roads and Bridges Account | 55,228 | 55,228 |
| Total | $ 3,155,069 | $ 3,155,069 |

**Business-type activities**

**Restricted assets are composed of the following at June 30, 2010:**

| | Cash | Investments | Total |
|---|---|---|---|
| Municipal Competitive Trust Reserve Funded Debt Account | $ - | $ 1,923,693 | $ 1,923,693 |
| Municipal Competitive Trust Credit Support Operating Account | - | 1,687,622 | 1,687,622 |
| Water & Sewerage Bonds Debt Service Reserve Account | 106,796 | 1,296,570 | 1,403,366 |
| 2006 Water and Sewerage Bonds Construction Account | 941,161 | - | 941,161 |
| Municipal Competitive Trust Generation Trust Account | - | 310,801 | 310,801 |
| Water & Sewerage Bonds Debt Service Account | 89,631 | 174,840 | 264,471 |
| Revolving Loan Fund Account | 244,576 | - | 244,576 |
| Customer Deposits | 214,244 | - | 214,244 |
| Retainage Account | 36,570 | - | 36,570 |
| Total | $ 1,632,978 | $ 5,393,526 | $ 7,026,504 |

**NOTE 9 - RESTRICTED FUND ASSETS**

**Governmental funds**

**Restricted assets are composed of the following at June 30, 2010:**

| | Cash | Total |
|---|---|---|
| **2005 SPLOST Fund** | | |
| **2005 SPLOST Account** | $ 2,808,688 | $ 2,808,688 |
| **Total 2005 SPLOST Fund** | 2,808,688 | 2,808,688 |
| **Confiscated Assets Fund** | | |
| **Federal Confiscations Account** | 146,463 | 146,463 |
| **State Confiscations Account** | 29,657 | 29,657 |
| **Safekeeping Account** | 17,086 | 17,086 |
| **Total Confiscated Assets Fund** | 193,206 | 193,206 |
| **SPLOST Old Fund** | | |
| **SPLOST Roads and Bridges Account** | 55,228 | 55,228 |
| **Total SPLOST Old Fund** | 55,228 | 55,228 |
| **Library Expansion Fund** | | |
| **Library Expansion Fund Account** | 97,947 | 97,947 |
| **Total Library Expansion Fund** | 97,947 | 97,947 |
| **Total Governmental funds** | $ 3,155,069 | $ 3,155,069 |

**NOTE 9 - RESTRICTED FUND ASSETS - Continued**

**Proprietary Funds**

**Restricted assets are composed of the following at June 30, 2010:**

| | Cash | Investments | Total |
|---|---|---|---|
| **Gas System** | | | |
| Customer Deposits | $ 66,413 | $ - | $ 66,413 |
| Total Gas System | 66,413 | - | 66,413 |
| **Electric System** | | | |
| Municipal Competitive Trust Reserve Funded Debt Account | - | 1,923,693 | 1,923,693 |
| Municipal Competitive Trust Credit Support Operating Acct | - | 1,687,622 | 1,687,622 |
| Municipal Competitive Trust Generation Trust Account | - | 310,801 | 310,801 |
| Customer Deposits | 96,247 | - | 96,247 |
| Total Electric System | 96,247 | 3,922,116 | 4,018,363 |
| **Water and Sewer System** | | | |
| Water & Sewerage Bonds Debt Service Reserve Acct | 106,796 | 1,296,570 | 1,403,366 |
| 2006 Water & Sewerage Bonds Construction Account | 941,161 | - | 941,161 |
| Water & Sewerage Bonds Debt Service Account | 89,631 | 174,840 | 264,471 |
| Customer Deposits | 51,584 | - | 51,584 |
| Retainage Account | 36,570 | - | 36,570 |
| Total Water and Sewer System | 1,225,742 | 1,471,410 | 2,697,152 |
| **Revolving Loan Fund Account** | 244,576 | - | 244,576 |
| Total Revolving Loan Fund | 244,576 | - | 244,576 |
| **Total** | $ 1,632,978 | $ 5,393,526 | $ 7,026,504 |

**NOTE 10 - LIABILITIES PAYABLE FROM GOVERNMENT-WIDE RESTRICTED ASSETS:**

**Governmental activities**

**Liabilities payable from restricted assets are composed of the following at June 30, 2010:**

| | |
|---|---|
| Due to other funds | $ 55,370 |
| Deferred revenue pending court | 12,611 |
| **Total** | $ 67,981 |

**Business-type activities**

**Liabilities payable from restricted assets are composed of the following at June 30, 2010:**

| | |
|---|---|
| Portion of 2006 Water and Sewerage Revenue Bonds Payable to be used for construction | $ 941,161 |
| Current Portion of 2002 Water and Sewerage Revenue Bonds | 200,000 |
| Customer Deposits | 214,244 |
| General Fund advances for Employment Incentive Program disbursements | 103,645 |
| Accrued Interest on 2006 and 2006 Water and Sewer Revenue Bonds | 58,975 |
| Retainage payable for GEFA note | 36,570 |
| **Total** | $ 1,554,595 |

**NOTE 11 - RESERVED FUND BALANCES/NET ASSETS**

**The City maintains reserves in various funds for specific purposes or as required by bond ordinances. The nature and purpose of these reserves is as follows:**

**Governmental Funds**

**Reserves of $2,986,538 have been provided in the 2005 SPLOST Capital Projects Fund for capital projects related to water and sewer projects, roads and bridges, recreation, and library.**

**A reserve of $52,171 has been provided in the General Fund for prepaid items.**

**A reserve of $10,000 has been provided for maintenance at the cemetery in the General Fund.**

**A reserve of $172,941 has been provided for public safety relating to the Confiscated Assets Fund.**

**A reserve of $81,463 has been provided for public safety relating to the Fire District Fund.**

**Reserves of $47,609 have been provided in the SPLOST Old Capital Projects Fund for capital projects related to road and bridge projects.**

**Reserves of $97,947 have been provided in the Library Expansion Fund for funding of the expansion of the City's library.**

**Proprietary Funds**

**Reserves of $3,922,116 have been provided in the Electric System Fund for restricted assets that are required to be used for the Municipal Competitive Trust Agreement with the Municipal Electric Authority of Georgia.**

**Reserves of $1,408,862 have been provided in the Water and Sewer System Fund for restricted assets that are required to be used for debt service.**

**A reserve of $140,931 has been provided for the Employment Incentive Program Revolving Loan Fund.**

**NOTE 12 - RESTRICTED NET ASSETS**

**Governmental Activities**

**Restricted net assets are comprised of the following at June 30, 2010:**

| | |
|---|---|
| **Restricted for:** | |
| **Capital projects** | **$ 2,914,147** |
| **Public Safety** | **172,941** |
| **Total net assets restricted for governmental activities** | **$ 3,087,088** |

**Business-type Activities**

**Restricted net assets are comprised of the following at June 30, 2010:**

| | |
|---|---|
| **Restricted for:** | |
| **Debt service** | **$ 1,408,862** |
| **Municipal Competitive Trust Agreement** | **3,922,116** |
| **Employment Incentive Program Revolving Loan** | **140,931** |
| **Total net assets restricted for business-type activities** | **$ 5,471,909** |

## NOTE 13 - PRIOR PERIOD RESTATEMENT

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**Business-type Activities**

**At June 30, 2009, restricted investments were understated by $10,573 due to an error on the investment statements from the Municipal Competitive Trust Accounts. The custodian of the Municipal Competitive Trust Accounts issued corrected statements for the prior year after the issuance of the prior year audit report. The net result of this adjustment was an increase in restricted net assets for restricted assets at the beginning of the year in the amount of $10,573.**

**FUND FINANCIAL STATEMENTS**

**Electric System Fund**

**At June 30, 2009, restricted investments were understated by $10,573 due to an error on the investment statements from the Municipal Competitive Trust Accounts. The custodian of the Municipal Competitive Trust Accounts issued corrected statements for the prior year after the issuance of the prior year audit report. The net result of this adjustment was an increase in fund net assets restricted for restricted assets at the beginning of the year in the amount of $10,573.**

## NOTE 14 - PENSION PLAN

***Plan Description***

**The City's defined benefit pension plan, City of Commerce Retirement Plan ("CRP"), provides retirement and death benefits to plan members and beneficiaries. CRP plan is affiliated with the Georgia Municipal Employees Benefit System ("GMEBS"), an agent multiple-employer pension plan administered by the Georgia Municipal Association. The Georgia Municipal Association assigns the authority to establish and amend the benefit provisions of the plans that participate in GMEBS to the respective employer entities; for CRP, that authority rests with the City of Commerce. The Georgia Municipal Association issues a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained by written request to Georgia Municipal Association, 201 Pryor Street, SW, Atlanta, Georgia 30303.**

***Funding Policy***

**CRP members are not required and do not contribute to CRP. CRP is a noncontributory plan. The City is required to contribute 100% of the amount necessary to fund CRP at an actuarially determined rate; the current rate is 8.28% of covered payroll. The contribution requirements of the City are established and may be amended by the GMEBS Board of Trustees.**

**The funding policy for the plan is to contribute an amount equal to the recommended contribution each year. The recommended contribution meets the guidelines for calculating an annual required contribution set forth in Paragraphs 9-10 of Statement No. 27. These contributions are determined under the projected unit credit actuarial cost method and the asset valuation method for developing the actuarial value of assets. The period, and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years from 1982 and current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods as a level dollar amount. These amortization periods, if applicable, are closed for this plan year.**

**NOTE 14 - PENSION PLAN - Continued**

***Annual Pension Cost***

**For the current year, the City's annual pension cost of $300,606 for CRP was equal to the City's required and actual contributions. The required contribution was determined as part of the January 1, 2010 actuarial valuation based on the projected unit credit actuarial cost method and the asset valuation method for developing the actuarial value of assets. The actuarial assumptions included the following:**

- **Rate of return on investment** — **7.75% per year**
- **Projected salary increases** — **3.50% per year plus age and service based merit increases**
- **Cost of living adjustments** — **3.50% per year**

**Three-Year Trend Information for CRP**

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 06/30/08 | $270,138 | 100% | $0 |
| 06/30/09 | $576,418 | 100% | $0 |
| 06/30/10 | $300,606 | 100% | $0 |

**REQUIRED SUPPLEMENTARY INFORMATION**
**Schedule of Funding Progress for CRP**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) – Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 03/01/08 | $5,533,143 | $5,832,910 | $299,767 | 94.86% | $3,284,665 | 9.13% |
| 03/01/09 | $5,331,187 | $7,419,039 | $2,087,852 | 71.86% | $3,554,710 | 58.73% |
| 01/01/10 | $6,842,600 | $6,976,340 | $133,740 | 98.08% | $3,569,712 | 3.75% |

**The schedule of funding progress for CRP presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.**

***Effect of Plan Changes on the Actuarial Accrued Liability***

**The plan provisions valued and the actuarial assumptions were changed in this valuation. The mortality table for healthy participants was changed from the 1983 Group Annuity Mortality Table without Margin to the sex-distinct RP-2000 Combined Mortality Table set forward two years ago for males and one year in age for females. The Mortality table for disabled participants was changed from the 1944 Railroad Board Male Ultimate Disabled Mortality to the sex-distinct RP-2000 Disabled Retiree Mortality Table set forward two years in age for males and one year in age for females.**

***Effect of Plan Changes on Recommended Contributions***

**The plan provisions valued and the actuarial assumptions and cost methods were changed in this valuation. The salary increase assumption was changed from 5.50% each year to a table of rates based on age and service. The investment return assumption was changed from 8.00% to 7.75% per annum. The inflation and COLA assumptions were changed from 5.00% to 3.50%. The valuation date was changed from March 1 to January 1. The asset method was changed to temporarily widen the corridor.**

**NOTE 14 - PENSION PLAN - Continued**

***Method Used to Determine the Actuarial Value of Assets***

**Sum of the actuarial value at the beginning of year and the cash flow during 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 50% of market value for 2009, 44% of market value for 2010, 38% of market value for 2011, 32% of market value for 2012, 26% of market value for 2013, and 20% of market value for 2014 and later years.**

**NOTE 15 - DEFINED CONTRIBUTION PENSION PLAN**

**The City is a participant in the Georgia Municipal Association 401 (a) Defined Contribution Plan. The Georgia Municipal Association administers the plan. The City must abide by the terms of the plan and the trust made by the Trustees of the plan. The City may terminate its participation in the plan if it adopts a resolution terminating its participation in the plan, and the resolution must specify when the participation will end. Currently, the only eligible employee to participate in the plan is the City Manager. The City makes all contributions to the plan, and the employee participant makes no contributions. The City may amend its contribution requirements by submitting a resolution and adoption agreement to the Trustees for Trustee approval. The City contributed $14,279 to the plan for the year ended June 30, 2010.**

**NOTE 16 - DEFERRED COMPENSATION PLAN**

**The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation plan is not available to employees until termination, retirement, death or unforeseeable emergencies.**

**In accordance with Section 457 of the Internal Revenue Code, plan assets are held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the assets and liabilities of the deferred compensation plans are not included in the accompanying primary government financial statements.**

**NOTE 17 - EXCESS EXPENDITURES OR EXPENSES OVER APPROPRIATIONS**

**The City had no expenditures over appropriations for the year ended June 30, 2010.**

**NOTE 18 - DEFICIT FUND BALANCES/NET ASSETS**

**The City had no deficit fund balances/net assets at June 30, 2010.**

**NOTE 19 - LITIGATION**

**The City is a party to legal proceedings, which normally occur, in governmental operations. It is the opinion of the City attorney that these legal proceedings are not likely to have a material adverse impact on the affected funds of the City, and accordingly, no provision for losses has been recorded.**

## NOTE 20 - COMMITMENTS AND CONTINGENT LIABILITIES

**The City has *Potential* Liability *under MEAG and MGAG Contracts* as follows:**

**Electrical System**

**The City has entered into Power Sales Contracts with the Municipal Electric Authority of Georgia ("MEAG") pursuant to which the City purchases electric power and energy for resale to its customers. MEAG was created by the State of Georgia for the purpose of owning and operating electric generation and transmission facilities to supply bulk electric power to political subdivisions of Georgia which owned and operated electric distribution systems as of March 18, 1975.**

**Under the terms of its Power Sales Contracts with MEAG, the City is obligated to take from MEAG, and MEAG is obligated to provide, all electric power and energy required by the City in excess of the amount received by the City as an allotment from federally owned projects through the Southeastern Power Administration ("SEPA"). An allotment of SEPA power has been assigned by the City to MEAG and is transmitted to the City by MEAG through Georgia's Integrated Transmission System for a separate charge. Under its Power Sales Contracts with MEAG, the City has the right to receive additional power as needed from the Integrated Transmission System.**

**The price paid by the City to MEAG under its Power Sales Contracts is intended to cover the City's share of all the costs of MEAG, including debt service on MEAG's long-term debt. The amounts required to be paid to MEAG under the Power Sales Contracts are payable first from revenues of the City's electrical system. To the extent the required payments are not made from revenues of the City's electric system or other funds, the City is required to include in its general revenue or appropriation measure or annual tax levy amounts sufficient to make such payments. Payments by the City are required to be made by the City whether or not MEAG's facilities or any part thereof are operating or operable or the output therefrom is interrupted, interfered with, curtailed or terminated in whole or in part. In addition, the City may be obligated to purchase additional power, subject to contractual limitations, in the event other MEAG participants default.**

**The City is contingently liable for $53,242,320 of MEAG Power's principal bonds outstanding at June 30, 2010 in the event of default by MEAG Power.**

**Gas System**

**The City has entered into the Gas Supply Contract and certain Supplemental Gas Supply Contracts with the Municipal Gas Authority of Georgia ("MGAG") under which the City buys natural gas for resale to its customers. Under such contracts with MGAG, the City is obligated to take from MGAG, and MGAG is obligated to provide, all of the City's natural gas requirements. The price paid by the City to MGAG under its contracts is intended to cover the City's share of all the costs of MGAG, including scheduled debt service of MGAG. Such payments are required to be made by the City whether or not the MGAG's facilities or natural gas properties or any part thereof are operating or operable or the output therefrom is interrupted, interfered with, curtailed or terminated in whole or in part, or whether or not any of its natural gas suppliers or transporters defaults in its obligations under its gas supply or transportation contracts with MGAG. To the extent the required payments are not made from the revenues of the System or other funds, the City is required to include in its general revenue or appropriation measure or annual tax levy amounts sufficient to make such payments. The City is contingently liable for $9,127,491 of MGAG's outstanding debt at June 30, 2010 in the event of default by MGAG.**

**Water and Sewer System**

**Subsequent to year end, the City was approved for a Clean Water State Revolving Fund (CWSRF) loan of $575,000 and a CWSRF subsidy of $287,500 for improvements to the water and sewer system. The loan will be used to purchase leak equipment and replace meters.**

**Subsequent to year end, the City was awarded a $500,000 Community Development Block Grant for the purpose of rehabilitating the sewer collection system serving two low and moderate income neighborhoods. The project is to eliminate sewer overflow and backup in the neighborhoods. The City is required to match $103,004 of the project.**

**NOTE 20 - COMMITMENTS AND CONTINGENT LIABILITIES - Continued**

**Component Unit**

**The City could be considered a responsible party for two notes payable incurred by the Downtown Development Authority in the event that the DDA does not repay the notes. A City Council Member signed the notes, therefore, the possibility exists that the City could be responsible for the repayment of these debts. The total balances of the notes payable were $249,172, at June 30, 2010.**

**NOTE 21 - OPERATING LEASE COMMITMENTS**

**The City leases office equipment under capital leases. Future minimum rental commitments for equipment operating leases as of June 30, 2010 are as follows:**

| | General Fund | Component Unit |
|---|---|---|
| 2011 | $ 4,152 | $ 1,788 |
| 2012 | - | 1,788 |
| 2013 | - | 1,490 |
| Total | $ 4,152 | $ 5,066 |

**Total rent expenditures under these operating leases for the year ended June 30, 2010 was $4,152 for the General Fund and $298 for the Downtown Development Authority Component Unit.**

**NOTE 22 - RISK MANAGEMENT**

**The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Agency (GIRMA) for property and liability insurance and the Workers' Compensation Self-Insurance Fund (WCSIF), public entity risk pools currently operating as common risk management and insurance program for member local governments. The Georgia Municipal Association (GMA) administers both risk pools.**

**As part of these risk pools, the City is obligated to pay all contributions and assessments as prescribed by the pools, to cooperate with the pools' 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 City is also to allow the pools' agents and attorneys to represent the City 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 governments' contracts and in accordance with the workers' compensation laws of Georgia. The funds are to pay all cost taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.**

**NOTE 23 - RELATED ORGANIZATIONS AND RELATED PARTY TRANSACTIONS**

**The City of Commerce Housing Authority is a related organization of the City. The Housing Authority provides safe and sanitary dwelling accommodations for persons of low income. The City appoints a voting majority of the Housing Authority's board, but is not financially accountable for the Authority. The City has no significant influence over the management, budget, or policies of the Housing Authority. The Authority reports independently. The City received $3,380 for payment in lieu of taxes from the Housing Authority for the year ended June 30, 2010.**

**The Commerce Civic Center and Tourism Authority is a related organization of the City. The Civic Center and Tourism Authority was formed to acquire, construct, improve, equip, alter, repair, operate, and maintain public projects in the City of Commerce, embracing buildings and facilities to be used for amusement, recreational, civic, cultural, and educational purposes. The City is currently holding a bank account for the Civic Center and Tourism Authority as a reserve account for improvements to be made for the Civic Center building. At June 30, 2010 the City was holding $72,305, in cash payable to the Civic Center and Tourism Authority, which has been reflected as a related party payable in the General Fund.**

**NOTE 24 - JOINT VENTURE**

**Under Georgia law, the City, in conjunction with other cities and counties in the Northeast Georgia area, is a member of the Northeast Regional Development Center ("NRDC"). The City paid $5,636 in annual dues to NRDC. Membership in a Regional Development Center ("RDC") is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34, which provides for the organizational structure of the RDC in Georgia. The RDC Board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of an RDC. Separate financial statements may be obtained from Northeast Regional Development Center, 305 Research Drive, Athens, GA 30601.**

**NOTE 25 - GRANTS**

**In the normal course of operations, the City receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement, which may arise as the result of these audits is not believed to be material.**

**NOTE 26 - SPLOST OLD**

**The City has entered into an agreement with Jackson County to adopt a 1 percent local option sales tax. The proceeds of the sales tax are to be used for: roads, streets and bridges, water and sewer capital outlay, and recreational capital outlay.**

**The following is a schedule of the activity relating to the SPLOST Old tax for the year ending June 30, 2010:**

| | Water and Sewer | Roads, Streets, and Bridges | Recreation | Total |
|---|---|---|---|---|
| Gross Special Sales Tax | $ - | $ - | $ - | $ - |
| Project Expenditures | | | | |
| Capital expenditures | - | ( 19,517) | - | ( 19,517) |
| Total Project Expenditures | - | ( 19,517) | - | ( 19,517) |
| Net (over) under expended for year ended June 30, 2010 | - | ( 19,517) | - | ( 19,517) |
| Investment return | - | 127 | - | 127 |
| Net changes in fund balances | | ( 19,390) | - | ( 19,390) |
| Fund balance - July 1, 2009 | - | 66,999 | - | 66,999 |
| Fund balance - June 30, 2010 | $ - | $ 47,609 | $ - | $ 47,609 |

**NOTE 27 - SPLOST 2005**

**The City has entered into an agreement with Jackson County to adopt a 1 percent local option sales tax. The proceeds of the sales tax are to be used for: roads, streets and bridges, water and sewer capital outlay, and recreational capital outlay.**

**The following is a schedule of the activity relating to the SPLOST 2005 for the year ending June 30, 2010:**

| | Water and Sewer | Roads, Streets, and Bridges | Recreation | Library | Total |
|---|---|---|---|---|---|
| Gross Special Sales Tax | $ 598,305 | $ 188,038 | $ 34,189 | $ 34,189 | $ 854,721 |
| Project Expenditures | | | | | |
| Capital expenditures | 290,787 | - | 2,685 | - | 293,472 |
| Total Project Expenditures | 290,787 | - | 2,685 | - | 293,472 |
| Net (over) under expended for year ended June 30, 2010 | 307,518 | 188,038 | 31,504 | 34,189 | 561,249 |
| Investment return | 35,020 | 11,007 | 2,001 | 2,001 | 50,029 |
| Net changes in fund balances | 342,538 | 199,045 | 33,505 | 36,190 | 611,278 |
| Fund balance - July 1, 2009 | 1,497,836 | 847,531 | 41,947 | ( 12,054) | 2,375,260 |
| Fund balance - June 30, 2010 | $ 1,840,374 | $ 1,046,576 | $ 75,452 | $ 24,136 | $ 2,986,538 |

**NOTE 28 - LANDFILL CLOSURE AND POST CLOSURE CARE**

**The solid waste landfill located at the end of MLK Drive was closed in the early 1980s. During that time, the City took corrective action at the closed landfill site by covering the site with a layer of dirt to stabilize it. The site has been stabilized since that time. The City now uses the site as an area to grind yard waste into mulch. The City keeps the site locked, and has no other plans for the site.**

**There is no recognition of a liability for closure and postclosure care costs based on landfill capacity used to date. The percentage of landfill capacity used to date is 100%, and it has an estimated remaining landfill life of zero years. There is no reported liability for closure and postclosure care at the balance sheet date. There is no estimated total current cost of closure and postclosure care remaining to be recognized. There are no assets restricted for payment of closure and postclosure care costs. Per City officials, the City will maintain the landfill site as an area to grind yard waste into mulch for the foreseeable future, and the City is not aware of any proposed changes in EPD legislation or regulations.**

**REQUIRED AND OTHER SUPPLEMENTARY INFORMATION**

**NONMAJOR GOVERNMENTAL FUNDS**

**CITY OF COMMERCE, GEORGIA**
**COMBINING BALANCE SHEET**
**NONMAJOR GOVERNMENTAL FUNDS**
**JUNE 30, 2010**

| | SPECIAL REVENUE | | | CAPITAL PROJECTS | | |
|---|---|---|---|---|---|---|
| | Confiscated Assets | Fire District | Debt Service | SPLOST Old | Library Expansion | Totals |
| **ASSETS** | | | | | | |
| Cash and investments | $ - | $ 81,463 | $ - | $ - | $ - | $ 81,463 |
| Due from other funds | - | - | 2,317 | - | - | 2,317 |
| Restricted cash and investments | 193,206 | - | - | 55,228 | 97,947 | 346,381 |
| Total assets | $ 193,206 | $ 81,463 | $ 2,317 | $ 55,228 | $ 97,947 | $ 430,161 |
| **LIABILITIES AND FUND BALANCES** | | | | | | |
| Liabilities: | | | | | | |
| Accrued expenses | $ - | $ - | $ 2,317 | $ - | $ - | $ 2,317 |
| Deferred revenue | 12,611 | - | - | - | - | 12,611 |
| Due to other funds | 7,654 | - | | 7,619 | - | 15,273 |
| Total liabilities | 20,265 | - | 2,317 | 7,619 | - | 30,201 |
| Fund balances: | | | | | | |
| Reserved for: | | | | | | |
| Capital projects | - | - | - | 47,609 | 97,947 | 145,556 |
| Public safety | 172,941 | 81,463 | - | - | - | 254,404 |
| Total fund balances | 172,941 | 81,463 | - | 47,609 | 97,947 | 399,960 |
| Total liabilities and fund balances | $ 193,206 | $ 81,463 | $ 2,317 | $ 55,228 | $ 97,947 | $ 430,161 |

**SEE INDEPENDENT AUDITORS' REPORT.**

**CITY OF COMMERCE, GEORGIA**
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**
**NONMAJOR GOVERNMENTAL FUNDS**
**FOR THE YEAR ENDED JUNE 30, 2010**

| | SPECIAL REVENUE | | | CAPITAL PROJECTS | | |
|---|---|---|---|---|---|---|
| | Confiscated Assets | Fire District | Debt Service | SPLOST Old | Library Expansion | Totals |
| **REVENUES** | | | | | | |
| Charges for services | $ - | $ 207,118 | $ - | $ - | $ - | $ 207,118 |
| Fines & forfeitures | 33,334 | - | - | - | - | 33,334 |
| Intergovernmental | - | - | - | - | 12,813 | 12,813 |
| Investment return | 2,524 | - | - | 127 | 1,173 | 3,824 |
| Total revenues | 35,858 | 207,118 | - | 127 | 13,986 | 257,089 |
| **EXPENDITURES** | | | | | | |
| Current operating | | | | | | |
| Public safety | 29,770 | - | - | - | - | 29,770 |
| Capital outlay | - | - | - | 19,517 | 725 | 20,242 |
| Debt Service | | | | | | |
| Principal | - | - | 206,022 | - | - | 206,022 |
| Interest | - | - | 12,282 | - | - | 12,282 |
| Total expenditures | 29,770 | - | 218,304 | 19,517 | 725 | 268,316 |
| Excess (deficiency) of revenues over (under) expenditures | 6,088 | 207,118 | ( 218,304) | ( 19,390) | 13,261 | ( 11,227) |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Transfers in | - | - | 218,304 | - | - | 218,304 |
| Transfers out | ( 34,136) | ( 173,642) | - | - | - | ( 207,778) |
| Net other financing sources (uses) | ( 34,136) | ( 173,642) | 218,304 | - | - | 10,526 |
| Net changes in fund balances | ( 28,048) | 33,476 | - | ( 19,390) | 13,261 | ( 701) |
| Fund balance - beginning of year | 200,989 | 47,987 | - | 66,999 | 84,686 | 400,661 |
| Fund balance - end of year | $ 172,941 | $ 81,463 | $ - | $ 47,609 | $ 97,747 | $ 399,960 |

**SEE INDEPENDENT AUDITORS' REPORT.**

**CITY OF COMMERCE, GEORGIA**
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**
**BUDGET AND ACTUAL (BUDGETARY BASIS) - CONFISCATED ASSETS FUND**
**FOR THE YEAR ENDED JUNE 30, 2010**

| | Confiscated Assets Fund | | | |
|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance with Final budget Over (Under) |
| **REVENUES** | | | | |
| Fines & forfeitures | $ 160,000 | $ 160,000 | $ 33,334 | $( 126,666) |
| Investment return | 5,000 | 5,000 | 2,524 | ( 2,476) |
| Total revenues before budgeted surplus carryover | 165,000 | 165,000 | 35,858 | ( 129,142) |
| Budgeted surplus carryover | 199,578 | 199,578 | 199,578 | - |
| Total revenues and budgeted surplus Carryover | 364,578 | 364,578 | 235,436 | ( 129,142) |
| **EXPENDITURES** | | | | |
| Current operating | | | | |
| Public safety | 329,578 | 329,578 | 29,770 | 299,808 |
| Total expenditures | 329,578 | 329,578 | 29,770 | 299,808 |
| Excess (deficiency) of revenues over (under) expenditures (budgetary basis) | 35,000 | 35,000 | 205,666 | 170,666 |
| **Adjustments** | | | | |
| To adjust for budgeted surplus carryover | - | - | ( 199,578) | ( 199,578) |
| Excess (deficiency) of revenues over (under) expenditures (GAAP basis) | 35,000 | 35,000 | 6,088 | ( 28,912) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfers out | ( 35,000) | ( 35,000) | ( 34,136) | 864 |
| Net other financing sources (uses) | ( 35,000) | ( 35,000) | ( 34,136) | 864 |
| Net change in fund balance | - | - | ( 28,048) | ( 28,048) |
| Fund balance - beginning of year | 200,989 | 200,989 | 200,989 | - |
| Fund balance - end of year | $ 200,989 | $ 200,989 | $ 172,941 | $( 28,048) |

**NOTE: The budgetary basis of accounting used is modified accrual.**

**CITY OF COMMERCE, GEORGIA**
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**
**BUDGET AND ACTUAL (BUDGETARY BASIS) – FIRE DISTRICT FUND**
**FOR THE YEAR ENDED JUNE 30, 2010**

| | Fire District Fund | | | |
|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance with Final budget Over (Under) |
| **REVENUES** | | | | |
| Charges for services | $ 190,000 | $ 190,000 | $ 207,118 | $ 17,118 |
| Total revenues | 190,000 | 190,000 | 207,118 | 17,118 |
| **EXPENDITURES** | | | | |
| Current operating | - | - | - | - |
| Total expenditures | - | - | - | - |
| Excess (deficiency) of revenues over (under) expenditures | 190,000 | 190,000 | 207,118 | 17,118 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfers out | ( 241,171) | ( 241,171) | ( 173,642) | 67,529 |
| Net other financing sources (uses) | ( 241,171) | ( 241,171) | ( 173,642) | 67,529 |
| Net change in fund balance | ( 51,171) | ( 51,171) | 33,476 | 84,647 |
| Fund balance - beginning of year | 47,987 | 47,987 | 47,987 | - |
| Fund balance - end of year | $( 3,184) | $( 3,184) | $ 81,463 | $ 84,647 |

**NOTE: The budgetary basis of accounting used is modified accrual.**

**CITY OF COMMERCE, GEORGIA**
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**
**BUDGET AND ACTUAL (BUDGETARY BASIS) – DEBT SERVICE FUND**
**FOR THE YEAR ENDED JUNE 30, 2010**

| | Debt Service Fund | | | |
|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance with Final budget Over (Under) |
| **REVENUES** | $ - | $ - | $ - | $ - |
| **Total revenues** | - | - | - | - |
| **EXPENDITURES** | | | | |
| **Debt Service** | | | | |
| **Principal** | 166,297 | 209,085 | 206,022 | 3,063 |
| **Interest** | 12,282 | 12,282 | 12,282 | - |
| **Total expenditures** | 178,579 | 221,367 | 218,304 | 3,063 |
| **Excess (deficiency) of revenues over (under) expenditures** | ( 178,579) | ( 221,367) | ( 218,304) | 3,063 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| **Transfers in** | 178,579 | 221,367 | 218,304 | ( 3,063) |
| **Net other financing sources (uses)** | 178,579 | 221,367 | 218,304 | ( 3,063) |
| **Net change in fund balance** | - | - | - | - |
| **Fund balance - beginning of year** | - | - | - | - |
| **Fund balance - end of year** | $ - | $ - | $ - | $ - |

**NOTE: The budgetary basis of accounting used is modified accrual.**

**CITY OF COMMERCE, GEORGIA**
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**
**BUDGET AND ACTUAL – SPLOST OLD FUND**
**FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2010**

| | SPLOST Old Fund | | | |
|---|---|---|---|---|
| | Prior Years | Current Year | Total to Date | Original Amount Authorized |
| **REVENUES** | | | | |
| Intergovernmental | $ 6,825,369 | $ - | $ 6,825,369 | $ 7,916,243 |
| Investment return | 374,722 | 127 | 374,849 | - |
| Total revenues | 7,200,091 | 127 | 7,200,218 | 7,916,243 |
| **EXPENDITURES** | | | | |
| Current operating | | | | |
| Public safety | 10 | - | 10 | - |
| Capital outlay | 7,133,082 | 19,517 | 7,152,599 | 7,916,243 |
| Total expenditures | 7,133,092 | 19,517 | 7,152,609 | 7,916,243 |
| Net change in fund balance | $ 66,999 | ( 19,390) | $ 47,609 | $ - |
| Fund balance - beginning of year | | 66,999 | | |
| Fund balance - end of year | | $ 47,609 | | |

**NOTE: The budgetary basis of accounting used is modified accrual.**

**CITY OF COMMERCE, GEORGIA**
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**
**BUDGET AND ACTUAL – LIBRARY EXPANSION FUND**
**FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2010**

| | Library Expansion Fund | | | |
|---|---|---|---|---|
| | Prior Years | Current Year | Total to Date | Original Amount Authorized |
| **REVENUES** | | | | |
| Intergovernmental | $ 82,768 | $ 12,813 | $ 95,581 | $ 82,015 |
| Investment return | 1,918 | 1,173 | 3,091 | - |
| Total revenues | 84,686 | 13,986 | 98,675 | 82,015 |
| **EXPENDITURES** | | | | |
| Capital outlay | - | 725 | 725 | 82,015 |
| Total expenditures | - | 725 | 725 | 82,015 |
| Net change in fund balance | $ 84,686 | 13,261 | $ 97,947 | $ - |
| Fund balance - beginning of year | | 84,686 | | |
| Fund balance - end of year | | $ 97,747 | | |

**NOTE: The budgetary basis of accounting used is modified accrual.**

**SCHEDULE OF PROJECT LENGTH BUDGET**
**MAJOR GOVERNMENTAL FUND**
**CAPITAL PROJECT FUND**

**CITY OF COMMERCE, GEORGIA**
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**
**BUDGET AND ACTUAL – 2005 SPLOST FUND**
**FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2010**

| | 2005 SPLOST Fund | | | |
|---|---|---|---|---|
| | Prior Years | Current Year | Total to Date | Original Amount Authorized |
| **REVENUES** | | | | |
| Intergovernmental | $ 3,732,339 | $ 854,721 | $ 4,587,060 | $ 5,126,536 |
| Investment return | 120,406 | 50,029 | 170,435 | - |
| Total revenues | 3,852,745 | 904,750 | 4,757,495 | 5,126,536 |
| **EXPENDITURES** | | | | |
| Current operating | | | | |
| Public services | 135 | - | 135 | - |
| Recreation | 4 | - | 4 | - |
| Library | 4 | - | 4 | - |
| Capital outlay | 1,477,342 | 293,472 | 1,770,814 | 5,126,536 |
| Total expenditures | 1,477,485 | 293,473 | 1,770,957 | 5,126,536 |
| Net change in fund balance | $ 2,375,260 | 611,278 | $ 2,986,538 | $ - |
| Fund balance - beginning of year | | 2,375,260 | | |
| Fund balance - end of year | | $ 2,986,538 | | |

**NOTE: The budgetary basis of accounting used is modified accrual.**

**REPORTS AND SCHEDULES REQUIRED BY GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133**

**WILCOX & BIVINGS, P.C.**
**CERTIFIED PUBLIC ACCOUNTANTS**

**4485 Tench Road, Suite 1320**
**Suwanee, GA 30024**
**Phone: 770-904-0419**
**Fax: 770-904-5299**

## 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 Honorable Mayor**
**and Members of the City Council**
**City of Commerce, Georgia**

**We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Commerce, Georgia, as of and for the year ended June 30, 2010, which collectively comprise the City of Commerce, Georgia's basic financial statements and have issued our report thereon dated October 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.**

**Internal Control Over Financial Reporting**

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

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

**Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.**

**Compliance and Other Matters**

**As part of obtaining reasonable assurance about whether City of Commerce, Georgia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.**

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

*Wilcox & Bivings, P.C.*

**Suwanee, Georgia**
**October 27, 2010**

**WILCOX & BIVINGS, P.C.**
**CERTIFIED PUBLIC ACCOUNTANTS**

**4485 Tench Road, Suite 1320**
**Suwanee, GA 30024**
**Phone: 770-904-0419**
**Fax: 770-904-5299**

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

**To the Honorable Mayor and Members of the City Council**
**City of Commerce, Georgia**

**Compliance**

**We have audited the compliance of the City of Commerce, Georgia with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The City of Commerce, Georgia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Commerce, Georgia's management. Our responsibility is to express an opinion on the City of Commerce, Georgia's compliance based on our audit.**

**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 Commerce, 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. Our audit does not provide a legal determination on the City of Commerce, Georgia's compliance with those requirements.**

**In our opinion, the City of Commerce, Georgia complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.**

**Internal Control over Compliance**

**Management of the City of Commerce, Georgia is responsible for establishing and maintaining effective internal control over compliance with laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Commerce, Georgia's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 Commerce, Georgia's internal control over compliance.**

**To the Honorable Mayor and Members of the City Council**
**City of Commerce, Georgia**

**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.**

**Our consideration of the 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 over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.**

**This report is intended solely for the information and use of the management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.**

*Wilcox & Bivings, P.C.*

**Suwanee, Georgia**
**October 27, 2010**

**CITY OF COMMERCE, GEORGIA**
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE YEAR ENDED JUNE 30, 2010**

| Federal Grantor/ Pass-through Grantor/ Program Title | Federal CFDA Number | Pass-through Grantors Number | Expenditures |
|---|---|---|---|
| **United States Environmental Protection Agency/ Georgia Environmental Facilities Authority/ ARRA - Capitalization Grant for Clean Water State Revolving Fund** | **66.458** | **CWSRF 09-037** | **$ 1,061,681** |
| **United States Department of Housing and Development/ State of Georgia Department of Community Affairs/ State Community Development Block Grant Program For Non-Entitlement Communities** | **14.219** | **N/A** | **184,256** |
| **United States Department of Agriculture/ Rural Business Enterprise Grant** | **10.769** | **09-CIBC-001** | **70,000** |
| **Total Federal Awards Expended** | | | **$ 1,315,937** |

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE 1 – BASIS OF PRESENTATION**

**The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Commerce, Georgia and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.**

**CITY OF COMMERCE, GEORGIA**
**AUDITORS' SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**FOR THE YEAR ENDED JUNE 30, 2010**

**SECTION I – SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

**Type of auditors' report issued – unqualified opinion on primary government.**

**Internal control over financial reporting:**

- **No material weaknesses identified.**
- **No significant deficiencies identified.**
- **No noncompliance material to financial statements noted.**

**Federal Awards**

**Internal control over major programs:**

- **No material weaknesses identified.**
- **No significant deficiencies identified.**

**Type of auditors' report issued on compliance for major programs - unqualified.**

**No audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a).**

**Identification of major programs:**

- **United States Environmental Protection Agency/ Georgia Environmental Facilities Authority/ ARRA - Capitalization Grant for State Revolving Fund.**

**Dollar threshold used to distinguish between Type A and Type B programs - $300,000**

**Auditee does not qualify as a low-risk auditee.**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

- **No matters reported.**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

- **No matters reported.**

**CITY OF COMMERCE, GEORGIA**
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**
**FOR THE YEAR ENDED JUNE 30, 2010**

**There were no material weaknesses, significant deficiencies, items of noncompliance or questioned costs noted in the audit for the year ended June 30, 2009 that are required to be reported on for the year ending June 30, 2010.**

**CITY OF COMMERCE, GEORGIA**
**P.O. BOX 348**
**COMMERCE, GA 30529-0006**
**706-335-3164**

**CITY OF COMMERCE, GEORGIA**
**CORRECTIVE ACTION PLAN**
**FOR THE YEAR ENDED JUNE 30, 2010**

**As there were no matters reported in the Auditors' Schedule of Findings and Questioned Costs or the Summary Schedule of Prior Year Audit Findings, there are no corrective actions required.**

**SCHEDULES REQUIRED BY THE STATE OF GEORGIA**

**CITY OF COMMERCE, GEORGIA**
**SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS**
**SPLOST OLD**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

| | Original Estimate Amount | Amount Expended In Prior Year | Amount Expended In Current Year | Total | Estimated Percentage of Completion |
|---|---|---|---|---|---|
| ***PROJECTS*** | | | | | |
| Water and Sewer System Improvements | $ 6,160,500 | $ 5,187,158 | $ - | $ 5,187,158 | 100% |
| Road and Bridge Improvements | 1,416,915 | 1,554,712 | 19,517 | 1,574,229 | 100% |
| Recreation Improvements | 338,828 | 391,212 | - | 391,212 | 100% |
| Totals | $ 7,916,243 | $ 7,133,082 | $ 19,517 | $ 7,152,599 | |

**CITY OF COMMERCE, GEORGIA**
**SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS**
**2005 SPLOST**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

| | Original Estimate Amount | Amount Expended In Prior Year | Amount Expended In Current Year | Total | Estimated Percentage of Completion |
|---|---|---|---|---|---|
| ***PROJECTS*** | | | | | |
| Water and Sewer System Improvements | $ 3,588,575 | $ 1,199,023 | $ 290,787 | $ 1,489,810 | 42% |
| Road and Bridge Improvements | 1,127,839 | - | - | - | 0% |
| Recreation Improvements | 205,061 | 112,159 | 2,685 | 114,844 | 56% |
| Library Improvements | 205,061 | 166,160 | - | 166,160 | 81% |
| Totals | $ 5,126,536 | $ 1,477,342 | $ 293,472 | $ 1,770,814 | |