CITY OF MT. ZION, GEORGIA

Financial Statements and Supplementary Information
For the Year Ended September 30, 2004

And

Independent Auditor's Report

City of Mt. Zion, Georgia
Annual Financial Report
For the Year Ended September 30, 2004

	Page
INTRODUCTORY SECTION	
City Officials	3
FINANCIAL SECTION	
Independent Auditor's Report	4
Required Supplementary Information:	
Management's Discussion and Analysis	6
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Statement of Net Assets – Proprietary Fund	16
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund	17
Statement of Cash Flows – Proprietary Fund	18
Notes to Basic Financial Statements	19
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule – General Fund	35
OTHER SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule – Water and Garbage Fund	39
Schedule of Projects Constructed with Special Purpose Local Option Sales Tax Proceeds	40
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*	41

City of Mt Zion, Georgia
City Officials
September 30, 2004

Elected Officials

Mr. John Griffin	Mayor
Ms. Jane Cammons	Councilwoman
Mr. Larry Huddleston	Councilman
Mr. Donald Newman	Councilman
Ms. Sue Williamson	Councilwoman

Independent Auditor's Report

Mayor and Council
City of Mt. Zion
Mt. Zion, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Mt. Zion, Georgia, as of and for the year ended September 30, 2004, 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'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 financial position of the governmental activities, the business-type activities, and each major fund of the City of Mt. Zion, Georgia, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated June 30, 2005, on our consideration of the City of Mt. Zion, Georgia's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audit.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as of September 30, 2004.

Mayor and Council
City of Mt. Zion

The required supplementary information, which includes management's discussion and analysis and budgetary information on pages 6 through 10 and 35 through 38 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mt. Zion's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

June 30, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Mt. Zion's financial performance provides an overview of the City's financial activities for the year ended September 30, 2004. Please read it in conjunction with the City's financial statements, which begin on page 11.

Overview of the Financial Statements

During the year ended September 30, 2004, the City has implemented a new financial reporting model, as required by the Governmental Accounting Standards Board (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Assets.* This is the City-wide statement of position presenting information that includes all of the City's assets and liabilities with the difference 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 as a whole is improving or deteriorating. Evaluation of the overall health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities* which reports how the City's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and user charges from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, streets, recreation and culture. Business-type activities include the water system and garbage collection.

The City's financial reporting includes the funds of the City. Currently, the City has no component units.

The government-wide financial statements are presented on pages 11 and 12 of this report.

Fund Financial Statements

A fund is an accountable unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Currently, all of the City's funds are major.

The City has two kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to assist in understanding the differences between these two perspectives.

The basic governmental fund financial statements are presented on pages 13 to 15 of this report.

Proprietary funds are reported in the fund financial statements the same way the business-type activities are reported in the Statement of Net Assets and the Statement of Activities. The basic proprietary fund financial statements are presented on pages 16 to 18 of this report.

Notes to the basic financial statements

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements are on pages 19 to 34 of this report.

Financial Analysis of the City as a Whole

As this is the first year of the GASB 34 reporting model, comparative data is not presented. Comparative data will be presented to assist analysis in future years.

The City's net assets at year-end are $1,075,486. This is a $20,197 decrease from last year's net assets of $1,095,683. This includes $844,339 invested in capital assets, net of related debt.

The following table provides a summary of the City's net assets.

Summary of Net Assets

	Governmental Activities	Business-Type Activities	Total
Cash	$ 104,417	$ 66,265	$ 170,682
Receivables, net	368,314	21,445	389,759
Capital assets, net	517,475	504,571	1,022,046
Inventory	00	10,433	10,433
Prepaid expenses	9,002	00	9,002
Internal balances	(24,376)	24,376	00
Total assets	974,832	627,090	1,601,922
Current and other liabilities	438,986	87,450	526,436
Total liabilities	438,986	87,450	526,436
Net assets:			
Invested in capital assets, net of related debt	374,904	469,435	844,339
Unrestricted	160,942	70,205	231,147
Total net assets	$ 535,846	$ 539,640	$ 1,075,486

The following table provides a summary of changes in net assets.

Summary of Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	% of Totals	2004	% of Totals	2004	% of Totals
Revenues:						
Program revenues:						
Charges for service	$ 145,184	28.5%	$ 241,872	100.0%	$ 387,056	51.6%
Operating grants	84,317	16.6%	00	0.0%	84,317	11.2%
General revenues:						
Sales	158,332	31.1%	00	0.0%	158,332	21.1%
Insurance premium taxes	54,768	10.8%	00	0.0%	54,768	7.3%
Other taxes and misc.	66,050	13.0%	00	0.0%	66,050	8.8%
Total revenues	508,651	100.0%	241,872	100.0%	750,523	100.0%
Expenses:						
General government	168,040	32.0%			168,040	21.8%
Public safety	280,713	52.5%			280,713	36.4%
Highways and streets	2,027	0.4%			2,027	0.3%
Recreation and culture	71,988	13.7%			71,988	9.3%
Interest	7,258	1.4%			7,258	1.0%
Total	530,026	100.0%				
Water and garbage			240,694	100.0%	240,694	31.2%
Total			240,694	100.0%		
Total expenses					770,720	100.0%
Increase (decrease) in net assets before transfers	(21,375)		1,178		(20,197)	
Transfers	17,205		(17,205)		00	
Change in net assets	(4,170)		(16,027)		(20,197)	
Beginning net assets	540,016		555,667		1,095,683	
Ending net assets	$ 535,846		$ 539,640		$ 1,075,486	

Financial Analysis of the City's Funds

Governmental funds

As discussed, governmental funds are reported in the fund statements with a short-term inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of $160,942. The total ending fund balances of governmental funds show a decrease of $30,184 over the prior year.

The Major Governmental Funds

The General Fund is the City's primary operating fund. The fund balance of the General Fund decreased by $36,184 to $154,906.

The Capital Projects Fund is used to account for resources restricted for the acquisition or construction of specific capital projects from the Special Purpose Local Option Sales Tax. The fund balance of the Capital Projects Fund increased by $6,000 to $6,036.

Proprietary funds

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long- term information about financial status.

The Major Proprietary Fund

The water and garbage system provides services to both residential and commercial customers.

General Fund Budgetary Highlights

The original budget was approved by the Council with budgeted expenditures in the amount of $508,365. No amendments were made.

Capital Assets

At the end of year 2004, the City had $1,022,046 invested in a broad range of capital assets including buildings, recreation facilities, and water infrastructure.

More detailed information about the City's capital assets is presented in Note 5 to the basic financial statements.

Debt

At the end of year 2004, the City had notes payable totaling $165,534 and a capital lease payable in the amount of $12,173. More detailed information about the City's debt is presented in notes 6 and 7.

Statement of Net Assets
September 30, 2004

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash	$ 104,417	$ 66,265	$ 170,682
Receivables, net	368,314	21,445	389,759
Inventory	00	10,433	10,433
Capital assets, net	517,475	504,571	1,022,046
Prepaid expenses	9,002	00	9,002
Internal balances	(24,376)	24,376	00
Total assets	974,832	627,090	1,601,922
Liabilities:			
Note payable	130,398	35,136	165,534
Accounts payable	5,929	14,032	19,961
Payroll taxes payable	1,276	00	1,276
Customer deposits	00	38,282	38,282
Deferred revenue – SPLOST	289,210	00	289,210
Capital leases payable	12,173	00	12,173
Total liabilities	438,986	87,450	526,436
Net assets:			
Invested in capital assets, net of related debt	374,904	469,435	844,339
Unrestricted	160,942	70,205	231,147
Total net assets	$ 535,846	$ 539,640	$ 1,075,486

See accompanying notes to financial statements.

Statement of Activities
For the Year Ended September 30, 2004

Function/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expenses) Revenue and Changes in Net Assets: Primary Government: Business-Type Activities	Net (Expenses) Revenue and Changes in Net Assets: Primary Government: Total
Primary government:							
Governmental activities:							
General government	$ 168,040	$ 13,971	$ 6,427	$ 00	$ (147,642)	$ 00	$ (147,642)
Public safety	280,713	79,965	77,890	00	(122,858)	00	(122,858)
Highways and streets	2,027	00	00	00	(2,027)	00	(2,027)
Recreation and culture	71,988	51,248	00	00	(20,740)	00	(20,740)
Interest on long-term debt	7,258	00	00	00	(7,258)	00	(7,258)
Total governmental activities	530,026	145,184	84,317	00	(300,525)	00	(300,525)
Business-type activities:							
Water and garbage	240,694	241,872	00	00	00	1,178	1,178
Total business-type activities	240,694	241,872	00	00	00	1,178	1,178
Total primary government	$ 770,720	$ 387,056	$ 84,317	$ 00	(300,525)	1,178	(299,347)
General revenues:							
Taxes:							
Property taxes					32,722	00	32,722
Insurance premium taxes					54,768	00	54,768
Franchise public service taxes					31,738	00	31,738
Sales taxes					158,332	00	158,332
Interest and investment earnings					604	00	604
Miscellaneous					986	00	986
Total general revenues					279,150	00	279,150
Transfers					17,205	(17,205)	00
Total general revenues and transfers					296,355	(17,205)	279,150
Change in net assets					(4,170)	(16,027)	(20,197)
Net assets-beginning					540,016	555,667	1,095,683
Net assets-ending					$ 535,846	$ 539,640	$ 1,075,486

See accompanying notes to financial statements.

Balance Sheet
Governmental Funds
September 30, 2004

	General Fund	Capital Projects Fund	Total Governmental Funds
Assets			
Cash and equivalents	$ 98,381	$ 6,036	$ 104,417
Receivables, net	77,882	00	77,882
Prepaid expenses	9,002	00	9,002
Receivables from other governments	00	290,432	290,432
Total assets	$ 185,265	$ 296,468	$ 481,733
Liabilities			
Accounts payable	$ 4,707	$ 1,222	$ 5,929
Payroll taxes payable	1,276	00	1,276
Due to other funds	24,376	00	24,376
Deferred revenue – SPLOST	00	289,210	289,210
Total liabilities	30,359	290,432	320,791
Fund Balances			
Unreserved			
General fund	154,906	00	154,906
Capital projects fund	00	6,036	6,036
Total fund balances	154,906	6,036	160,942
Total liabilities and fund balances	$ 185,265	$ 296,468	
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 are therefore not reported in the funds			517,475
Capital leases payable and note payable are not due and payable in the current period and therefore are not reported in the funds			(142,571)
Net assets of governmental activities			$ 535,846

See accompanying notes to financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2004

	General	Capital Projects	Total Governmental Funds
Revenues			
Taxes	$ 215,433	$ 00	$ 215,433
Interest	604	00	604
Miscellaneous	7,391	00	7,391
Intergovernmental	84,317	62,127	146,444
Recreation	51,248	00	51,248
Fines and forfeitures	79,965	00	79,965
Licenses and permits	6,128	00	6,128
Post office lease	7,843	00	7,843
Total revenues	452,929	62,127	515,056
Expenditures			
Current operating:			
General government	151,643	00	151,643
Public safety	258,368	00	258,368
Recreation and culture	63,194	3,988	67,182
Highways and streets	1,214	00	1,214
Debt service:			
Principal	18,802	00	18,802
Interest	7,258	00	7,258
Capital outlay	5,839	52,139	57,978
Total expenditures	506,318	56,127	562,445
Excess (deficit) of revenues over expenditures	(53,389)	6,000	(47,389)
Other financing sources:			
Transfers in (out)	17,205	00	17,205
Total other financing sources	17,205	00	17,205
Net change in fund balance	(36,184)	6,000	(30,184)
Fund balances - beginning	191,090	36	191,126
Fund balances - ending	$ 154,906	$ 6,036	$ 160,942

See accompanying notes to financial statements.

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2004

Net changes in fund balances – total governmental funds	$ (30,184)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate these expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation expense in the current period	18,212
Repayment of capital lease and note payable principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	18,802
In the Statement of Activities only the loss on the disposition of the totaled police car is reported while in the governmental funds the insurance proceeds increase current financial resources	(11,000)
Change in net assets of governmental activities	$ (4,170)

See accompanying notes to financial statements.

Statement of Net Assets
Proprietary Fund
September 30, 2004

Assets	Water & Garbage
Current assets:	
Cash	$ 66,265
Accounts receivable (net of allowance)	21,445
Inventory	10,433
Total current assets	98,143
Fixed assets:	
Property, plant and equipment	950,274
Accumulated depreciation	(445,703)
Total fixed assets	504,571
Other assets:	
Due from other funds	24,376
Total other assets	24,376
Total assets	$ 627,090
Liabilities	
Current liabilities:	
Note payable – backhoe	$ 2,607
Accounts payable	14,032
Customer deposits	38,282
Total current liabilities	54,921
Noncurrent liabilities:	
Note payable – backhoe	32,529
Total noncurrent liabilities	32,529
Total liabilities	87,450
Net Assets	
Invested in capital assets, net of related debt	469,435
Unrestricted	70,205
Total net assets	539,640
Total liabilities and net assets	$ 627,090

See accompanying notes to financial statements.

Statement of Revenue, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended September 30, 2004

	Water & Garbage
Operating revenue:	
Charges for services	$ 241,872
Operating expenses:	
Salaries and benefits	52,054
Payroll taxes	4,301
Employee benefits	7,879
Vehicle and fuel expense	7,694
Depreciation	30,001
Office supplies and postage	4,060
Water purchases	74,024
Garbage fees	34,303
Supplies and meters	10,035
Professional fees	8,010
Miscellaneous	5,683
Total operating expenses	238,044
Operating income	3,828
Non-operating expenses:	
Interest expense	2,650
Total non-operating expenses	2,650
Income before operating transfers	1,178
Transfers out	(17,205)
Change in net assets	(16,027)
Net assets beginning of year	555,667
Net assets end of year	$ 539,640

See accompanying notes to financial statements.

Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2004

	Water & Garbage
Cash flows from operating activities:	
Receipts from customers	$ 239,143
Payments for suppliers	(148,559)
Payments to employees	(52,054)
Net cash provided by operating activities	38,530
Cash flows from noncapital financing activities:	
Transfers to other funds	(17,205)
Net cash used by noncapital financing activities	(17,205)
Cash flows from capital and related financing activities:	
Principal paid on loans	(20,939)
Purchases of capital assets	(2,518)
Interest paid on capital debt	(2,650)
Net cash used by capital and related financing activities	(26,107)
Net decrease in cash and cash equivalents	(4,782)
Balances – beginning of year	71,047
Balances – end of year	$ 66,265
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 3,828
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	30,001
Change in assets and liabilities:	
Receivables, net	(4,044)
Inventory	1,743
Customer deposits	1,315
Accounts payable	5,687
Net cash provided by operating activities	$ 38,530

See accompanying notes to financial statements.

Note 1. Summary of Significant Accounting Policies

The City of Mt. Zion, Georgia (the "City"), operates under a mayor and council/manager form of government and provides the following services: public safety, streets, library and recreation, public utilities, and general administrative services.

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For the year ended September 30, 2004, the City implemented the new financial requirements of GASB No. 34. As a result, an entirely new financial presentation format has been implemented.

1.A. Financial Reporting Entity

The City's financial reporting entity comprises the following:

Primary Government:	City of Mt. Zion

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No 14, "The Financial Reporting Entity," and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists. Currently, the City has no component units.

1.B. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Note 1. Summary of Significant Accounting Policies - continued

1.B. Basis of Presentation - continued

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. If applicable, funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Capital Projects Fund

The Capital Projects Fund is the SPLOST Fund and is used to account for resources restricted for the acquisition or construction of specific capital projects from the Special Purpose Local Option Sales Tax. This fund is a major fund.

Proprietary Fund

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. This fund is a major fund.

Note 1. Summary of Significant Accounting Policies - continued

1.C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Note 1. Summary of Significant Accounting Policies - continued

1.D. Assets, Liabilities, and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Interfund Receivable and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." These amounts are eliminated in the governmental and business-type activities columns of the net assets, except for any net residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes and police fines. Business-type activities report utilities revenue as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax and police fines since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis.

Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Fixed Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Note 1. Summary of Significant Accounting Policies - continued

1.D. Assets, Liabilities, and Equity - continued

Fixed Assets - continued

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. The City maintains a capitalization threshold of $5,000.

GASBS No. 34 requires the City to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The City is a Phase 3 entity and is not required to record infrastructure from years prior to implementation to the reporting model.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

- Buildings & improvements	15-50 years
- Vehicles, machinery and equipment	5-10 years
- Water distribution system	40 years
- Land improvements	10 years
- Infrastructure	50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2004, are recorded as prepaid items using the consumption method by recording an asset for the prepaid account and reflecting the expenditure/expense in the year in which services are consumed.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Note 1. Summary of Significant Accounting Policies - continued

1.D. Assets, Liabilities, and Equity - continued

Long-term Debt – continued

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes and bonds payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

The City encourages employees to take their vacations annually, and sick pay is not paid on termination. Therefore, no accrual of compensated absences has been made.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in two components:

a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

Note 1. Summary of Significant Accounting Policies - continued

1.E. Revenues, Expenditures and Expenses

Program Revenues

Program revenues include charges paid by the recipients of the goods or services offered by the programs, grants and contributions that are restricted to meeting the operational capital requirements of a particular program.

Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. Other revenues and expenses are classified as non-operating in the financial statements.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character:	Current (further classified by function)
	Debt Service
	Capital Outlay
Proprietary Fund – By Operating and Nonoperating	

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

Note 1. Summary of Significant Accounting Policies - continued

1.F. Estimates

The preparation of the financial statements in conformity with accounting principals generally accepted in the United States, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2. Deposits with Financial Institutions

The City's deposits at year end were entirely covered by federal depository insurance or by collateral held by the financial institutions in the City's name.

Note 3. Property Taxes

The City levies property taxes based on property values as of January 1 of each year. Taxes were levied on November 15, 2003, and were due January 15, 2004.

Note 4. Due From and Due to Other Funds

Individual fund interfund receivable and payable balances at September 30, 2004, were:

Fund	Interfund Receivables	Interfund Payables
General Fund	$ 00	$ 24,376
Water and Garbage Fund	24,376	00
	$ 24,376	$ 24,376

These interfund balances result from a loan made by the water fund to the general fund in a previous year to help with the cost of building the post office.

Note 5. Capital Assets

Capital assets activity for the year ended September 30, 2004 was as follows:

	Balance at October 1, 2003	Additions	Disposals	Balance at September 30, 2004
Governmental activities:				
Land	$ 159,250	$ 00	$ 00	$ 159,250
Land improvements	49,720	00	00	49,720
Buildings and improvements	430,039	00	00	430,039
Machinery and equipment	117,021	5,839	00	124,560
Vehicles	89,852	11,500	20,000	79,652
Infrastructure	00	40,639	00	40,639
Totals at historical cost	845,882	57,978	20,000	883,860
Less accumulated depreciation:				
Land improvements	22,448	1,197	00	23,645
Buildings and improvements	199,172	10,254	00	209,426
Machinery and equipment	67,777	12,443	00	80,220
Vehicles	46,222	15,059	9,000	52,281
Infrastructure	00	813	00	813
Total accumulated depreciation	335,619	39,766	9,000	366,385
Governmental activities capital assets, net	$ 510,263	$ 18,212	$ 11,000	$ 517,475
Business-type activities:				
Water system and tower	$ 843,350	$ 00	$ 00	$ 843,350
Equipment	96,857	00	00	96,857
Vehicles	7,550	2,518	00	10,068
	947,757	2,518	00	950,275
Less accumulated depreciation:				
Water system and tower	372,597	15,031	00	387,628
Equipment	37,636	13,510	00	51,146
Vehicles	5,470	1,460	00	6,930
Total accumulated depreciation	415,703	30,001	00	445,704
Business-type capital assets, net	$ 532,054	$ (27,483)	$ 00	$ 504,571

Depreciation was charged to governmental activities as follows:

General government	$ 14,635
Public Safety	19,512
Recreation and culture	4,806
Infrastructure	813
Total	$ 39,766

Note 6. Long-Term Debt – Water and Garbage Fund

The City paid off an unsecured note payable to a local bank in the amount of $18,706 on December 13, 2003. The interest rate was 5.5%.

The City has a secured note payable to a local bank with a balance of $35,136 at September 30, 2004, due with an interest rate of 5.0% and collateral of one New Holland backhoe.

The following is a summary of the debt service requirements:

FYE 9-30-05	$ 2,607
9-30-06	2,781
9-30-07	2,967
9-30-08	3,166
9-30-09	3,378
3-30-10 to 9-30-15	20,237
	$ 35,136

Note 7. Long-Term Debt – Governmental Activities

During the year ended September 30, 2004, the following changes occurred in the governmental activities:

	Balance September 30, 2003	Additions	Reductions	Balance September 30, 2004	Amount Due Within 1 year
Capital leases	$ 24,029	$ 00	$ 11,856	$ 12,173	$ 9,791
Note payable	137,344	00	6,946	130,398	7,256
	$ 161,373	$ 00	$ 18,802	$ 142,571	$ 17,047

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of police cars and a copier. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the general fixed assets account group.

The City entered into a lease agreement with Canon Financial Services, Inc., dated February 26, 2003, to acquire a copier at a cost of $6,095. Under the terms of the lease, the City is required to make forty-eight monthly lease payments beginning in March, 2003 and ending in February, 2007 consisting of principal and interest at a rate of 8.61%.

Note 7. Long-Term Debt – Government Activities - continued

In a prior year, the City entered into two lease agreements with Ford Motor Credit Co. dated February 25, 2002, to acquire two police vehicles at a cost of $20,000 each. Under the terms of one agreement, the City is required to make thirty-six monthly lease payments beginning on February 25, 2002 and ending on January 25, 2005 consisting of principal and interest at a rate of 6.55%. Under the terms of the second lease agreement, the City is required to make four annual payments beginning on February 25, 2002 and ending on February 25, 2005 consisting of principal and interest at a rate of 6.85%.

The City's obligation to pay such lease payments is conditioned on the annual appropriation of funds to make these payments by the City Council and actual lease terms extend no longer than one year.

The future minimum lease obligation and the net present value of these minimum lease payments as of September 30, 2004, are as follows:

September 30, 2005	$ 10,350
September 30, 2006	1,792
September 30, 2007	747
Minimum lease payment for all capital leases	12,889
Less amount representing interest	716
Present value of minimum lease payments	$ 12,173

Note Payable

During the year ended September 30, 2003, the City purchased land financed in part by a note payable to a local bank. The note is payable in 35 monthly installments of $1,067, including interest at 4.37%. The final payment of the entire unpaid balance of principal and interest will be due March 30, 2006. The note is secured by the land which was purchased. The following is a summary of the debt service requirements:

	Principal	Interest	Total
FYE 9-30-05	$ 7,256	$ 5,554	$ 12,810
9-30-06	123,142	2,656	125,798
	$ 130,398	$ 8,210	$ 138,608

Note 8. Interfund Transfers

Interfund transfers for the year ended September 30, 2004, were as follows:

Fund	Transfers In	Transfers Out
General Fund	$ 17,205	$ 00
Proprietary Funds:		
Water	00	17,205
	$ 17,205	$ 17,205

Transfers are made to use unrestricted revenues collected in the water and garbage fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 9. Individual Fund Budget Overages

The Water Fund's operating expenses exceeded budgeted operating expenses by $21,863.

Note 10. Retirement Plan

Plan Description

The City contributes to the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for cities in the State of Georgia. This plan has a stand-alone financial report which may be obtained by writing Georgia Municipal Association, Inc. at 201 Pryor Street, SW, Atlanta, Georgia 30303. The City's payroll for employees participating in the Plan for the year ended July 1, 2004, was $191,153.

All full-time City employees with one year of service are eligible to participate in the system. Benefits vest after 5 years of credited service. City employees can retire at or after age 65 with five years of credited service or after age 55 with 10 years of credited service. There is no maximum employee entry age. The benefit formula is 1.5% of annual salary based on year of birth of the employee. An extra credit is earned for years of service. The system also provides death and disability benefits. These benefit provisions and all other requirements are established by the Georgia Municipal Employees Benefit System and the adoption agreement executed by the City.

City employees are not required to contribute to the Plan, rather the City contributed the amount necessary to fund the system, using the actuarial basis specified by the adoption agreement.

Note 10. Retirement Plan - continued

As of July 1, 2004, the current plan membership includes the following categories of participants:

Retirees and beneficiaries currently receiving benefits	0
Terminated employees entitled to benefits but not yet receiving them	0
Current active employees:	
Vested	2
Nonvested	5
Total membership in the plan	7

Plan Asset Matters and Accounting Policies

Asset Data: The Georgia Municipal Employees Benefit System has supplied all asset data used in the valuation. The market value is based on information provided by GMEBS as of two months preceding the valuation date of July 1, 2004.

Participant Data: The primary source of participant data for the current valuation is a census of all participants which was prepared as of July 1, 2004, supplied by the City through GMEBS.

The System assets do not include any loans, notes, or bonds or other instruments or securities of the City or related parties.

Funding Status and Progress

The amount shown as the "actuarial accrued liability" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the plan on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the Plan.

The "actuarial accrued liability" was computed as part of an actuarial valuation performed as of July 1, 2004. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8 percent a year, (b) projected salary increases of 5 percent a year attributable to inflation, (c) additional projected salary increases of ½ percent a year attributable to merit or seniority, and (d) no post-retirement benefit increases.

Note 10. Retirement Plan – continued

Actuarially Determined Contribution Requirements and Contribution Made

The funding policy for the plan is to contribute an amount equal to the recommended contribution in each year. These contributions are determined under the projected unit credit actuarial cost method. The period, and related method, for amortizing the unfunded actuarial accrued liability is 30 years from 2000, 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.

The significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the pension benefit obligation as described above.

Contributions to the plan for 2004 of $8,026 are made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of July 1, 2004. Contributions consist of (a) $7,364 normal cost and (b) $401 amortization of unfunded actuarial accrued liabilities and (c) $261 interest. The City contributes the entire amount (4.2 percent of covered payroll).

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Trend information is presented below:

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Projected Unit Credit	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	(c) Annual Covered Payroll	UAAL as a Percentage of Covered Payroll [(b - a)/ c]
7/01/01	$ 1,220	$ 7,131	$ 5,911	17.1%	$ 136,739	4.3%
7/01/02	5,432	11,526	6,094	47.1%	168,570	3.6%
7/01/03	11,471	17,551	6,080	65.4%	253,913	2.4%
7/01/04	18,866	13,994	4,872	74.2%	191,153	2.6%

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
7/01/01	$ 5,028	100%	0
7/01/02	7,401	100%	0
7/01/03	9,289	100%	0
7/01/04	8,026	100%	0

Note 11. Contingencies

There are no pending claims or litigation against the City of Mt. Zion of which city officials are aware.

Note 12. Risk Management

The City's business activity is primarily with residents located within the city limits. The receivables for taxes, water, etc. concentrated in this area have recourse of attaching liens and discontinuing services to lessen the credit risk.

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. The government has a limited risk management program for workers compensation which it pays premiums to GMA Self Insurance Program. These premiums are used to pay claims. Liabilities are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated. There were no claims in excess of available premiums, thus no unpaid claims are reported. If there were any, they would be reported in the general long-term debt group.

Chapter 85 of Title 36 of the Official Code of Georgia Annotated authorizes Georgia municipalities to form interlocal risk management agencies. The Georgia Interlocal Risk Management Agency (GIRMA) is a municipal interlocal risk management agency to function as an unincorporated nonprofit instrumentality of its member municipalities – GIRMA establishes and administers one or more group self insurance funds and a risk management service to prevent or lessen the incidence and severity of casualty and property losses occurring in the operation of municipal government. GIRMA is to defend and protect in accordance with the member government contract and related coverage descriptions any member of GIRMA against liability or loss.

The City of Mt. Zion participates at all times in at least one fund which is established by GIRMA. Other responsibilities of the City are as follows:

To pay all contributions, assessments or other sums due to GIRMA at such times and in such amounts as shall be established by GIRMA.

To select a person to serve as a Member representative.

To allow GIRMA and its agents reasonable access to all facilities of the City and all records, including but not limited to financial records, which relate to the purposes of GIRMA.

To allow attorneys appointed by GIRMA to represent the City in investigation, settlement discussions and all levels of litigation arising out of any claim made against the City within the scope of loss protection furnished by the Fund or Funds established by GIRMA.

To assist and cooperate in the defense and settlement of claims against the City.

To furnish full cooperation to GIRMA'S attorneys, claims adjusters, Service Company, and any agent, employee, officer or independent contractor of GIRMA relating to the purposes of GIRMA.

To follow all loss reduction and prevention procedures established by GIRMA.

Note 12. Risk Management - continued

To furnish to GIRMA such budget, operating and underwriting information as may be requested.

To report as promptly as possible, and in accordance with any Coverage Descriptions issued, all incidents which could result in GIRMA or any Fund established by GIRMA being required to pay claim for loss or injuries to municipal property or injuries to persons or property when such loss or injury is within the scope of the protection of a Fund or Funds in which the City participates.

The City of Mt. Zion retains the first $1,000 of each risk of loss in the form of a deductible. The City files all claims with GIRMA. GIRMA bills the City for any risk of loss up to the $2,500 deductible.

Note 13. Joint Ventures

The City is a member of the Chattahoochee-Flint Regional Development Center (RDC). Assessed allocation of $1,466 was expended for the current year. Assessments may vary annually, but no substantial change in the financial burden to the City is anticipated. Membership in an RDC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the RDC in Georgia. The RDC Board membership includes the chief elected official of each 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 of the Center are available at the offices located on Highway 34, Franklin, Georgia.

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule - General Fund
For the Year Ended September 30, 2004

	Original and Final Budget	Actual	Variance Positive (Negative)
Taxes:			
Local option sales tax	$ 104,000	$ 96,205	$ (7,795)
Insurance premium tax	54,000	54,768	768
Franchise and public service tax	37,810	31,738	(6,072)
Property tax	42,260	32,722	(9,538)
	238,070	215,433	(22,637)
Licenses and permits:			
Business licenses	7,750	6,128	(1,622)
Intergovernmental:			
Grants	78,243	84,317	6,074
Charges for services:			
Rental income – P.O. lease	8,556	7,843	(713)
Recreation programs	58,595	51,248	(7,347)
	67,151	59,091	(8,060)
Fines and forfeitures	75,000	79,965	4,965
Interest	500	604	104
Miscellaneous	2,000	7,391	5,391
Total revenues	468,714	452,929	(15,785)

See accompanying notes to budgetary comparison schedule.

Budgetary Comparison Schedule - General Fund
For the Year Ended September 30, 2004

	Original and Final Budget	Actual	Variance Positive (Negative)
General government:			
Salaries	$ 57,775	$ 37,927	$ 19,848
Payroll taxes	5,500	3,580	1,920
Employee benefits	5,055	5,690	(635)
Office supplies and printing	3,700	2,478	1,222
Utilities and telephone	20,000	21,460	(1,460)
Insurance	14,080	32,979	(18,899)
Miscellaneous	2,400	2,879	(479)
Membership dues	1,100	00	1,100
Legal and accounting	10,000	8,605	1,395
Gasoline	1,500	1,535	(35)
Library books and supplies	200	365	(165)
Capital outlays	7,000	5,839	1,161
Council salary	3,600	3,600	00
Repairs and maintenance	1,700	9,432	(7,732)
Inspections fees	3,000	3,238	(238)
Computer services	3,000	2,810	190
Maintenance agreements	450	450	00
Advertising	1,500	1,662	(162)
Founders day	2,500	3,058	(558)
Training	1,000	2,256	(1,256)
Update zoning	9,500	6,766	2,734
Election expenditures	2,500	873	1,627
Total general government	157,060	157,482	(422)
Public safety:			
Salaries	184,960	186,333	(1,373)
Payroll taxes	18,080	15,424	2,656
Employee benefits	19,668	14,498	5,170
Insurance	5,077	00	5,077
Gas and repairs	20,000	9,732	10,268
Supplies, printing and uniforms	6,500	11,317	(4,817)
Police officers' training and annuity fund	9,000	8,528	472
Training	2,200	00	2,200
Miscellaneous	1,700	240	1,460
Capital outlays	4,000	00	4,000
K-9 program	2,000	290	1,710
Court cost	9,500	12,006	(2,506)
Total public safety	282,685	258,368	24,317

See accompanying notes to budgetary comparison schedule.

Budgetary Comparison Schedule - General Fund
For the Year Ended September 30, 2004

	Original and Final Budget	Actual	Variance Positive (Negative)
Recreation department:			
Salaries	$ 00	$ 13,797	$ (13,797)
Payroll taxes	00	1,218	(1,218)
Uniforms and equipment	17,000	16,459	541
Utilities and telephone	5,250	5,920	(670)
Office supplies	500	00	500
Insurance	675	00	675
Field supplies, repairs and maintenance	7,950	675	7,275
Fundraiser	2,000	3,132	(1,132)
Concession supplies	6,500	8,752	(2,252)
Capital outlay	00	00	00
Referee officials	6,500	9,136	(2,636)
Tournament fees	2,000	1,320	680
Coaching expenditures	300	120	180
Miscellaneous	4,350	2,602	1,748
Repairs and maintenance	1,370	63	1,307
Sponsors	1,000	00	1,000
Total recreation department	55,395	63,194	(7,799)
Highways and streets:			
Street improvements	1,500	1,166	334
Street signs	1,200	48	1,152
Total highways and streets	2,700	1,214	1,486
Debt service:			
Principal	10,525	18,802	(8,277)
Interest	00	7,258	(7,258)
	10,525	26,060	(15,535)
Total expenditures	508,365	506,318	2,047
Excess of expenditures over revenue	(39,651)	(53,389)	(13,738)
Other financing sources (uses);			
Transfers in	00	17,205	17,205
Excess of expenditures and other financing uses over revenues and other financing sources	$ (39,651)	$ (36,184)	$ 3,467

See accompanying notes to budgetary comparison schedule.

Annual budgets are prepared and approved by the Mayor and Council for the General Fund and the Water Fund. Prior to the budget being legally enacted through passage of an ordinance, a public hearing is held to obtain taxpayer comments. The budgets are prepared on a basis consistent with generally accepted accounting principles. A project-length budget is prepared for the Capital Project Fund.

Budgetary Comparison Schedule – Water and Garbage Fund
For the Year Ended September 30, 2004

	Original and Final Budget	Actual	Variance Positive (Negative)
Operating revenues:			
Water revenue	$ 178,281	$ 178,379	$ 98
Garbage revenue	46,000	49,504	3,504
Water and sewer tap fees	22,000	7,575	(14,425)
Late fees, service charges and reconnection fees	4,400	3,775	(625)
Miscellaneous	1,000	2,639	1,639
Total operating revenues	251,681	241,872	(9,809)
Operating expenses:			
Salaries	59,780	52,054	7,726
Payroll tax	5,700	4,301	1,399
Employee benefits	11,500	7,879	3,621
Vehicle and fuel expense	6,500	7,694	(1,194)
Depreciation	00	30,001	(30,001)
Office supplies and postage	3,800	4,060	(260)
Water purchases	67,000	74,024	(7,024)
Garbage fees	34,200	34,303	(103)
Supplies and meters	4,000	10,035	(6,035)
Professional fees	6,500	8,010	(1,510)
Miscellaneous	9,450	5,683	3,767
Insurance	5,025	00	5,025
Repairs and maintenance	2,726	00	2,726
Total operating expenses	216,181	238,044	(21,863)
Operating income	35,500	3,828	(31,672)
Non-operating revenues (expenses):			
Interest expense	00	(2,650)	(2,650)
Total non-operating revenues (expenses)	00	(2,650)	(2,650)
Income before operating transfers	35,500	1,178	(34,322)
Operating transfers to General Fund	00	(17,205)	(17,205)
Net income (loss)	$ 35,500	$ (16,027)	$ (51,527)

See accompanying notes to budgetary comparison schedule.

OTHER SUPPLEMENTARY INFORMATION

Schedule of Projects Constructed with Special Purpose
Local Option Sales Tax Proceeds
For the Year Ended September 30, 2004

Project	Original Estimated Cost	Expenditures Prior Years	Expenditures Current Years	Total
1993				
Street paving	$ 412,000	$ 413,694	$ 31,610	$ 445,304
Fire protection	10,000	3,805	00	3,805
Recreation facilities	20,000	19,709	00	19,709
	$ 442,000	$ 437,208	$ 31,610	$ 468,818
1998				
Recreational building and renovations	$ 115,000	$ 115,000	$ 00	$ 115,000
Street projects	295,000	2,695	9,030	11,725
Water projects	138,600	12,117	00	12,117
Equipment	49,900	49,969	00	49,969
	$ 598,500	$ 179,781	$ 9,030	$ 188,811
2003				
Recreation – land, vehicle, equipment and improvements to fields and existing office	$ 200,000	$ 00	$ 15,487	$ 15,487
Water – vehicle, equipment, improvements and feasibility study	115,000	00	00	00
Community development – renovation and city beautification	125,000	00	00	00
Public safety – vehicles and equipment	75,000	00	00	00
Roads – paving and repairs	300,000	00	00	00
General city – equipment and building renovations	85,000	00	00	00
	$ 900,000	$ 00	$ 15,487	$ 15,487

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*

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*

Honorable Mayor and City Council
City of Mt. Zion, Georgia

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Mt. Zion, Georgia, as of and for the year ended September 30, 2004, which collectively comprise the City of Mt. Zion, Georgia's basic financial statements and have issued our report thereon dated June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mt. Zion, Georgia's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Mt. Zion, Georgia's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Segregation of Duties

The size of the City's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. Although certain procedures have been implemented, such as having the mayor open all bank statements, substantial duties relative to receipt and disbursement processes are handled in large by one person. We recommend a continued effort to implement segregation of duties to the extent practical and accounting records be reviewed by responsible officials on a regular basis.

Compliance

As part of obtaining reasonable assurance about whether the City of Mt. Zion, 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 that are required to be reported under *Government Auditing Standards*.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management, the City Council, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

June 30, 2005