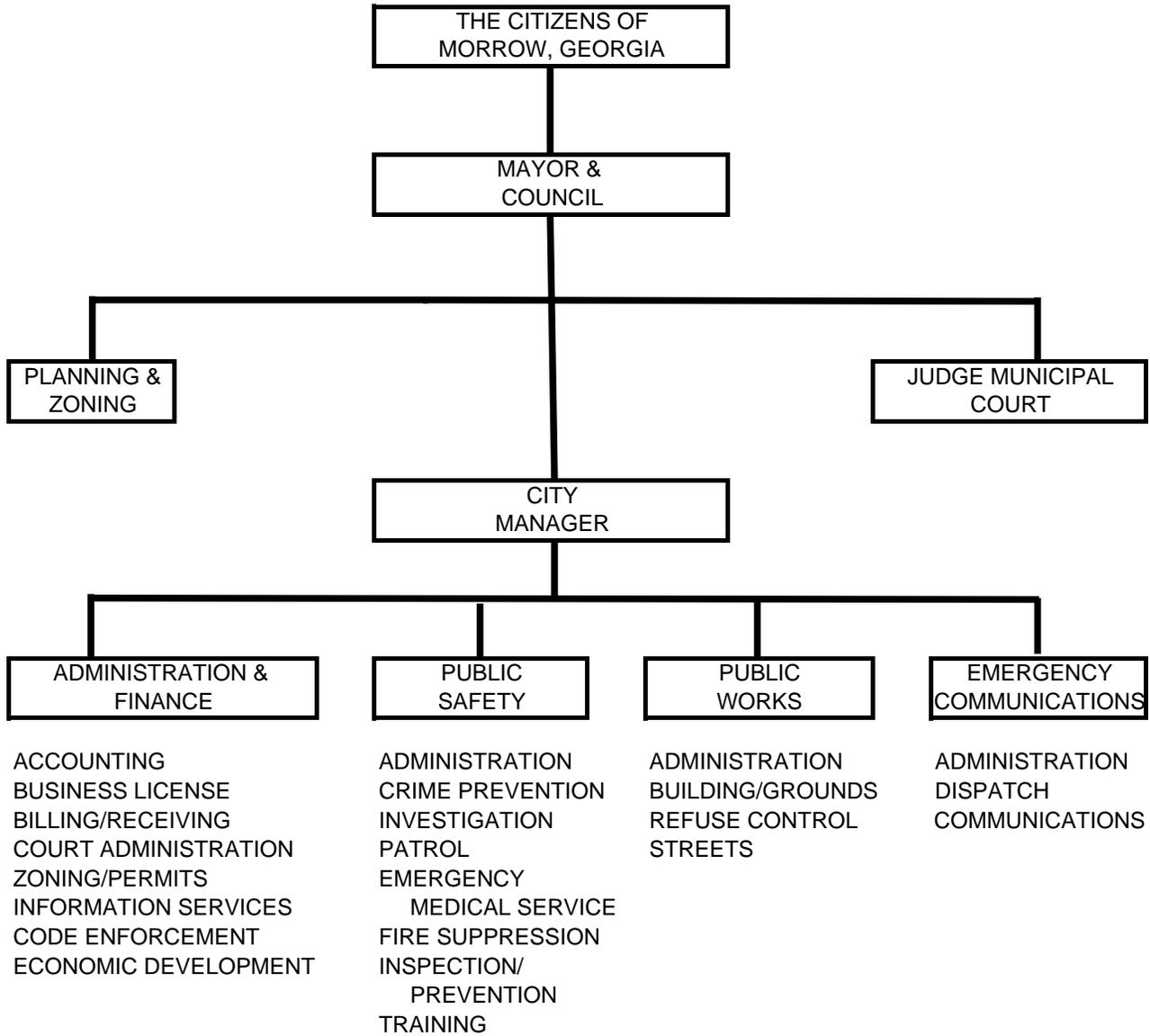


**CITY OF MORROW, GEORGIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2005**

Prepared by:
Morrow Finance Department

INTRODUCTORY SECTION

**CITY OF MORROW, GEORGIA
ORGANIZATIONAL CHART**



CITY OF MORROW, GEORGIA

**PRINCIPAL OFFICIALS
JUNE 30, 2005**

ELECTED OFFICIALS

Mayor	James H. Millirons, Sr.
Council Member	Charles R. Huie
Council Member	Charles O. Sorrow
Council Member	Thomas J. Laporte
Council Member	Virlyn Slaton

APPOINTED OFFICIALS

City Manager	John J. Lampl, II
Finance Officer	Dan Defnall
City Clerk	Renee Murphy
City Attorney	Andrew J. Whalen, III
Municipal Court Judge	Frost A. Ward
Police Chief	Charlie Sewell
Fire Chief	Mark W. Herendeen
Public Works Director	Jeffrey A. Eady
Emergency Communications	Katherine Capps
Economic Development Director	Grant Wainscott

PLANNING & ZONING BOARD

Chairman	Melvin Newman
Vice-Chairman	Shirley Watterson
Secretary	Dewey L. (Buck) Shirley
Board Member	Clyde Jeffreys
Board Member	John Maner

INDEPENDENT AUDITORS

Mauldin & Jenkins, LLC

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregately presented component units, each major fund, and the aggregate remaining fund information of the **City of Morrow, Georgia** (the "City"), as of and for the year ended June 30, 2005, 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 Morrow, 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 the 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 aggregately presented component units, each major fund, and the aggregate remaining fund information of the City of Morrow, Georgia, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the 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 September 22, 2005, on our consideration of the City of Morrow, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis (on pages ___ through ___) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 Morrow, Georgia's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Morrow, Georgia. The combining and individual nonmajor fund financial statements has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macon, Georgia
September 22, 2005

CITY OF MORROW, GEORGIA

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

ASSETS	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total Primary Government	Downtown Development Authority	Morrow Business and Tourism Association
Cash and cash equivalents	\$ 614,962	\$ 28,879	\$ 643,841	\$ 12,337	\$ 20,643
Investments	6,112,914	-	6,112,914	-	-
Taxes receivable	100,288	-	100,288	-	-
Accounts receivable, net of allowances	6,434	97,664	104,098	1,413,288	5,936
Interest receivable	14,824	-	14,824	-	-
Due from primary government	-	-	-	-	148,829
Due from component unit	50,000	-	50,000	-	-
Due from other governments	332,607	-	332,607	-	-
Inventory	-	-	-	-	3,644
Prepaid expenses	248,463	-	248,463	-	-
Assets held for resale	1,750,911	-	1,750,911	37,500	-
Capital assets:					
Nondepreciable	2,853,527	-	2,853,527	-	-
Depreciable, net of accumulated depreciation	3,751,588	-	3,751,588	-	-
Total assets	15,836,518	126,543	15,963,061	1,463,125	179,052
LIABILITIES					
Accounts payable	188,081	92,652	280,733	-	2,073
Accrued liabilities	151,748	39,768	191,516	13,508	-
Due to primary government	-	-	-	50,000	-
Due to component Unit	148,829	-	148,829	-	-
Capital leases due within one year	54,737	-	54,737	-	-
Capital leases due in more than one year	1,345,329	-	1,345,329	1,399,780	-
Compensated absences due within one year	123,352	-	123,352	-	-
Compensated absences due in more than one year	79,376	-	79,376	-	-
Total liabilities	2,091,452	132,420	2,223,872	1,463,288	2,073
NET ASSETS					
Invested in capital assets, net of related debt	5,205,049	-	5,205,049	-	-
Restricted for debt service	-	-	-	-	-
Unrestricted	8,540,017	(5,877)	8,534,140	(163)	176,979
Total net assets	\$ 13,745,066	\$ (5,877)	\$ 13,739,189	\$ (163)	\$ 176,979

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

CITY OF MORROW, GEORGIA

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total	Downtown Development Authority	Morrow Business and Tourism Association
Primary government:									
Governmental activities:									
General government	\$ 1,152,346	\$ 1,517,619	\$ 114,578	\$ -	\$ 479,851	\$ -	\$ 479,851	\$ -	\$ -
Judicial	167,032	-	-	-	(167,032)	-	(167,032)	-	-
Public safety	4,504,847	1,983,424	75,181	-	(2,446,242)	-	(2,446,242)	-	-
Public works	805,648	-	4,061	-	(801,587)	-	(801,587)	-	-
Economic development	161,067	-	-	-	(161,067)	-	(161,067)	-	-
Interest on long-term debt	54,812	-	-	-	(54,812)	-	(54,812)	-	-
Total governmental activities	<u>6,845,752</u>	<u>3,501,043</u>	<u>193,820</u>	<u>-</u>	<u>(3,150,889)</u>	<u>-</u>	<u>(3,150,889)</u>	<u>-</u>	<u>-</u>
Business-type activities:									
Sanitation	964,547	1,236,396	-	-	-	271,849	271,849	-	-
Total business-type activities	<u>964,547</u>	<u>1,236,396</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>271,849</u>	<u>271,849</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 7,810,299</u>	<u>\$ 4,737,439</u>	<u>\$ 193,820</u>	<u>\$ -</u>	<u>(3,150,889)</u>	<u>271,849</u>	<u>(2,879,040)</u>	<u>-</u>	<u>-</u>
Component units:									
Downtown Development Authority	\$ 54,969	\$ -	\$ -	\$ -	-	-	-	(54,969)	-
Morrow Business and Tourism Association	229,156	24,100	14,924	-	-	-	-	-	(190,132)
Total component units	<u>\$ 284,125</u>	<u>\$ 24,100</u>	<u>\$ 14,924</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(54,969)</u>	<u>(190,132)</u>
General revenues:									
Property taxes					1,085,487	-	1,085,487	-	-
Sales taxes					1,641,504	-	1,641,504	-	-
Insurance premium tax					227,265	-	227,265	-	-
Alcoholic beverage taxes					176,792	-	176,792	-	-
Other taxes					517,577	-	517,577	-	161,067
Miscellaneous					183,972	-	183,972	-	-
Franchise fees					577,392	-	577,392	-	-
Unrestricted investment earnings					254,982	-	254,982	54,806	105
Transfers					277,726	(277,726)	-	-	-
Total general revenues and transfers					<u>4,942,697</u>	<u>(277,726)</u>	<u>4,664,971</u>	<u>54,806</u>	<u>161,172</u>
Change in net assets					1,791,808	(5,877)	1,785,931	(163)	(28,960)
Net assets, beginning of year as restated					11,953,258	-	11,953,258	-	205,939
Net assets, end of year					<u>\$ 13,745,066</u>	<u>\$ (5,877)</u>	<u>\$ 13,739,189</u>	<u>\$ (163)</u>	<u>\$ 176,979</u>

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

CITY OF MORROW, GEORGIA

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

ASSETS	General	Other Governmental Funds	Totals Governmental Funds
Cash and cash equivalents	\$ 531,408	\$ 83,554	\$ 614,962
Investments	6,028,913	84,001	6,112,914
Taxes receivable, net	52,865	47,423	100,288
Accounts receivable, net	-	6,434	6,434
Interest receivable	14,824	-	14,824
Due from component unit	50,000	-	50,000
Due from other governments	332,607	-	332,607
Due from other funds	47,423	-	47,423
Prepaid expenditures	248,463	-	248,463
Assets held for resale	1,750,911	-	1,750,911
Total assets	\$ 9,057,414	\$ 221,412	\$ 9,278,826
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 179,416	\$ 8,665	\$ 188,081
Accrued liabilities	127,895	10,342	138,237
Deferred revenues	17,358	-	17,358
Due to component unit	148,829	-	148,829
Due to other funds	-	47,423	47,423
Total liabilities	473,498	66,430	539,928
FUND BALANCES			
Fund balances:			
Reserved for:			
Prepaid expenditures	248,463	-	248,463
Special projects	-	154,982	154,982
Unreserved, reported in:			
General fund	8,335,453	-	8,335,453
Total fund balances	8,583,916	154,982	8,738,898
Total liabilities and fund balances	\$ 9,057,414	\$ 221,412	
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.			6,605,115
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			17,358
Certain liabilities are not due and payable in the current period and are therefore not reported in the funds.			(1,616,305)
Net assets of governmental activities			\$ 13,745,066

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

CITY OF MORROW, GEORGIA

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Totals Governmental Funds</u>
Revenues			
Property Taxes	\$ 1,096,267	\$ -	\$ 1,096,267
Other taxes	2,045,561	517,577	2,563,138
Charges for services	212,579	147,520	360,099
Licenses and permits	1,305,040	-	1,305,040
Intergovernmental	580,861	-	580,861
Franchise fees	577,392	-	577,392
Fines and forfeitures	1,402,715	46,148	1,448,863
Interest revenue	252,598	2,384	254,982
Rental income	37,020	-	37,020
Other revenues	146,952	-	146,952
Total revenues	<u>7,656,985</u>	<u>713,629</u>	<u>8,370,614</u>
Expenditures			
Current:			
General government	1,049,357	-	1,049,357
Judicial	167,954	-	167,954
Public safety	3,701,005	602,039	4,303,044
Public works	1,185,020	-	1,185,020
Economic Development	-	161,067	161,067
Debt service:			
Principal	52,663	-	52,663
Interest	41,301	-	41,301
Total expenditures	<u>6,197,300</u>	<u>763,106</u>	<u>6,960,406</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,459,685</u>	<u>(49,477)</u>	<u>1,410,208</u>
Other financing sources (uses)			
Transfers in	634,236	408,687	1,042,923
Transfers out	(408,687)	(356,510)	(765,197)
Total other financing sources	<u>225,549</u>	<u>52,177</u>	<u>277,726</u>
Net change in fund balances	<u>1,685,234</u>	<u>2,700</u>	<u>1,687,934</u>
Fund balances, beginning of year	<u>6,898,682</u>	<u>152,282</u>	<u>7,050,964</u>
Fund balances, end of year	<u>\$ 8,583,916</u>	<u>\$ 154,982</u>	<u>\$ 8,738,898</u>

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

CITY OF MORROW, GEORGIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 1,687,934
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlays exceeded depreciation in the current period.	68,390
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(10,780)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	52,663
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(6,399)</u>
	<u>\$ 1,791,808</u>

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

CITY OF MORROW, GEORGIA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES ·
BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 992,105	\$ 992,105	\$ 1,096,267	\$ 104,162
Other taxes	1,951,000	1,951,000	2,045,561	94,561
Charges for services	217,800	217,800	212,579	(5,221)
Licenses and permits	1,130,900	1,130,900	1,305,040	174,140
Intergovernmental	396,781	396,781	580,861	184,080
Franchise fees	531,974	531,974	577,392	45,418
Fines and forfeitures	1,287,800	1,049,800	1,402,715	352,915
Interest revenue	187,000	187,000	252,598	65,598
Rental income	50,980	50,980	37,020	(13,960)
Other revenues	65,100	65,100	146,952	81,852
Total revenues	<u>6,811,440</u>	<u>6,573,440</u>	<u>7,656,985</u>	<u>1,083,545</u>
Expenditures:				
Current:				
General government				
Mayor / Commission	196,907	202,907	212,365	(9,458)
Elections	-	-	445	(445)
General administration	597,126	391,326	406,533	(15,207)
Finance	95,945	176,245	185,956	(9,711)
Planning and zoning	39,282	41,282	41,352	(70)
Economic development	150,828	193,328	191,624	1,704
Capital outlay	200,000	20,000	11,082	8,918
Total general government	<u>1,280,088</u>	<u>1,025,088</u>	<u>1,049,357</u>	<u>(24,269)</u>
Judicial				
Municipal court	137,288	171,088	167,954	3,134
Public safety:				
Police	1,920,878	1,981,878	1,954,738	27,140
Fire	1,586,017	1,730,017	1,713,070	16,947
Capital Outlay	96,000	121,200	33,197	88,003
Total public safety	<u>3,602,895</u>	<u>3,833,095</u>	<u>3,701,005</u>	<u>132,090</u>
Public works:				
Administration	745,402	745,402	744,271	1,131
Capital Outlay	1,126,194	829,194	440,749	388,445
Total public works	<u>1,871,596</u>	<u>1,574,596</u>	<u>1,185,020</u>	<u>389,576</u>
Debt service				
	107,982	107,982	93,964	14,018
Total expenditures	<u>6,999,849</u>	<u>6,711,849</u>	<u>6,197,300</u>	<u>514,549</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(188,409)</u>	<u>(138,409)</u>	<u>1,459,685</u>	<u>1,598,094</u>

(Continued)

CITY OF MORROW, GEORGIA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES ·
BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other financing sources (uses)				
Transfers in	\$ 637,495	\$ 637,495	\$ 634,236	\$ (3,259)
Transfers out	(499,086)	(499,086)	(408,687)	90,399
Total other financing sources	<u>138,409</u>	<u>138,409</u>	<u>225,549</u>	<u>87,140</u>
Net change in fund balances	(50,000)	-	1,685,234	1,685,234
Fund balances, beginning of year	<u>6,898,682</u>	<u>6,898,682</u>	<u>6,898,682</u>	<u>-</u>
Fund balances, end of year	<u>\$ 6,848,682</u>	<u>\$ 6,898,682</u>	<u>\$ 8,583,916</u>	<u>\$ 1,685,234</u>

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

CITY OF MORROW, GEORGIA

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005**

	<u>Sanitation Fund</u>	<u>Totals</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 28,879	\$ 28,879
Accounts receivable, net of allowances	97,664	97,664
Total current assets	<u>126,543</u>	<u>126,543</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	92,652	92,652
Deferred revenues	39,768	39,768
Total current liabilities	<u>132,420</u>	<u>132,420</u>
NET ASSETS		
Unrestricted	(5,877)	(5,877)
Total net assets	<u>\$ (5,877)</u>	<u>\$ (5,877)</u>

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

CITY OF MORROW, GEORGIA

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Sanitation Fund</u>	<u>Totals</u>
OPERATING REVENUES		
Charges for services	\$ 1,236,396	\$ 1,236,396
Total operating revenues	<u>1,236,396</u>	<u>1,236,396</u>
Purchased or contracted services	964,547	964,547
Total operating expenses	<u>964,547</u>	<u>964,547</u>
Operating income	<u>271,849</u>	<u>271,849</u>
Income (loss) before contributions and transfers	271,849	271,849
TRANSFERS		
Transfers out	<u>(277,726)</u>	<u>(277,726)</u>
Total transfers	<u>(277,726)</u>	<u>(277,726)</u>
Change in net assets	(5,877)	(5,877)
NET ASSETS, beginning of year	<u>-</u>	<u>-</u>
NET ASSETS, end of year	<u>\$ (5,877)</u>	<u>\$ (5,877)</u>

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

CITY OF MORROW, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Sanitation Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 1,210,376	\$ 1,210,376
Payments to suppliers	(965,093)	(965,093)
Net cash provided by operating activities	245,283	245,283
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers	(277,726)	(277,726)
Net cash used in noncapital financing activities	(277,726)	(277,726)
Decrease in cash and cash equivalents	(32,443)	(32,443)
Cash and cash equivalents:		
Beginning of year	61,322	61,322
End of year	\$ 28,879	\$ 28,879
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 271,849	\$ 271,849
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Increase in accounts receivable	(26,020)	(26,020)
Increase in accounts payable	480	480
Decrease in accrued liabilities	(1,026)	(1,026)
Net cash provided by operating activities	\$ 245,283	\$ 245,283

NOTES TO THE FINANCIAL STATEMENTS

**CITY OF MORROW, GEORGIA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Morrow, Georgia (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America (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 principles. With respect to proprietary activities, the City has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting". The City has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

A. The Financial Reporting Entity

The City was incorporated in 1943 and operates under an elected Council-Manager form of government. The City Manager is the head of the administrative branch of government. As such, he is responsible for the day-to-day operations of city government. The legislative City of the City is vested in the Mayor and four (4) Council members with an appointed City Manager. The City provides the following services and operations as authorized by its charter: public safety (police and fire); highways and streets; sanitation; parks and recreation; community development; planning and zoning; and general administrative services. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, legally-separate entities for which the City is financially accountable.

Based upon criteria set forth by Governmental Accounting Standards Board (GASB) Statement 14 and as amended by GASB Statement 39, the City was determined to have the following component units as of June 30, 2005.

Morrow Business and Tourism Association. The Morrow Business and Tourism Association, Inc. (MBTA) is a vital economic partner for the City of Morrow. Tourism contracts between the MBTA and the City provide economies of scale, resource efficiencies, and employee benefit packages that neither party would be able to achieve on their own. The MBTA is presented as a discretely presented component unit.

City of Morrow Downtown Development Authority. The City of Morrow Downtown Development Authority (DDA) was formed during the year ended June 30, 2004 to become the City's redevelopment tool for commercial revitalization. Property acquisition, renovation, and demolition are only a few priorities of the DDA. The DDA is presented as a discretely presented component unit.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. The Financial Reporting Entity (Continued)

These two units are reported in separate columns in the City's government-wide financial statements to emphasize that they are legally separate from the City. Both units are presented as component units because the City appoints the voting majority of the Boards and is financially accountable for them. Separate financial statements for the MBTA and DDA are not available.

B. Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *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 function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation:

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of* accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental fund:

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

The City reports the following major proprietary fund:

The **Sanitation fund** accounts for the operations of commercial and residential waste removal within the City. All activities necessary to provide such services are accounted for in this fund.

Additionally, the City reports the following fund types:

The **special revenue funds** account for revenue sources that are legally restricted to expenditure for specific purposes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's sanitation function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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. The principal operating revenues of the enterprise funds are charges to customers for sales and services provided. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

D. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Budget requests are completed in April.
2. Proposed budgets are reviewed and prepared by the City Manager for submission to the Mayor and the City Commission in May.
3. Public hearings on the proposed budget are held in May and June.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgets and Budgetary Accounting (Continued)

4. The budget is legally adopted by the Mayor and City Commission prior to June 30.
5. All budget revisions or changes must be approved as required by Georgia law and administrative policy. Transfer of budgeted amounts in excess of \$5,000 between departments requires the approval of the City Council. This is consistent with the legal level of budgetary control as the budget is adopted at the department level. Revisions that alter the total expenditures of any department or fund must be approved by the City Council. The City Council made several immaterial supplemental budget appropriations during the year.
6. Formal budgetary integration is employed as a management control device during the year for all the governmental funds and the enterprise fund. Budgets for the enterprise funds are prepared for planning and control purposes only.
7. Budgets for the governmental funds and the enterprise funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

E. Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition.

F. Deposits and Investments

For purposes of the statements of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Deposits and Investments (Continued)

State statutes authorize the City to invest in obligations of the U.S. Government and agencies of corporations of the U.S. Government; obligations of any state; obligations of any political subdivision of any state; certificates of deposit or time deposits of any national state bank or savings and loan which have deposits insured by the FDIC or FSLIC; prime bankers acceptances; repurchase agreements; and the Local Government Investment Pool of the State of Georgia ("Georgia Fund 1"). Georgia Fund 1 was created under OCGA 36-83-8 and operates in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940 and is considered to be a 2a-7 like pool. The pool is not registered with the SEC as an investment company. The pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal (\$1 per share value). Net asset value is calculated weekly to ensure stability. The pool distributes earnings (net of management fees) on a monthly basis and determines participant's shares sold and redeemed based on \$1 per share. The fair value of the City's position in the pool is the same as the value of pool shares (\$1 per share value). The pool is regulated by the Georgia Office of Treasury and Fiscal Services.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

G. Prepaid Items

Prepaid expenses are accounted for using the consumption method. A prepaid expense is recognized when a cash expenditure is made for goods or services that were purchased for consumption, but not consumed as of June 30.

H. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" in the fund financial statements. Short-term interfund loans are classified as "interfund receivables/payables".

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Grants from Other Governments

Federal and state governmental units represent an important source of supplementary funding used to finance housing, business development employment, construction programs, capital asset additions and other activities beneficial to the community. This funding, primarily in the form of grants, is recorded in both governmental and proprietary funds. Grant contributions in the proprietary funds, which are for the purpose of construction activities, or land easement or capital asset acquisitions, are recorded as capital contributions within the statement of revenues and expenses. For all funds, a grant receivable is recorded when the City has a right to receive the related grant amounts.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend useful lives are expensed as incurred.

Major outlays for capital assets and major improvements are capitalized as projects are constructed. Interest incurred during the construction period of capital assets of the business-type activities is included as part of the capitalized value of the assets constructed. The amount of interest capitalized is calculated by offsetting interest expense incurred (from the date of borrowing until the date of completion of the project) with interest earned on investment proceeds over the same period. During the fiscal year ended June 30, 2005, there was no capitalized interest.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets (Continued)

Depreciation is provided on the straight-line method over the following estimated useful lives:

Buildings and improvements	15-40 years
Furniture and fixtures	5 years
Machinery and equipment	10 years
Infrastructure	15 years
Vehicles	5-10 years
Computer Software	5 years
Park Facilities and improvements	15 years

K. Long-Term Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs and deferred charges, are deferred and amortized over the life of the bonds using the straight line method, which is not materially different than the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Compensated Absences

City employees accrue vacation in different amounts, according to the number of years of service. Employees under ten years of service accrue two weeks of vacation each year. Upon reaching ten years of service, employees can accrue three weeks per year. These days can be taken either through time off or by payment upon termination. The third week accrued for employees over ten years of service can also be paid out as additional compensation while still employed.

Employees earn sick leave in proportion to actual hours worked. Sick leave, however, is not paid upon termination if termination is by manner other than death or retirement. One-half of the excess accrued hours over sixty days at the end of the year are paid out to employees. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds when it is expected to be liquidated with expendable available resources.

M. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve the portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Capital Projects Funds. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Unencumbered appropriations lapse at the end of the year. Encumbrances are re-appropriated in the following year, except for encumbrances in the Capital Projects Funds which are continuing. Encumbrances do not represent GAAP expenditures. At June 30, 2005, there were no encumbrances outstanding.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

O. Use of Estimates

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

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “certain liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this difference \$1,616,305 are as follows:

Capital leases	\$ 1,400,066
Compensated absences	202,728
Accrued Interest	13,511
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$ 1,616,305

NOTES TO FINANCIAL STATEMENTS

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense.” The details of this \$68,390 difference are as follows:

Capital outlay	\$ 485,267
Depreciation expense	<u>(416,877)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 68,390</u>

Another element of that reconciliation explains that “Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this \$6,399 difference are as follows:

Change in accrued interest	\$ 13,511
Change in compensated absences	<u>(7,112)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 6,399</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 3. DEPOSITS AND INVESTMENTS

Total deposits and investments as of June 30, 2005, are summarized as follows:

As reported in the Statement of Net Assets:	
Cash and cash equivalents	\$ 614,962
Long-term investments	6,112,914
	<u>\$ 6,727,876</u>
Cash deposited with financial institutions	\$ 6,082,941
Cash deposited with Georgia Fund 1	644,935
	<u>\$ 6,727,876</u>

Credit risk. State statutes authorize the City to invest in obligations of the State of Georgia or other states; obligations issued by the U.S. government; obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States; obligations of any corporation of the U.S. government; prime banker's acceptances; the local government investment pool established by state law; repurchase agreements; and obligations of other political subdivisions of the State of Georgia. As of June 30, 2005, the City's investment in Georgia Fund 1 was rated AAAM by Standard & Poor's. The City's investment in California State Various Purpose Bonds was rated A by Standard&Poor's. The City's investment in Federal Home Loan Mortgage Corporation, Federal Home Loan Banks, Federal National Mortgage Association, and the U.S. Treasury Notes were all rated AAA by Standard&Poor's.

At June 30, 2005, the City had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Georgia Fund 1	24 day weighted average	\$ 644,935
Short-term cash reserves		9,457
Certificates of Deposit	October 3,2005-February 17, 2012	3,709,983
California State Various Purpose Bonds	October 1, 2005	15,058
Federal Home Loan Mortgage Corporation	March 15, 2007-May 15, 2013	439,091
Federal Home Loan Banks	April 15, 2008-April 20, 2009	696,261
Federal National Mortgage Association	December 15, 2005-March 15, 2007	161,488
U.S. Treasury Note	November 15, 2005-February 15, 2010	436,641
Total		<u>\$ 6,112,914</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Georgia Fund 1, created by OCGA 36-83-8, is a stable net asset value investment pool which follows Standard and Poor's criteria for AAAM rated money market funds. However, Georgia Fund 1 operates in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940 and is considered to be a 2a-7 like pool. The pool is not registered with the SEC as an investment company. The pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal (\$1.00 per share value). Net asset value is calculated weekly to ensure stability.

The pool distributes earnings (net of management fees) on a monthly basis and determines participants' shares sold and redeemed based on \$1.00 per share

Interest rate risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial credit risk – deposits. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2005, the City had certain funds which were uninsured and undercollateralized in the amount of \$668,987 as defined by GASB pronouncements.

For the year ended June 30, 2005, the reporting of investments at fair value in accordance with GASB Statement No. 31 resulted in unrealized gain \$159,875, respectively, which is reflected in unrestricted investment earnings the City's statement of activities.

NOTES TO FINANCIAL STATEMENTS

NOTE 4. RECEIVABLES

Accounts Receivable

Receivables as of year end, including the applicable allowances for uncollectible accounts, are as follows:

	General	Nonmajor Governmental	Sanitation	Total
Receivables:				
Taxes	\$ 52,865	\$ 47,423	\$ -	\$ 100,288
Accounts	-	6,434	97,664	104,098
Interest	14,824	-	-	14,824
Due from other governments	332,607	-	-	332,607
Total receivables	\$ 400,296	\$ 53,857	\$ 97,664	\$ 551,817

Property Taxes

Property taxes were levied on September 20, 2004 (Levy Date) based upon property values assessed as of January 1. The billings were mailed on October 1, 2004 and payable on or before December 20, 2004 for the fiscal year 2005 tax. Taxes not paid within 30 days of the December 1 due date are subject to property tax liens on January 2, 2005. Property tax revenues are recognized when levied to the extent they result in current receivables.

The tax rate levied during fiscal year 2005 for the City's operations was 4 mills (mill equals \$1 per thousand dollars of assessed value).

The City considers property taxes receivable at June 30, 2005 to be fully collectible and does not maintain an allowance for uncollectible property taxes.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,468,276	\$ 11,082	\$ -	\$ 2,479,358
Infrastructure in process	158,801	215,368	-	374,169
Total capital assets, not being depreciated	<u>2,627,077</u>	<u>226,450</u>	<u>-</u>	<u>2,853,527</u>
Capital assets, being depreciated:				
Buildings, grounds, and improvements	3,868,443	14,252	-	3,882,695
Machinery and equipment	415,960	55,747	-	471,707
Furniture and fixtures	185,083	-	-	185,083
Infrastructure	35,121	113,918	-	149,039
Vehicles	2,146,176	23,747	(12,748)	2,157,175
Computer software	243,553	-	-	243,553
Park facilities and improvements	136,545	51,153	-	187,698
Total capital assets, being depreciated	<u>7,030,881</u>	<u>258,817</u>	<u>(12,748)</u>	<u>7,276,950</u>
Less accumulated depreciation for:				
Buildings, grounds, and improvements	(1,018,914)	(116,411)	-	(1,135,325)
Machinery and equipment	(136,866)	(41,596)	-	(178,462)
Furniture and fixtures	(165,051)	(8,807)	-	(173,858)
Infrastructure	(1,171)	(6,139)	-	(7,310)
Vehicles	(1,674,784)	(193,532)	12,748	(1,855,568)
Computer software	(96,349)	(39,584)	-	(135,933)
Park facilities and improvements	(28,098)	(10,808)	-	(38,906)
Total accumulated depreciation	<u>(3,121,233)</u>	<u>(416,877)</u>	<u>12,748</u>	<u>(3,525,362)</u>
Total capital assets, being depreciated, net	<u>3,909,648</u>	<u>(158,060)</u>	<u>-</u>	<u>3,751,588</u>
Governmental activities capital assets, net	<u>\$ 6,536,725</u>	<u>\$ 68,390</u>	<u>\$ -</u>	<u>\$ 6,605,115</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 102,907
Public safety	274,914
Public works	39,056
Total depreciation expense - governmental activities	<u>\$ 416,877</u>

NOTE 6. GENERAL LONG-TERM DEBT

Capital leases. At June 30, 2003, the City was obligated under one capital lease with the Clayton County Tourism Authority (the County), covering the Morrow Welcome Center building (the building). In August 2003, the lease was terminated in conjunction with a bond issue described in the following paragraph.

During August 2003, the Downtown Development Authority of the City of Morrow, a component unit of the City, issued bonds in the amount of \$1,500,000. The proceeds of this bond were used to purchase the building from the County. Additionally, the Authority and the City executed a new capital lease agreement covering the building. The gross amount of the building recorded on the City's books as a capital asset under this capital lease was \$1,500,000.

Long-term liability activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Capital leases	\$ 1,452,729	\$ -	\$ (52,663)	\$ 1,400,066	\$ 54,737
Compensated absences	209,840	112,645	(119,758)	202,727	123,352
Governmental activity Long-term liabilities	<u>\$ 1,662,569</u>	<u>\$ 112,645</u>	<u>\$ (172,421)</u>	<u>\$ 1,602,793</u>	<u>\$ 178,089</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6. GENERAL LONG-TERM DEBT (Continued)

The following is a schedule of future minimum lease payments under the capital leases, and the present value of the net minimum lease payments at June 30, 2005:

Fiscal year ending June 30,	
2006	\$ 107,982
2007	107,982
2008	107,982
2009	107,982
2010	107,982
2011 - 2015	539,912
2016 - 2020	539,912
2021 - 2024	<u>331,077</u>
Total minimum lease payments	1,950,811
Less amount representing interest	<u>(550,745)</u>
Present value of minimum lease payments	<u><u>\$ 1,400,066</u></u>

NOTE 7. DEFINED BENEFIT PENSION PLAN

A. Plan Description

The City of Morrow Retirement Plan is a defined benefit plan that provides retirement and disability benefits and death benefits to plan members and beneficiaries. The City's Plan is a part of the Georgia Municipal Employees Benefit System (the "System"), an agent multiple-employer public employee retirement system administered by the Georgia Municipal Association. The Public Retirement Systems Standard Law (Georgia Code Section 47-20-10) assigns the City to establish and amend the plan to the City of Morrow. The Georgia Municipal Employees Benefit System issues a publicly available financial report that includes financial statements and required supplementary information for the System. The report may be obtained by writing to the Georgia Municipal Employees Benefit System, 201 Pryor Street, S.W., Atlanta, Georgia 30303.

The City's employee participation is noncontributory. The City is required to contribute at an actuarially determined rate; the current rate is 7.9% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the System's Board of Trustees.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. DEFINED BENEFIT PENSION PLAN (Continued):

At January 1, 2005, the date of the most recent actuarial valuation, there were 128 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	18
Vested terminated employees not yet receiving benefits	22
Active employees	88
Total	128

B. Summary of Significant Accounting Policies

Basis of Accounting. The financial statements of the Plan are prepared using the accrual basis of accounting. The City’s contributions are recognized as revenue in the period in which the contributions are due. Investment income is recognized by the Plan when earned.

Method Used to Value Investments. Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

C. Funding Policy

The City is required to contribute all amounts necessary to fund the plan, using the actuarial basis specified by the pension board. The funding policy for the Plan is to contribute an amount equal to or greater than the recommended contribution described below. Administrative costs of the Plan are financed through investment income.

The annual required contribution for the current year was determined as part of the January 1, 2005 actuarial valuation using the project unit credit actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8% per year, compounded annually and net of investment expenses and (b) projected salary increases of 5% for inflation and 0.5% for merit or seniority. The period, and related method for amortizing the initial unfunded actuarial accrued liability is 30 years from 1981 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 are closed for this plan year.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. DEFINED BENEFIT PENSION PLAN (Continued):

D. Annual Pension Cost

<u>Fiscal Year Funding</u>	<u>Annual Pension Cost</u>	<u>Percentage of Annual Pension Cost Contributed</u>	<u>Net Pension Obligation</u>
01/01/01	\$ 189,540	100 %	-
01/01/02	199,932	100	-
01/01/03	333,046	100	-
01/01/04	271,262	100	-
01/01/05	252,420	100	-

E. Schedule of Funding Progress

The information presented below is based on the annual actuarial valuations as of January 1 of each year.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
1/1/2001	\$ 5,188,847	\$ 4,568,034	\$ (620,813)	113.6 %	\$ 3,144,758	(19.7) %
1/1/2002	5,593,447	4,983,506	(609,941)	112.2	3,395,048	(18.0)
1/1/2003	5,292,883	5,629,397	336,514	94.0	3,643,957	9.2
1/1/2004	5,838,768	5,855,794	17,026	99.7	3,386,039	0.5
1/1/2005	6,508,916	6,480,220	(28,696)	100.4	3,199,444	(0.9)

NOTES TO FINANCIAL STATEMENTS

NOTE 8. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 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 and requires the City to contribute an amount equal to 50% of the employees' deferrals up to a maximum of 2% of annual compensation. Employer's contributions are fully vested after the participant completes 5 full years of service. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The City's contribution to the Plan approximated \$39,000 for the year ended June 30, 2005.

Pursuant to the Statement Number 32 of the Governmental Accounting Standards Board "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" the City does not have a fiduciary relationship with the 457 plan. Accordingly, the balances and transactions of the City's 457 plan are not reported in the City's financial statements.

NOTE 9. BUDGET COMPLIANCE AND DEFICIT FUND EQUITY

A. Excess of Expenditures over Appropriations

The following general fund departments had actual expenditures in excess of appropriations for the year ended June 30, 2005:

Executive	\$	9,458
Elections		445
Administrative Services		15,207
Finance		9,711
Planning & Zoning		70

These overexpenditures were funded by greater than anticipated revenues and by available fund balance.

B. Deficit Fund Balance/Retained Earnings

The Sanitation Fund had deficit retained earnings at June 30, 2005 in the amount of \$5,877. This deficit in the Sanitation Fund will be reduced through increased user charges and General Fund appropriations.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. INTERFUND BALANCES AND TRANSFERS

Interfund receivable and payable balances as of June 30, 2005 are as follows:

Due To	Due From Nonmajor Governmental	Total
General Fund	\$ 47,423	\$ 47,423
Total	\$ 47,423	\$ 47,423

Interfund receivables and payables result from timing differences related to collection of taxes in Special Revenue Funds which normally clear within one to two months.

Interfund transfers for the year ended June 30, 2005 consisted of the following:

	Transfer to		
	General	Nonmajor Governmental	Total
Transfer from			
General Fund	\$ -	\$ 408,687	\$ 408,687
Nonmajor Governmental	356,510	-	356,510
Sanitation	277,726	-	277,726
Total	\$ 634,236	\$ 408,687	\$ 1,042,923

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that the statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 11. RELATED ORGANIZATION

The City's governing body is responsible for all of the board appointments of the City of Morrow Housing Authority. However, the City has no further accountability for these organizations.

NOTE 12. HOTEL/MOTEL LODGING TAX

The City has levied a 6% lodging tax. For the fiscal year ended June 30, 2005, \$483,201 of hotel / motel tax was collected. Of the total collected, 33% was used for the promotion of tourism within the City.

NOTES TO FINANCIAL STATEMENTS

NOTE 13. JOINT VENTURES

Under Georgia law, the City, in conjunction with other cities and counties in the Metro Atlanta area, is a member of the Atlanta Regional Commission (ARC) and is required to pay annual dues thereto. During its year ended June 30, 2005, the City paid \$23,226 in such dues. Membership in an ARC is required by the Official Code of Georgia Annotated (OCGA), Section 50-8-34, which provides for the organizational structure of the ARC in Georgia. The ARC 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 a RDC. Separate financial statements may be obtained from: Atlanta Regional Commission, 3715 Northside Parkway, 200 North Creek Suite 300, Atlanta, Georgia 30327.

NOTE 14. COMMITMENTS AND CONTINGENCIES

The City is involved in various claims and matters of litigation resulting from normal operations. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City attorney the resolution of these matters will not have a materially adverse effect on the financial condition of the City.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

NOTE 15. 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 Property and Liability Insurance Fund and the Georgia Municipal Association Group Self-Insurance Workers Compensation Fund, public entity risk pools currently operating as common risk management and insurance programs for member local governments.

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 pool's agents and attorneys, to follow loss reduction procedures established by the funds and to report as promptly as possible and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss. The City is also to allow the pool's agents and attorneys 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 funds.

NOTES TO FINANCIAL STATEMENTS

NOTE 15. RISK MANAGEMENT (Continued):

The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member government contract and in accordance with the worker's compensation law of Georgia. The funds are to pay all 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.

Settled claims in the past three years have not exceeded the coverages.

**COMBINING STATEMENTS
AND SCHEDULES**

**CITY OF MORROW, GEORGIA
NONMAJOR GOVERNMENTAL FUNDS**

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The **Emergency Communications Fund** accounts for the fee collection and operations of the Emergency 911 system within the City.

The **Hotel / Motel Tax Fund** accounts for the Hotel/Motel tax receipts and distributions of funds used to promote tourism within the City.

The **Confiscated Assets Fund** accounts for the collection and use of funds confiscated from convicted offenders.

The **Excise Tax Fund** accounts for the collection of rental car fees that are required to be remitted to the Economic Development Department.

CITY OF MORROW, GEORGIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

ASSETS	Emergency Communication Fund	Hotel / Motel Tax Fund	Confiscated Assets Fund	Excise Tax Fund	Totals
Cash and cash equivalents	\$ 12,573	\$ -	\$ 70,981	\$ -	\$ 83,554
Investments	-	-	84,001	-	84,001
Taxes receivable	-	44,192	-	3,231	47,423
Accounts receivable	6,434	-	-	-	6,434
Total assets	\$ 19,007	\$ 44,192	\$ 154,982	\$ 3,231	\$ 221,412
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 8,665	\$ -	\$ -	\$ -	\$ 8,665
Accrued expenses	10,342	-	-	-	10,342
Due to other funds	-	44,192	-	3,231	47,423
Total liabilities	19,007	44,192	-	3,231	66,430
FUND BALANCES					
Reserved:					
Reserved for special projects	-	-	154,982	-	154,982
Total fund balances	-	-	154,982	-	154,982
Total liabilities and fund balances	\$ 19,007	\$ 44,192	\$ 154,982	\$ 3,231	\$ 221,412

CITY OF MORROW, GEORGIA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Emergency Communication Fund	Hotel / Motel Tax Fund	Confiscated Assets Fund	Excise Tax Fund	Totals
Revenues:					
Other taxes	\$ -	\$ 483,201	\$ -	\$ 34,376	\$ 517,577
Charges for services	147,520	-	-	-	147,520
Fines and forfeitures	-	-	46,148	-	46,148
Interest revenue	-	-	2,384	-	2,384
Total revenues	<u>147,520</u>	<u>483,201</u>	<u>48,532</u>	<u>34,376</u>	<u>713,629</u>
Expenditures:					
Public safety	556,207	-	45,832	-	602,039
Economic Development	-	161,067	-	-	161,067
Total expenditures	<u>556,207</u>	<u>161,067</u>	<u>45,832</u>	<u>-</u>	<u>763,106</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(408,687)</u>	<u>322,134</u>	<u>2,700</u>	<u>34,376</u>	<u>(49,477)</u>
Other financing sources (uses)					
Transfers in	408,687	-	-	-	408,687
Transfers out	-	(322,134)	-	(34,376)	(356,510)
Total other financing sources (uses)	<u>408,687</u>	<u>(322,134)</u>	<u>-</u>	<u>(34,376)</u>	<u>52,177</u>
Net change in fund balances	-	-	2,700	-	2,700
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>152,282</u>	<u>-</u>	<u>152,282</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 154,982</u>	<u>\$ -</u>	<u>\$ 154,982</u>

**CITY OF MORROW, GEORGIA
EMERGENCY COMMUNICATIONS FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Charges for services	\$ 133,000	147,520	14,520
Total Revenues	<u>133,000</u>	<u>147,520</u>	<u>14,520</u>
EXPENDITURES			
Public safety	<u>631,986</u>	<u>556,207</u>	<u>75,779</u>
Total expenditures	<u>631,986</u>	<u>556,207</u>	<u>75,779</u>
Deficiency of revenues under expenditures	<u>(498,986)</u>	<u>(408,687)</u>	<u>90,299</u>
Other financing sources:			
Transfers in	<u>499,086</u>	<u>408,687</u>	<u>90,399</u>
Total other financing sources	<u>499,086</u>	<u>408,687</u>	<u>90,399</u>
Excess of revenues and other financing sources over expenditures and other uses	<u>100</u>	<u>-</u>	<u>100</u>
FUND BALANCES, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF MORROW, GEORGIA
HOTEL / MOTEL TAX FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Other taxes	<u>\$ 450,000</u>	<u>\$ 483,201</u>	<u>\$ 33,201</u>
EXPENDITURES			
Economic Development	<u>150,000</u>	<u>161,067</u>	<u>(11,067)</u>
Total expenditures	<u>150,000</u>	<u>161,067</u>	<u>(11,067)</u>
Excess of revenues over expenditures	<u>300,000</u>	<u>322,134</u>	<u>22,134</u>
Other financing sources (uses)			
Transfers out	<u>(300,000)</u>	<u>(322,134)</u>	<u>(22,134)</u>
Total other financing sources (uses)	<u>(300,000)</u>	<u>(322,134)</u>	<u>(22,134)</u>
Excess of revenues and other financing sources over expenditures and other uses	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**CITY OF MORROW, GEORGIA
CONFISCATED ASSETS FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Fines and forfeitures	\$ 50,000	\$ 46,148	\$ (3,852)
Interest	-	2,384	2,384
Total revenues	<u>50,000</u>	<u>48,532</u>	<u>(1,468)</u>
 EXPENDITURES			
Public safety	<u>50,000</u>	<u>45,832</u>	<u>4,168</u>
Total expenditures	<u>50,000</u>	<u>45,832</u>	<u>4,168</u>
 Excess of revenues over expenditures	<u>-</u>	<u>2,700</u>	<u>(2,700)</u>
 FUND BALANCES, beginning of year	<u>-</u>	<u>152,282</u>	<u>-</u>
 FUND BALANCES, end of year	<u>\$ -</u>	<u>\$ 154,982</u>	<u>\$ -</u>

**CITY OF MORROW, GEORGIA
EXCISE TAX FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Other taxes	<u>\$ 30,000</u>	<u>\$ 34,376</u>	<u>\$ 4,376</u>
Other financing sources (uses)			
Transfers out	<u> (30,000)</u>	<u> (34,376)</u>	<u> (4,376)</u>
Excess of revenues and other financing sources over expenditures and other uses	<u> -</u>	<u> -</u>	<u> -</u>
FUND BALANCES, beginning of year	<u> -</u>	<u> -</u>	<u> -</u>
FUND BALANCES, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

STATISTICAL SECTION

CITY OF MORROW, GEORGIA

**GENERAL GOVERNMENTAL REVENUES BY SOURCE (1)
LAST TEN FISCAL YEARS**

Fiscal Year	Taxes (2)	Licenses and Permits	Intergovernmental	Charges for Services	Fines and Forfeitures	Interest	Miscellaneous	Emergency Communications	Total
2005	\$ 3,659,405	\$ 1,305,040	\$ 193,820	\$ 1,177,012	\$ 1,448,863	\$ 254,982	\$ 183,972	\$ 147,520	\$ 8,370,614
2004	2,440,738	1,136,040	168,777	988,345	1,199,536	198,932	190,521	132,625	6,455,514
2003	3,003,604	1,347,699	156,411	1,181,393	1,105,502	126,311	58,735	154,576	7,134,231
2002	3,466,543	1,128,779	108,505	930,001	1,115,460	229,624	94,336	203,515	7,276,763
2001	3,463,420	1,145,428	92,997	1,152,061	1,019,355	480,073	610,537	116,049	8,079,920
2000	3,519,062	1,138,509	111,175	521,040	1,091,086	348,544	1,078,754	123,119	7,931,289
1999	3,211,123	1,168,266	105,729	213,013	709,449	336,271	960,486	98,865	6,803,202
1998	3,614,389	1,221,603	39,996	183,746	545,195	332,519	209,974	77,303	6,224,725
1997	3,365,718	962,437	121,587	173,969	495,603	239,951	179,681	72,282	5,611,228
1996	3,270,152	1,020,856	75,460	181,184	436,546	238,034	206,301	68,915	5,497,448

Notes: (1) - Includes General and Special Revenue Funds
(2) - Includes local option sales tax revenue

CITY OF MORROW, GEORGIA

**GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION (1)
LAST TEN FISCAL YEARS**

Fiscal Year	Administration	Police Department	Emergency Communications	Fire Department	Public Works	Debt Service	Capital Outlay	Total Expenditures
2005	\$ 1,367,296	\$ 2,000,570	\$ 556,207	\$ 1,713,070	\$ 744,271	\$ 93,964	\$ 485,028	\$ 6,960,406
2004	1,216,145	1,980,959	637,568	1,579,470	676,665	195,929	465,649	6,752,385
2003	2,118,193	1,500,805	558,075	1,378,065	592,554	137,878	681,948	6,967,518
2002	1,997,270	1,463,839	482,810	1,280,464	572,970	176,729	2,609,182	8,583,264
2001	1,772,266	1,400,084	529,349	1,270,151	1,175,519	280,104	1,994,171	8,421,644
2000	2,260,040	1,362,097	459,058	1,193,752	483,017	449,607	1,596,641	7,804,212
1999	1,711,179	1,216,272	458,162	1,157,587	413,949	88,188	1,525,175	6,570,512
1998	1,537,412	1,050,012	382,849	1,060,127	403,540	233,115	967,545	5,634,600
1997	1,386,829	971,692	262,110	997,180	362,874	234,337	1,450,471	5,665,493
1996	1,307,623	892,386	185,365	912,828	380,959	58,435	655,331	4,392,927

Notes: (1) - Includes General and Special Revenue Funds

CITY OF MORROW, GEORGIA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

Tax Year	Fiscal Year Ended June 30,	Total Tax Levy (2)	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections Tot Tax Levy	Outstanding Delinquent Taxes (1)	Outstanding Delinquent Taxes as % of Levy
2004	2005	\$ 1,094,214	\$ 1,073,981	98.15 %	\$ -	\$ 1,073,981	98.15 %	\$ 20,233	1.85 %
2003	2004	-	-	N/A	-	-	N/A	-	N/A
2002	2003	-	-	N/A	-	-	N/A	-	N/A
2001	2002	-	-	N/A	-	-	N/A	-	N/A
2000	2001	-	-	N/A	-	-	N/A	-	N/A
1999	2000	-	-	N/A	-	-	N/A	-	N/A
1998	1999	-	-	N/A	-	-	N/A	-	N/A
1997	1998	-	-	N/A	-	-	N/A	-	N/A
1996	1997	-	-	N/A	2,307	2,307	N/A	-	N/A
1995	1996	182,361	178,176	97.71	5,292	183,468	100.61	1,539	0.84 %

Notes: (1) - After write-off of taxes
(2) - No property taxes were levied for the years ended 1997 - 2004 due to sales tax rollback.

CITY OF MORROW, GEORGIA

**ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS**

Tax Year	Fiscal Year Ended June 30,	Assessed Tax Value	Estimated Actual Value	Ratio of Total Assessed to Total Estimated Actual Value
2004	2005	\$ 300,464,325	\$ 751,160,812	40 %
2003	2004	287,331,471	718,328,735	40
2002	2003	274,613,462	686,533,611	40
2001	2002	293,788,978	734,472,445	40
2000	2001	291,943,223	729,858,058	40
1999	2000	284,235,510	710,588,775	40
1998	1999	277,619,981	694,049,952	40
1997	1998	262,421,522	656,053,805	40
1996	1997	240,818,203	602,045,508	40
1995	1996	222,431,067	556,077,668	40

Source: Clayton County Tax Commissioner

CITY OF MORROW, GEORGIA

**PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS**

Fiscal Year	Direct	Overlapping			Total
	City	Per \$1,000 of Net Assesed Value (1)			
		School District	County	State	
2005	4.000	18.916	7.781	0.250	30.947
2004	0.000	18.916	6.882	0.250	26.048
2003	0.000	18.916	5.154	0.250	24.320
2002	0.000	17.916	5.882	0.250	24.048
2001	0.000	17.916	4.047	0.250	22.213
2000	0.000	17.916	3.913	0.250	22.079
1999	0.000	18.340	4.110	0.250	22.700
1998	0.000	18.340	4.650	0.250	23.240
1997	0.000	19.840	4.880	0.250	24.970
1996	0.910	19.840	9.100	0.250	30.100

CITY OF MORROW, GEORGIA

**COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2005**

Total Assessed Value of Taxable Property (1)	<u>\$ 300,464,325</u>
Debt Limit - 10% of Assessed Value (2)	\$ 30,046,433
Amount of Debt Application to Debt Limit: Capital leases	<u>\$ 1,400,066</u>
Legal Debt Margin	<u>\$ 28,646,367</u>

Notes:

- (1) Source - Clayton County Tax Commissioner
- (2) State of Georgia Constitutional Limit

CITY OF MORROW, GEORGIA

PRINCIPAL TAXPAYERS

June 30, 2005

<u>Taxpayer</u>	<u>Purpose</u>	<u>Assessed Valuation (in thousands)</u>	<u>Percentage of Assessed Valuation to Total City Assessed Valuation</u>
Southlake Mall, LLC	Regional Mall Owner	\$ 27,909,600	9.29 %
Inland Southeast Morrow, LLC	Shopping Center Owner	16,137,200	5.37
Costco Wholesale Corporation	Warehouse/Retail	7,362,696	2.45
Rich's Real Estate, Inc.	Retail/Property Management/Leasing	7,041,200	2.34
Sherwin Williams Company	Manufacturing	6,147,494	2.05
Inland Southeast Southlake	Shopping Center Owner	6,085,000	2.03
Scott H Lee Jr. as Trustee	Shopping Center Owner	6,073,621	2.02
OLP Southlake, LLC	Shopping Center Owner	5,640,000	1.88
Paccar Parts Division	Warehouse/Retail	5,471,115	1.82
Secured Properties Investors XI, LP	Shopping Center Owner	5,373,183	1.79
Clayton Place, LLC	College Dormitory	4,520,000	1.50
Sears Roebuck & Co.	Retail	4,167,200	1.39
Macy's East, Inc.	Retail	4,015,000	1.34
Secured Properties Investors	Shopping Center Owner	3,720,000	1.24
Glenwood Morrow Co. LLC	Shopping Center Owner	3,435,800	1.14
Wal-Mart Stores, LP #1047	Shopping Center Owner	3,380,199	1.12
All others	Various	183,985,017	61.23
		<u>\$ 300,464,325</u>	<u>100.00 %</u>

Source: Clayton County Tax Assessor

CITY OF MORROW, GEORGIA

**RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE
AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Population (1)</u>	<u>Assessed Value (2)</u>	<u>Gross Bonded Debt (3)</u>	<u>Debt Service Funds Available</u>	<u>Net Bonded Debt</u>	<u>Ratio of Net Bonded Debt to Assessed Value (%)</u>	<u>Net Bonded Debt Per Capita</u>
2005	4,882	\$ 300,464,325	\$ -	\$ -	\$ -	- %	\$ -
2004	4,882	287,331,471	-	-	-	-	-
2003	4,882	274,613,462	-	-	-	-	-
2002	4,882	293,788,978	-	-	-	-	-
2001	4,882	291,943,323	-	-	-	-	-
2000	4,882	284,235,510	-	-	-	-	-
1999	5,206	277,619,981	-	-	-	-	-
1998	5,424	262,421,522	-	-	-	-	-
1997	5,424	240,818,203	-	-	-	-	-
1996	5,424	222,431,067	55,000	-	55,000	0.02	10

Notes:

- (1) Source - U.S. Census Bureau
- (2) Source - Clayton County Tax Commissioner
- (3) General Obligation Bonds

CITY OF MORROW, GEORGIA

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL
BONDED DEBT TO TOTAL GENERAL EXPENDITURES
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest Charges</u>	<u>Total Debt Service</u>	<u>Total General Governmental Expenditures (1)</u>	<u>Debt Service to General Expenditures</u>
2005	\$ -	\$ -	\$ -	\$ 6,960,406	- %
2004	-	-	-	6,752,385	-
2003	-	-	-	6,967,521	-
2002	-	-	-	8,583,264	-
2001	-	-	-	7,748,746	-
2000	-	-	-	7,788,217	-
1999	-	-	-	6,570,514	-
1998	-	-	-	5,634,600	-
1997	55,000	4,345	59,345	5,665,493	1.05
1996	50,000	8,435	58,435	4,392,927	1.33

Notes:

(1) Includes General and Special Revenue Funds

CITY OF MORROW, GEORGIA

COMPUTATION OF DIRECT AND OVERLAPPING DEBT

JUNE 30, 2005

<u>Jurisdiction</u>	<u>Debt Outstanding</u>	<u>Percentage Applicable to City of Morrow (1)</u>	<u>Amount Applicable to City of Morrow</u>
Direct:	\$ -	\$ -	\$ -
Overlapping:			
Clayton County Board of Education (1)	<u>-</u>	-	<u>-</u>
Total direct and overlapping general obligation debt	<u>\$ -</u>		<u>\$ -</u>

Notes: (1) - Clayton County Accounting Office

CITY OF MORROW, GEORGIA

**PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS**

Fiscal Year	Commercial Construction (1)		Residential Construction (1)		Commercial Bank Deposits (2)	Property Value (3)		
	Number of Permits	Value	Number of Permits	Value		Commercial	Residential	Tax Exempt (3)
2005	30	\$ 4,148,642	35	\$ 4,203,585	\$ 466,600,000	\$ 663,244,965	\$ 148,674,395	\$ 65,569,271
2004	54	5,809,390	32	3,730,650	501,319,000	522,701,014	114,739,240	49,093,350
2003	59	14,354,051	88	9,536,670	501,960,000	566,992,223	120,588,345	32,384,753
2002	65	34,373,056	37	2,777,300	492,058,000	573,915,653	106,518,033	24,023,810
2001	58	10,663,655	7	204,898	481,569,000	562,835,503	92,643,848	17,543,878
2000	64	6,241,006	7	58,240	N/A	544,423,250	92,568,935	17,719,453
1999	65	14,656,031	14	4,734,676	516,455,000	513,595,208	92,292,993	72,743,105
1998	75	11,606,524	8	71,270	488,695,000	316,407,635	86,599,083	83,436,920
1997	50	4,078,466	8	42,265	446,157,000	295,063,935	86,476,280	81,367,960
1996	61	15,775,194	10	46,400	436,999,000	299,142,135	83,695,380	30,019,125

Sources:

- (1) City of Morrow Zoning Department
- (2) Federal Deposit Insurance Corporation
- (3) Clayton County Tax Commissioner

CITY OF MORROW, GEORGIA

**MISCELLANEOUS STATISTICAL INFORMATION
JUNE 30, 2005**

Date of incorporation	1943
Form of Government	City Council / City Manager
City Limits Area	4.1 square miles
Miles of Streets	30.75 miles
Number of street lights	655
Education (1)	
Attendance centers	2
Number of Classrooms	81
Number of Modular Classrooms	21
Number of Teachers	107
Number of Students	1,312
Building permits issued	65
Recreation and culture:	
Number of parks	8
Community Center	1
Employees:	
Full-time	90
Part-time	21
Elected Officials	5
Appointed Officials	10

Source:
(1) Clayton County Board of Education

CITY OF MORROW, GEORGIA

**DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Population (1)</u>	<u>Per Capita Income (1)</u>	<u>Median Age (2)</u>	<u>School Enrollment (3)</u>	<u>Unemployment Rate (4)</u>
2005	4,882 (9)	17,544 (9)	30.5 (9)	1,312	5.40%
2004	4,882 (9)	17,544 (9)	30.5 (9)	1,290	4.10%
2003	4,882 (9)	17,544 (9)	30.5 (9)	1,374	4.40%
2002	4,882 (9)	17,544 (9)	30.5 (9)	1,316	6.6% (6)
2001	4,882 (9)	15,716 (7)	30.5 (9)	1,558	4.2% (6) (8)
2000	4,882 (9)	15,716 (7)	32.2	1,709	3.90%
1999 (5)	5,133	15,716 (7)	32.2	1,629	3.6% (6)
1998	5,206	15,716 (7)	32.4	1,303	2.80%
1997	5,206	15,716 (7)	32.4	1,535	3.20%
1996	5,424	15,716 (7)	32.4	1,373	3.30%

Sources:

- (1) U.S. Census Bureau
- (2) U.S. Census Bureau
- (3) Clayton County Board of Education
- (4) Georgia Department of Labor - * figures revised per Georgia Department of Labor
- (5) U.S. Census Bureau
- (6) Clayton County - N/A for cities under 10,000 population
- (7) Calculated at census - 1990
- (8) As of September 30, 2001
- (9) Calculated at last census - 2000

COMPLIANCE SECTION

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregately presented component units, each major fund, and the aggregate remaining fund information of the City of Morrow, Georgia, as of and for the year ended June 30, 2005, which collectively comprise the City of Morrow, Georgia's basic financial statements and have issued our report thereon dated September 22, 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 Morrow, Georgia's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Morrow, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as item B-1.

We also noted certain matters that we reported to management of the City of Morrow, Georgia in a separate letter dated September 22, 2005.

This report is intended solely for the information and use of management, the 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.

Macon, Georgia
September 22, 2005

CITY OF MORROW, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Morrow, Georgia.
2. No reportable conditions relating to the audit of the financial statements are reported in the 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.
3. One instance of noncompliance relating to the audit of the financial statements of the City of Morrow, Georgia is reported in the 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*, and is included in the Schedule of Findings and Questioned Costs as item B.1.
4. There was not an audit of major federal award programs as of June 30, 2005 due to the total amount expended being less than \$500,000.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

1. Collateralization of deposits -

Condition: At June 30, 2005, the City of Morrow's deposits held at financial institutions were not fully collateralized or insured in accordance with the Official Code of Georgia Annotated (OCGA) Section 45-8-12(c).

Criteria: Policies should be in place requiring all financial institutions holding cash deposits to be properly insured and, or collateralized at any and all times of the fiscal year.

Effect: The failure of a financial institution to fully insure or collateralize the City of Morrow's deposits could result in a financial loss to the City of Morrow, should the financial institution fail.

Recommendation: The City of Morrow should require all financial institutions holding cash deposits be properly insured and, or collateralized at any and all times of the fiscal year.

Response: We concur with the recommendation. Such a procedure and requirement of the City of Morrow's financial institutions will be implemented immediately.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Not Applicable