

CITY OF MORROW, GEORGIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2006

Prepared by:
Morrow Finance Department

CITY OF MORROW, GEORGIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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INTRODUCTORY SECTION

December 15, 2006

The Citizens of the City of Morrow, Georgia
The Honorable Mayor and Members of the City Council
of the City of Morrow, Georgia

Dear Ladies and Gentlemen:

It is a pleasure to hereby submit the Comprehensive Annual Financial Report of the City of Morrow, Georgia, for the fiscal year ended June 30, 2006. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and activities of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The Comprehensive Annual Financial Report is written to be used and understood by a broad array of people. It is presented in three sections:

1) INTRODUCTORY SECTION

This introductory section, which is unaudited, includes this letter of transmittal, the City's organizational chart, a listing of the City's principal officials, and the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting for Fiscal Year 2004-2005.

2) FINANCIAL SECTION

The financial section includes the general purpose financial statements and schedules, management discussion and analysis, as well as the independent auditors' report on these financial statements and additional information pertaining to individual funds and activities.

3) STATISTICAL SECTION

The statistical section includes pertinent financial and economic data indicating trends, generally presented on a multi year basis.

The City of Morrow is not required to undergo an annual Single Audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations." The City does not receive federal funding at a level which required single audit presentation; therefore, a single audit is not included in this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

The data in the report is believed to be accurate in all material respects and conforms substantially with the standards of the GFOA program for the Certificate of Achievement for Excellence in Financial Reporting. This report will again be submitted to the GFOA for evaluation of eligibility for the Certificate for the 12th consecutive year. All necessary disclosures have been included in order to enable the reader to gain the maximum understanding of the City's financial activity.

THE REPORTING ENTITY

The City of Morrow is located in Clayton County, approximately 10 miles south of Atlanta. The City, incorporated in 1943, has a residential population of a little under 6,000, and Clayton County has a population of 236,517, which contributes to the 70,000 plus visitors who find themselves in the City of Morrow on a daily basis.

Morrow operates under the council/manager form of government. The City's organization includes seven departments: administration, emergency communication, fire, police, public works, tourism, and economic development. The City Manager is appointed by the Mayor and Council to directly supervise these departments. The City provides many services to Morrow's residents and visitors, including police and fire protection, emergency medical service, emergency communications, code enforcement, and economic development.

Another entity, the Morrow Business and Tourism Association, meets the current guidelines of the Governmental Accounting Standards Board (GASB) – Statement 14, and is therefore included in the CAFR as part of the City of Morrow' reporting entity. The Morrow Business and Tourism Association provides residents, visitors, and businesses, alike with information about upcoming events, hotels, attractions, restaurants, and many other tourist related activities.

The citizens of the City of Morrow have numerous places to go and things to do within the city's four square miles. They can walk through 162 acres of Reynolds Nature Preserve, listen to world-renowned musicians in Spivey Hall, shop at our regional mall anchored by major department stores like Rich's, J.C. Penney, and Sears, or relax in one of our eight neighborhood parks. They are kept informed of these activities and other city news via quarterly color newsletters and twice-monthly mayor/council meetings. The City's web page is fully operational and provides typical information on the various city departments, upcoming events, contact information, court schedules, hours of operation, and minutes of the most recent mayor/council meetings. The City's web site points new residents and businesses to an address where they can learn about and even download city codes and ordinances.

The City provides and supports for its citizens such programs as the P.R.O.U.D. program, Citizen Police Academies, and Gang Resistance Education & Training (G.R.E.A.T.), "certified Mentors" who become role models by building self esteem and assisting children, and the Fire Safety Education programs.

ECONOMIC CONDITION AND OUTLOOK

The City of Morrow completed its second residential subdivision (Central Park) in thirty years and two new subdivisions (Brookwood and Harbin Terrace) are 50% constructed. The homes are averaging \$275,000 in value and combined will represent a 40% increase in the number of single family detached homes in Morrow. This continues to prove a healthy demand for quality homes exists in the City and that our beautification efforts are providing tangible results.

Gateway Village continues as a successful redevelopment project. The Georgia Archive and the National Archive are open to the public and have produced genealogical tourism and events. The LCI (Livable Center Initiative) district has completed construction plans for the new town square and a parking deck. The City of Morrow also completed the purchase of the right of way for the projects and construction should start in the next 12 months. However, we did receive a minor setback when the planned hotel/conference center was scrapped. Clayton County's newly elected officials reneged on the project bonds and all the hotel/conference center plans were placed on hold.

Our retail base has remained strong and major corporations still consider the Mt. Zion corridor as the best physical location in Clayton County. However, the City has determined that future retail construction on the I-75 corridor will have an economic impact to the City; therefore, a redevelopment plan for the Southlake Mall area and an international import/export district have been designed. The City and our economic development authority have made strategic property purchases and will facilitate new construction on these properties. Our first major purchase was the former Macy's building in Southlake Mall. A hotel/conference center is being designed as an option for the bottom floor with a smaller retailer located on the main floor.

The City has successfully stabilized our revenue stream after the significant reduction in our share of the Local Option Sales Tax (LOST). The reduction was possible because the City did not have any leverage in the final decision. In 1994, the City of Morrow was able to leverage a municipal resolution requirement into a favorable share. Unfortunately, all future LOST renegotiations are based on a majority decision of the municipal governments that represent a combined total of 50% or more of the total citizens in all municipalities. The end result is that the two largest cities in Clayton County can control the formula distribution, at the expense of the remaining cities. Unfortunately, we experienced this process first hand and our revenue from LOST was reduced on July 1, 2003. The City has an active plan to earn a veto position in the 2010 Census mandated renegotiation process.

The City of Morrow parallels the State of Georgia's economic outlook and we have experienced reasonable growth this year. However, the Delta airlines bankruptcy, the closing of Fort Gillem, and the explosive retail growth of Henry County will continue to provide short term and long term revenue challenges.

The City of Morrow has traditionally produced a conservative budget and this has been extremely beneficial in the current economic market. We believe Georgia and the City of Morrow are seeing a positive growth in our economies.

MAJOR INITIATIVES

Morrow has created unique tourism opportunities with the opening of the State and National Archives. Combined they will bring thousands of new visitors to the City and their average over night stay has been projected as three days. This offers our hotels a great opportunity to target market for family reunions.

The City has also worked with a non-profit corporation to design a National Commercial Aviation Museum as part of the Southlake redevelopment project. The prototype building design has been finished and the project will include full sized aircraft utilized by Eastern, Delta, and other current and former airlines. Their retirees have expressed an interest in donating uniforms and original memorabilia for display.

The City and our DDA purchased 6.25 acres of property on Southlake Parkway (former Lewis Welch Property), demolished the functionally obsolescent buildings, and successfully resold the reconditioned property to Pappas Restaurants. The former owner had the property for sale for eight years and was not able to find a qualified buyer due to the conditions of the property and structures. Pappas' purchase sends a strong signal to the retail market and will offer our interstate exit a great economic opportunity for revitalization.

The Morrow Downtown Development Authority purchased a 42,000 sq. ft. under performing shopping center on Mt. Zion Road and it will become the cornerstone for our new International Import/Export District. The City hopes to create our first Business Improvement District (BID) to maximize the marketing, landscaping, and security financing abilities of the district. In the last 12 months we are on track to modify the former tenant mix and have negotiated moderate term leases on 25% of the leased space. The new tenants offer professional services and have increased the value and appeal of the tenant mix.

The City acquired a 15 acre tract next to Southlake Mall and I-75 with the significant assistance of Mayor Millirons. The donation defined years of relationship building and earned Morrow a launching pad for redeveloping the Southlake Area. A master plan by Roy Ashley was created in 2004 and is being used to produce an architectural master plan. The City also acquired four historic structures and will locate them on the property. Our Olde Town square will eventually be home to over 60 small businesses that will provide a unique shopping experience.

The City partnered with the Clayton County Water Authority (CCWA) to reclaim Jester's Creek and improve water quality through stream bank and habitat restorations. A four year restoration program has started with a total projected cost of \$4M. The majority of this funding will come from federal grants and other funds administered through the CCWA.

The goal of providing all of Morrow's neighborhoods with pocket parks has made remarkable progress. The Jim and Peggy Millirons Neighborhood Park and the Graceland Circle connection to the main city park have created new recreational/green space in our current subdivisions. The City also purchased an undeveloped 40 acre tract on Meadowbrook Lane for a master park on the East side of Morrow. A staged park plan is being defined that will continue to tie our recreational space together and offer our citizens interconnect ability for pedestrian, recreational, and functional mobility. The purchase has increased our green space from nine acres in 1998 to over 120 acres today. The property also contains three interstate billboards and Morrow is in the process of negotiating free sign access to allow us to promote our tourism opportunities. The projected cost savings of the free sign space exceeds \$4,500 per month and has a lifetime value that is greater than the purchase price of the property. In essence, the sign space will pay for the purchase of the property if the content is monitored and utilized correctly over the life of the agreement with CBS advertising.

A City of Morrow pedestrian trail system has been designed by Jordan, Jones, and Goulding. This will provide Morrow with a significant recreational development opportunity and offers an alternative transportation system to our citizens. The City was awarded \$650,000 to construct the first phase of the path system and \$800,000 for the second phase. Our goal is to build the path to follow the construction phases of the Jester's Creek reclamation. The first phase of the path should start construction this year. The City has also been awarded a \$2,700,000 grant for an underpass for Gateway Village to ensure that pedestrian have a safe route to Clayton State University, the Archives, and the commuter rail station. The initial geotechnical work has been started and the Pond Co. has been awarded a design contract.

FINANCIAL INFORMATION

Single Audit

The City is not the recipient of federal or state financial assistance to the extent that a Single Audit is required or recommended.

Accounting System Internal Controls

The management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state, and county financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to federal assistance programs. This internal control structure is subject to periodic evaluation by management of the City.

Budgetary Controls

In addition to internal controls, the City maintains budgetary controls. The objective of these budgetary controls is to assure compliance with the legal provisions embodied in the annual appropriated budget approved by the Morrow City Council. Activities of the General Fund, Emergency Communications Fund, and General Capital Improvements Fund all appear in the City's annual appropriated budget. The level of budgetary control, being the level at which expenditures cannot legally exceed the appropriated amount, is established by department within an individual fund.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

Pension Benefit Plan

The City contributes to the Georgia Municipal Employees Benefit System, an agent/multiple employer public employee retirement system administered by the Georgia Municipal Association. 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. All full-time City employees and all City officials are eligible to participate in the system. The employee becomes fully vested after ten years of service. The participation by the City's employees is noncontributory; however, the city is subject to the minimum funding standards for the Public Retirement Systems Standard Law. The policy set by the City for contributing the annual pension expenses exceeds the minimum requirements of this law. The Georgia Municipal Employees Benefit System is actuarially sound with all indications that this will continue.

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Plan participation is optional to City employees and the City has no fiduciary responsibility for the plan.

Debt Administration

The City's general obligation bonded debt legal limit was \$29,986,222, which is equal to 10% of the Assessed Valuation of property within the city limits of the City. The City had \$1,345,340 of outstanding long-term debt at June 30, 2006. The long-term debt represents the balance of a 20-year lease between the City of Morrow and the Morrow Downtown Development Authority with the proceeds being used for the re-financing of the Morrow Welcome Center.

Cash Management

The City temporarily invests its idle cash in accounts earning competitive yields with a minimum of credit market risk. These accounts included certificates of deposits, U. S. Treasury issues, certain governmental agency securities, the State of Georgia's Local Government Investment Pool (Georgia Fund I), and numerous interest-bearing bank accounts. All funds are either insured by the Federal Deposit Insurance Corporation or collateralized by the issuing bank's investments.

Risk Management

The City of Morrow is a member of the Georgia Interlocal Risk Management Agency or GIRMA. GIRMA is the risk management pool of local governments in Georgia that funds insurance losses in excess of \$5,000 for auto liability, general liability, errors and omissions, property damage/loss, and other lines of insurance. The City has \$1 million worth of coverage on each of these lines with the exception of property, which is covered at 100% of the value of the City's holdings.

Workers' Compensation Insurance is provided through the Georgia Workers' Compensation Self-Insurance Fund, which like GIRMA, is a pooled Workers' Compensation fund consisting of local governments in Georgia. Both GIRMA and the Georgia Workers' Compensation Self-Insurance Fund are financially healthy and actuarially sound.

INDEPENDENT AUDIT

Georgia statutes and law require cities to have an audit performed annually by an independent certified public accountant. The firm of Mauldin & Jenkins, Certified Public Accountants and Consultants, LLC, was selected to perform the audit. The auditors' report on General Purpose Financial Statements, Individual Fund Statements, and schedules, as well as their unqualified opinion are included in the financial section of this report.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Morrow, Georgia, for its comprehensive annual financial report for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded the Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report (CAFR), whose contents conform to program standards. The CAFR must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last twelve fiscal years (1994-2005). We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting this report to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

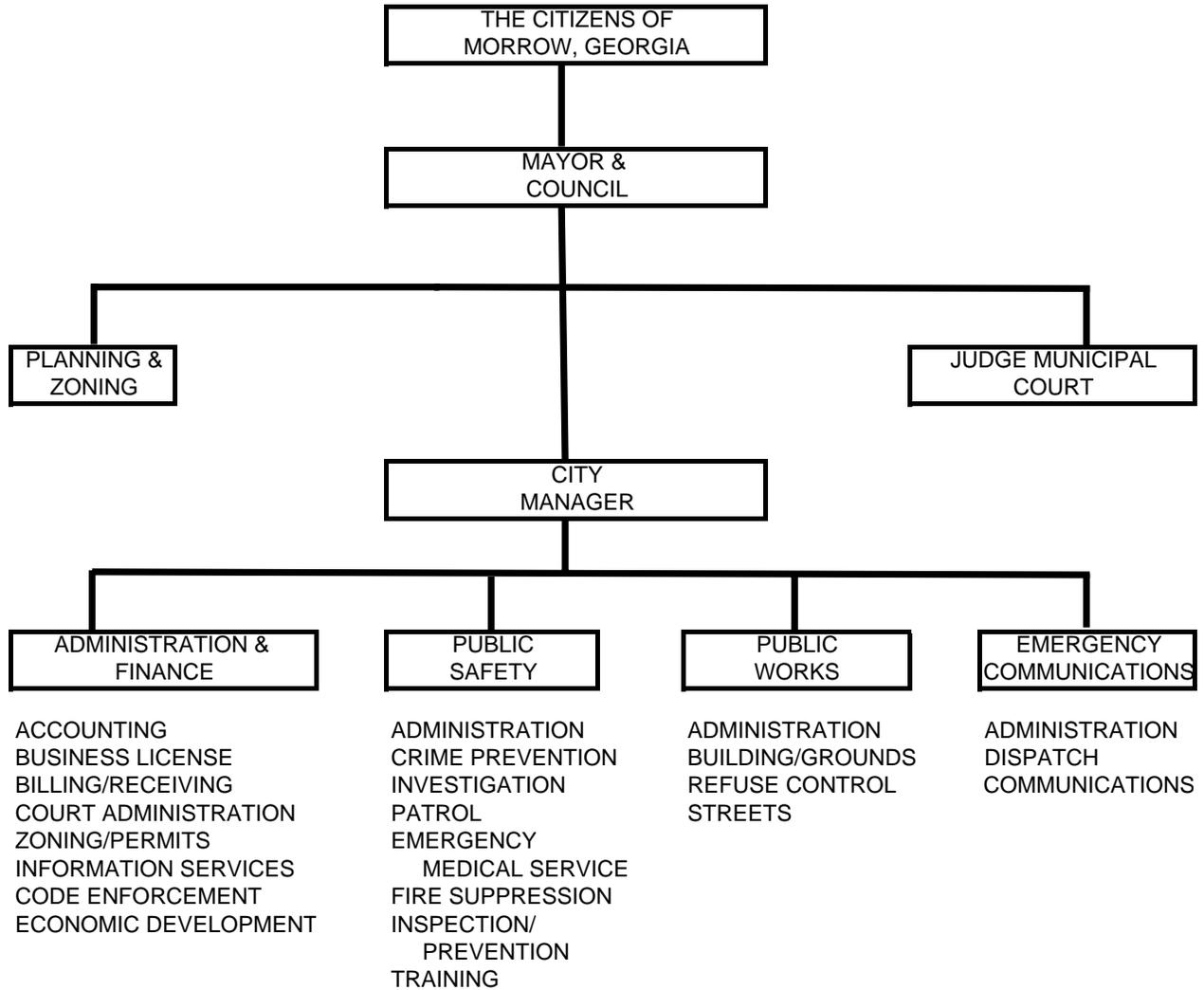
This report was produced through the dedication of the City's Finance Officer, Mr. Dan Defnall. I would like to thank him, the City's department heads, and other staff members for their efforts and cooperation. Finally, I would like to thank the Morrow Mayor and Council for their continued support and vision. They have set the example for excellence and we encourage our peers to follow their leadership.

Respectfully submitted,

John J. Lampl, II
City Manager

CITY OF MORROW, GEORGIA

ORGANIZATIONAL CHART



CITY OF MORROW, GEORGIA

PRINCIPAL OFFICIALS JUNE 30, 2006

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	Sylvia Redic
City Attorney	Andrew J. Whalen, III
Municipal Court Judge	Frost A. Ward
Police Chief	Jeffrey Baker
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 aggregate discretely 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, 2006, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Morrow, Georgia, as of June 30, 2006, 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 December 5, 2006, 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 3 - 11 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 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are 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.

Mauldin & Jenkins, LLC

Macon, Georgia
December 5, 2006

CITY OF MORROW, GEORGIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Morrow, we offer readers of the City of Morrow's financial statements this narrative overview and analysis of the financial activities of the City of Morrow for the fiscal year ended June 30, 2006. It is designed to give the reader an objective and easily readable analysis of the City's financial performance. The primary intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the letter of transmittal, notes to the basic financial statements, and the financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for FY 2006 are as follows:

- The assets of the City of Morrow exceeded its liabilities at the close of the fiscal year by \$16,192,108 (net assets).
- The government's total net assets increased by \$2,452,919, primarily due to increases in the governmental activities net assets.
- As of the close of the current fiscal year, the City of Morrow's governmental funds reported combined ending fund balances of \$9,311,045, an increase of \$572,147 in comparison with the prior year. Approximately 79 percent of this total amount, or \$7,325,715, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$7,325,715 or 83.6% percent of total general fund expenditures for the fiscal year.
- The City of Morrow's total debt decreased by \$54,726 (3.9%) during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This comprehensive annual financial report consists of the City of Morrow's basic financial statements comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to those financial statements. The statements are organized so the reader can understand the City of Morrow as a financial whole, or as an entire operating entity.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole city, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what remains for future spending. For proprietary funds, the statements offer short and long term financial information about activities the city operates like businesses, such as sanitation services. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of the Statement of Net Assets and Statement of Activities is to answer the question, "How did we do financially during fiscal year 2006?" These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished over the course of the fiscal year. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, facility conditions, and other factors.

In the Statement of Net Assets and the Statement of Activities, the City has both governmental and business-type activities:

- Governmental Activities - Most of the City's programs and services are reported here including general government, judicial, public safety, public works, and economic development. Sales taxes, property taxes, occupation taxes, and fines and forfeitures finance most of these activities.
- Business-Type Activities – The City charges fees to cover the services it provides related to sanitation services. These activities are reported as business-type activities under proprietary funds.

The government-wide financial statements can be found on pages 12 and 13 of this report.

Reporting the City's Most Significant Funds

Fund financial statements provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds.

Governmental Funds

Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Morrow adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the Statement of Revenue and Expenditures and Changes in Fund Balances. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes. The City of Morrow has four Special Revenue Funds: (1) Confiscated Assets Fund, (2) Hotel/Motel Tax Fund, (3) Excise Tax Fund, and (4) Emergency Communication Fund.

Proprietary Funds

Proprietary funds are activities that a City operates similar to a business in that it attempts to recover costs through charges to the user. The City of Morrow has only one type of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Morrow uses enterprise funds to account for its sanitation activity. Proprietary fund statements use the accrual basis of accounting similar to the City-wide statements.

The basic proprietary fund financial statements can be found on pages 19 - 21 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Morrow exceeded liabilities by \$16,192,108 as of June 30, 2006. The City's net assets increased by \$2,452,919 for the fiscal year ended June 30, 2006. However, a significant portion (44%) reflects the City's investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The City of Morrow uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Morrow's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The remaining balance of unrestricted net assets (\$9,096,281) may be used to meet the government's ongoing obligations to citizens and creditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Morrow's Net Assets June 30, 2006

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 9,846,040	\$ 9,231,403	\$ 131,020	\$ 126,543	\$ 9,977,060	\$ 9,357,946
Capital assets, net	8,441,167	6,605,115	-	-	8,441,167	6,605,115
Total assets	<u>18,287,207</u>	<u>15,836,518</u>	<u>131,020</u>	<u>126,543</u>	<u>18,418,227</u>	<u>15,963,061</u>
Other liabilities	720,271	666,747	131,020	132,420	851,291	799,167
Long-term liabilities outstanding	<u>1,374,828</u>	<u>1,424,705</u>	<u>-</u>	<u>-</u>	<u>1,374,828</u>	<u>1,424,705</u>
Total liabilities	<u>2,095,099</u>	<u>2,091,452</u>	<u>131,020</u>	<u>132,420</u>	<u>2,226,119</u>	<u>2,223,872</u>
Net assets:						
Invested in capital assets, net of related debt	7,095,827	5,205,049	-	-	7,095,827	5,205,049
Unrestricted	<u>9,096,281</u>	<u>8,540,017</u>	<u>-</u>	<u>(5,877)</u>	<u>9,096,281</u>	<u>8,534,140</u>
Total net assets	<u>\$ 16,192,108</u>	<u>\$ 13,745,066</u>	<u>\$ -</u>	<u>\$ (5,877)</u>	<u>\$ 16,192,108</u>	<u>\$ 13,739,189</u>

Business-Type Activities

The only business-type activity of the City is the Sanitation Department. The majority of the revenue of the Sanitation Department is derived from user fees charged for services related to solid waste disposal.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Morrow's Changes in Net Assets June 30, 2006

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues						
Charges for services	\$ 3,952,147	\$ 3,501,043	\$ 1,118,367	\$ 1,236,396	\$ 5,070,514	\$ 4,737,439
Operating grants and contributions	25,403	193,820	-	-	25,403	193,820
General revenues:						
Property taxes	1,131,554	1,085,487	-	-	1,131,554	1,085,487
Sales taxes	1,849,293	1,641,504	-	-	1,849,293	1,641,504
Franchise taxes	592,557	577,392	-	-	592,557	577,392
Other taxes	985,151	921,634	-	-	985,151	921,634
Miscellaneous	130,220	183,972	-	-	130,220	183,972
Unrestricted investment earnings	1,289,491	254,982	-	-	1,289,491	254,982
Gain on sale of capital assets	24,953	-	-	-	24,953	-
Total revenues	<u>9,980,769</u>	<u>8,359,834</u>	<u>1,118,367</u>	<u>1,236,396</u>	<u>11,099,136</u>	<u>9,596,230</u>
Expenses:						
General government	1,685,149	1,152,346	-	-	1,685,149	1,152,346
Judicial	174,165	167,032	-	-	174,165	167,032
Public safety	4,570,661	4,504,847	-	-	4,570,661	4,504,847
Public works	1,024,683	805,648	-	-	1,024,683	805,648
Economic development	163,076	161,067	-	-	163,076	161,067
Interest on long-term debt	52,728	54,812	-	-	52,728	54,812
Sanitation	-	-	975,755	964,547	975,755	964,547
Total expenses	<u>7,670,462</u>	<u>6,845,752</u>	<u>975,755</u>	<u>964,547</u>	<u>8,646,217</u>	<u>7,810,299</u>
Increase in net assets before transfers	<u>2,310,307</u>	<u>1,514,082</u>	<u>142,612</u>	<u>271,849</u>	<u>2,452,919</u>	<u>1,785,931</u>
Transfers	<u>136,735</u>	<u>277,726</u>	<u>(136,735)</u>	<u>(277,726)</u>	<u>-</u>	<u>-</u>
Change in net assets	2,447,042	1,791,808	5,877	(5,877)	2,452,919	1,785,931
Net assets, beginning of year	13,745,066	11,953,258	(5,877)	-	13,739,189	11,953,258
Net assets, end of year	<u>\$ 16,192,108</u>	<u>\$ 13,745,066</u>	<u>\$ -</u>	<u>\$ (5,877)</u>	<u>\$ 16,192,108</u>	<u>\$ 13,739,189</u>

Governmental Activities

Please note that public safety expenses of \$4,570,661 represent 60% of the total governmental expenses. Interest expense of \$52,728 represents less than 1% of total governmental expenses. Interest expense is attributable to debt financed for the Morrow Tourist Center building.

Cost of Program Services

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The table above shows, for governmental and business-type activities, the combined total cost of services and the combined net cost of services, that is, it identifies the cost of these services supported by tax revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Although program revenues make up approximately 40% of the governmental revenues, the City is dependent on tax revenues for governmental activities. The net cost of services related to governmental activities is (\$3,692,912) which approximates 84% of our total tax receipts of \$4.37 million.

Financial Analysis of the City's Funds

As noted earlier, the City of Morrow uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund Balance

The focus of the City of Morrow's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Morrow's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2006, the total Governmental Funds of the City of Morrow reported a combined fund balance of \$9,311,045, a 6.6% percent increase over last year.

The general fund is the chief operating fund of the City of Morrow. At the end of fiscal year 2006, the unreserved fund balance of the General Fund was \$7,325,715. The remainder of the general fund balance, \$1,792,221, is reserved to indicate that it is not available for new spending because it is already committed. The reserved fund balance of \$1,985,330 represent commitments for prepaid expenditures (\$234,216), special projects (\$193,109), assets held for resale (874,242), and advances to the Downtown Development Authority (\$683,763). As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved governmental fund balance represents 84% of total governmental funds expenditures, while total fund balance represents 97% of that same amount.

Other Governmental Funds had total fund balances of \$193,109. These funds include special revenue funds.

City of Morrow's Governmental Fund Balance June 30, 2006

	<u>2006</u>	<u>2005</u>
General Fund	\$ 9,117,936	\$ 8,583,916
Other Governmental Funds	<u>193,109</u>	<u>154,982</u>
Total Governmental Fund Balance	<u>\$ 9,311,045</u>	<u>\$ 8,738,898</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Proprietary Funds

The City of Morrow's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Other factors concerning the finances of this fund have already been addressed in the discussion of the City of Morrow's business-type activities.

General Fund Budgetary Highlights

- The City's budget is prepared according to Georgia law. The most significant budget fund is the General Fund.
- For the General Fund, the actual revenues of \$9,150,303 were below the final budget amount of \$9,362,589 by \$212,286. The difference was primarily due to increased fines and forfeitures revenues as well as intergovernmental revenues higher than anticipated.
- The actual expenditures of \$8,757,404 were less than the budgeted amount of \$8,950,428. This difference was primarily due to budgeted capital expenditures not being purchased.

Capital Asset and Debt Administration

Capital Assets

The City of Morrow's investment in capital assets for its governmental and business-type activities as of June 30, 2006, totals \$8,441,167 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Infrastructure in process and Infrastructure relating to planning for City pathway system and LCI parking deck.
- Land acquisitions for LCI parking deck as well as for future park/greenspace.
- New ambulance for Fire Department
- New park at Morrow Road and Graceland Circle.
- No major demolitions were recorded this year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Morrow's Capital Assets, net of Accumulated Depreciation June 30, 2006

	Governmental Activities		Business -type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 3,593,714	\$ 2,479,358	\$ -	\$ -	\$ 3,593,714	\$ 2,479,358
Buildings, grounds and improvements	2,791,590	2,747,370	-	-	2,791,590	2,747,370
Machinery and equipment	291,690	293,245	-	-	291,690	293,245
Furniture & fixtures	6,000	11,225	-	-	6,000	11,225
Infrastructure in process	825,534	374,169	-	-	825,534	374,169
Infrastructure	199,610	141,729	-	-	199,610	141,729
Vehicles	354,630	301,607	-	-	354,630	301,607
Computer Software	69,130	107,620	-	-	69,130	107,620
Park Facilities	309,269	148,792	-	-	309,269	148,792
Total	\$ 8,441,167	\$ 6,605,115	\$ -	\$ -	\$ 8,441,167	\$ 6,605,115

Additional information on the City's capital assets can be found in the notes to the financial statements.

Long-term Debt

As of June 30, 2006, the City of Morrow had total outstanding debt of \$1,552,230 comprised of \$1,345,340 related to capital leases on the Morrow Tourist Center building and \$206,890 in compensated absences.

City of Morrow's Outstanding Long-Term Liabilities June 30, 2006

	Governmental Activities		Business -type Activities		Total	
	2006	2005	2006	2005	2006	2005
Capital leases	\$ 1,345,340	\$ 1,400,066	\$ -	\$ -	\$ 1,345,340	\$ 1,400,066
Compensated absences	206,890	202,727	-	-	206,890	202,727
Total	\$ 1,552,230	\$ 1,602,793	\$ -	\$ -	\$ 1,552,230	\$ 1,602,793

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the City.

- The City of Morrow is 100% finished with its second residential subdivision (Central Park) in thirty years and has issued permits for two new subdivisions. The homes are averaging \$195,000 in value and combined will represent a 36% increase in the number of single family detached homes in Morrow.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Two new subdivisions (Brookwood and Harbin Terrace) are 50% constructed. The homes are averaging \$275,000 in value and combined will represent a 40% increase in the number of single family detached homes in Morrow. This continues to prove a healthy demand for quality homes exists in the City and that our beautification efforts are providing tangible results.
- Gateway Village continues as a successful redevelopment project. The Georgia Archive and the National Archive are open to the public and have produced genealogical tourism and events. The LCI (Livable Center Initiative) district has completed construction plans for the new town square and a parking deck. The City of Morrow also completed the purchase of the right of way for the projects and construction should start in the next 12 months.
- Our retail base has remained strong and major corporations still consider the Mt. Zion corridor as the best physical location in Clayton County. However, the City has determined that future retail construction on the I-75 corridor will have an economic impact to the City; therefore, a redevelopment plan for the Southlake Mall area and an international import/export district have been designed. The City and our economic development authority have made strategic property purchases and will facilitate new construction on these properties.
- The City has successfully stabilized our revenue stream after the significant reduction in our share of the Local Option Sales Tax (LOST). The reduction was possible because the City did not have any leverage in the final decision. In 1994, the City of Morrow was able to leverage a municipal resolution requirement into a favorable share. Unfortunately, all future LOST renegotiations are based on a majority decision of the municipal governments that represent a combined total of 50% or more of the total citizens in all municipalities. The end result is that the two largest cities in Clayton County can control the formula distribution, at the expense of the remaining cities. Unfortunately, we experienced this process first hand and our revenue from LOST was reduced on July 1, 2003. The City has an active plan to earn a veto position in the 2010 Census mandated renegotiation process.
- The City of Morrow parallels the State of Georgia's economic outlook and we have experienced reasonable growth this year. However, the Delta airlines bankruptcy, the closing of Fort Gillem, and the explosive retail growth of Henry County will continue to provide short term and long term revenue challenges.
- The City of Morrow has traditionally produced a conservative budget and this has been extremely beneficial in the current economic market. We believe Georgia and the City of Morrow are seeing a positive growth in our economies.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the monies it receives. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, City of Morrow, 1500 Morrow Rd, Morrow, Georgia 30260, 770-961-4002 or via email at ddefnall@cityofmorrow.com.

CITY OF MORROW, GEORGIA

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

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	\$ 2,583,681	\$ 46,777	\$ 2,630,458	\$ 51,540	\$ 79,587
Investments	4,972,372	-	4,972,372	-	-
Taxes receivable	101,388	-	101,388	-	-
Accounts receivable	67,033	84,243	151,276	1,358,023	2,707
Interest receivable	6,724	-	6,724	-	-
Due from primary government	-	-	-	-	54,109
Due from component unit	683,763	-	683,763	-	-
Due from other governments	322,621	-	322,621	-	-
Inventory	-	-	-	-	3,472
Prepaid expenses	234,216	-	234,216	-	12,901
Assets held for resale	874,242	-	874,242	-	-
Capital assets:					
Nondepreciable	4,419,248	-	4,419,248	912,889	-
Depreciable, net of accumulated depreciation	4,021,919	-	4,021,919	1,220,058	-
Total assets	<u>18,287,207</u>	<u>131,020</u>	<u>18,418,227</u>	<u>3,542,510</u>	<u>152,776</u>
LIABILITIES					
Accounts payable	224,233	87,503	311,736	-	54
Accrued liabilities	264,527	43,517	308,044	16,447	-
Due to primary government	-	-	-	683,763	-
Due to component unit	54,109	-	54,109	-	-
Capital leases due within one year	56,880	-	56,880	-	-
Capital leases due in more than one year	1,288,460	-	1,288,460	-	-
Notes payable due within one year	-	-	-	61,119	-
Notes payable due in more than one year	-	-	-	1,302,915	-
Bonds payable due within one year	-	-	-	56,880	-
Bonds payable due in more than one year	-	-	-	1,288,163	-
Compensated absences due within one year	120,522	-	120,522	-	-
Compensated absences due in more than one year	86,368	-	86,368	-	-
Total liabilities	<u>2,095,099</u>	<u>131,020</u>	<u>2,226,119</u>	<u>3,409,287</u>	<u>54</u>
NET ASSETS					
Invested in capital assets, net of related debt	7,095,827	-	7,095,827	(451,145)	-
Unrestricted	9,096,281	-	9,096,281	584,368	152,722
Total net assets	<u>\$ 16,192,108</u>	<u>\$ -</u>	<u>\$ 16,192,108</u>	<u>\$ 133,223</u>	<u>\$ 152,722</u>

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, 2006**

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	\$ 1,685,149	\$ 1,351,249	\$ -	\$ -	\$ (333,900)	\$ -	\$ (333,900)	\$ -	\$ -
Judicial	174,165	-	-	-	(174,165)	-	(174,165)	-	-
Public safety	4,570,661	2,600,898	18,442	-	(1,951,321)	-	(1,951,321)	-	-
Public works	1,024,683	-	6,961	-	(1,017,722)	-	(1,017,722)	-	-
Economic development	163,076	-	-	-	(163,076)	-	(163,076)	-	-
Interest on long-term debt	52,728	-	-	-	(52,728)	-	(52,728)	-	-
Total governmental activities	<u>7,670,462</u>	<u>3,952,147</u>	<u>25,403</u>	<u>-</u>	<u>(3,692,912)</u>	<u>-</u>	<u>(3,692,912)</u>	<u>-</u>	<u>-</u>
Business-type activities:									
Sanitation	975,755	1,118,367	-	-	-	142,612	142,612	-	-
Total business-type activities	<u>975,755</u>	<u>1,118,367</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>142,612</u>	<u>142,612</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 8,646,217</u>	<u>\$ 5,070,514</u>	<u>\$ 25,403</u>	<u>\$ -</u>	<u>(3,692,912)</u>	<u>142,612</u>	<u>(3,550,300)</u>	<u>-</u>	<u>-</u>
Component units:									
Downtown Development Authority	\$ 214,870	\$ 144,963	\$ 149,931	\$ -	-	-	-	80,024	-
Morrow Business and Tourism Association	244,113	34,648	14,623	-	-	-	-	-	(194,842)
Total component units	<u>\$ 458,983</u>	<u>\$ 179,611</u>	<u>\$ 164,554</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,024</u>	<u>(194,842)</u>
General revenues:									
Property taxes					1,131,554	-	1,131,554	-	-
Sales taxes					1,849,293	-	1,849,293	-	-
Insurance premium tax					244,508	-	244,508	-	-
Alcoholic beverage taxes					188,499	-	188,499	-	-
Other taxes					552,144	-	552,144	-	170,495
Miscellaneous					130,220	-	130,220	-	-
Franchise taxes					592,557	-	592,557	-	-
Unrestricted investment earnings					1,289,491	-	1,289,491	53,362	90
Gain on sale of capital assets					24,953	-	24,953	-	-
Transfers					136,735	(136,735)	-	-	-
Total general revenues and transfers					<u>6,139,954</u>	<u>(136,735)</u>	<u>6,003,219</u>	<u>53,362</u>	<u>170,585</u>
Change in net assets					2,447,042	5,877	2,452,919	133,386	(24,257)
Net assets, beginning of year					13,745,066	(5,877)	13,739,189	(163)	176,979
Net assets, end of year					<u>\$ 16,192,108</u>	<u>\$ -</u>	<u>\$ 16,192,108</u>	<u>\$ 133,223</u>	<u>\$ 152,722</u>

The accompanying notes are an integral part of these financial statements

CITY OF MORROW, GEORGIA

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

ASSETS	General	Other Governmental Funds	Totals Governmental Funds
Cash and cash equivalents	\$ 2,401,124	\$ 182,557	\$ 2,583,681
Investments	4,972,372	-	4,972,372
Taxes receivable	40,122	61,266	101,388
Accounts receivable	350	66,683	67,033
Interest receivable	6,724	-	6,724
Advance to component unit	683,763	-	683,763
Due from other governments	322,621	-	322,621
Due from other funds	86,332	-	86,332
Prepaid expenditures	234,216	-	234,216
Assets held for resale	874,242	-	874,242
Total assets	<u>\$ 9,621,866</u>	<u>\$ 310,506</u>	<u>\$ 9,932,372</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 207,896	\$ 16,337	\$ 224,233
Accrued liabilities	236,816	14,728	251,544
Deferred revenues	5,109	-	5,109
Due to component unit	54,109	-	54,109
Due to other funds	-	86,332	86,332
Total liabilities	<u>503,930</u>	<u>117,397</u>	<u>621,327</u>
FUND BALANCES			
Fund balances:			
Reserved for:			
Prepaid expenditures	234,216	-	234,216
Special projects	-	193,109	193,109
Advances	683,763	-	683,763
Assets held for resale	874,242	-	874,242
Unreserved, reported in:			
General fund	7,325,715	-	7,325,715
Total fund balances	<u>9,117,936</u>	<u>193,109</u>	<u>9,311,045</u>
Total liabilities and fund balances	<u>\$ 9,621,866</u>	<u>\$ 310,506</u>	
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.			8,441,167
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			5,109
Certain liabilities are not due and payable in the current period and are therefore not reported in the funds.			<u>(1,565,213)</u>
Net assets of governmental activities			<u>\$ 16,192,108</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
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Totals Governmental Funds</u>
Revenues			
Property taxes	\$ 1,143,803	\$ -	\$ 1,143,803
Other taxes	2,282,300	552,144	2,834,444
Charges for services	273,911	142,386	416,297
Licenses and permits	1,344,715	-	1,344,715
Intergovernmental	435,338	-	435,338
Franchise fees	592,557	-	592,557
Fines and forfeitures	1,662,953	118,247	1,781,200
Interest revenue	1,284,506	4,985	1,289,491
Rental income	35,235	-	35,235
Other revenues	94,985	-	94,985
Total revenues	<u>9,150,303</u>	<u>817,762</u>	<u>9,968,065</u>
Expenditures			
Current:			
General government	2,878,566	-	2,878,566
Judicial	171,912	-	171,912
Public safety	3,887,989	643,354	4,531,343
Public works	1,710,955	-	1,710,955
Economic development	-	170,495	170,495
Debt service:			
Principal	54,726	-	54,726
Interest	53,256	-	53,256
Total expenditures	<u>8,757,404</u>	<u>813,849</u>	<u>9,571,253</u>
Excess of revenues over expenditures	<u>392,899</u>	<u>3,913</u>	<u>396,812</u>
Other financing sources (uses)			
Transfers in	518,384	415,863	934,247
Transfers out	(415,863)	(381,649)	(797,512)
Proceeds from the sale of capital assets	38,600	-	38,600
Total other financing sources	<u>141,121</u>	<u>34,214</u>	<u>175,335</u>
Net change in fund balances	<u>534,020</u>	<u>38,127</u>	<u>572,147</u>
Fund balances, beginning of year	<u>8,583,916</u>	<u>154,982</u>	<u>8,738,898</u>
Fund balances, end of year	<u>\$ 9,117,936</u>	<u>\$ 193,109</u>	<u>\$ 9,311,045</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, 2006**

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

Net change in fund balances - total governmental funds	\$	572,147
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. This is the amount by which capital outlays exceeded depreciation in the current period.		1,849,699
The net effect of the sale of fixed assets is to decrease net assets.		(13,647)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(12,249)
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.		54,726
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>(3,634)</u>
	\$	<u>2,447,042</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, 2006

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 1,126,491	\$ 1,126,491	\$ 1,143,803	\$ 17,312
Other taxes	2,438,678	2,582,678	2,282,300	(300,378)
Charges for services	209,000	267,000	273,911	6,911
Licenses and permits	1,285,800	1,385,800	1,344,715	(41,085)
Intergovernmental	416,214	416,214	435,338	19,124
Franchise fees	559,500	594,500	592,557	(1,943)
Fines and forfeitures	1,074,700	1,624,700	1,662,953	38,253
Interest revenue	130,000	1,230,000	1,284,506	54,506
Rental income	42,206	42,206	35,235	(6,971)
Other revenues	93,000	93,000	94,985	1,985
Total revenues	7,375,589	9,362,589	9,150,303	(212,286)
Expenditures:				
Current:				
General government:				
Mayor / Commission	204,189	204,189	196,329	7,860
Elections	3,045	3,045	2,049	996
General administration	440,392	739,892	732,662	7,230
Finance	176,095	187,095	184,003	3,092
Planning and zoning	49,137	50,112	47,494	2,618
Economic development	230,625	255,625	251,143	4,482
Capital outlay	216,323	1,537,323	1,464,886	72,437
Total general government	1,319,806	2,977,281	2,878,566	98,715
Judicial:				
Municipal court	178,656	178,656	171,912	6,744
Public safety:				
Police	2,012,450	2,144,950	2,132,782	12,168
Fire	1,698,250	1,702,250	1,659,542	42,708
Capital outlay	100,600	100,600	95,665	4,935
Total public safety	3,811,300	3,947,800	3,887,989	59,811
Public works:				
Administration	835,194	917,194	859,529	57,665
Capital outlay	701,514	821,514	851,426	(29,912)
Total public works	1,536,708	1,738,708	1,710,955	27,753
Debt service				
	107,983	107,983	107,982	1
Total expenditures	6,954,453	8,950,428	8,757,404	193,024
Excess of revenues over expenditures	421,136	412,161	392,899	(19,262)

(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, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Other financing sources (uses)				
Transfers in	\$ 266,880	\$ 266,880	\$ 518,384	\$ 251,504
Transfers out	(494,041)	(419,041)	(415,863)	3,178
Proceeds from the sale of capital assets	-	-	38,600	38,600
Total other financing sources (uses)	<u>(227,161)</u>	<u>(152,161)</u>	<u>141,121</u>	<u>293,282</u>
Net change in fund balances	193,975	260,000	534,020	274,020
Fund balances, beginning of year	<u>8,583,916</u>	<u>8,583,916</u>	<u>8,583,916</u>	<u>-</u>
Fund balances, end of year	<u>\$ 8,777,891</u>	<u>\$ 8,843,916</u>	<u>\$ 9,117,936</u>	<u>\$ 274,020</u>

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

CITY OF MORROW, GEORGIA

**STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2006**

		<u>Sanitation</u>	
		<u>Fund</u>	<u>Totals</u>
	ASSETS		
CURRENT ASSETS			
Cash and cash equivalents		\$ 46,777	\$ 46,777
Accounts receivable		84,243	84,243
Total current assets		<u>131,020</u>	<u>131,020</u>
	LIABILITIES		
CURRENT LIABILITIES			
Accounts payable		87,503	87,503
Deferred revenues		43,517	43,517
Total current liabilities		<u>131,020</u>	<u>131,020</u>
	NET ASSETS		
Unrestricted		-	-
Total net assets		<u>\$ -</u>	<u>\$ -</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, 2006**

	<u>Sanitation Fund</u>	<u>Totals</u>
OPERATING REVENUES		
Charges for services	\$ 1,118,367	\$ 1,118,367
Total operating revenues	<u>1,118,367</u>	<u>1,118,367</u>
Purchased or contracted services	<u>975,755</u>	<u>975,755</u>
Total operating expenses	<u>975,755</u>	<u>975,755</u>
Operating income	<u>142,612</u>	<u>142,612</u>
Income before transfers	142,612	142,612
TRANSFERS		
Transfers out	<u>(136,735)</u>	<u>(136,735)</u>
Total transfers	<u>(136,735)</u>	<u>(136,735)</u>
Change in net assets	5,877	5,877
NET ASSETS, beginning of year	<u>(5,877)</u>	<u>(5,877)</u>
NET ASSETS, end of year	<u>\$ -</u>	<u>\$ -</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, 2006

	Sanitation Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 1,131,788	\$ 1,131,788
Payments to suppliers	(977,155)	(977,155)
Net cash provided by operating activities	154,633	154,633
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers	(136,735)	(136,735)
Net cash used in noncapital financing activities	(136,735)	(136,735)
Increase in cash and cash equivalents	17,898	17,898
Cash and cash equivalents:		
Beginning of year	28,879	28,879
End of year	\$ 46,777	\$ 46,777
 Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 142,612	\$ 142,612
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Decrease in accounts receivable	13,421	13,421
Decrease in accounts payable	(5,149)	(5,149)
Increase in accrued liabilities	3,749	3,749
Net cash provided by operating activities	\$ 154,633	\$ 154,633

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

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 branch 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, 2006.

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 statement 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 items are accounted for using the consumption method. A prepaid item is recognized when a cash expenditure/expense 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. For the most part, the effect of interfund activity has been removed from the government-wide statement of net assets. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide statement of net assets as "internal balances." In the major fund balance sheets, these receivables and payable are classified as "due from other funds" and "due to other funds".

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. In accordance with GASB 34, the City has elected not to include infrastructure acquired or constructed prior to July 1, 2003.

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, 2006, 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 10 years of service accrue two weeks of vacation each year. Upon reaching 10 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 10 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 60 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 only if they have matured, for example, as a result of employee resignations or retirements.

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, 2006, 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 \$1,565,213 difference are as follows:

Capital leases	\$ 1,345,340
Compensated absences	206,890
Accrued interest	12,983
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 1,565,213</u>

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 \$1,849,699 difference are as follows:

Capital outlay	\$ 2,266,189
Depreciation expense	<u>(416,490)</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>\$ 1,849,699</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 \$3,634 difference are as follows:

Change in accrued interest	\$ 528
Change in compensated absences	<u>(4,162)</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>\$ (3,634)</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 3. DEPOSITS AND INVESTMENTS

Total deposits and investments as of June 30, 2006, are summarized as follows:

As reported in the Statement of Net Assets:	
Cash and cash equivalents	\$ 2,630,458
Long-term investments	4,972,372
	\$ 7,602,830
Cash deposited with financial institutions	\$ 5,763,040
Cash deposited with Georgia Fund 1	807,577
Federal Home Loan Mortgage Corporation	218,754
Federal Home Loan Banks	526,281
Federal National Mortgage Association	145,855
U.S. Treasury Note	141,323
	\$ 7,602,830

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, 2006, 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, 2006, the City had the following investments:

Investment	Maturities	Fair Value
Georgia Fund 1	28 day weighted average	\$ 807,577
Certificates of Deposit	December 14, 2006 - November 24, 2009	3,132,582
Federal Home Loan Mortgage Corporation	March 15, 2007 - January 15, 2014	218,754
Federal Home Loan Banks	April 15, 2008 - April 28, 2011	526,281
Federal National Mortgage Association	March 15, 2007 - September 15, 2009	145,855
U.S. Treasury Note	May 15, 2007 - February 15, 2010	141,323
Total		\$ 4,972,372

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, 2006, all of the City's bank balances were covered by either federal depository insurance or by collateral held by the City's agent in the City's name.

For the year ended June 30, 2006, the reporting of investments at fair value in accordance with GASB Statement No. 31 resulted in an unrealized loss of \$78,834 which is reflected in unrestricted investment earnings in the City's statement of activities.

NOTES TO FINANCIAL STATEMENTS

NOTE 4. RECEIVABLES

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

	General	Nonmajor Governmental	Sanitation	Total
Receivables:				
Taxes	\$ 40,122	\$ 61,266	\$ -	\$ 101,388
Accounts	350	66,683	84,243	151,276
Interest	6,724	-	-	6,724
Due from other governments	322,621	-	-	322,621
Total receivables	\$ 369,817	\$ 127,949	\$ 84,243	\$ 582,009

Property Taxes

Property taxes were levied on September 20, 2005, (Levy Date) based upon property values assessed as of January 1. The billings were mailed on October 1, 2005, and payable on or before December 20, 2005, for the fiscal year 2006 tax. Taxes not paid within 30 days of the December 20th due date are subject to property tax liens on January 2, 2006. Property tax revenues are recognized when levied to the extent they result in current receivables.

The tax rate levied during fiscal year 2006 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, 2006, to be fully collectible and does not maintain an allowance for uncollectible property taxes.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS

A. Primary Government

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,479,358	\$ 1,114,356	\$ -	\$ 3,593,714
Infrastructure in process	374,169	451,365	-	825,534
Total capital assets, not being depreciated	<u>2,853,527</u>	<u>1,565,721</u>	<u>-</u>	<u>4,419,248</u>
Capital assets, being depreciated:				
Buildings, grounds, and improvements	3,882,695	164,175	-	4,046,870
Machinery and equipment	471,707	52,069	(36,500)	487,276
Furniture and fixtures	185,083	-	-	185,083
Infrastructure	149,039	66,227	-	215,266
Vehicles	2,157,175	239,042	(201,434)	2,194,783
Computer software	243,553	-	-	243,553
Park facilities and improvements	187,698	178,955	-	366,653
Total capital assets, being depreciated	<u>7,276,950</u>	<u>700,468</u>	<u>(237,934)</u>	<u>7,739,484</u>
Less accumulated depreciation for:				
Buildings, grounds, and improvements	(1,135,325)	(119,955)	-	(1,255,280)
Machinery and equipment	(178,462)	(46,274)	29,150	(195,586)
Furniture and fixtures	(173,858)	(5,225)	-	(179,083)
Infrastructure	(7,310)	(8,346)	-	(15,656)
Vehicles	(1,855,568)	(179,722)	195,137	(1,840,153)
Computer software	(135,933)	(38,490)	-	(174,423)
Park facilities and improvements	(38,906)	(18,478)	-	(57,384)
Total accumulated depreciation	<u>(3,525,362)</u>	<u>(416,490)</u>	<u>224,287</u>	<u>(3,717,565)</u>
Total capital assets, being depreciated, net	<u>3,751,588</u>	<u>283,978</u>	<u>(13,647)</u>	<u>4,021,919</u>
Governmental activities capital assets, net	<u>\$ 6,605,115</u>	<u>\$ 1,849,699</u>	<u>\$ (13,647)</u>	<u>\$ 8,441,167</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS (CONTINUED)

A. Primary Government (Continued)

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

Governmental activities:		
General government	\$	101,501
Public safety		259,458
Public works		54,530
Economic development		1,001
Total depreciation expense - governmental activities	\$	416,490

B. Discretely Presented Component Unit – Downtown Development Authority

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ -	\$ 886,500	\$ -	\$ 886,500
Construction in process	-	26,389	-	26,389
Total capital assets, not being depreciated	-	912,889	-	912,889
Capital assets, being depreciated:				
Buildings, grounds, and improvements	-	1,147,730	-	1,147,730
Infrastructure	-	99,630	-	99,630
Signs	-	6,884	-	6,884
Total capital assets, being depreciated	-	1,254,244	-	1,254,244
Less accumulated depreciation for:				
Buildings, grounds, and improvements	-	(29,789)	-	(29,789)
Infrastructure	-	(4,282)	-	(4,282)
Signs	-	(115)	-	(115)
Total accumulated depreciation	-	(34,186)	-	(34,186)
Total capital assets, being depreciated, net	-	1,220,058	-	1,220,058
Capital assets, net	\$ -	\$ 2,132,947	\$ -	\$ 2,132,947

NOTES TO FINANCIAL STATEMENTS

NOTE 6. LONG-TERM DEBT

A. Primary Government

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, 2006, 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	\$ 1,400,066	\$ -	\$ 54,726	\$ 1,345,340	\$ 56,880
Compensated absences	202,728	121,173	117,011	206,890	120,522
Governmental activity					
Long-term liabilities	<u>\$ 1,602,794</u>	<u>\$ 121,173</u>	<u>\$ 171,737</u>	<u>\$ 1,552,230</u>	<u>\$ 177,402</u>

Compensated absences are substantially liquidated by the General Fund.

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, 2006:

Fiscal year ending June 30,	
2007	\$ 107,982
2008	107,982
2009	107,982
2010	107,982
2011	107,982
2012-2016	539,912
2017-2021	539,912
2022-2024	223,105
Total minimum lease payments	<u>1,842,839</u>
Less amount representing interest	<u>(497,499)</u>
Present value of minimum lease payments	<u>\$ 1,345,340</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6. LONG-TERM DEBT (CONTINUED)

B. Discretely Presented Component Unit – Downtown Development Authority

The following is a summary of long-term debt activity for the Development Authority for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Development Authority					
Bonds payable	\$ 1,399,780	\$ -	\$ (54,737)	\$ 1,345,043	\$ 56,880
Note payable	-	1,400,000	(35,966)	1,364,034	61,119
Development Authority Long-term liabilities	<u>\$ 1,399,780</u>	<u>\$ 1,400,000</u>	<u>\$ (90,703)</u>	<u>\$ 2,709,077</u>	<u>\$ 117,999</u>

Bonds Payable. The Downtown Development Authority of the City of Morrow, issued bonds in the amount of \$1,500,000. The proceeds of this bond were used to purchase the Morrow Welcome Center building from the County. Bonds payable at June 30, 2006, is as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Due Date</u>	<u>Original Amount</u>	<u>Outstanding Amount</u>
Welcome Center Building	3.86%	20 years	2024	\$ 1,500,000	<u>\$ 1,345,043</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6. LONG-TERM DEBT (CONTINUED)

B. Discretely Presented Component Unit – Downtown Development Authority

Bonds Payable. (Continued) Debt service requirements to maturity on the revenue bonds are as follows:

Fiscal year ending June 30,	<u>Principal</u>	<u>Interest</u>
2007	\$ 56,880	\$ 51,102
2008	59,108	48,874
2009	61,423	46,560
2010	63,828	44,154
2011	66,328	41,654
2012-2016	372,698	167,213
2017-2021	451,621	88,290
2022-2024	213,157	9,651
Total	<u>\$ 1,345,043</u>	<u>\$ 497,498</u>

Notes payable: During October 2005, the Downtown Development Authority incurred debt in the amount of \$1,400,000 to finance the purchase of an office building complex. The terms of the note are as follows:

<u>Interest Rate</u>	<u>Term</u>	<u>Due Date</u>	<u>Amount</u>
6.10%	5 years	2011	<u>\$ 1,364,034</u>

Debt service requirements to maturity on the notes payable are as follows:

Fiscal year ending June 30,	<u>Principal</u>	<u>Interest</u>
2007	\$ 61,119	\$ 82,657
2008	64,791	78,985
2009	69,130	74,645
2010	73,529	70,246
2011	1,095,465	22,449
Total	<u>\$ 1,364,034</u>	<u>\$ 328,982</u>

NOTES TO FINANCIAL STATEMENTS

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 7.3% 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.

At January 1, 2006, the date of the most recent actuarial valuation, there were 145 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	21
Vested terminated employees not yet receiving benefits	29
Active employees	95
Total	<u>145</u>

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. The method for determining the actuarial value of assets is part of the GMEBS actuarial funding policy. This method produces an adjusted actuarial value of assets.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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, 2006, 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.

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>
01/01/02	\$ 199,932	100 %	-
01/01/03	333,046	100	-
01/01/04	271,262	100	-
01/01/05	252,420	100	-
01/01/06	255,766	100	-

NOTES TO FINANCIAL STATEMENTS

NOTE 7. DEFINED BENEFIT PENSION PLAN (CONTINUED)

E. Schedule of Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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)
1/1/2006	6,986,941	6,534,385	(452,556)	106.9	3,511,297	(12.9)

NOTE 8. DEFINED CONTRIBUTION PENSION PLAN

The City participates in the Georgia Municipal Association 401(a) Defined Contribution Plan (the Plan) which is administered by the Georgia Municipal Association through their service manager, CitiStreet. The Plan provides retirement benefits to plan participants and beneficiaries. Plan provisions and contribution requirements are established and may be amended by the City. Employees are not required to contribute to the Plan. The City contributes an amount equal to 50% of the amount contributed by participants to the City's deferred compensation plan, except that the City shall not match in excess of 4% of the participant's annual compensation. The City's contribution for each employee is 100% vested after five (5) years of continuous service. For the fiscal year ending June 30, 2006, the City's contribution to the Plan was \$40,975.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. BUDGET COMPLIANCE AND DEFICIT FUND EQUITY

A. Excess of Expenditures over Appropriations

For the year ended June 30, 2006, expenditures exceeded budget appropriations, as follows:

Fund	Excess
Hotel-Motel Tax Fund	8,943
Confiscated Assets Fund	65,105

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

NOTE 10. INTERFUND BALANCES AND TRANSFERS

Interfund receivable and payable balances as of June 30, 2006, are as follows:

Due To	Due From Nonmajor Governmental	Total
General Fund	\$ 86,332	\$ 86,332
Total	\$ 86,332	\$ 86,332

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. INTERFUND BALANCES AND TRANSFERS (Continued)

Interfund transfers for the year ended June 30, 2006, consisted of the following:

	Transfer to		
Transfer from	General	Nonmajor Governmental	Total
General Fund	\$ -	\$ 415,863	\$ 415,863
Nonmajor Governmental	381,649	-	381,649
Sanitation	136,735	-	136,735
Total	\$ 518,384	\$ 415,863	\$ 934,247

Transfers are used to (1) move revenues from the fund that statute or budget requires collecting 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. HOTEL/MOTEL LODGING TAX

The City has levied a 6% lodging tax. For the fiscal year ended June 30, 2006, \$511,484 of hotel/motel tax was collected. Of the total collected, 33% was used for the promotion of tourism within the City.

NOTE 12. 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). During its year ended June 30, 2006, the City's membership dues were paid by Clayton County, Georgia on the City's behalf. 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 13. 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 13. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 14. 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.

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 workers' 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, 2006**

ASSETS	Emergency Communication Fund	Hotel/ Motel Tax Fund	Confiscated Assets Fund	Excise Tax Fund	Totals
Cash and cash equivalents	\$ 18,125	\$ -	\$ 164,432	\$ -	\$ 182,557
Taxes receivable	-	57,548	-	3,718	61,266
Accounts receivable	12,939	-	53,744	-	66,683
Total assets	\$ 31,064	\$ 57,548	\$ 218,176	\$ 3,718	\$ 310,506
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 16,336	\$ -	\$ -	\$ -	\$ 16,336
Accrued expenses	14,728	-	-	-	14,728
Due to other funds	-	57,548	25,067	3,718	86,333
Total liabilities	31,064	57,548	25,067	3,718	117,397
FUND BALANCES					
Reserved:					
Reserved for special projects	-	-	193,109	-	193,109
Total fund balances	-	-	193,109	-	193,109
Total liabilities and fund balances	\$ 31,064	\$ 57,548	\$ 218,176	\$ 3,718	\$ 310,506

CITY OF MORROW, GEORGIA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Emergency Communication Fund</u>	<u>Hotel/ Motel Tax Fund</u>	<u>Confiscated Assets Fund</u>	<u>Excise Tax Fund</u>	<u>Totals</u>
Revenues:					
Other taxes	\$ -	\$ 511,484	\$ -	\$ 40,660	\$ 552,144
Charges for services	142,386	-	-	-	142,386
Fines and forfeitures	-	-	118,247	-	118,247
Interest revenue	-	-	4,985	-	4,985
Total revenues	<u>142,386</u>	<u>511,484</u>	<u>123,232</u>	<u>40,660</u>	<u>817,762</u>
Expenditures:					
Public safety	558,249	-	85,105	-	643,354
Economic development	-	170,495	-	-	170,495
Total expenditures	<u>558,249</u>	<u>170,495</u>	<u>85,105</u>	<u>-</u>	<u>813,849</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(415,863)</u>	<u>340,989</u>	<u>38,127</u>	<u>40,660</u>	<u>3,913</u>
Other financing sources (uses)					
Transfers in	415,863	-	-	-	415,863
Transfers out	-	(340,989)	-	(40,660)	(381,649)
Total other financing sources (uses)	<u>415,863</u>	<u>(340,989)</u>	<u>-</u>	<u>(40,660)</u>	<u>34,214</u>
Net change in fund balances	-	-	38,127	-	38,127
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>154,982</u>	<u>-</u>	<u>154,982</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 193,109</u>	<u>\$ -</u>	<u>\$ 193,109</u>

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Charges for services	\$ 145,000	142,386	(2,614)
Total Revenues	<u>145,000</u>	<u>142,386</u>	<u>(2,614)</u>
Expenditures			
Public safety	638,841	558,249	80,592
Total expenditures	<u>638,841</u>	<u>558,249</u>	<u>80,592</u>
Deficiency of revenues under expenditures	<u>(493,841)</u>	<u>(415,863)</u>	<u>77,978</u>
Other financing sources:			
Transfers in	419,041	415,863	3,178
Total other financing sources	<u>419,041</u>	<u>415,863</u>	<u>3,178</u>
Net change in fund balance	<u>(74,800)</u>	<u>-</u>	<u>(74,800)</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, 2006**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Other taxes	\$ 484,656	\$ 511,484	\$ 26,828
Expenditures			
Economic development	161,552	170,495	(8,943)
Total expenditures	<u>161,552</u>	<u>170,495</u>	<u>(8,943)</u>
Excess of revenues over expenditures	<u>323,104</u>	<u>340,989</u>	<u>17,885</u>
Other financing uses			
Transfers out	<u>(323,104)</u>	<u>(340,989)</u>	<u>(17,885)</u>
Total other financing uses	<u>(323,104)</u>	<u>(340,989)</u>	<u>(17,885)</u>
Net change in fund balance	<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>

**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, 2006**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Fines and forfeitures	\$ 20,000	\$ 118,247	\$ 98,247
Interest	-	4,985	4,985
Total revenues	<u>20,000</u>	<u>123,232</u>	<u>103,232</u>
Expenditures			
Public safety	<u>20,000</u>	<u>85,105</u>	<u>(65,105)</u>
Total expenditures	<u>20,000</u>	<u>85,105</u>	<u>(65,105)</u>
Net change in fund balance	<u>-</u>	<u>38,127</u>	<u>(38,127)</u>
Fund balances, beginning of year	<u>-</u>	<u>154,982</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 193,109</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, 2006**

	Original and Final Budget	Actual	Variance
Revenues			
Other taxes	\$ 32,000	\$ 40,660	\$ 8,660
Other financing sources (uses)			
Transfers out	(32,000)	(40,660)	(8,660)
Net change in fund balance	-	-	-
Fund balances, beginning of year	-	-	-
Fund balances, end of year	\$ -	\$ -	\$ -

CITY OF MORROW, GEORGIA COMPONENT UNITS

The **Downtown Development Authority** is the City's redevelopment tool for commercial revitalization. The Downtown Development Authority was created for property acquisition, renovation, and demolition.

The **Morrow Business and Tourism Association** is a vital economic partner of the City of Morrow. The Tourism Association exists to provide special events to the community and promote tourism within the City. Contracts between the Tourism Association and the City also provide economies of scale, resource efficiencies, and employee benefit packages that neither party would be able to achieve on their own.

CITY OF MORROW, GEORGIA

**STATEMENT OF CASH FLOWS
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Downtown Development Authority	Morrow Business and Tourism Association	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 350,159	\$ 317,804	\$ 667,963
Payments to suppliers	(61,138)	(147,349)	(208,487)
Payments to employees	-	(111,511)	(111,511)
Net cash provided by operating activities	<u>289,021</u>	<u>58,944</u>	<u>347,965</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Advances from primary government	<u>633,763</u>	-	<u>633,763</u>
Net cash provided by noncapital financing activities	<u>633,763</u>	<u>-</u>	<u>633,763</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases and construction of property and equipment	(2,129,632)	-	(2,129,632)
Proceeds from notes payable	1,400,000	-	1,400,000
Principal paid on bonds	(54,737)	-	(54,737)
Principal paid on notes payable and capital leases	(35,966)	-	(35,966)
Interest paid	<u>(116,608)</u>	<u>-</u>	<u>(116,608)</u>
Net cash used in capital and related financing activities	<u>(936,943)</u>	<u>-</u>	<u>(936,943)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	<u>53,362</u>	<u>-</u>	<u>53,362</u>
Net cash provided by investing activities	<u>53,362</u>	<u>-</u>	<u>53,362</u>
Increase in cash and cash equivalents	39,203	58,944	98,147
Cash and cash equivalents:			
Beginning of year	<u>12,337</u>	<u>20,643</u>	<u>32,980</u>
End of year	<u>\$ 51,540</u>	<u>\$ 79,587</u>	<u>\$ 131,127</u>
Reconciliation of operating income to net cash provided by operating activities:			
Net operating income / (loss)	\$ 196,632	\$ (24,257)	\$ 172,375
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	34,185	-	34,185
Changes in assets and liabilities:			
Decrease in accounts receivable	55,265	3,229	58,494
Decrease in inventory	-	172	172
Increase in prepaid expenses	-	(12,901)	(12,901)
Decrease in due from other funds	-	94,720	94,720
Decrease in accounts payable	-	(2,019)	(2,019)
Increase in accrued liabilities	<u>2,939</u>	<u>-</u>	<u>2,939</u>
Net cash provided by operating activities	<u>\$ 289,021</u>	<u>\$ 58,944</u>	<u>\$ 347,965</u>

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

STATISTICAL SECTION

This part of the City of Morrow's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, required supplementary information, and supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends <i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	54 - 57
Revenue Capacity <i>These schedules contain information to help the reader assess the City's most significant local revenue sources.</i>	58 - 63
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</i>	64 and 65
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.</i>	66 and 67
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.</i>	68 - 70

Sources: Unless otherwise noted, the information in these schedules is derived from the City's financial reports for the relevant year. The City implemented GASB 34 in 2004; schedules presenting government-wide information (unless otherwise indicated) include information beginning in that year.

CITY OF MORROW, GEORGIA

**NET ASSETS BY ACTIVITY
LAST THREE FISCAL YEARS**

	Fiscal Year		
	2004	2005	2006
Governmental activities			
Invested in capital assets, net of related debt	\$ 5,083,996	\$ 5,205,049	\$ 7,095,827
Unrestricted	6,869,262	8,540,017	9,096,281
Total governmental activities net assets	<u>\$ 11,953,258</u>	<u>\$ 13,745,066</u>	<u>\$ 16,192,108</u>
Business-type activities			
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -
Unrestricted	-	(5,877)	-
Total business-type activities net assets	<u>\$ -</u>	<u>\$ (5,877)</u>	<u>\$ -</u>
Primary government			
Invested in capital assets, net of related debt	\$ 5,083,996	\$ 5,205,049	\$ 7,095,827
Unrestricted	6,869,262	8,534,140	9,096,281
Total primary government net assets	<u>\$ 11,953,258</u>	<u>\$ 13,739,189</u>	<u>\$ 16,192,108</u>

CITY OF MORROW, GEORGIA

CHANGES IN NET ASSETS LAST THREE FISCAL YEARS

	Fiscal Year		
	2004	2005	2006
Expenses			
Primary government:			
Governmental activities:			
General government	\$ 1,321,684	\$ 1,152,346	\$ 1,685,149
Judicial	56,042	167,032	174,165
Public safety	4,444,719	4,504,847	4,570,661
Public Works	722,379	805,648	1,024,683
Economic Development	-	161,067	163,076
Interest and fiscal changes	-	54,812	52,728
Total governmental activities expenses	<u>6,544,824</u>	<u>6,845,752</u>	<u>7,670,462</u>
Business-type activities:			
Sanitation	972,091	964,547	975,755
Total business-type activities expenses	<u>972,091</u>	<u>964,547</u>	<u>975,755</u>
Total primary government expenses	<u>7,516,915</u>	<u>7,810,299</u>	<u>8,646,217</u>
Program revenues			
Primary government:			
Governmental activities:			
Charges for services ^(a)	2,903,372	3,501,043	3,952,147
Operating grants and contributions	168,777	193,820	25,403
Total governmental activities program revenues	<u>3,072,149</u>	<u>3,694,863</u>	<u>3,977,550</u>
Business-type activities:			
Charges for services	1,163,091	1,236,396	1,118,367
Operating grants and contributions	-	-	-
Total business-type activities program revenues	<u>1,163,091</u>	<u>1,236,396</u>	<u>1,118,367</u>
Total primary government program revenues	<u>4,235,240</u>	<u>4,931,259</u>	<u>5,095,917</u>
General revenues and other changes in net assets			
Primary government:			
Governmental activities:			
Property Taxes	-	1,085,487	1,131,554
Sales Taxes	1,587,606	1,641,504	1,849,293
Insurance Premium Tax	209,707	227,265	244,508
Alcoholic beverage taxes	195,031	176,792	188,499
Other taxes	448,394	517,577	552,144
Miscellaneous	190,521	183,972	130,220
Franchise fees	553,174	577,392	592,557
Investment earnings	198,932	254,982	1,289,491
Gain on sale of assets	-	-	24,953
Transfers	2,838	277,726	136,735
Total governmental activities general revenues and other changes in net assets	<u>3,386,203</u>	<u>4,942,697</u>	<u>6,139,954</u>
Business-type activities:			
Transfers	<u>(156,386)</u>	<u>(277,726)</u>	<u>(136,735)</u>
Total business type activities general revenues and other changes in net assets	<u>(156,386)</u>	<u>(277,726)</u>	<u>(136,735)</u>
Total primary government general revenues and other changes in net assets	<u>(51,858)</u>	<u>1,785,931</u>	<u>2,452,919</u>
Change in net assets			
Governmental activities	(86,472)	1,791,808	2,447,042
Business-type activities	34,614	(5,877)	5,877
Total primary government change in net assets	<u>\$ (51,858)</u>	<u>\$ 1,785,931</u>	<u>\$ 2,452,919</u>

(a) Charges for services have gradually increased due to increased fines and forfeiture charges and general growth within the City.

CITY OF MORROW, GEORGIA

**FUND BALANCES, GOVERNMENTAL FUNDS
LAST THREE FISCAL YEARS**

	Fiscal Year		
	2004	2005	2006
General Fund			
Reserved	\$ 128,549	\$ 248,463	\$ 1,792,221
Unreserved	6,770,133	8,335,453	7,325,715
Total General fund	<u>\$ 6,898,682</u>	<u>\$ 8,583,916</u>	<u>\$ 9,117,936</u>
All Other Governmental Funds			
Unreserved, reported in:			
Special revenue funds	\$ 152,282	\$ 154,982	\$ 193,109
Total all other governmental funds	<u>\$ 152,282</u>	<u>\$ 154,982</u>	<u>\$ 193,109</u>

CITY OF MORROW, GEORGIA

**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST THREE FISCAL YEARS**

	Fiscal Year		
	2004	2005	2006
Revenues:			
Property taxes (b)	\$ -	\$ 1,096,267	\$ 1,143,803
Other taxes	2,440,738	2,563,138	2,834,444
Charges for services	249,791	360,099	416,297
Licenses and permits	1,127,852	1,305,040	1,344,715
Intergovernmental	535,555	580,861	435,338
Fines, forfeitures, and fees	1,260,654	1,448,863	592,557
Franchise fees	553,174	577,392	1,781,200
Interest revenues	198,932	254,982	1,289,491
Rental income	25,575	37,020	35,235
Other revenues	63,243	146,952	94,985
Total revenues	6,455,514	8,370,614	9,968,065
Expenditures:			
Current:			
General government (c)	1,216,145	1,049,357	2,878,566
Judicial	-	167,954	171,912
Public safety	4,197,997	4,303,044	4,531,343
Public Works	676,665	1,185,020	1,710,955
Economic Development	-	161,067	170,495
Capital Outlay (a)	465,649	-	-
Debt service:			
Principal	47,271	52,663	54,726
Interest and fiscal charges	148,658	41,301	53,256
Total expenditures	6,752,385	6,960,406	9,571,253
Excess (deficiency) of revenues over expenditures	(296,871)	1,410,208	396,812
Other financing sources (uses)			
Proceeds from the issuance of debt	127,388	-	-
Proceeds from the sale of capital assets	-	-	38,600
Transfers in	991,375	1,042,923	934,247
Transfers out	(988,537)	(765,197)	(797,512)
Total other financing sources (uses)	130,226	277,726	175,335
Net change in fund balances	\$ (166,645)	\$ 1,687,934	\$ 572,147

(a) Capital Outlay was expensed by specific function beginning in fiscal year 2005.

(b) Property taxes were not levied by the City until fiscal year 2005.

(c) Increase in general governmental expenditures during 2006 due substantially to the planned purchase of capital assets (mostly land) during the year.

CITY OF MORROW, GEORGIA

**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TWO TAX DIGEST YEARS**

Tax Digest Year	Real Property				Other Personal Property	Less: Tax Exempt Real Property
	Residential	Commercial	Mobile Homes	Motor Vehicles		
2004	\$ 59,469,758	\$ 229,527,529	\$ -	\$ 12,089,750	\$ 42,617,874	\$ (43,240,586)
2005	67,187,097	227,682,973	-	11,916,590	42,299,241	(49,223,686)

NOTE: The City of Morrow did not start collecting property taxes until 2004. Therefore, only the last two years of information are presented.

Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
\$ 300,464,325	4.00	\$ 751,160,813	40%
299,862,215	4.00	749,655,538	40%

CITY OF MORROW, GEORGIA

**PROPERTY TAX RATES
LAST TEN TAX DIGEST YEARS**

<u>Tax Digest Year</u>	<u>State of Georgia</u>	<u>City of Morrow</u>	<u>Clayton County</u>	<u>School District</u>	<u>Total Millage Rate</u>
1996	0.250	0.000	4.880	19.840	24.970
1997	0.250	0.000	4.650	18.340	23.240
1998	0.250	0.000	4.110	18.340	22.700
1999	0.250	0.000	3.913	17.916	22.079
2000	0.250	0.000	4.047	17.916	22.213
2001	0.250	0.000	5.882	17.916	24.048
2002	0.250	0.000	5.154	18.916	24.320
2003	0.250	0.000	6.882	18.916	26.048
2004	0.250	4.000	6.882	18.916	30.048
2005	0.250	4.000	7.781	18.916	30.947

NOTE: The City of Morrow did not start collecting property taxes until 2004. Therefore, prior to 2004, there was a zero tax rate for the City of Morrow.

CITY OF MORROW, GEORGIA

**PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND PRIOR YEAR**

Taxpayer	2006			2005		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Southlake Mall, LLC	\$ 29,243,122	1	9.75%	\$ 27,909,600	1	9.31%
Inland Southeast	16,023,200	2	5.34%	16,137,200	2	5.38%
Paccar Inc.	8,989,786	3	3.00%	5,471,115	9	1.82%
Costco	7,521,001	4	2.51%	7,362,696	3	2.46%
Sherwin Williams	6,821,630	5	2.27%	6,147,494	5	2.05%
Inland Southeast Southlake	6,085,000	6	2.03%	6,085,000	6	2.03%
Scott H Lee as Trustee	5,759,000	7	1.92%	6,073,621	7	2.03%
OLP Southlake	5,640,000	8	1.88%	5,640,000	8	1.88%
Secured Prop Investors	5,364,741	9	1.79%	5,373,183	10	1.79%
Rich's Real Estate Inc.	4,792,810	10	1.60%	7,041,200	4	2.35%
ALL OTHERS	203,621,925		67.91%	207,223,216		69.11%
Total	\$ 299,862,215		100%	\$ 300,464,325		100%

Note: The City of Morrow did not levy property taxes prior to fiscal year 2005.

CITY OF MORROW, GEORGIA

**PROPERTY TAX LEVIES AND COLLECTIONS
LAST TWO FISCAL YEARS**

Fiscal Year	Taxes Levied	Errors, Releases or Adjustments	Adjusted Tax Levy	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
				Amount	% of Levy		Amount	% of Levy
2005	\$ 1,094,214	\$ -	\$ 1,094,214	\$ 1,073,981	98.15%	\$ 20,233	\$ 1,094,214	100.00%
2006	1,066,274	1,984	1,068,258	1,051,898	98.47%	-	1,051,898	98.65%

Note: The City of Morrow did not levy property taxes prior to fiscal year 2004.
Source: City tax records.

CITY OF MORROW, GEORGIA
LOCAL OPTION SALES TAX HISTORY
LAST FIVE FISCAL YEARS

	Fiscal Year				
	2002	2003	2004	2005	2006
July	\$ 130,014	\$ 143,054	\$ 129,633	\$ 141,590	\$ 148,824
August	134,874	129,951	127,552	120,262	154,530
September	135,965	129,925	124,577	162,901	146,804
October	112,265	124,976	129,745	150,591	176,290
November	138,256	113,979	140,343	139,505	156,849
December	129,285	146,802	107,492	135,643	150,803
January	119,932	121,894	139,221	136,788	125,776
February	134,748	133,496	131,328	149,329	173,497
March	253,268	124,068	140,000	112,397	153,052
April	-	124,887	124,063	148,986	84,146
May	146,796	114,060	137,410	154,249	210,912
June	-	135,838	144,191	159,443	166,573
Adjustment	-	-	6,989	6,585	7,103
Total	\$ 1,435,403	\$ 1,542,930	\$ 1,582,544	\$ 1,718,269	\$ 1,855,159

Note: Detailed monthly amounts were not available prior to fiscal year 2002, therefore, only the last 5 years are presented.
Source: City records.

CITY OF MORROW, GEORGIA

**RATIOS OF OUTSTANDING DEBT BY TYPE
LAST SIX FISCAL YEARS**

Fiscal Year	Governmental Activities		Total Primary Government	Percentage of Estimated Actual Value of Taxable Property	Percentage of Personal Income	Per Capita	Personal Income (thousands of dollars)	Population
	General Obligation Bonds	Capital Leases						
2001	\$ -	\$ 36,012	\$ 36,012	0.01%	0.05%	15.74	76,862	4,882
2002	-	29,745	29,745	0.01%	0.03%	17.54	85,650	4,882
2003	-	98,987	98,987	0.04%	0.12%	17.54	85,650	4,882
2004	-	1,452,454	1,452,454	0.51%	1.70%	17.54	85,630	4,882
2005	-	1,400,066	1,400,066	0.47%	1.64%	17.54	85,630	4,882
2006	-	1,345,340	1,345,340	0.45%	1.57%	17.54	85,630	4,882

Note: Information prior to fiscal year 2001 was not available.

Note: Details regarding the City's long term debt can be found in the notes to the financial statements.

CITY OF MORROW, GEORGIA

**LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30,	Assessed value of taxable property	Debt Limit (10% of assessed value)	Amount of outstanding debt applicable to debt limit	Legal debt margin	Total net debt applicable to the limit as a percentage of debt limit
1997	\$ 240,818,203	\$ 24,081,820	\$ -	\$ 24,081,820	0.00%
1998	262,421,522	26,242,152	-	26,242,152	0.00%
1999	277,619,981	27,761,998	-	27,761,998	0.00%
2000	284,235,510	28,423,551	-	28,423,551	0.00%
2001	291,943,223	29,194,322	36,012	29,158,310	0.12%
2002	293,788,978	29,378,898	29,745	29,349,153	0.10%
2003	274,613,462	27,461,346	98,987	27,362,359	0.36%
2004	287,331,471	28,733,147	1,452,454	27,280,693	5.05%
2005	300,464,325	30,046,433	1,400,066	28,646,367	4.66%
2006	299,862,215	29,986,222	1,345,340	28,640,882	4.49%

CITY OF MORROW, GEORGIA

DEMOGRAPHIC AND ECONOMIC STATISTICS LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Population ⁽¹⁾</u>	<u>Per Capita Personal Income ⁽¹⁾</u>	<u>Median Age ⁽¹⁾</u>	<u>Unemployment Rate ⁽²⁾</u>	<u>School Enrollment ⁽³⁾</u>
1996	5,424	15,716 (4)	32.4	3.30%	1,373
1997	5,206	15,716 (4)	32.4	3.20%	1,535
1998	5,206	15,716 (4)	32.4	2.80%	1,303
1999	5,133	15,716 (4)	32.2	3.60%	1,629
2000	4,882 (5)	15,716 (4)	32.2	3.90%	1,709
2001	4,882 (5)	15,716 (4)	30.5 (5)	4.20%	1,558
2002	4,882 (5)	17,544 (5)	30.5 (5)	6.60%	1,316
2003	4,882 (5)	17,544 (5)	30.5 (5)	4.40%	1,374
2004	4,882 (5)	17,544 (5)	30.5 (5)	4.10%	1,290
2005	4,882 (5)	17,544 (5)	30.5 (5)	5.40%	1,312
2006	4,882 (5)	17,544 (5)	30.5 (5)	5.40%	1,312

Sources:

- (1) U.S. Census Bureau
- (2) Georgia Department of Labor
- (3) Clayton County Board of Education
- (4) Calculated at census - 1990
- (5) Calculated at last census - 2000

CITY OF MORROW, GEORGIA
TEN LARGEST EMPLOYERS IN MORROW
2006

Business	Number of Employees	Percentage of Total County Employment
Wal-Mart Super Center	477	26.00%
Sherwin Williams	325	19.00%
JOCK Penney's	213	12.00%
Macy's	141	8.00%
Sears	134	7.00%
Costco	115	7.00%
Cracker Barrel	110	6.00%
Bestbuy	107	6.00%
Burlington Coat Factory	60	3.00%
Barnes and Nobles	59	3.00%

Source: City records.

CITY OF MORROW, GEORGIA

FULL TIME EQUIVALENT CITY EMPLOYEES BY DEPARTMENT LAST TEN FISCAL YEARS

<u>Fiscal Year Ended June 30,</u>	<u>General Government</u>	<u>Police Department</u>	<u>Fire Department</u>	<u>Inspections</u>	<u>Total</u>
1997	31	30	25	1	87
1998	33	32	25	1	91
1999	33	32	26	1	92
2000	33	33	26	1	93
2001	33	33	26	1	93
2002	34	35	26	1	96
2003	34	35	26	1	96
2004	34	35	26	1	96
2005	36	36	27	1	100
2006	39	39	29	1	108

CITY OF MORROW, GEORGIA

PUBLIC SAFETY OPERATING INDICATORS BY FUNCTION LAST TEN FISCAL YEARS

Function	Fiscal Year Ended June 30,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police										
Citations issued	7,352	7,167	8,456	7,216	9,286	11,016	8,628	7,508	7,503	10,352
DUI Citations issued	41	46	38	40	41	38	67	61	48	76
Warnings issued	3,076	2,723	2,993	1,919	3,522	3,522	2,663	1,778	2,297	3,638
Crime Statistics:										
Aggravated Assault	22	12	14	12	8	9	23	13	18	8
Auto Theft	181	195	230	169	177	162	179	186	138	98
Murder	-	-	-	-	-	1	-	-	-	1
Rape	3	1	3	3	1	3	2	2	3	-
Robbery	37	32	32	42	24	42	42	31	32	33
Burglary	77	39	48	67	43	53	49	41	54	51
Theft	1,624	195	1,360	1,164	993	1,043	1,014	1,121	1,021	762
Fire										
Incident responses	1,989	1,981	2,021	2,124	1,960	1,833	1,739	1,833	1,966	1,978
Public Safety Education										
Events	92	78	97	102	93	78	82	113	78	113
Persons contacted	4,605	3,909	4,887	5,127	4,674	3,948	4,122	3,936	3,936	16,621

Source: City police and fire department records.

CITY OF MORROW, GEORGIA

CONSTRUCTION ACTIVITY LAST TEN FISCAL YEARS

<u>Fiscal Year Ended June 30,</u>	<u>Residential Permits Issued</u>	<u>Residential Value</u>	<u>Commercial Permits Issued</u>	<u>Commercial Value</u>
1997	8	42,265	50	4,078,466
1998	8	71,270	75	11,606,524
1999	14	4,734,676	65	14,656,031
2000	7	58,240	64	6,241,006
2001	7	204,898	58	10,663,655
2002	37	2,777,300	65	34,373,056
2003	88	9,536,670	59	14,354,051
2004	32	3,730,650	54	5,809,390
2005	35	4,203,585	30	4,148,642
2006	109	14,787,743	42	8,675,754

Source: City's Planning and Zoning Department.

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 aggregate discretely 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, 2006, which collectively comprise the City of Morrow, Georgia's basic financial statements and have issued our report thereon dated December 5, 2006. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Morrow, Georgia in a separate letter dated December 5, 2006.

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.

Mauldin & Jenkins, LLC

Macon, Georgia
December 5, 2006

CITY OF MORROW, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2006

SECTION I
SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

Material weaknesses identified?

___ yes X no

Reportable conditions identified not considered
to be material weaknesses?

___ yes X none reported

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards

There was not an audit of major federal award programs as of June 30, 2006 due to the total amount expended being less than \$500,000.

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

None reported.

SECTION III
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Not Applicable

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

2005-1. 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.

Auditee Response/Status – Resolved.

Auditee Comments – At June 30, 2006, the City's deposits held at financial institutions were fully collateralized or insured in accordance with the Official Code of Georgia Annotated (OCGA) Section 45-8-12(c).