

CITY OF MORROW, GEORGIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2008

Prepared by:
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Director of Finance

Submitted By:
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City Manager

CITY OF MORROW, GEORGIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

TABLE OF CONTENTS

INTRODUCTORY SECTION

Page

Letter of Transmittal i-v
Organizational Chart.....vi
List of Principal Officials.....vii
Certificate of Achievement for Excellence in Financial Reporting.....viii

FINANCIAL SECTION

Independent Auditor's Report 1 and 2
Management's Discussion and Analysis 3 - 12
Basic Financial Statements:
 Government-wide Financial Statements:
 Statement of Net Assets.....13
 Statement of Activities 14
 Fund Financial Statements:
 Balance Sheet – Governmental Funds15
 Statement of Revenues, Expenditures, and Changes in
 Fund Balances – Governmental Funds16
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 In Fund Balances of Governmental Funds to the Statement of Activities.....17
 Statement of Revenues, Expenditures, and Changes in Fund
 Balances – Budget (GAAP Basis) and Actual – General Fund 18 and 19
 Statement of Net Assets – Proprietary Fund20
 Statement of Revenues, Expenses, and Changes in
 Fund Net Assets – Proprietary Fund21
 Statement of Cash Flows – Proprietary Fund.....22
 Notes to Financial Statements..... 23 - 47
Required Supplementary Information:
 Schedule of Funding Progress.....48
Combining Statements and Schedules:
 Combining Balance Sheet – Nonmajor Governmental Funds49
 Combining Statement of Revenues, Expenditures and Changes in
 Fund Balances – Nonmajor Governmental Funds50
 Schedule of Revenues, Expenditures, and Changes in Fund
 Balance – Budget and Actual:
 Emergency Communications Fund.....51
 Hotel/Motel Tax Fund.....52
 Confiscated Assets Fund.....53
 Excise Tax Fund.....54

CITY OF MORROW, GEORGIA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

TABLE OF CONTENTS (Continued)

	Page
Components Units:	
Statement of Cash Flows	55

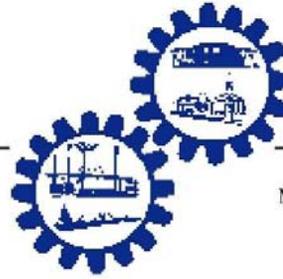
STATISTICAL SECTION

Fund information:	
Net Assets by Activity	56
Changes in Net Assets	57
Fund Balances, Governmental Funds	58
Changes in Fund Balances, Governmental Funds	59
Assessed Value and Estimated Actual Value of Taxable Property	60 and 61
Property Tax Rates	62
Principal Property Taxpayers	63
Property Tax Levies and Collections	64
Local Option Sales Tax History	65
Ratios of Outstanding Debt by Type	66
Legal Debt Margin Information	67
Direct and Overlapping Governmental Activities Debt	68
Demographic and Economic Statistics	69
Ten Largest Employers in Morrow	70
Full Time Equivalent City Employees by Department	71
Public Safety Operating Indicators by Function	72
Capital Assets	73
Construction Activity	74

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 <i>Government Auditing Standards</i>	75 and 76
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 Performed in Accordance with <i>Government Auditing Standards</i>	77 and 78
Schedule of Expenditures of Federal Awards	79
Notes to Schedule of Expenditures of Federal Awards	80
Schedule of Findings and Questioned Costs	81 and 82
Schedule of Prior Year Findings	83

INTRODUCTORY SECTION



October 21, 2008

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, 2008. 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 account groups 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 2006 - 2007.

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 account groups.

3) STATISTICAL SECTION

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

During FY 2008, the City of Morrow received federal grant awards above the threshold 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 single audit is 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 ninth 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 39, and is therefore included in the CAFR as part of the City of Morrow's 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 ten 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 parallels the State of Georgia's economic outlook and both parties are projecting a recession over the next twelve months. Locally, we will experience a delayed impact from reduced retail sales that will show up in our FY 2009 business license data and the reduced retail sales adjustments for FY 2008 will show a lower than actual sales ratio for FY 2009. Additionally, we should be prepared to see a number of retail store closings due to national retailer's weak balance sheets.

Sub-prime lending has created a national credit crisis and lower residential property values across the country. The City of Morrow's annual budget is reasonably insulated from this factor due to the \$170,000 homestead exemption and the fact that less than 25% of our tax digest is residential property. However, our older housing stock was built almost 40 years ago and functional obsolescence is a realistic factor for existing home re-sales.

The \$46 million construction contract for the Highway 54 and I-75 interchange and related bridges has been awarded. The improvements include expanded lanes that will reduce traffic delays, a new bridge on Lee Street that will reduce congestion on Highway 54, and high mast lighting that will improve safety and visibility. Unfortunately, it will take three years to complete all phases of construction and the City must work diligently with the road contractors to reduce traffic delays as much as possible.

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 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 Morrow DDA and the City of Morrow have taken aggressive action to redevelop the Southlake Mall area. Olde Morrow has a new roadway with a covered wooden bridge and six historic homes are under restoration. The master plan allows for forty structures and creates a live, work, and play environment. The historic district provides for the diversification of our retail mix and encourages independent business and entrepreneurship.

The former Macy's space is on track to become a City of Morrow conference center and therefore increase our tourism revenue. The citizens of Clayton County passed a SPLOST project of \$4 million for the Morrow Conference Center and we will need at least twelve months to design the space for occupancy. A letter of intent was requested by a hotel operator for a portion of the property and the remaining space is being marketed by the Morrow DDA to potential retail tenants.

Gateway Village continues as a successful economic redevelopment project. The new town square (Morrow Station) has been completed and the adjacent 180 space parking deck should be completed this year. New office and mixed use construction should follow on adjacent property and increase the business and property tax value to the City. An underpass for Highway 54 is awaiting design review and the City was awarded a state grant for its construction. It will connect the pedestrian path system with Clayton State University, the State and National Archives, and the potential rail station in Morrow. 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.

The goal of adding green space to Morrow's neighborhoods continues to make remarkable progress. We opened the 40 acre Barton Memorial Park this year, have a three acre children's park under construction on Old Rex Morrow Road, and have created a master plan with additional parking and new playground equipment for the City Hall Park.

The first phase of our pedestrian trail system was completed in June 2008 and the second phase should start construction this year. The trail system will provide our citizens with a significant recreational resource, while also providing them with a future alternative transportation system. The City has also been awarded a \$2,700,000 grant for an underpass for Gateway Village to ensure that pedestrians 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

During FY 2008, the City was the recipient of federal or state financial assistance in excess of \$500,000 and a Single Audit was required and an independent auditor's report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133 is included in the attached financial statements.

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 \$33,234,868, which is equal to 10% of the Assessed Valuation of property within the city limits of the City. The City had \$1,229,240 of outstanding long-term debt at June 30, 2008. 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, 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, 2007. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

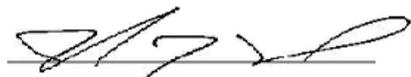
In order to be awarded the Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report (CAFR), whose contents conform to program standards. The CAFR must satisfy both accounting principles generally accepted in the United 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 fourteen fiscal years (1994-2007). 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 department staff with cooperation from all city departments and our elected officials. I would like to thank the Finance Department staff, the City's department heads, and other staff members for their efforts and cooperation in preparation of these reports. Finally, I would like to thank the Morrow Mayor and City Council for their continued support, vision, guidance, and control of the City's financial affairs. They have set the example for excellence and we encourage our peers to follow their leadership.

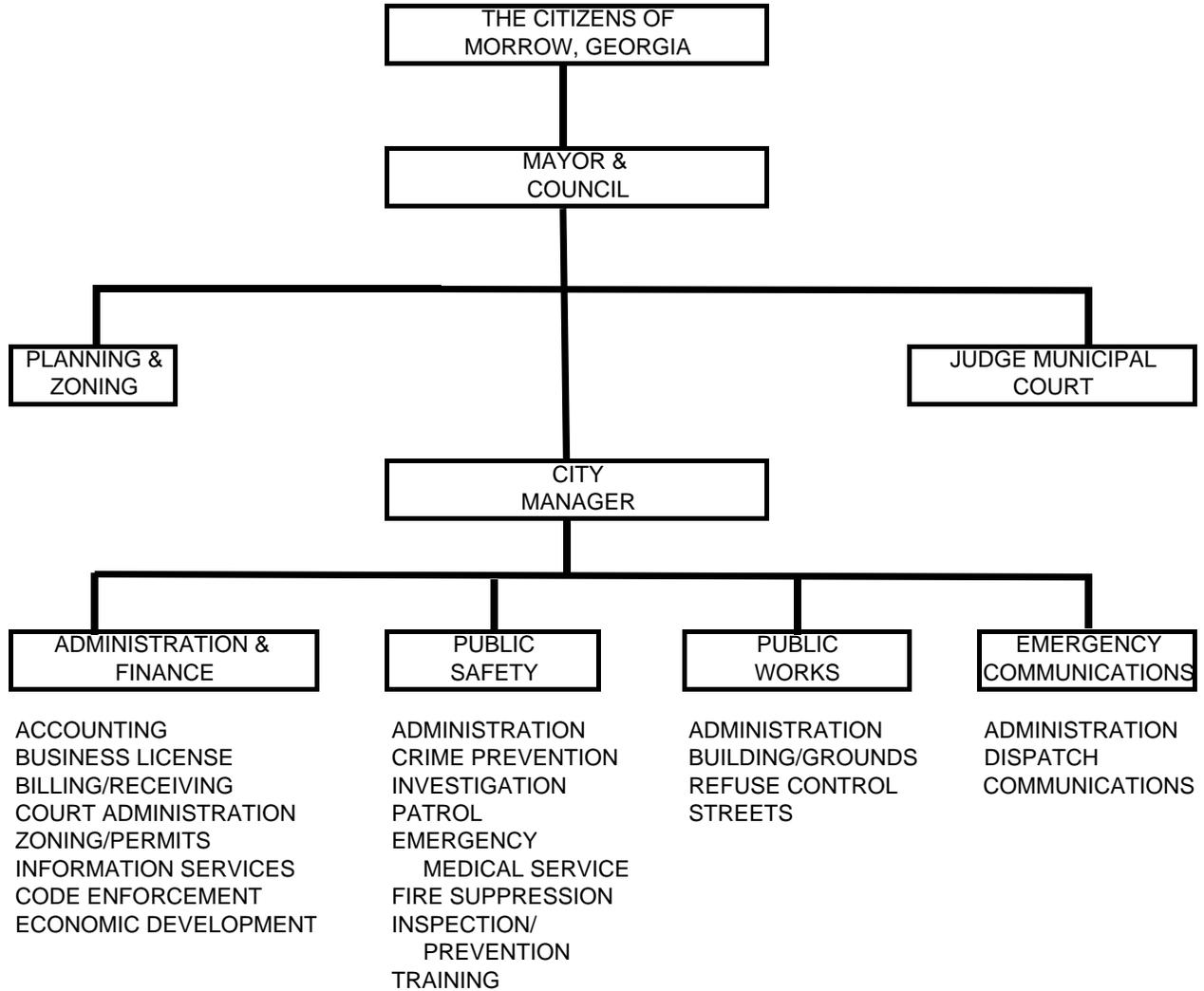
Respectfully submitted,



John J. Lampl, II
City Manager

CITY OF MORROW, GEORGIA

ORGANIZATIONAL CHART



CITY OF MORROW, GEORGIA

PRINCIPAL OFFICIALS JUNE 30, 2008

ELECTED OFFICIALS

Mayor	James H. Millirons, Sr.
Council Member	Charles R. Huie
Council Member	Charles O. Sorrow
Council Member	H. Mason Barfield
Council Member	Virlyn Slaton

APPOINTED OFFICIALS

City Manager	John J. Lampl, II
Finance Officer	Dan Defnall
City Clerk	Sylvia Redic
City Attorney	Laurel Henderson
Municipal Court Judge	Frost A. Ward
Police Chief	Jeffrey Baker
Fire Chief	Mark W. Herendeen
Public Works Director	Jeffrey A. Eady
Emergency Communications	Anou Sothsavath

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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Morrow
Georgia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

President

Jeffrey R. Emer

Executive Director

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, 2008, 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, 2008, 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 October 17, 2008, 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 – 12) and the Schedule of Funding Progress (on page 48) are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements of the City of Morrow, Georgia. The combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards 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
October 17, 2008

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, 2008. 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 2008 are as follows:

- The assets of the City of Morrow exceeded its liabilities at the close of the fiscal year by \$31,945,821 (net assets).
- The government's total net assets increased by \$5,833,101, due to gains on sale of capital assets, increased interest income, and increases in fines and forfeitures 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 \$12,383,102, a decrease of \$4,108,948 in comparison with the prior year. Approximately 54 percent of this total amount, or \$6,672,617, 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 \$6,672,617 or 37% percent of total general fund expenditures for the fiscal year. During FY 2008, the City made significant investment in capital asset expenditures related to major construction projects involving the Living Centers Initiative Project, Parking Deck, and Pedestrian Pathway Projects primarily funded through federal grants.
- The Downtown Development Authority of the City of Morrow issued bonds in the amount of \$10 million during 2007. Those bonds were refinanced during FY2008 and reduced the interest rate by 112 basis points. The proceeds of this bond were used to purchase the Macy's building at Southlake Mall from the City for use as a conference center. The City plans to use the proceeds from the sale for capital projects.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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 2008?" 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 13 and 14 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 fewer 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.

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 20 - 22 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 \$31,945,821 as of June 30, 2008. The City's net assets increased by \$5,833,101 for the fiscal year ended June 30, 2009. However, approximately \$909,718 (16%) of that increase directly related to a gain on the sale of capital assets. Another \$737,181 (13%) of the increase in net assets was due to increases in fines and forfeitures revenues. Another \$2,812,784 (48%) of the increase in net assets was due to increases 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 (\$19,224,426) may be used to meet the government's ongoing obligations to citizens and creditors.

City of Morrow's Net Assets June 30, 2008

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 13,550,676	\$ 17,129,634	\$ 144,314	\$ 151,511	\$ 13,694,990	\$ 17,281,145
Capital assets, net	21,042,870	11,196,947	-	-	21,042,870	11,196,947
Total assets	<u>34,593,546</u>	<u>28,326,581</u>	<u>144,314</u>	<u>151,511</u>	<u>34,737,860</u>	<u>28,478,092</u>
Other liabilities	1,161,710	615,667	144,314	151,511	1,306,024	767,178
Long-term liabilities outstanding	1,486,015	1,598,194	-	-	1,486,015	1,598,194
Total liabilities	<u>2,647,725</u>	<u>2,213,861</u>	<u>144,314</u>	<u>151,511</u>	<u>2,792,039</u>	<u>2,365,372</u>
Net assets:						
Invested in capital assets, net of related debt	12,721,395	9,908,611	-	-	12,721,395	9,908,611
Unrestricted	19,224,426	16,204,109	-	-	19,224,426	16,204,109
Total net assets	<u>\$ 31,945,821</u>	<u>\$ 26,112,720</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,945,821</u>	<u>\$ 26,112,720</u>

Business-Type Activities

The only business-type activity of the City is the Sanitation Fund. The majority of the revenue of the Sanitation Fund 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, 2008

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues						
Charges for services	\$ 5,670,125	\$ 4,817,850	\$ 1,240,150	\$ 1,372,292	\$ 6,910,275	\$ 6,190,142
Operating grants and contributions	-	201,476	-	-	-	201,476
Capital grants and contributions	3,143,132	-	-	-	3,143,132	-
General revenues:						
Property taxes	1,597,665	1,501,023	-	-	1,597,665	1,501,023
Sales taxes	1,827,986	1,825,740	-	-	1,827,986	1,825,740
Franchise taxes	686,643	620,378	-	-	686,643	620,378
Other taxes	1,006,991	1,010,980	-	-	1,006,991	1,010,980
Miscellaneous	348,283	141,607	-	-	348,283	141,607
Unrestricted investment earnings	417,152	254,551	-	-	417,152	254,551
Gain on sale of capital assets	907,454	8,215,110	-	-	907,454	8,215,110
Total revenues	15,605,431	18,588,715	1,240,150	1,372,292	16,845,581	19,961,007
Expenses:						
General government	1,916,132	2,693,482	-	-	1,916,132	2,693,482
Judicial	312,561	190,486	-	-	312,561	190,486
Public safety	6,179,546	5,117,869	-	-	6,179,546	5,117,869
Public works	1,286,678	570,783	-	-	1,286,678	570,783
Economic development	187,103	241,854	-	-	187,103	241,854
Interest on long-term debt	48,488	50,289	-	-	48,488	50,289
Sanitation	-	-	1,081,972	1,175,632	1,081,972	1,175,632
Total expenses	9,930,508	8,864,763	1,081,972	1,175,632	11,012,480	10,040,395
Increase in net assets before transfers	5,674,923	9,723,952	158,178	196,660	5,833,101	9,920,612
Transfers	158,178	196,660	(158,178)	(196,660)	-	-
Change in net assets	5,833,101	9,920,612	-	-	5,833,101	9,920,612
Net assets, beginning of year	26,112,720	16,192,108	-	-	26,112,720	16,192,108
Net assets, end of year	\$ 31,945,821	\$ 26,112,720	\$ -	\$ -	\$ 31,945,821	\$ 26,112,720

Governmental Activities

Please note that public safety expenses of \$6,179,546 represent 62% of the total governmental expenses. Interest expense of \$48,488 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 36% of the governmental revenues, the City is dependent on tax revenues for governmental activities. The net cost of services related to governmental activities is \$4,260,383 (after adjusting for \$3,143,132 in Capital Grants program revenues) which approximates 83% of our total tax receipts of \$5.12 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, 2008, the total Governmental Funds of the City of Morrow reported a combined fund balance of \$12,383,102, a 25% percent decrease from last year, primarily due to the significant investment in capital assets.

The general fund is the chief operating fund of the City of Morrow. At the end of fiscal year 2008, the unreserved fund balance of the General Fund was \$6,672,617. The remainder of the general fund balance, \$5,638,783, is reserved to indicate that it is not available for new spending because it is already committed. The total governmental funds reserved fund balance of \$5,710,485 represents commitments for prepaid expenditures (\$135,127), special projects (\$71,702), assets held for resale (2,801,620), and advances to the Downtown Development Authority (\$2,702,036). 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 34% of total governmental funds expenditures, while total fund balance represents 62% of that same amount.

Other Governmental Funds had total fund balances of \$71,702. These funds include special revenue funds.

City of Morrow's Governmental Fund Balance June 30, 2008

	<u>2008</u>	<u>2007</u>
General Fund	\$ 12,311,400	\$ 15,968,044
Other Governmental Funds	71,702	524,006
Total Governmental Fund Balance	<u>\$ 12,383,102</u>	<u>\$ 16,492,050</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 \$13,765,768 were greater than the final budget amount of \$12,654,894 by \$1,110,874. The difference was primarily due to increased fines and forfeitures revenues and intergovernmental revenues.
- The actual expenditures of \$18,263,510 were less than the budgeted amount of \$18,389,351 by \$125,841. The final budget for the year increased by \$9.19 million due primarily to increased budget items for capital expenditures related to economic development opportunities and federally funded grant project construction.

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, 2008, totals \$21,042,870 (net of accumulated depreciation), a \$9,845,923 increase from the previous year. 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):

- Construction of LCI Streetscape project on Highway 54 and Clayton State Blvd.
- Began Construction of LCI Parking Deck at Highway 54 and Clayton State University.
- Construction of Phase 1 of Morrow's Pedestrian Pathway Project.
- Investment in historical buildings in Olde Morrow district, a new economic development project for the City.
- Construction of Covered Wooden Bridge in Olde Morrow District and street extension to Ring Road.
- No major demolitions were recorded this year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Morrow's Capital Assets, net of Accumulated Depreciation June 30, 2008

	Governmental Activities		Business -type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 4,486,812	\$ 4,486,812	\$ -	\$ -	\$ 4,486,812	\$ 4,486,812
Buildings, grounds and improvements	2,843,578	2,971,254	-	-	2,843,578	2,971,254
Machinery and equipment	571,056	417,858	-	-	571,056	417,858
Furniture & fixtures	41,214	2,000	-	-	41,214	2,000
Infrastructure in process	11,427,624	2,025,878	-	-	11,427,624	2,025,878
Infrastructure	428,585	359,860	-	-	428,585	359,860
Vehicles	640,507	427,922	-	-	640,507	427,922
Computer Software	147,128	173,091	-	-	147,128	173,091
Park Facilities	456,366	332,272	-	-	456,366	332,272
Total	<u>\$ 21,042,870</u>	<u>\$ 11,196,947</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,042,870</u>	<u>\$ 11,196,947</u>

Additional information on the City's capital assets can be found in Note 5 of the Notes to the Financial Statements.

Long-term Debt

As of June 30, 2008, the City of Morrow had total outstanding debt of \$1,486,015 comprised of \$1,229,240 related to capital leases on the Morrow Tourist Center building and \$256,775 in compensated absences.

City of Morrow's Outstanding Long-Term Liabilities June 30, 2008

	Governmental Activities		Business -type Activities		Total	
	2008	2007	2008	2007	2008	2007
Capital leases	\$ 1,229,240	\$ 1,288,336	\$ -	\$ -	\$ 1,229,240	\$ 1,288,336
Claims and judgements	-	72,411	-	-	-	72,411
Compensated absences	256,775	237,449	-	-	256,775	237,449
Total	<u>\$ 1,486,015</u>	<u>\$ 1,598,196</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,486,015</u>	<u>\$ 1,598,196</u>

Additional information on the City's long-term debt can be found in Note 6 of the Notes to the Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 parallels the State of Georgia's economic outlook and both parties are projecting a recession over the next twelve months. Locally, we will experience a delayed impact from reduced retail sales that will show up in our FY 2009 business license data and the reduced retail sales adjustments for FY 2008 will show a lower than actual sales ratio for FY 2009. Additionally, we should be prepared to see a number of retail store closings due to national retailer's weak balance sheets.
- Sub-prime lending has created a national credit crisis and lower residential property values across the country. The City of Morrow's annual budget is reasonably insulated from this factor due to the \$170,000 homestead exemption and the fact that less than 25% of our tax digest is residential property. However, our older housing stock was built almost 40 years ago and functional obsolescence is a realistic factor for existing home re-sales.
- The \$46 million construction contract for the Highway 54 and I-75 interchange and related bridges has been awarded. The improvements include expanded lanes that will reduce traffic delays, a new bridge on Lee Street that will reduce congestion on Highway 54, and high mast lighting that will improve safety and visibility. Unfortunately, it will take three years to complete all phases of construction and the City must work diligently with the road contractors to reduce traffic delays as much as possible.
- The goal of adding green space to Morrow's neighborhoods continues to make remarkable progress. We opened the 40 acre Barton Memorial Park this year, have a three acre children's park under construction on Old Rex Morrow Road, and have created a master plan with additional parking and new playground equipment for the City Hall Park.
- The first phase of our pedestrian trail system was completed in June 2008 and the second phase should start construction this year. The trail system will provide our citizens with a significant recreational resource, while also providing them with a future alternative transportation system.
- The Morrow DDA and the City of Morrow have taken aggressive action to redevelop the Southlake Mall area. Olde Morrow has a new roadway with a covered wooden bridge and six historic homes are under restoration. The master plan allows for forty structures and creates a live, work, and play environment. The historic district provides for the diversification of our retail mix and encourages independent business and entrepreneurship.
- The former Macy's space is on track to become a City of Morrow conference center and therefore increase our tourism revenue. The citizens of Clayton County passed a SPLOST project of \$4 million for the Morrow Conference Center and we will need at least twelve months to design the space for occupancy. A letter of intent was requested by a hotel operator for a portion of the property and the remaining space is being marketed by the Morrow DDA to potential retail tenants.
- Gateway Village continues as a successful economic redevelopment project. The new town square (Morrow Station) has been completed and the adjacent 180 space parking deck should be completed this year. New office and mixed use construction should follow on adjacent property and increase the business and property tax value to the City. An underpass for Highway 54 is awaiting design review and the City was awarded a state grant for its construction. It will connect the pedestrian path system with Clayton State University, the State and National Archives, and the potential rail station in Morrow.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2008**

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	\$ 4,732,846	\$ 50,853	\$ 4,783,699	\$ 80,881	\$ 107,362
Investments	1,703,273	-	1,703,273	-	-
Taxes receivable	112,701	-	112,701	-	-
Accounts receivable	22,252	93,461	115,713	1,256,846	3,640
Interest receivable	4,199	-	4,199	-	-
Due from primary government	-	-	-	21,431	-
Due from component unit	2,791,591	-	2,791,591	-	-
Due from other governments	1,247,067	-	1,247,067	-	-
Inventory	-	-	-	-	4,331
Prepaid expenses	135,127	-	135,127	-	-
Other noncurrent asset	-	-	-	120,280	-
Assets held for resale	2,801,620	-	2,801,620	-	-
Capital assets:					
Nondepreciable	15,914,436	-	15,914,436	7,168,704	-
Depreciable, net of accumulated depreciation	5,128,434	-	5,128,434	5,596,399	-
Total assets	<u>34,593,546</u>	<u>144,314</u>	<u>34,737,860</u>	<u>14,244,541</u>	<u>115,333</u>
LIABILITIES					
Accounts payable	743,918	92,200	836,118	14,792	16,290
Accrued liabilities	396,361	52,114	448,475	25,533	-
Due to primary government	-	-	-	2,702,036	89,555
Due to component unit	21,431	-	21,431	-	-
Capital leases due within one year	61,423	-	61,423	-	-
Capital leases due in more than one year	1,167,817	-	1,167,817	-	-
Notes payable due within one year	-	-	-	89,891	-
Notes payable due in more than one year	-	-	-	715,784	-
Bonds payable due within one year	-	-	-	401,423	-
Bonds payable due in more than one year	-	-	-	10,507,644	-
Compensated absences due within one year	118,685	-	118,685	-	-
Compensated absences due in more than one year	138,090	-	138,090	-	-
Total liabilities	<u>2,647,725</u>	<u>144,314</u>	<u>2,792,039</u>	<u>14,457,103</u>	<u>105,845</u>
NET ASSETS					
Invested in capital assets, net of related debt	12,721,395	-	12,721,395	1,050,361	-
Unrestricted	19,224,426	-	19,224,426	(1,262,923)	9,488
Total net assets	<u>\$ 31,945,821</u>	<u>\$ -</u>	<u>\$ 31,945,821</u>	<u>\$ (212,562)</u>	<u>\$ 9,488</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, 2008

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	\$ 1,916,132	\$ 1,312,562	\$ -	\$ -	\$ (603,570)	\$ -	\$ (603,570)	\$ -	\$ -
Judicial	312,561	-	-	-	(312,561)	-	(312,561)	-	-
Public safety	6,179,546	4,357,563	-	-	(1,821,983)	-	(1,821,983)	-	-
Public works	1,286,678	-	-	3,143,132	1,856,454	-	1,856,454	-	-
Economic development	187,103	-	-	-	(187,103)	-	(187,103)	-	-
Interest on long-term debt	48,488	-	-	-	(48,488)	-	(48,488)	-	-
Total governmental activities	<u>9,930,508</u>	<u>5,670,125</u>	<u>-</u>	<u>3,143,132</u>	<u>(1,117,251)</u>	<u>-</u>	<u>(1,117,251)</u>	<u>-</u>	<u>-</u>
Business-type activities:									
Sanitation	1,081,972	1,240,150	-	-	-	158,178	158,178	-	-
Total business-type activities	<u>1,081,972</u>	<u>1,240,150</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>158,178</u>	<u>158,178</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 11,012,480</u>	<u>\$ 6,910,275</u>	<u>\$ -</u>	<u>\$ 3,143,132</u>	<u>(1,117,251)</u>	<u>158,178</u>	<u>(959,073)</u>	<u>-</u>	<u>-</u>
Component units:									
Downtown Development Authority	\$ 1,065,383	\$ 324,028	\$ 398,490	\$ -	-	-	-	(342,865)	-
Morrow Business and Tourism Association	308,332	33,606	19,480	-	-	-	-	-	(255,246)
Total component units	<u>\$ 1,373,715</u>	<u>\$ 357,634</u>	<u>\$ 417,970</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(342,865)</u>	<u>(255,246)</u>
General revenues:									
Property taxes					1,597,665	-	1,597,665	-	-
Sales taxes					1,827,986	-	1,827,986	-	-
Insurance premium tax					266,845	-	266,845	-	-
Alcoholic beverage taxes					139,404	-	139,404	-	-
Other taxes					600,742	-	600,742	-	186,358
Miscellaneous					348,283	-	348,283	-	-
Franchise taxes					686,643	-	686,643	-	-
Unrestricted investment earnings					417,152	-	417,152	48,412	83
Gain on sale of capital assets					907,454	-	907,454	-	-
Transfers					158,178	(158,178)	-	-	-
Total general revenues and transfers					<u>6,950,352</u>	<u>(158,178)</u>	<u>6,792,174</u>	<u>48,412</u>	<u>186,441</u>
Change in net assets					5,833,101	-	5,833,101	(294,453)	(68,805)
Net assets, beginning of year					26,112,720	-	26,112,720	81,891	78,293
Net assets, end of year					<u>\$ 31,945,821</u>	<u>\$ -</u>	<u>\$ 31,945,821</u>	<u>\$ (212,562)</u>	<u>\$ 9,488</u>

The accompanying notes are an integral part of these financial statements

CITY OF MORROW, GEORGIA

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

ASSETS	General	Other Governmental Funds	Totals Governmental Funds
Cash and cash equivalents	\$ 4,633,979	\$ 98,867	\$ 4,732,846
Investments	1,703,273	-	1,703,273
Taxes receivable	55,544	57,157	112,701
Accounts receivable	3,910	18,342	22,252
Interest receivable	4,199	-	4,199
Advance to component unit	2,702,036	-	2,702,036
Due from component unit	89,555	-	89,555
Due from other governments	1,247,067	-	1,247,067
Due from other funds	62,891	4,990	67,881
Prepaid expenditures	135,127	-	135,127
Assets held for resale	2,801,620	-	2,801,620
Total assets	<u>\$ 13,439,201</u>	<u>\$ 179,356</u>	<u>\$ 13,618,557</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 742,887	\$ 1,031	\$ 743,918
Accrued liabilities	362,165	22,301	384,466
Deferred revenues	17,759	-	17,759
Due to component unit	-	21,431	21,431
Due to other funds	4,990	62,891	67,881
Total liabilities	<u>1,127,801</u>	<u>107,654</u>	<u>1,235,455</u>
FUND BALANCES			
Fund balances:			
Reserved for:			
Prepaid expenditures	135,127	-	135,127
Special projects	-	71,702	71,702
Advances	2,702,036	-	2,702,036
Assets held for resale	2,801,620	-	2,801,620
Unreserved, reported in:			
General fund	6,672,617	-	6,672,617
Total fund balances	<u>12,311,400</u>	<u>71,702</u>	<u>12,383,102</u>
Total liabilities and fund balances	<u>\$ 13,439,201</u>	<u>\$ 179,356</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.			21,042,870
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			17,759
Certain liabilities are not due and payable in the current period and are therefore not reported in the funds.			<u>(1,497,910)</u>
Net assets of governmental activities			<u>\$ 31,945,821</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, 2008**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Totals Governmental Funds</u>
Revenues			
Property taxes	\$ 1,614,117	\$ -	\$ 1,614,117
Other taxes	2,234,234	600,743	2,834,977
Charges for services	389,301	156,090	545,391
Licenses and permits	1,296,436	-	1,296,436
Intergovernmental	3,591,339	-	3,591,339
Franchise fees	686,643	-	686,643
Fines and forfeitures	3,198,999	181,092	3,380,091
Interest revenue	406,416	10,736	417,152
Rental income	165,203	-	165,203
Other revenues	183,080	-	183,080
Total revenues	<u>13,765,768</u>	<u>948,661</u>	<u>14,714,429</u>
Expenditures			
Current:			
General government	5,806,429	-	5,806,429
Judicial	312,959	-	312,959
Public safety	4,966,101	1,441,405	6,407,506
Public works	7,070,038	-	7,070,038
Economic development	-	186,358	186,358
Debt service:			
Principal	59,096	-	59,096
Interest	48,887	-	48,887
Total expenditures	<u>18,263,510</u>	<u>1,627,763</u>	<u>19,891,273</u>
Deficiency of revenues under expenditures	<u>(4,497,742)</u>	<u>(679,102)</u>	<u>(5,176,844)</u>
Other financing sources (uses)			
Transfers in	572,563	641,183	1,213,746
Transfers out	(641,183)	(414,385)	(1,055,568)
Proceeds from the sale of capital assets	909,718	-	909,718
Total other financing sources (uses)	<u>841,098</u>	<u>226,798</u>	<u>1,067,896</u>
Net change in fund balances	<u>(3,656,644)</u>	<u>(452,304)</u>	<u>(4,108,948)</u>
Fund balances, beginning of year	<u>15,968,044</u>	<u>524,006</u>	<u>16,492,050</u>
Fund balances, end of year	<u>\$ 12,311,400</u>	<u>\$ 71,702</u>	<u>\$ 12,383,102</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, 2008**

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

Net change in fund balances - total governmental funds	\$ (4,108,948)
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.	9,848,187
The net effect of the sale of fixed assets is to decrease net assets.	(2,264)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(16,452)
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.	59,096
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>53,482</u>
	<u>\$ 5,833,101</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, 2008**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 1,476,250	\$ 1,591,600	\$ 1,614,117	\$ 22,517
Other taxes	2,295,000	2,146,845	2,234,234	87,389
Charges for services	293,500	378,450	389,301	10,851
Licenses and permits	1,205,500	1,199,100	1,296,436	97,336
Intergovernmental	460,904	3,140,204	3,591,339	451,135
Franchise fees	634,072	684,531	686,643	2,112
Fines and forfeitures	1,876,200	2,818,258	3,198,999	380,741
Interest revenue	400,000	389,000	406,416	17,416
Rental income	69,383	166,983	165,203	(1,780)
Other revenues	100,213	139,923	183,080	43,157
Total revenues	<u>8,811,022</u>	<u>12,654,894</u>	<u>13,765,768</u>	<u>1,110,874</u>
Expenditures:				
Current:				
General government:				
Mayor / Commission	202,079	205,507	203,675	1,832
General administration	666,120	916,368	914,026	2,342
Finance	263,353	299,631	299,048	583
Planning and zoning	60,700	56,296	53,851	2,445
Economic development	326,134	347,633	344,279	3,354
Capital outlay	-	4,019,854	3,991,550	28,304
Total general government	<u>1,521,631</u>	<u>5,845,289</u>	<u>5,806,429</u>	<u>38,860</u>
Judicial:				
Municipal court	<u>178,748</u>	<u>311,409</u>	<u>312,959</u>	<u>(1,550)</u>
Public safety:				
Police	2,350,598	2,596,770	2,584,554	12,216
Fire	1,953,670	2,104,179	2,100,666	3,513
Capital outlay	<u>321,348</u>	<u>283,797</u>	<u>280,881</u>	<u>2,916</u>
Total public safety	<u>4,625,616</u>	<u>4,984,746</u>	<u>4,966,101</u>	<u>18,645</u>
Public works:				
Administration	1,219,962	1,184,435	1,179,245	5,190
Capital outlay	<u>1,385,877</u>	<u>5,924,989</u>	<u>5,890,793</u>	<u>34,196</u>
Total public works	<u>2,605,839</u>	<u>7,109,424</u>	<u>7,070,038</u>	<u>39,386</u>
Debt service	<u>267,983</u>	<u>138,483</u>	<u>107,983</u>	<u>30,500</u>
Total expenditures	<u>9,199,817</u>	<u>18,389,351</u>	<u>18,263,510</u>	<u>125,841</u>
Deficiency of revenues under expenditures	<u>(388,795)</u>	<u>(5,734,457)</u>	<u>(4,497,742)</u>	<u>1,236,715</u>

(Continued)

CITY OF MORROW, GEORGIA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES ·
BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Other financing sources (uses)				
Transfers in	\$ 515,000	\$ 534,570	\$ 572,563	\$ 37,993
Transfers out	(602,589)	(642,618)	(641,183)	1,435
Proceeds from the sale of capital assets	476,384	911,055	909,718	(1,337)
Total other financing sources (uses)	<u>388,795</u>	<u>803,007</u>	<u>841,098</u>	<u>38,091</u>
Net change in fund balances	-	(4,931,450)	(3,656,644)	1,274,806
Fund balances, beginning of year	<u>15,968,044</u>	<u>15,968,044</u>	<u>15,968,044</u>	-
Fund balances, end of year	<u>\$ 15,968,044</u>	<u>\$ 11,036,594</u>	<u>\$ 12,311,400</u>	<u>\$ 1,274,806</u>

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

CITY OF MORROW, GEORGIA

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008**

		<u>Sanitation Fund</u>
	ASSETS	
CURRENT ASSETS		
Cash and cash equivalents		\$ 50,853
Accounts receivable		93,461
Total current assets		<u>144,314</u>
	LIABILITIES	
CURRENT LIABILITIES		
Accounts payable		92,200
Deferred revenues		52,114
Total current liabilities		<u>144,314</u>
	NET ASSETS	
Unrestricted		-
Total net assets		<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, 2008**

	<u>Sanitation Fund</u>
OPERATING REVENUES	
Charges for services	\$ 1,240,150
Total operating revenues	<u>1,240,150</u>
Purchased or contracted services	1,081,972
Total operating expenses	<u>1,081,972</u>
Operating income	<u>158,178</u>
TRANSFERS	
Transfers out	(158,178)
Total transfers	<u>(158,178)</u>
Change in net assets	-
NET ASSETS, beginning of year	<u>-</u>
NET ASSETS, end of year	<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, 2008**

	<u>Sanitation Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 1,266,842
Payments to suppliers	<u>(1,089,169)</u>
Net cash provided by operating activities	<u>177,673</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers	<u>(158,178)</u>
Net cash used in noncapital financing activities	<u>(158,178)</u>
Increase in cash and cash equivalents	19,495
Cash and cash equivalents:	
Beginning of year	<u>31,358</u>
End of year	<u>\$ 50,853</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 158,178
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Decrease in accounts receivable	26,692
Decrease in accounts payable	(10,150)
Increase in accrued liabilities	<u>2,953</u>
Net cash provided by operating activities	<u>\$ 177,673</u>

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, 2008.

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 participants' 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, 2008, 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, grounds, and improvements	15-40 years
Machinery and equipment	10 years
Furniture and fixtures	5 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, 2008, 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 \$1,497,910 difference are as follows:

Capital leases	\$ 1,229,240
Compensated absences	256,775
Accrued interest	11,895
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 1,497,910</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 \$9,848,187 difference are as follows:

Capital outlay	\$ 10,290,787
Depreciation expense	(442,600)
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>	\$ 9,848,187

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 \$53,482 difference are as follows:

Change in accrued interest	\$ 399
Change in claims and judgements payable	72,411
Change in compensated absences	(19,328)
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>	\$ 53,482

NOTES TO FINANCIAL STATEMENTS

NOTE 3. DEPOSITS AND INVESTMENTS

Total deposits and investments as of June 30, 2008, are summarized as follows:

As reported in the Statement of Net Assets:		
Cash and cash equivalents	\$	4,783,699
Investments		1,703,273
	<u>\$</u>	<u>6,486,972</u>
Cash deposited with financial institutions	\$	6,159,612
Cash deposited with Georgia Fund 1		279,895
Federal National Mortgage Association		20,875
U.S. Treasury Note		26,590
	<u>\$</u>	<u>6,486,972</u>

Credit risk. State statutes authorize the City to invest in obligations of the State of Georgia or other states; obligations issued by the U.S. government; obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States; obligations of any corporation of the U.S. government; prime bankers' 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, 2008, the City's investment in Georgia Fund 1 was rated AAAM by Standard & Poor's. The City's investment in Federal National Mortgage Association and the U.S. Treasury Notes were all rated AAA by Standard & Poor's.

At June 30, 2008, the City had the following investments:

Investment	Fair Value	Investment Maturities (in Years)	
		Less than 1	1-5
Georgia Fund 1	\$ 279,895	\$ 279,895	\$ -
Certificates of Deposit	1,375,913	879,717	496,196
Federal National Mortgage Assc.	20,875	-	20,875
U.S. Treasury Note	26,590	-	26,590
Total	<u>\$ 1,703,273</u>	<u>\$ 1,159,612</u>	<u>\$ 543,661</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 3. DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

Custodial credit risk – deposits. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2008, 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.

Custodial Credit Risk – Investments. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require all investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities.

For the year ended June 30, 2008, the reporting of investments at fair value in accordance with GASB Statement No. 31 resulted in an unrealized gain of \$5,962 which is reflected in unrestricted investment earnings in the City's statement of activities.

NOTES TO FINANCIAL STATEMENTS

NOTE 4. RECEIVABLES

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

	General	Nonmajor Governmental	Sanitation	Total
Receivables:				
Taxes	\$ 55,544	\$ 57,157	\$ -	\$ 112,701
Accounts	3,910	18,342	93,461	115,713
Interest	4,199	-	-	4,199
Due from other governments	1,247,067	-	-	1,247,067
Total receivables	\$ 1,310,720	\$ 75,499	\$ 93,461	\$ 1,479,680

Property Taxes

Property taxes were levied on September 26, 2007, (Levy Date) based upon property values assessed as of January 1. The billings were mailed on October 1, 2007, and payable on or before December 26, 2007, for the fiscal year 2008 tax. Taxes not paid within 30 days of the December 20th due date are subject to property tax liens on January 2, 2008. Property tax revenues are recognized when levied to the extent they result in current receivables.

The tax rate levied during fiscal year 2008 for the City's operations was 5 mills (mill equals \$1 per thousand dollars of assessed value).

The City considers property taxes receivable at June 30, 2008, 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, 2008, 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	\$ 4,486,812	\$ -	\$ -	\$ 4,486,812
Infrastructure in process	2,025,878	9,401,746	-	11,427,624
Total capital assets, not being depreciated	<u>6,512,690</u>	<u>9,401,746</u>	<u>-</u>	<u>15,914,436</u>
Capital assets, being depreciated:				
Buildings, grounds, and improvements	4,356,821	16,563	-	4,373,384
Machinery and equipment	666,583	229,057	-	895,640
Furniture and fixtures	185,083	45,793	-	230,876
Infrastructure	395,888	98,397	-	494,285
Vehicles	2,494,956	308,943	(82,216)	2,721,683
Computer software	399,440	33,467	-	432,907
Park facilities and improvements	417,488	156,821	-	574,309
Total capital assets, being depreciated	<u>8,916,259</u>	<u>889,041</u>	<u>(82,216)</u>	<u>9,723,084</u>
Less accumulated depreciation for:				
Buildings, grounds, and improvements	(1,385,567)	(144,239)	-	(1,529,806)
Machinery and equipment	(248,725)	(75,859)	-	(324,584)
Furniture and fixtures	(183,083)	(6,579)	-	(189,662)
Infrastructure	(36,028)	(29,672)	-	(65,700)
Vehicles	(2,067,034)	(94,094)	79,952	(2,081,176)
Computer software	(226,349)	(59,430)	-	(285,779)
Park facilities and improvements	(85,216)	(32,727)	-	(117,943)
Total accumulated depreciation	<u>(4,232,002)</u>	<u>(442,600)</u>	<u>79,952</u>	<u>(4,594,650)</u>
Total capital assets, being depreciated, net	<u>4,684,257</u>	<u>446,441</u>	<u>(2,264)</u>	<u>5,128,434</u>
Governmental activities capital assets, net	<u>\$ 11,196,947</u>	<u>\$ 9,848,187</u>	<u>\$ (2,264)</u>	<u>\$ 21,042,870</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	\$	100,597
Public safety		232,512
Public works		107,488
Economic development		2,003
Total depreciation expense - governmental activities	<u>\$</u>	<u>442,600</u>

B. Discretely Presented Component Unit – Downtown Development Authority

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 7,168,704	\$	-	\$ 7,168,704
Total capital assets, not being depreciated	7,168,704	-	-	7,168,704
Capital assets, being depreciated:				
Buildings, grounds, and improvements	4,960,851	565,538	-	5,526,389
Infrastructure	587,626	-	-	587,626
Furniture and fixtures	-	17,202	-	17,202
Signs	37,556	15,575	-	53,131
Total capital assets, being depreciated	5,586,033	598,315	-	6,184,348
Less accumulated depreciation for:				
Buildings, grounds, and improvements	(181,456)	(325,125)	-	(506,581)
Infrastructure	(33,052)	(39,614)	-	(72,666)
Furniture and fixtures	-	(2,817)	-	(2,817)
Signs	(2,618)	(3,267)	-	(5,885)
Total accumulated depreciation	(217,126)	(370,823)	-	(587,949)
Total capital assets, being depreciated, net	5,368,907	227,492	-	5,596,399
Total capital assets, net	\$ 12,537,611	\$ 227,492	\$ -	\$ 12,765,103

NOTES TO FINANCIAL STATEMENTS

NOTE 6. LONG-TERM DEBT

A. Primary Government

Capital leases. At June 30, 2003, the City was obligated under a 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, 2008, 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	\$ 1,288,336	\$ -	\$ (59,096)	\$ 1,229,240	\$ 61,423
Compensated absences	237,447	134,556	(115,228)	256,775	100,437
Claims and judgements	72,411	-	(72,411)	-	-
Governmental activity Long-term liabilities	<u>\$ 1,598,194</u>	<u>\$ 134,556</u>	<u>\$ (246,735)</u>	<u>\$ 1,486,015</u>	<u>\$ 161,860</u>

Compensated absences and claims and judgments 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, 2008:

Fiscal year ending June 30,	
2009	\$ 107,982
2010	107,982
2011	107,982
2012	107,982
2013	107,982
2014-2018	539,912
2019-2023	539,912
2024	7,016
Total minimum lease payments	<u>1,626,750</u>
Less amount representing interest	(397,510)
Present value of minimum lease payments	<u>\$ 1,229,240</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, 2008:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Development Authority					
Bonds payable	\$ 11,288,174	\$ 10,000,000	\$ (10,379,107)	\$ 10,909,067	\$ 401,423
Note payable	902,888	-	(97,213)	805,675	89,891
Development Authority Long-term liabilities	<u>\$ 12,191,062</u>	<u>\$ 10,000,000</u>	<u>\$ (10,476,320)</u>	<u>\$ 11,714,742</u>	<u>\$ 491,314</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. In June 2007, the Authority issued bonds (Series 2007) in the amount of \$10,000,000. The proceeds of this bond were used to purchase the Macy's Building from the City. In May 2008, the Authority issued new bonds (Series 2008) to refinance the Series 2007 bonds at a lower interest rate. Bonds payable at June 30, 2008, are 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	\$ 1,229,067
Macy's Building	3.39%	10 years	2017	10,000,000	9,680,000
					<u>\$ 10,909,067</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6. LONG-TERM DEBT (CONTINUED)

B. Discretely Presented Component Unit – Downtown Development Authority (Continued)

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>	<u>Total</u>
2009	\$ 401,423	\$ 374,712	\$ 776,135
2010	419,828	360,780	780,608
2011	436,328	346,212	782,540
2012	448,926	331,071	779,997
2013	471,625	315,490	787,115
2014 - 2018	8,236,461	1,111,804	9,348,265
2019 - 2023	487,687	52,225	539,912
2024	6,789	65	6,854
Total	<u>\$ 10,909,067</u>	<u>\$ 2,892,359</u>	<u>\$ 13,801,426</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>\$ 805,675</u>

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

Fiscal year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 89,891	\$ 41,903	\$ 131,794
2010	102,959	40,816	143,775
2011	612,825	12,189	625,014
Total	<u>\$ 805,675</u>	<u>\$ 94,908</u>	<u>\$ 900,583</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 7.38% 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, 2008, the date of the most recent actuarial valuation, there were 171 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	30
Vested terminated employees not yet receiving benefits	33
Active employees	108
Total	171

As of the most recent valuation date, January 1, 2008, the funded status of the Plan was as follows:

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)
1/1/2008	\$ 8,166,199	\$ 7,890,874	\$ (275,325)	103.5 %	\$ 4,112,214	(6.7) %

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the actuarial accrued liability.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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.

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, 2008, actuarial valuation using the project unit credit actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8% per year, compounded annually and net of investment expenses and (b) projected salary increases of 5% for inflation and 0.5% for merit or seniority. The period and related method for amortizing the initial unfunded actuarial accrued liability is 30 years from 1981 and current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods as a level dollar amount. These amortization periods are closed for this plan year.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. DEFINED BENEFIT PENSION PLAN (CONTINUED)

D. Annual Pension Cost

<u>Fiscal Year Beginning</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
01/01/04	\$ 271,262	100 %	\$ -
01/01/05	252,420	100	-
01/01/06	255,766	100	-
01/01/07	299,462	100	-
01/01/08	303,559	100	-

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 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, 2008, the City's contribution to the Plan was \$31,274.

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, 2008, expenditures exceeded budget appropriations, as follows:

Fund	Excess
General Fund	
Municipal Court	\$ 1,550
Confiscated Assets Fund	20,132

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

NOTE 10. HOTEL/MOTEL LODGING TAX

The City has levied a 6% lodging tax. For the fiscal year ended June 30, 2008, \$559,073 of hotel/motel tax was collected. Of the total collected, 33% was used for the promotion of tourism within the City.

NOTE 11. INTERFUND BALANCES AND TRANSFERS

Interfund receivable and payable balances as of June 30, 2008, are as follows:

Due To	Due From		Total
	General Fund	Nonmajor Governmental	
General Fund	\$ -	\$ 62,891	\$ 62,891
Nonmajor Governmental	4,990		4,990
Total	\$ 4,990	\$ 62,891	\$ 67,881

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 11. INTERFUND BALANCES AND TRANSFERS (CONTINUED)

Interfund transfers for the year ended June 30, 2008, consisted of the following:

<u>Transfer from</u>	<u>Transfer to</u>		<u>Total</u>
	<u>General</u>	<u>Nonmajor Governmental</u>	
General Fund	\$ -	\$ 641,183	\$ 641,183
Nonmajor Governmental	414,385	-	414,385
Sanitation	158,178	-	158,178
Total	<u>\$ 572,563</u>	<u>\$ 641,183</u>	<u>\$ 1,213,746</u>

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 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, 2008, 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.

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.

NOTES TO FINANCIAL STATEMENTS

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.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF MORROW, GEORGIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS**

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)
1/1/2003	\$ 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)
1/1/2007	7,518,302	7,110,947	(407,355)	105.7	3,888,441	(10.5)

**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, 2008

ASSETS	Emergency Communication Fund	Hotel/ Motel Tax Fund	Confiscated Assets Fund	Excise Tax Fund	Totals
Cash and cash equivalents	\$ -	\$ -	\$ 98,867	\$ -	\$ 98,867
Taxes receivable	-	53,960	-	3,197	57,157
Accounts receivable	18,342	-	-	-	18,342
Due from other funds	4,990	-	-	-	4,990
Total assets	<u>\$ 23,332</u>	<u>\$ 53,960</u>	<u>\$ 98,867</u>	<u>\$ 3,197</u>	<u>\$ 179,356</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 1,031	\$ -	\$ -	\$ -	\$ 1,031
Accrued expenses	22,301	-	-	-	22,301
Due to component unit	-	-	21,431	-	21,431
Due to other funds	-	53,960	5,734	3,197	62,891
Total liabilities	<u>23,332</u>	<u>53,960</u>	<u>27,165</u>	<u>3,197</u>	<u>107,654</u>
FUND BALANCES					
Reserved:					
Reserved for special projects	-	-	71,702	-	71,702
Total fund balances	-	-	71,702	-	71,702
Total liabilities and fund balances	<u>\$ 23,332</u>	<u>\$ 53,960</u>	<u>\$ 98,867</u>	<u>\$ 3,197</u>	<u>\$ 179,356</u>

CITY OF MORROW, GEORGIA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	Emergency Communication Fund	Hotel/ Motel Tax Fund	Confiscated Assets Fund	Excise Tax Fund	Totals
Revenues:					
Other taxes	\$ -	\$ 559,073	\$ -	\$ 41,670	\$ 600,743
Charges for services	156,090	-	-	-	156,090
Fines and forfeitures	-	-	181,092	-	181,092
Interest revenue	-	-	10,736	-	10,736
Total revenues	<u>156,090</u>	<u>559,073</u>	<u>191,828</u>	<u>41,670</u>	<u>948,661</u>
Expenditures:					
Public safety	797,273	-	644,132	-	1,441,405
Economic development	-	186,358	-	-	186,358
Total expenditures	<u>797,273</u>	<u>186,358</u>	<u>644,132</u>	<u>-</u>	<u>1,627,763</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(641,183)</u>	<u>372,715</u>	<u>(452,304)</u>	<u>41,670</u>	<u>(679,102)</u>
Other financing sources (uses)					
Transfers in	641,183	-	-	-	641,183
Transfers out	-	(372,715)	-	(41,670)	(414,385)
Total other financing sources (uses)	<u>641,183</u>	<u>(372,715)</u>	<u>-</u>	<u>(41,670)</u>	<u>226,798</u>
Net change in fund balances	-	-	(452,304)	-	(452,304)
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>524,006</u>	<u>-</u>	<u>524,006</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,702</u>	<u>\$ -</u>	<u>\$ 71,702</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, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Charges for services	\$ 151,820	\$ 168,275	\$ 156,090	\$ (12,185)
Total Revenues	<u>151,820</u>	<u>168,275</u>	<u>156,090</u>	<u>(12,185)</u>
Expenditures				
Public safety	754,409	799,124	797,273	1,851
Total expenditures	<u>754,409</u>	<u>799,124</u>	<u>797,273</u>	<u>1,851</u>
Deficiency of revenues under expenditures	<u>(602,589)</u>	<u>(630,849)</u>	<u>(641,183)</u>	<u>(10,334)</u>
Other financing sources:				
Transfers in	602,589	618,828	641,183	22,355
Total other financing sources	<u>602,589</u>	<u>618,828</u>	<u>641,183</u>	<u>22,355</u>
Net change in fund balance	<u>-</u>	<u>(12,021)</u>	<u>-</u>	<u>12,021</u>
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ (12,021)</u>	<u>\$ -</u>	<u>\$ 12,021</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, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Other taxes	\$ 558,000	\$ 583,200	\$ 559,073	\$ (24,127)
Expenditures				
Economic development	186,000	194,400	186,358	8,042
Total expenditures	186,000	194,400	186,358	8,042
Excess of revenues over expenditures	372,000	388,800	372,715	(16,085)
Other financing uses				
Transfers out	(372,000)	(388,800)	(372,715)	16,085
Total other financing uses	(372,000)	(388,800)	(372,715)	16,085
Net change in fund balance	-	-	-	-
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Fines and forfeitures	\$ 134,964	\$ 132,000	\$ 181,092	\$ 49,092
Interest	5,000	10,000	10,736	736
Total revenues	<u>139,964</u>	<u>142,000</u>	<u>191,828</u>	<u>49,828</u>
Expenditures				
Public safety	139,964	624,000	644,132	(20,132)
Total expenditures	<u>139,964</u>	<u>624,000</u>	<u>644,132</u>	<u>(20,132)</u>
Net change in fund balance	<u>-</u>	<u>(482,000)</u>	<u>(452,304)</u>	<u>29,696</u>
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>524,006</u>	<u>524,006</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ (482,000)</u>	<u>\$ 71,702</u>	<u>\$ 553,702</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, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Other taxes	\$ 43,000	\$ 41,770	\$ 41,670	\$ (100)
Other financing sources (uses)				
Transfers out	(43,000)	(41,770)	(41,670)	100
Net change in fund balance	-	-	-	-
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2008

	Downtown Development Authority	Morrow Business and Tourism Association	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 759,823	\$ 385,227	\$ 1,145,050
Payments to suppliers	(181,105)	(306,272)	(487,377)
Net cash provided by operating activities	578,718	78,955	657,673
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Advances from primary government	1,154,971	-	1,154,971
Net cash provided by noncapital financing activities	1,154,971	-	1,154,971
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases and construction of property and equipment	(598,315)	-	(598,315)
Proceeds from bond issuance	10,000,000	-	10,000,000
Bond issuance costs	(75,093)	-	(75,093)
Principal paid on bonds	(97,213)	-	(97,213)
Principal paid on notes payable and capital leases	(10,379,107)	-	(10,379,107)
Interest paid	(553,441)	-	(553,441)
Net cash used in capital and related financing activities	(1,703,169)	-	(1,703,169)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	48,412	-	48,412
Net cash provided by investing activities	48,412	-	48,412
Change in cash and cash equivalents	78,932	78,955	157,887
Cash and cash equivalents:			
Beginning of year	1,949	28,407	30,356
End of year	\$ 80,881	\$ 107,362	\$ 188,243
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Net operating income (loss)	\$ 205,688	\$ (68,805)	\$ 136,883
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	370,823	-	370,823
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	37,305	(1,586)	35,719
Increase in inventory	-	(2,112)	(2,112)
Decrease in due from primary government	-	147,286	147,286
Increase (decrease) in accounts payable	(35,098)	4,172	(30,926)
Net cash provided by (used in) operating activities	\$ 578,718	\$ 78,955	\$ 657,673

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>	56 - 59
Revenue Capacity <i>These schedules contain information to help the reader assess the City's most significant local revenue sources.</i>	60 - 65
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>	66 - 68
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>	69 and 70
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>	71 - 74

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 FIVE FISCAL YEARS**

	Fiscal Year				
	2004	2005	2006	2007	2008
Governmental activities					
Invested in capital assets, net of related debt	\$ 5,083,996	\$ 5,205,049	\$ 7,095,827	\$ 9,908,611	\$ 12,721,395
Unrestricted	6,869,262	8,540,017	9,096,281	16,204,109	19,224,426
Total governmental activities net assets	<u>\$ 11,953,258</u>	<u>\$ 13,745,066</u>	<u>\$ 16,192,108</u>	<u>\$ 26,112,720</u>	<u>\$ 31,945,821</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>	<u>\$ -</u>	<u>\$ -</u>
Primary government					
Invested in capital assets, net of related debt	\$ 5,083,996	\$ 5,205,049	\$ 7,095,827	\$ 9,908,611	\$ 12,721,395
Unrestricted	6,869,262	8,534,140	9,096,281	16,204,109	19,224,426
Total primary government net assets	<u>\$ 11,953,258</u>	<u>\$ 13,739,189</u>	<u>\$ 16,192,108</u>	<u>\$ 26,112,720</u>	<u>\$ 31,945,821</u>

CITY OF MORROW, GEORGIA

CHANGES IN NET ASSETS LAST FIVE FISCAL YEARS

Expenses	Fiscal Year				
	2004	2005	2006	2007	2008
Primary government:					
Governmental activities:					
General government	\$ 1,321,684	\$ 1,152,346	\$ 1,685,149	\$ 2,693,482	\$ 1,916,132
Judicial	56,042	167,032	174,165	190,486	312,561
Public safety	4,444,719	4,504,847	4,570,661	5,117,869	6,179,546
Public works	722,379	805,648	1,024,683	570,783	1,286,678
Economic development	-	161,067	163,076	241,854	187,103
Interest and fiscal changes	-	54,812	52,728	50,289	48,488
Total governmental activities expenses	6,544,824	6,845,752	7,670,462	8,864,763	9,930,508
Business-type activities:					
Sanitation	972,091	964,547	975,755	1,175,632	1,081,972
Total business-type activities expenses	972,091	964,547	975,755	1,175,632	1,081,972
Total primary government expenses	7,516,915	7,810,299	8,646,217	10,040,395	11,012,480
Program revenues					
Primary government:					
Governmental activities:					
Charges for services ^(a)					
General government	1,143,315	1,517,619	1,351,249	1,285,924	1,312,562
Public safety	1,760,057	1,983,424	2,600,898	3,531,926	4,357,563
Operating grants and contributions	168,777	193,820	25,403	201,476	-
Total governmental activities program revenues	3,072,149	3,694,863	3,977,550	5,019,326	8,813,257
Business-type activities:					
Charges for services	1,163,091	1,236,396	1,118,367	1,372,292	1,240,150
Total business-type activities program revenues	1,163,091	1,236,396	1,118,367	1,372,292	1,240,150
Total primary government program revenues	4,235,240	4,931,259	5,095,917	6,391,618	10,053,407
Net (expense)/revenue					
Governmental activities	(3,472,675)	(3,150,889)	(3,692,912)	(3,845,437)	(1,117,251)
Business-type activities	191,000	271,849	142,612	196,660	158,178
Total primary government net expense	(3,281,675)	(2,879,040)	(3,550,300)	(3,648,777)	(959,073)
General revenues and other changes in net assets					
Primary government:					
Governmental activities:					
Property taxes	-	1,085,487	1,131,554	1,501,023	1,597,665
Sales taxes	1,587,606	1,641,504	1,849,293	1,825,740	1,827,986
Insurance Premium tax	209,707	227,265	244,508	255,839	266,845
Alcoholic beverage taxes	195,031	176,792	188,499	147,614	139,404
Other taxes	448,394	517,577	552,144	607,527	600,742
Miscellaneous	190,521	183,972	130,220	141,607	348,283
Franchise fees	553,174	577,392	592,557	620,378	686,643
Investment earnings	198,932	254,982	1,289,491	254,551	417,152
Gain on sale of assets ^(b)	-	-	24,953	8,215,110	907,454
Transfers	2,838	277,726	136,735	196,660	158,178
Total governmental activities general revenues and other changes in net assets	3,386,203	4,942,697	6,139,954	13,766,049	6,950,352
Business-type activities:					
Transfers	(156,386)	(277,726)	(136,735)	(196,660)	(158,178)
Total business type activities general revenues and other changes in net assets	(156,386)	(277,726)	(136,735)	(196,660)	(158,178)
Total primary government general revenues and other changes in net assets	(51,858)	1,785,931	2,452,919	9,920,612	5,833,101
Change in net assets					
Governmental activities	(86,472)	1,791,808	2,447,042	9,920,612	5,833,101
Business-type activities	34,614	(5,877)	5,877	-	-
Total primary government change in net assets	\$ (51,858)	\$ 1,785,931	\$ 2,452,919	\$ 9,920,612	\$ 5,833,101

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

^(b) Large gain in 2007 due to the purchase and resale of the Macy's retail shopping center during the year.

CITY OF MORROW, GEORGIA

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

	Fiscal Year				
	2004	2005	2006	2007	2008
General Fund					
Reserved	\$ 128,549	\$ 248,463	\$ 1,792,221	\$ 2,854,931	\$ 5,638,783
Unreserved	6,770,133	8,335,453	7,325,715	13,113,113	6,672,617
Total General fund	<u>\$ 6,898,682</u>	<u>\$ 8,583,916</u>	<u>\$ 9,117,936</u>	<u>\$ 15,968,044</u>	<u>\$ 12,311,400</u>
All Other Governmental Funds					
Reserved, reported in:					
Special revenue funds	\$ 152,282	\$ 154,982	\$ 193,109	\$ 524,006	\$ 71,702
Total all other governmental funds	<u>\$ 152,282</u>	<u>\$ 154,982</u>	<u>\$ 193,109</u>	<u>\$ 524,006</u>	<u>\$ 71,702</u>

CITY OF MORROW, GEORGIA

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS LAST FIVE FISCAL YEARS

	Fiscal Year				
	2004	2005	2006	2007	2008
Revenues:					
Property taxes ^(b)	\$ -	\$ 1,096,267	\$ 1,143,803	\$ 1,471,921	\$ 1,614,117
Other taxes	2,440,738	2,563,138	2,834,444	2,836,720	2,834,977
Charges for services	249,791	360,099	416,297	487,370	545,391
Licenses and permits	1,127,852	1,305,040	1,344,715	1,274,733	1,296,436
Intergovernmental	535,555	580,861	435,338	614,313	3,591,339
Franchise fees	1,260,654	1,448,863	592,557	620,378	686,643
Fines, forfeitures, and fees	553,174	577,392	1,781,200	2,642,910	3,380,091
Interest revenues	198,932	254,982	1,289,491	254,551	417,152
Rental income	25,575	37,020	35,235	34,181	165,203
Other revenues	63,243	146,952	94,985	107,426	183,080
Total revenues	6,455,514	8,370,614	9,968,065	10,344,503	14,714,429
Expenditures:					
Current:					
General government ^(c)	1,216,145	1,049,357	2,878,566	3,530,666	5,806,429
Judicial	-	167,954	171,912	191,225	312,959
Public safety	4,197,997	4,303,044	4,531,343	5,541,628	6,407,506
Public works	676,665	1,185,020	1,710,955	2,015,363	7,070,038
Economic development	-	161,067	170,495	188,404	186,358
Capital Outlay ^(a)	465,649	-	-	-	-
Debt service:					
Principal	47,271	52,663	54,726	57,004	59,096
Interest and fiscal charges	148,658	41,301	53,256	50,978	48,887
Total expenditures	6,752,385	6,960,406	9,571,253	11,575,268	19,891,273
Excess (deficiency) of revenues over expenditures	(296,871)	1,410,208	396,812	(1,230,765)	(5,176,844)
Other financing sources (uses)					
Issuance of debt	127,388	-	-	-	-
Proceeds from the sale of capital assets	-	-	38,600	8,215,110	909,718
Transfers in	991,375	1,042,923	934,247	1,256,117	1,213,746
Transfers out	(988,537)	(765,197)	(797,512)	(1,059,457)	(1,055,568)
Total other financing sources (uses)	130,226	277,726	175,335	8,411,770	1,067,896
Net change in fund balances	\$ (166,645)	\$ 1,687,934	\$ 572,147	\$ 7,181,005	\$ (4,108,948)
Debt service as a percentage of non-capital expenditures					
	3.19%	1.45%	1.48%	1.30%	1.12%

^(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 FOUR 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)
2006	74,472,627	238,603,261	-	11,499,110	45,188,601	(51,408,070)
2007	86,063,353	240,437,907	-	12,361,360	46,887,405	(53,401,350)

NOTE: The City of Morrow did not start collecting property taxes until 2004. Therefore, only the last four 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%
	318,355,529	5.00	795,888,823	40%
	332,348,675	5.00	830,871,688	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>
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
2006	0.250	5.000	8.764	20.000	34.014
2007	0.250	5.000	8.535	19.836	33.621

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 FOUR YEARS AGO

Taxpayer	2007 (Tax Digest Year)			2004 (Tax Digest Year)		
	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	\$ 27,214,207	1	8.19%	\$ 27,909,600	1	9.31%
Inland Southeast	8,836,000	2	2.66%	16,137,200	2	5.38%
Scott H Lee as Trustee	5,366,800	3	1.61%	6,073,621	7	2.03%
ECM Southlake	5,268,200	4	1.59%			
Inland Southeast Southlake	5,133,600	5	1.54%	6,085,000	6	2.03%
Clayton Place	4,517,400	6	1.36%			
Glewood Morrow	4,493,426	7	1.35%			
Southlake Atlanta, LLC	4,023,522	8	1.21%			
U S Bank	3,344,262	9	1.01%			
Southlake Atlanta, LLC	3,211,612	10	0.97%			
Costco				7,362,696	3	2.46%
Rich's Real Estate Inc.				7,041,200	4	2.35%
Sherwin Williams				6,147,494	5	2.05%
OLP Southlake				5,640,000	8	1.88%
Paccar Inc.				5,471,115	9	1.82%
Secured Prop Investors				5,373,183	10	1.79%
ALL OTHERS	260,939,646		78.51%	207,223,216		69.11%
Total	<u>\$ 332,348,675</u>		<u>100%</u>	<u>\$ 300,464,325</u>		<u>100%</u>

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 FOUR 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%	16,249	1,068,147	99.99%
2007	1,366,192	14,787	1,380,979	1,344,975	97.39%	34,357	1,379,332	99.88%
2008	1,520,933	(19,307)	1,501,626	1,483,899	98.82%	-	1,483,899	98.82%

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 SEVEN FISCAL YEARS

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
July	\$ 130,014	\$ 143,054	\$ 129,633	\$ 141,590	\$ 148,824	\$ 147,778	\$ 148,490
August	134,874	129,951	127,552	120,262	154,530	149,708	137,592
September	135,965	129,925	124,577	162,901	146,804	181,762	137,362
October	112,265	124,976	129,745	150,591	176,290	170,091	127,180
November	138,256	113,979	140,343	139,505	156,849	194,440	143,040
December	129,285	146,802	107,492	135,643	150,803	113,268	171,375
January	119,932	121,894	139,221	136,788	125,776	143,592	142,258
February	134,748	133,496	131,328	149,329	173,497	168,296	153,206
March	253,268	124,068	140,000	112,397	153,052	128,364	135,482
April	-	124,887	124,063	148,986	84,146	127,969	142,195
May	146,796	114,060	137,410	154,249	210,912	150,267	139,954
June	-	135,838	144,191	159,443	166,573	163,590	184,664
Adjustment	-	-	6,989	6,585	7,103	7,327	3,008
Total	<u>\$ 1,435,403</u>	<u>\$ 1,542,930</u>	<u>\$ 1,582,544</u>	<u>\$ 1,718,269</u>	<u>\$ 1,855,159</u>	<u>\$ 1,846,452</u>	<u>\$ 1,765,806</u>

Note: Detailed monthly amounts were not available prior to fiscal year 2002, therefore, only the last 7 years are presented.
Source: City records.

CITY OF MORROW, GEORGIA

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

<u>Fiscal Year</u>	<u>Governmental Activities</u>		<u>Total Primary Government</u>	<u>Percentage of Estimated Actual Value of Taxable Property</u>	<u>Percentage of Personal Income</u>	<u>Per Capita</u>	<u>Personal Income (thousands of dollars)</u>	<u>Population</u>
	<u>General Obligation Bonds</u>	<u>Capital Leases</u>						
2001	\$ -	\$ 36,012	\$ 36,012	0.01%	0.05%	\$ 7.38	\$ 76,862	4,882
2002	-	29,745	29,745	0.01%	0.03%	6.09	85,650	4,882
2003	-	98,987	98,987	0.04%	0.12%	20.28	85,650	4,882
2004	-	1,452,454	1,452,454	0.51%	1.70%	297.51	85,630	4,882
2005	-	1,400,066	1,400,066	0.47%	1.64%	286.78	85,630	4,882
2006	-	1,345,340	1,345,340	0.45%	1.57%	275.57	85,630	4,882
2007	-	1,288,336	1,288,336	0.40%	1.50%	263.90	85,630	4,882
2008	-	1,229,240	1,229,240	0.37%	1.44%	251.79	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
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%
2007	318,355,529	31,835,553	1,288,336	30,547,217	4.05%
2008	332,348,675	33,234,868	1,229,240	32,005,628	3.70%

CITY OF MORROW, GEORGIA

**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2008**

<u>Jurisdiction</u>	<u>Debt Outstanding</u>	<u>Percentage Applicable to the City of Morrow ^(a)</u>	<u>Amount Applicable to the City of Morrow</u>
Clayton County, Georgia- Overlapping Debt			
Capital leases payable	\$ 2,938,000	5.41%	\$ 159,041
Revenue bonds payable	24,505,000	5.41%	<u>1,326,516</u>
Subtotal Overlapping Debt			1,485,557
City of Morrow, Georgia- Direct Debt			
			<u>1,229,240</u>
Total Direct and Overlapping Debt			<u><u>\$ 2,714,797</u></u>

Sources: Assessed value data used to estimate applicable percentages provided by the County. Debt outstanding provided by the County (as of June 30, 2007) and City Finance Departments.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that could place burden on the residents and businesses of the City of Morrow. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account.

^(a) The percentage of overlapping debt applicable is estimated using the assessed gross digest. Applicable percentages were estimated by determining the portion of the City's assessed taxable value that is within the County's boundaries and dividing it by the County's total gross digest.

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>
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
2007	4,882 (5)	17,544 (5)	30.5 (5)	5.40%	1,312
2008	4,882 (5)	17,544 (5)	30.5 (5)	5.80%	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 CURRENT YEAR AND THREE YEARS AGO

Business	2008			2006		
	Number of Employees	Rank	Percentage of Total County Employment	Number of Employees	Rank	Percentage of Total County Employment
Wal-Mart Super Center	361	1	26.01%	477	1	26.00%
Macy's	231	2	16.64%	141	4	8.00%
Target	135	3	9.73%			
Costco	123	4	8.86%	115	6	7.00%
JC Penney's	108	5	7.78%	213	3	12.00%
Bestbuy	107	6	7.71%	107	8	6.00%
Sears	104	7	7.49%	134	5	7.00%
Cracker Barrel	87	8	6.27%	110	7	6.00%
Burlington Coat Factory	60	9	4.32%	60	9	3.00%
Barnes and Noble	59	10	4.25%	59	10	3.00%
Sherwin Williams				325	2	19.00%

Source: City records.

Information prior to 2006 was not available.

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>E-911</u>	<u>Total</u>
1999	23	32	26	1	10	92
2000	23	33	26	1	10	93
2001	23	33	26	1	10	93
2002	24	35	26	1	10	96
2003	24	35	26	1	10	96
2004	24	35	26	1	10	96
2005	26	36	27	1	10	100
2006	27	39	29	1	12	108
2007	33	37	34	1	12	117
2008	40	39	37	1	15	132

CITY OF MORROW, GEORGIA

PUBLIC SAFETY OPERATING INDICATORS BY FUNCTION LAST TEN FISCAL YEARS

Function	Fiscal Year Ended June 30,									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Police										
Citations issued	8,456	7,216	9,286	11,016	8,628	7,508	7,503	10,352	14,055	22,185
DUI Citations issued	38	40	41	38	67	61	48	76	124	260
Warnings issued	2,993	1,919	3,522	3,522	2,663	1,778	2,297	3,638	3,880	770
Crime Statistics:										
Aggravated Assault	14	12	8	9	23	13	18	8	13	8
Auto Theft	230	169	177	162	179	186	138	98	64	68
Murder	-	-	-	1	-	-	-	1	1	-
Rape	3	3	1	3	2	2	3	-	-	4
Robbery	32	42	24	42	42	31	32	33	33	24
Burglary	48	67	43	53	49	41	54	51	45	65
Theft	1,360	1,164	993	1,043	1,014	1,121	1,021	762	766	970
Fire										
Incident responses	2,021	2,124	1,960	1,833	1,739	1,833	1,966	1,978	2,100	2,000
Public Safety Education										
Events	97	102	93	78	82	113	78	113	115	115
Persons contacted	4,887	5,127	4,674	3,948	4,122	3,936	3,936	16,621	17,115	17,425

Source: City police and fire department records.

CITY OF MORROW, GEORGIA
CAPITAL ASSET STATISTICS BY FUNCTION
LAST FIVE FISCAL YEARS

Function/Program	Fiscal Year				
	2004	2005	2006	2007	2008
Police					
Stations	1	1	1	1	1
Zone offices	1	1	1	1	1
Patrol units	35	31	35	43	43
Fire stations	1	1	1	2	2
Public works					
Streets (miles)	29	29	31	34	34
Streetlights	630	700	768	861	861
Parks and recreation					
Acreage	80	82	85	125	125
Playgrounds	3	6	8	11	11

Sources: Various City departments.

Note: No capital asset indicators are available for the general government functions.

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>
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
2007	49	7,554,925	44	5,657,668
2008	31	4,210,993	32	3,472,189

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, 2008, which collectively comprise the City of Morrow, Georgia's basic financial statements and have issued our report thereon dated October 17, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Morrow, Georgia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Morrow, Georgia's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2008 - 1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2008 - 1 to be a material weakness.

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 also noted certain matters that we reported to management of the City of Morrow, Georgia in a separate letter dated October 17, 2008.

The City of Morrow, Georgia's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Morrow, Georgia's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, others within the City, federal awarding agencies, and the Georgia Department of Audits and Accounts, and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Macon, Georgia
October 17, 2008

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the City of Morrow, Georgia with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of Morrow, Georgia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Morrow, Georgia's management. Our responsibility is to express an opinion on the City of Morrow, Georgia's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Morrow, Georgia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Morrow, Georgia's compliance with those requirements.

In our opinion, the City of Morrow, Georgia complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City of Morrow, Georgia is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Morrow, Georgia's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Morrow, Georgia's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Mauldin & Jenkins, LLC

Macon, Georgia
October 17, 2008

**CITY OF MORROW, GEORGIA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2008**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation			
Pass-through from the Georgia Department of Transportation			
Transportation Enhancement Activity	20.600	STP-0002-00 (849)	\$ 1,024,000
Transportation Enhancement Activity	20.600	TEE-0006-00 (642)	500,441
Livealbe Centers Initiative Project	20.600	STP-0004-00 (471)	<u>1,506,917</u>
Total U.S. Department of Transportation			<u>3,031,358</u>
U.S. Department of Justice			
Pass-through from the Georgia Criminal Justice Coordinating Council			
Public Safety Partnership and Community Policing Grant	16.710	N/A	<u>10,000</u>
Total Federal Expenditures			<u>\$ 3,041,358</u>

CITY OF MORROW, GEORGIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting.

Measurement Focus

The determination of when an award is expended is based on when the activity related to the award occurred.

Program Type Determination

Type A programs are defined as federal programs with federal expenditures exceeding the larger of \$300,000 or three percent of total federal expenditures. The threshold of \$300,000 was used in distinguishing between Type A and Type B programs.

Method of Major Program Selection

The risk based approach was used in the selection of federal programs to be tested as major programs. The City did not qualify as a low-risk auditee for the fiscal year ended June 30, 2008.

Amount Provided to Subrecipients

The City had no major programs that provided amounts to subrecipients.

CITY OF MORROW, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

SECTION I SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting:
Material weaknesses identified? yes no

Significant deficiencies identified not considered
to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal Control over major programs:
Material weaknesses identified? yes no

Reportable conditions identified not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with
OMB Circular A-133, Section 510(a)? yes no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.600	DOT Transportation Enhancement Activity
20.600	Liveable Centers Initiative Project

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

CITY OF MORROW, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

2008 - 1. Debt Transactions (Component Unit – Downtown Development Authority)

Criteria: Proprietary funds use the economic resources measurement focus, which requires those funds to report all assets and liabilities, including long-term debt.

Condition: The City's component unit did not properly record, in full, its debt activity during the year ended June 30, 2008. Specifically, accrued interest at year end was not properly recorded and current year bond issuance costs were not properly capitalized.

Context: See above condition.

Effect: An audit adjustment to decrease accrued interest and interest expense by \$22,536 was required to be recorded by the Downtown Development Authority as of June 30, 2008. In addition, an audit adjustment to increase bond issuance costs and reduce operating expenses in the amount of \$71,117 was required to be recorded by the Downtown Development Authority as of June 30, 2008.

Recommendation: We recommend the Downtown Development Authority record all debt transactions appropriately as they occur during the year.

Views of Responsible Officials and Planned Corrective Action: We concur with the finding. We will record all debt transactions appropriately as they occur during the year.

SECTION III FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported.

CITY OF MORROW, GEORGIA
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

2007 - 1. Deferred Revenue

For the year ending June 30, 2007, we noted the City of Morrow did not properly record the year end deferred revenue related to property taxes billed during the year but not collected within 60 days of the year ended June 30, 2007.

Status: The above finding was corrected for the year ended June 30, 2008.