CITY OF LAVONIA, GEORGIA

Annual Financial Report

For the year ended December 31, 2010

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CITY OF LAVONIA, GEORGIA
FINANCIAL REPORT
For the year ended December 31, 2010

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Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Lavonia, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lavonia, Georgia, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lavonia, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lavonia, Georgia, as of December 31, 2010, and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2011 on our consideration of the City of Lavonia, 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lavonia, Georgia's, basic financial statements as a whole. The combining and individual fund financial statements and schedules, and the special purpose local option sales tax report are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules, and the special purpose local option sales tax report are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Rushton & Company, LLC

Certified Public Accountants

Gainesville, Georgia
March 30, 2011

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CITY OF LAVONIA

"A GEORGIA CITY OF EXCELLENCE"

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RALPH M. OWENS
Mayor

City Manager
GARY M. FESPERMAN

Mayor Pro tem
EDDIE FLOYD

Council Members
DONALD CANADY
EDDIE FLOYD
HAROLD HARBIN
DAVID HOWELL

City Clerk
ANGELA V. GREER

Assistant City Clerk
SUSAN GORMAN

Water Clerk
AMY RATCLIFFE

HR Director
CHERYL HUMBERT

Water Superintendent
JAMES MOSELEY

Street Superintendent
RODNEY ANDREWS

Attorney
JOHN DICKERSON

Police Chief
BRUCE CARLISLE

Municipal Court Judge
FRANK GEORGE

Fire Chief
JONES BEASLEY

Better Hometown Director
GENNY COLE

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lavonia, it is our pleasure to present this narrative discussion and analysis of the City of Lavonia's financial performance, providing an overview of the activities for the year ended December 31, 2010. The purpose of this narrative is to provide readers of financial statements with information that will help them make timely and meaningful financial decisions or draw conclusions about the City of Lavonia. This analytical information is designed to be read in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The City of Lavonia's assets exceeded its liabilities at December 31, 2010, by $16,622,287. (reported as *net assets*).
- As of December 31, 2010, Lavonia's governmental funds reported combined ending fund balances of $3,875,949. Approximately 80% of this total amount, $3,121,637, is available for spending at the City Council's discretion (unreserved fund balance of the General Fund).

More detailed information regarding these activities and funds begins on page 7.

Overview of the Financial Statements

This discussion and analysis narrative is intended to serve as an introduction to the City of Lavonia's basic financial statements. The City of Lavonia's basic financial statements are composed of three elements: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains required supplementary information in addition to our basic financial statements.

Government-wide Financial Statements (Reporting the City as a whole)

The focus of the government-wide financial statements is on the overall financial position and activities of the City of Lavonia and is designed to provide readers with a broad overview of the City's financial activities in a manner similar to a private business enterprise.

The purpose of the ***Statement of Net Assets*** (pages 14-15) is to attempt to report all of the assets held and liabilities owed by the City. The City reports all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. The difference between the total assets and total liabilities is labeled *net assets*. Although the purpose of the City is not to accumulate net assets, in general, as this amount increases it indicates that the financial position of the City is improving over time.

The ***Statement of Activities*** (page 16), on the other hand, presents the revenues and expenses of the City. Under the accrual basis of accounting mentioned earlier, revenues are recognized when earned and expenses when incurred in this statement. Thus, revenues are reported even when they may not be collected for several weeks after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period. The difference is described as *change in net assets*. The primary focus of the Statement of Activities is on the *net cost* of various activities provided by the City and identifies the extent to which each function of the City draws from general revenues or is self-financing through fees, grants, or other sources.

In the Statement of Net Assets and the Statement of Activities, we divide the City of Lavonia into three types of activities:

- ***Governmental activities*** – Most of the City's basic services are reported under this category, including police, fire, public works, and general administration. Sales tax, property taxes, and intergovernmental revenues finance most of these services.

- ***Business-type activities*** – The City charges fees to customers to assist in covering all or most of the cost for certain services it provides. The City's water and sewer system and garbage collection fees are reported in this category.

- ***Discretely Presented Component Unit*** – Component units are legally separate organizations for which the elected officials of the City are financially accountable. The Downtown Development Authority, although legally separate, functions for all practical purposes as a department of the City of Lavonia, and therefore has been included as an integral part of the primary government.

The City's government-wide financial statements are presented on pages14-16.

Fund Financial Statements (Reporting the City's Major Funds)

The focus of fund financial statements is directed to specific activities of the City and its most significant funds, not the City as a whole. A fund is an entity with a self-balancing set of accounts that the City uses to track specific resources and expenditures, either for management purposes or because of legal mandates. In addition to the major funds, individual fund data for the City's non-major funds can be found beginning on page 56. The City's funds are divided into three broad categories – governmental, proprietary, and fiduciary – and use different accounting approaches.

- ***Governmental Funds*** – These funds account for essentially the same functions reported as governmental activities in the government-wide financial statements; however, governmental fund financial statements focus on the short-term view of the City's general government operations and the basic services it provides. Governmental funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

Because the focus of the governmental fund financial statements is narrower than that of the government-wide financial statements and because of the different accounting methods used to prepare them, there are often significant differences between the totals presented in these financial statements. It is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. An analysis of the balance sheet and the statement of revenues, expenditures, and changes in fund balances that reconciles the two statements are provided at the bottom of each statement.

In addition to the General Fund, which is reported as a major fund, the City of Lavonia maintains two governmental fund types:

1. Special Revenue Funds
2. Capital Projects Funds

The City of Lavonia adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The City's basic governmental fund financial statements are presented on pages 17-22 if this report.

- ***Proprietary Funds*** – When the City charges customers for the services it provides – whether to outside customers or to other departments of the City – these services are generally reported in proprietary funds. These proprietary funds are prepared using the same accounting basis as the government-wide financial statements.

  Enterprise fund statements report the same functions presented in the business-type activities columns of the government-wide financial statements. The City of Lavonia uses enterprise funds to account for its Water and Sewer system, and Solid Waste functions, which are reported as major funds.

The City's proprietary fund financial statements are presented on pages 23-26.

- ***Fiduciary Funds –*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Lavonia's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City acts as a trustee or fiduciary for the Municipal Court Agency Fund.

Fiduciary funds are presented in the fund financial statements but are not reported in the government-wide financial statements.

The City's fiduciary fund Statement of Assets and Liabilities is presented on page 27.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-55 of this report.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds. These funds are added together by fund type and presented in single columns in the basic financial statements but are not reported individually, as with major funds, on the government-wide financial statements.

This report includes two schedules (pages 18 and 20) which reconcile the amounts reported on the governmental fund financial statements (modified accrual basis of accounting) with the governmental activities reported on the government-wide financial statements (accrual basis of accounting). The following summarizes the impact of transitioning from modified accrual to accrual accounting:

- Capital assets used in governmental activities on the government-wide statements are not reported on fund financial statements.

- Certain tax revenues that are earned, but not available, are reported as revenue on the government-wide statement but are reported as deferred revenue on the fund statements.

- Unless due and payable, long-term liabilities, such as lease obligations, compensated absences, bonds and notes payable, and others only appear as liabilities in the government-wide statements.

- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the governmental fund financial statements.

- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements but are reported as expenditures on the governmental fund financial statements.

Overview of the City's Financial Position and Operations

The City's overall financial position and operations for this year is summarized as follows based on the information included in the government-wide financial statements (see pages 14-16):

City of Lavonia
Net Assets (Financial Position)
As of December 31, 2010 and 2009

	Governmental Activities		Business-Type Activities		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Current assets	$ 3,540,551	$ 3,500,434	$ 1,032,183	$ 1,331,395	$ 4,572,734	$ 4,831,829
Capital assets	4,411,178	4,567,026	10,052,535	10,327,764	14,463,713	14,894,790
Other noncurrent assets	326,456	355,030	0	0	326,456	355,030
Total assets	8,278,185	8,422,490	11,084,718	11,659,159	19,362,903	20,081,649
Current liabilities	153,668	144,602	220,543	246,513	374,211	391,115
Noncurrent liabilities	141,284	161,694	2,225,121	2,908,949	2,366,405	3,070,643
Total liabilities	294,952	306,296	2,445,664	3,155,462	2,740,616	3,461,758
Net Assets						
Invested in capital assets, net of related debt	4,249,484	4,375,019	7,785,746	7,339,361	12,035,230	11,714,380
Restricted	626,441	593,407	86,430	89,430	712,871	682,837
Unrestricted	3,107,308	3,147,768	766,878	1,074,906	3,874,186	4,222,674
Total net assets	$ 7,983,233	$ 8,116,194	$ 8,639,054	$ 8,503,697	$ 16,622,287	$ 16,619,891

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets for the City of Lavonia exceeded liabilities by $16,622,287 at the close of the current year. However, much of those net assets either are restricted as to the purposes for which they can be used, or are invested in capital assets.

The largest portion (72%) of the City of Lavonia's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, infrastructure), less any related debt outstanding that was needed to construct or acquire the assets. The City uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

In addition, the surplus in unrestricted governmental net assets was negatively affected by several factors of the City's recent financial activity: a noticeable reduction in property tax revenues, as well as interest and investment earnings due to the slow economy. Expenses for both governmental and business-type activities were up slightly from 2009.

Although the net assets of our business-type activities represents 51% ($8,639,054) of total net assets, these resources cannot be used to add to the net asset surplus in governmental activities. The City generally can only use these net assets to finance the continuing operations of the business-type activities.

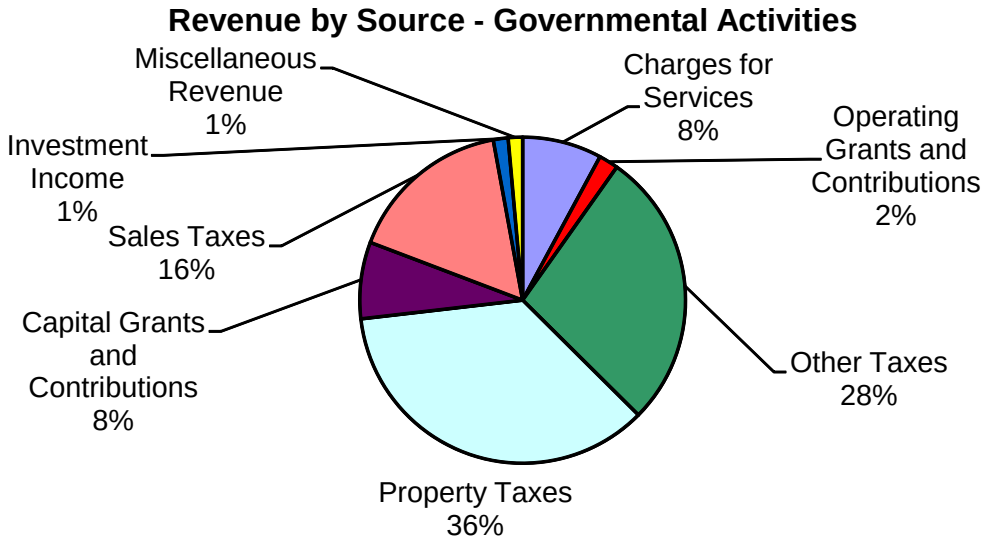
The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the City of Lavonia's net assets changed during the year.

City of Lavonia
Changes in Net Assets
For the years ending December 31, 2010 and 2009

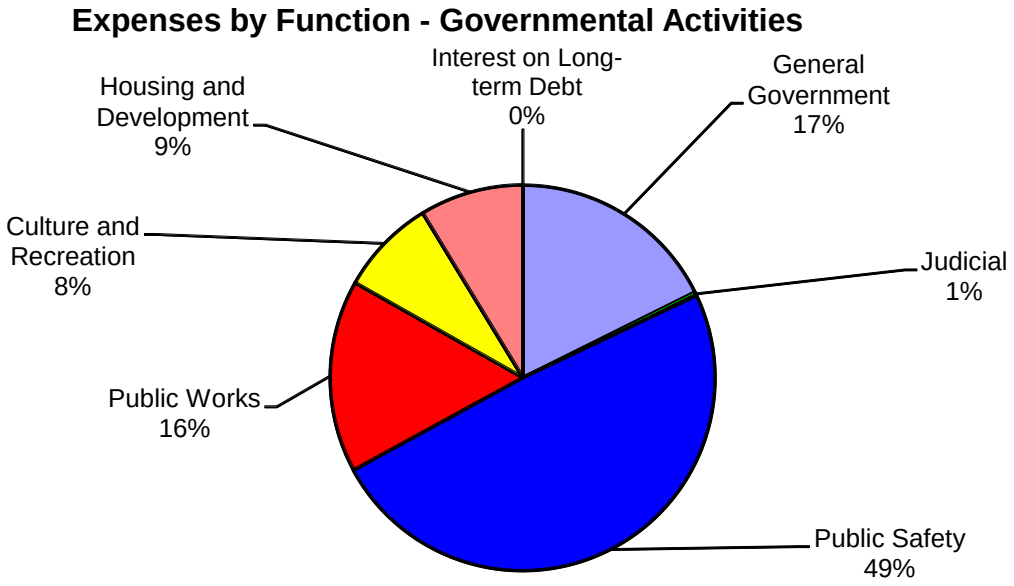
	Governmental Activities		Business-Type Activities		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Program revenues:						
Charges for services	$ 190,497	$ 180,368	$ 2,372,242	$ 2,217,005	$ 2,562,739	$ 2,397,373
Operating grants and contributions	46,695	17,283	0	0	46,695	17,283
Capital grants and contributions	183,962	24,736	3,027	17,028	186,989	41,764
General revenues:						
Property taxes	864,358	920,536	0	0	864,358	920,536
Sales tax	395,274	371,390	0	0	395,274	371,390
Other taxes	668,486	645,787	0	0	668,486	645,787
Investment income	35,497	44,137	12,933	15,400	48,430	59,537
Miscellaneous revenue	34,376	42,850	3,068	11	37,444	42,861
Total revenues	2,419,145	2,247,087	2,391,270	2,249,444	4,810,415	4,496,531
Expenses						
General Government	445,040	452,771	0	0	445,040	452,771
Judicial	7,878	8,477	0	0	7,878	8,477
Public Safety	1,236,839	1,220,799	0	0	1,236,839	1,220,799
Public Works	407,387	350,190	0	0	407,387	350,190
Culture and Recreation	204,290	185,275	0	0	204,290	185,275
Housing and Development	218,838	210,596	0	0	218,838	210,596
Interest on long-term debt	218	682	0	0	218	682
Water and sewer	0	0	1,935,677	1,896,148	1,935,677	1,896,148
Solid Waste	0	0	351,852	335,501	351,852	335,501
Total expenses	2,520,490	2,428,790	2,287,529	2,231,649	4,808,019	4,660,439
Increase (decrease) in net assets before transfers	(101,345)	(181,703)	103,741	17,795	2,396	(163,908)
Transfers	(31,616)	(30,297)	31,616	30,297	0	0
Increase (decrease) in net assets	(132,961)	(212,000)	135,357	48,092	2,396	(163,908)
Net assets - beginning	8,116,194	8,328,194	8,503,697	8,455,605	16,619,891	16,783,799
Net assets - ending	$ 7,983,233	$ 8,116,194	$ 8,639,054	$ 8,503,697	$ 16,622,287	$ 16,619,891

Governmental Activities –

The following chart depicts revenues of the governmental activities for the year:



The following chart depicts the expenses of the governmental activities for the year:



Business-type Activities –

Business-type activities increased the City of Lavonia's net assets by $135,357; this is $87,265 more than the increase in net assets for 2009. The key elements of this increase are:

- FY2010 operating income increased by $141,826 over FY2009 due to the rate increase implemented in early FY 2009 and increased customer usage in 2010. The easing of the regional severe drought conditions experienced in FY2008-09 resulted in increased Hartwell Lake seasonal residential usage, increased commercial and industrial usage, and an increase in outdoor watering. Expenditures were greater in FY2010 than FY2009 by $55,880 due to necessary water plant equipment replacement and system repairs; however, after transfers there was an increase of $135,357 in net assets.

Financial Analysis of the City's Funds

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

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

As the City completed this year, its governmental funds reported a combined ending fund balance of $3,761,230. Of this amount, $3,644,674 (96%) constitutes unreserved, undesignated fund balance, which is available for appropriation for the general purposes of the funds. The remainder of fund balance is reserved or designated the 2011 budget and is not available for spending.

The **General Fund** is the chief operating fund of the City. At the end of the current year, unreserved, undesignated fund balance of the General Fund was $3,071,637, while total fund balance was $3,134,790. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved, undesignated fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 145% of total General Fund expenditures, while total fund balance represents 148% of that same amount.

General Fund Budget Highlights

The original budget for the General Fund was amended by various appropriations approved after the beginning of the year. In addition, Council approved several adjustments to prevent budget overruns.

<u>Adjustments to the General Fund Expenditures</u>

- Adjustments were made from one department to another department to prevent budget overruns which did not result in any dollar increases in total General Fund Expenditures for 2010.

It is anticipated that the General Fund will not see a significant increase in revenues in 2011 due to the continued sluggish economic growth conditions in the region; however, we do anticipate a slight increase in the Local Option Sales Tax, Building Permits, and Franchise Tax categories. Therefore, the City will continue to hold the line with operating budgets to help insure that the General Fund Reserve balance remains positive.

Proprietary Funds

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

Net assets of the City's two proprietary funds totaled as follows:

- Water and Sewer $ 8,639,054
- Solid Waste $ 0

The total increase in net assets for both funds was $135,357. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

Capital Assets and Debt Administration

Capital Assets. The City of Lavonia has invested $14,463,713 in capital assets (net of accumulated depreciation). Capital assets include infrastructure, land, buildings, and machinery and equipment. Approximately 69% of this investment is related to business-type activities and approximately 31% relates to governmental activities.

During 2010, the City invested $363,932 in new capital assets. Major capital asset events during the current year included the following:

Business-type Activities
2010

2009 Chevrolet Impala office vehicle	$ 13,900
Storage building addition at Maintenance Shop	24,000
Water Treatment Plant equipment upgrade	15,265
Cleanup of City property downstream of Crawford Creek Dam	3,800
Watershed Management Plan required by Georgia EPD	6,457
New Hospital right-of-way purchase (Moncrief Property)	28,507
Engineering Water Plant upgrade Ty Cobb Regional Medical Ctr	40,948
	$ 132,877

Governmental Activities
2010

City web site development	$ 2,960
Surveillance camera equipment for Police Dept	4,430
Two 2010 Crown Victoria Police cars and equipment	52,639
Used 2007 Chevrolet Tahoe Police Investigator vehicle	25,786
Partnered with Franklin County Mega Ramp Dock Project	35,000
Phase I Lavonia Railroad Depot Restoration Project	110,240
	$ 231,055

Capital assets held by the City at the end of the current year are summarized as follows:

City of Lavonia
Capital Assets (net of accumulated depreciation)
As of December 31, 2008 and 2009

	Governmental Activities		Business-type Activities		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Land	$ 493,811	$ 493,811	$ 413,072	$ 384,565	$ 906,883	$ 878,376
Buildings	4,391,589	4,281,349	177,559	153,559	4,569,148	4,434,908
Land improvements	1,123,686	1,108,474	3,800	0	1,127,486	1,108,474
Distribution system	0	0	14,321,006	14,280,059	14,321,006	14,280,059
Vehicles and equipment	2,426,760	2,422,384	562,068	532,903	2,988,828	2,955,287
Furniture and fixtures	138,927	120,677	71,012	71,012	209,939	191,689
Construction in progress	0	20,343	70,011	63,554	70,011	83,897
Total	8,574,773	8,447,038	15,618,528	15,485,652	24,193,301	23,932,690
Accumulated depreciation	(4,163,595)	(3,880,012)	(5,565,995)	(5,157,888)	(9,729,590)	(9,037,900)
Net Capital Assets	$ 4,411,178	$ 4,567,026	$ 10,052,533	$ 10,327,764	$ 14,463,711	$ 14,894,790

Additional information on the City of Lavonia's capital assets can be found in the Note 8 to the Financial Statements on pages 43-44 of this report.

Long-term debt. At December 31, 2010, the City of Lavonia had $2,428,483 in bonds, notes, and capital leases outstanding, a decrease in total of $751,927 from 2009.

City of Lavonia
Outstanding Debt
As of December 31, 2010 and 2009

	Governmental Activities		Business-type Activities		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Revenue bonds	$0	$0	$2,266,789	$2,306,566	$2,266,789	$2,306,566
Notes payable	0	0	0	665,777	0	665,777
Capital leases	161,694	192,007	0	16,060	161,694	208,067
Total	$161,694	$192,007	$2,266,789	$2,988,403	$2,428,483	$3,180,410

Additional information on the City's long-term debt can be found in the Note 10 to the Financial Statements on pages 46-47 of this report.

Economic Condition and Outlook

We, as management, in considering the current and forecasted economic conditions for FY2011, still see a continued slow recovery period ahead, especially through most of 2011. During 2009-10, Sales Tax and Franchise Tax revenues were considerably lower than 2007-08 levels and we do not foresee this trend changing during most of 2011. Water sales should remain fairly constant with only a slight increase anticipated due to diminished industrial production schedules, slow commercial growth and expansion, and a drop in residential outside watering and poultry house usage due to increased rainfall and the recharging of well water supplies. The City will continue to monitor market conditions before giving approval to start any major proposed General Fund Capital Project during 2011. Management has given careful consideration to the uncertainty of the market and the continued sluggish economic growth in the preparation of the city budgets for FY2011. Noteworthy budget item and cost saving considerations were:

- General Fund Revenue projections were lowered another 5% over the 2010 budget with only slight to moderate growth anticipated in the state and national economies through most of 2011. General Fund Expenditures were also lowered by 5% via the continued delaying of major capital expenditures; i.e. machinery and equipment, and major building improvements.
- With most revenue streams expected to remain at or near 2010 levels, certain departmental operational expenditures are expected to rise. Insurance, contract services, infrastructure raw materials, and service provision costs are expected to rise with the upturn in the economic forecast. This has and will continue to have a dramatic impact on the city's ability to maintain current operational levels or repair existing infrastructure as needed with the funding available through our present revenue sources. In addition, grant funding at the state and federal levels is expected to be more competitive with reduced funding being allocated to the states for disbursement.
- Natural gas and electricity budgets for all departments have been increased again to try and keep pace with those rising energy costs. Polices have already been put in place to reduce electricity, heating, and cooling usage to conserve energy and help reduce energy costs for the city. Gasoline and diesel fuel costs are also expected to increase in 2011 and city vehicle usage in all departments will be determined by these increases.
- Interest rates on C.D.'s are expected to be at or near 1% for 2011, which is a decrease from 2008 thru 2010. This prediction is based on the Federal Reserve's reports regarding the lack of a strong economic turnaround and their efforts to stimulate it by keeping interest rates low. If the Fed continues to keep interest rates at these record lows, the rate of 2011 return on our investments will be much lower than in 2009 and 2010.
- A 50 cent per hour cost of living adjustment (COLA) for all employees was included in the 2011 budget; however, the Mayor and Council decided to suspend 2011 employee raises until we have a better understanding of the revenue streams into the city. If revenues increase to the point that a cost of living adjustment can be given, the Mayor and Council will determine when that adjustment will be implemented. Management may also elect to not refill a vacant position in other cost cutting measures if necessary. Once again management expects to produce more with less this coming year.

Contacting the City's Financial Services Department

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City of Lavonia's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed as follows:

City of Lavonia
Office of the City Manager
12221 Augusta Road
PO Box 564
Lavonia, GA 30553

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BASIC FINANCIAL STATEMENTS

CITY OF LAVONIA, GEORGIA
STATEMENT OF NET ASSETS
December 31, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
ASSETS				
Current assets				
Cash and cash equivalents	$ 1,144,351	$ 233,666	$ 1,378,017	$ 30,066
Certificates of deposit	900,000	300,000	1,200,000	0
Restricted assets				
Cash and cash equivalents	0	128,044	128,044	0
Receivables (net)				
Accounts	0	275,015	275,015	0
Taxes	384,125	0	384,125	0
Intergovernmental	5,072	0	5,072	0
Interest	13,979	5,176	19,155	0
Notes	31,133	0	31,133	0
Internal balances	(4,645)	4,645	0	0
Inventories	0	78,205	78,205	0
Prepaid items	13,556	7,432	20,988	0
Property held for resale	1,052,980	0	1,052,980	0
Total current assets	3,540,551	1,032,183	4,572,734	30,066
Noncurrent assets				
Notes receivable	326,456	0	326,456	0
Capital assets				
Non-depreciable	493,811	483,083	976,894	40,000
Depreciable (net)	3,917,367	9,569,452	13,486,819	108,765
Total noncurrent assets	4,737,634	10,052,535	14,790,169	148,765
Total assets	8,278,185	11,084,718	19,362,903	178,831
LIABILITIES				
Current liabilities				
Payables				
Accounts	40,292	57,776	98,068	633
Interest	5,801	0	5,801	0
Compensated absences	77,126	52,540	129,666	0
Accrued payroll liabilities	3,483	1,974	5,457	0
Unearned revenue	3,476	13,325	16,801	0
Capital lease payable	20,410	0	20,410	0
Retainages payable	0	7,744	7,744	0
Other liabilities	3,080	3,902	6,982	88
Liabilities payable from restricted assets				
Customer deposits payable	0	38,590	38,590	0
Revenue bonds payable	0	41,668	41,668	0
Interest payable	0	3,024	3,024	0
Total current liabilities	153,668	220,543	374,211	721

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
STATEMENT OF NET ASSETS
December 31, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Noncurrent liabilities				
Capital leases payable	$ 141,284	$ 0	$ 141,284	$ 0
Revenue bonds payable	0	2,225,121	2,225,121	0
Total noncurrent liabilities	141,284	2,225,121	2,366,405	0
Total liabilities	294,952	2,445,664	2,740,616	721
NET ASSETS				
Invested in capital assets, net of related debt	4,249,484	7,785,746	12,035,230	148,765
Restricted for:				
Public Safety	3,012	0	3,012	0
Housing and Development	623,429	0	623,429	0
Debt service	0	86,430	86,430	0
Unrestricted	3,107,308	766,878	3,874,186	29,345
Total net assets	$ 7,983,233	$ 8,639,054	$ 16,622,287	$ 178,110

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
STATEMENT OF ACTIVITIES
For the year ended December 31, 2010

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Primary government					
Governmental activities					
General Government	$ 445,040	$ 38,546	$ 0	$ 0	$ (406,494)
Judicial	7,878	0	0	0	(7,878)
Public Safety	1,236,839	145,994	28,695	34,034	(1,028,116)
Public Works	407,387	0	0	52,112	(355,275)
Culture and Recreation	204,290	0	18,000	97,816	(88,474)
Housing and Development	218,838	5,957	0	0	(212,881)
Interest on long-term debt	218	0	0	0	(218)
Total governmental activities	2,520,490	190,497	46,695	183,962	(2,099,336)
Business-type activities					
Water and Sewer	1,935,677	2,059,590	0	3,027	126,940
Solid Waste	351,852	312,652	0	0	(39,200)
Total business-type activities	2,287,529	2,372,242	0	3,027	87,740
Total primary government	4,808,019	2,562,739	46,695	186,989	(2,011,596)
Component Unit					
Downtown Development Authority					
Housing and Development	31,309	683	7,029	0	(23,597)

	Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Unit
Change in net assets				
Net (expense) revenue	$ (2,099,336)	$ 87,740	$ (2,011,596)	$ (23,597)
General revenues				
Taxes				
Property	864,358	0	864,358	0
Sales	395,274	0	395,274	0
Franchise	250,655	0	250,655	0
Insurance premium	98,351	0	98,351	0
Intangibles	13,484	0	13,484	0
Alcoholic beverage	132,681	0	132,681	0
Hotel/Motel	109,198	0	109,198	0
Occupational	64,117	0	64,117	0
Payments from City of Lavonia	0	0	0	10,000
Interest and investment earnings	35,497	12,933	48,430	0
Miscellaneous	34,376	3,068	37,444	9,818
Transfers	(31,616)	31,616	0	0
Total general revenues and transfers	1,966,375	47,617	2,013,992	19,818
Change in net assets	(132,961)	135,357	2,396	(3,779)
Net assets - beginning	8,116,194	8,503,697	16,619,891	181,889
Net assets - ending	$ 7,983,233	$ 8,639,054	$ 16,622,287	$ 178,110

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010

	General	Nonmajor Governmental Funds	Total
ASSETS			
Cash and cash equivalents	$ 883,130	$ 261,221	$ 1,144,351
Certificates of deposit	900,000	0	900,000
Receivables (net)			
Taxes	374,993	9,132	384,125
Intergovernmental	4,046	1,026	5,072
Interest	13,979	0	13,979
Notes	0	357,589	357,589
Prepaid items	13,153	403	13,556
Property held for resale	1,052,980	0	1,052,980
Due from other funds	0	4,297	4,297
Total assets	$ 3,242,281	$ 633,668	$ 3,875,949
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ 33,329	$ 6,963	$ 40,292
Accrued payroll liabilities	3,483	0	3,483
Deferred revenue	58,922	0	58,922
Due to other funds	8,942	0	8,942
Other liabilities	2,815	265	3,080
Total liabilities	107,491	7,228	114,719
Fund balances			
Reserved for prepaid items	13,153	0	13,153
Special Revenue Funds	0	403	403
Unreserved, designated for budget	50,000	0	50,000
Special Revenue Funds	0	53,000	53,000
Unreserved, undesignated	3,071,637	0	3,071,637
Special Revenue Funds	0	573,037	573,037
Total fund balances	3,134,790	626,440	3,761,230
Total liabilities and fund balances	$ 3,242,281	$ 633,668	$ 3,875,949

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
December 31, 2010

Total fund balance - total governmental funds	$	3,761,230
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets of $8,574,773, net of accumulated depreciation of ($4,163,595), are not financial resources and, therefore, are not reported in the funds.		4,411,178
Long-term assets (receivables) are not available to pay current period expenditures and, therefore, are deferred in the funds. These include deferred property taxes of $55,446.		55,446
Long-term liabilities are not due and payable in the current period and are not reported in the funds. These are capital leases of ($161,694), interest payable of ($5,801), and compensated absences of ($77,126).		(244,621)
Net assets of governmental activities	$	7,983,233

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year ended December 31, 2010

	General	Nonmajor Governmental Funds	Total
REVENUES			
Taxes	$ 1,822,309	$ 109,198	$ 1,931,507
Licenses and permits	35,557	0	35,557
Fines, fees and forfeitures	140,128	4,647	144,775
Charges for services	10,165	0	10,165
Intergovernmental	75,431	149,928	225,359
Interest	23,965	11,532	35,497
Contributions	3,798	0	3,798
Other	18,038	3,450	21,488
Total revenues	2,129,391	278,755	2,408,146
EXPENDITURES			
Current			
General Government	418,029	0	418,029
Judicial	7,878	0	7,878
Public Safety	1,061,229	3,324	1,064,553
Public Works	363,908	0	363,908
Culture and Recreation	84,722	0	84,722
Housing and Development	141,438	72,590	214,028
Debt service	37,964	0	37,964
Capital outlay	0	196,143	196,143
Total expenditures	2,115,168	272,057	2,387,225
Excess (deficiency) of revenues over (under) expenditures	14,223	6,698	20,921
Other financing sources (uses)			
Transfers in	0	47,519	47,519
Transfers out	(59,255)	(19,880)	(79,135)
Proceeds from sales of assets	14,730	0	14,730
Total other financing sources (uses)	(44,525)	27,639	(16,886)
Net change in fund balance	(30,302)	34,337	4,035
Fund balances, January 1	3,165,092	592,103	3,757,195
Fund balances, December 31	$ 3,134,790	$ 626,440	$ 3,761,230

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the year ended December 31, 2010

Net change in fund balances - total governmental funds	$	4,035
Amounts reported for governmental activities in the statement of activities are different because:		
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 depreciation of ($384,210) and prior construction in progress projects not capitalized of ($1,200) exceed capital outlays of $229,904 in the current period.		(155,506)
In the statement of activities, the loss on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net assets differs from the change in fund balance by the cost of the assets sold of ($102,469), net of accumulated depreciation of $100,627.		(1,842)
Contribution of capital assets from component unit of $1,500 increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.		1,500
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These include recognition of unavailable deferred revenue.		(3,389)
The proceeds of debt issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which debt payments of $30,313 exceeded proceeds of $0.		30,313
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. These include the net change of ($8,775) in compensated absences and $703 in interest payable.		(8,072)
Change in net assets of governmental activities	$	(132,961)

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET (GAAP) AND ACTUAL
For the year ended December 31, 2010

	Budget			Variance with Final
	Original	Final	Actual	Budget
REVENUES				
Taxes	$ 1,811,200	$ 1,796,200	$ 1,822,309	$ 26,109
Licenses and permits	34,100	34,100	35,557	1,457
Fines, fees and forfeitures	130,000	130,000	140,128	10,128
Charges for services	14,200	14,200	10,165	(4,035)
Intergovernmental	27,000	69,584	75,431	5,847
Interest	60,000	60,000	23,965	(36,035)
Contributions	0	0	3,798	3,798
Other	12,500	20,500	18,038	(2,462)
Total revenues	2,089,000	2,124,584	2,129,391	4,807
EXPENDITURES				
Current				
General Government				
Governing Body	89,261	95,461	95,371	90
Financial Administration	331,364	332,199	322,658	9,541
Judical				
Municipal Court	9,450	9,450	7,878	1,572
Public Safety				
Police Department	959,298	986,995	986,989	6
Fire Department	66,035	71,415	71,411	4
Communications	0	6,000	2,829	3,171
Public Works				
Highways and Streets	241,186	262,386	262,385	1
Maintenance Shop	48,831	52,591	52,588	3
Cemetery	2,000	2,000	0	2,000
Detention Services	47,350	48,950	48,935	15
Culture and Recreation				
Parks and Recreation	65,788	65,788	58,070	7,718
Community Center	11,250	11,250	9,530	1,720
Library	18,900	18,900	17,122	1,778
Housing and Development				
Inspections	99,392	100,642	100,640	2
Better Home Towns	45,445	45,445	40,798	4,647
Debt service				
General Government				
Financial Administration	12,500	12,500	10,925	1,575
Public Safety				
Fire Department	27,100	27,100	27,039	61
Total expenditures	2,075,150	2,149,072	2,115,168	33,904
Excess (deficiency) of revenues over (under) expenditures	13,850	(24,488)	14,223	38,711

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET (GAAP) AND ACTUAL
For the year ended December 31, 2010

	Budget			Variance with Final
	Original	Final	Actual	Budget
Other financing sources (uses)				
Transfers in (out)				
Transfers out	$ (30,000)	$ (30,000)	$ (59,255)	$ (29,255)
Proceeds from sales of assets	18,000	10,000	14,730	4,730
Contingency	(1,850)	(3,647)	0	3,647
Total other financing sources (uses)	(13,850)	(23,647)	(44,525)	(20,878)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	0	(48,135)	(30,302)	17,833
Fund balances, January 1	0	48,135	3,165,092	3,116,957
Fund balances, December 31	$ 0	$ 0	$ 3,134,790	$ 3,134,790

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010

	Water and Sewer	Solid Waste	Totals
ASSETS			
Current assets			
Cash and cash equivalents	$ 233,666	$ 0	$ 233,666
Certificates of deposit	300,000	0	300,000
Restricted assets			
Cash and cash equivalents	128,044	0	128,044
Receivables (net)			
Accounts	237,811	37,204	275,015
Interest	5,176	0	5,176
Inventory	78,205	0	78,205
Prepaid items	7,344	88	7,432
Due from other funds	8,991	0	8,991
Total current assets	999,237	37,292	1,036,529
Noncurrent assets			
Capital assets			
Non-depreciable	483,083	0	483,083
Depreciable (net)	9,569,452	0	9,569,452
Total noncurrent assets	10,052,535	0	10,052,535
Total assets	11,051,772	37,292	11,089,064
LIABILITIES			
Current liabilities			
Accounts payable	25,830	31,946	57,776
Accrued salaries	1,878	96	1,974
Compensated absences	52,358	182	52,540
Unearned revenue	12,603	722	13,325
Due to other funds	0	4,346	4,346
Retainages payable	7,744	0	7,744
Other liabilities	3,902	0	3,902
Liabilities payable from restricted assets:			
Customer deposits payable	38,590	0	38,590
Revenue bonds payable	41,668	0	41,668
Interest payable	3,024	0	3,024
Total current liabilities	187,597	37,292	224,889
Noncurrent liabilities			
Revenue bonds payable	2,225,121	0	2,225,121
Total liabilities	2,412,718	37,292	2,450,010
NET ASSETS			
Invested in capital assets, net of related debt	7,785,746	0	7,785,746
Restricted for debt service	86,430	0	86,430
Unrestricted	766,878	0	766,878
Total net assets	$ 8,639,054	$ 0	$ 8,639,054

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the year ended December 31, 2010

	Water and Sewer	Solid Waste	Totals
OPERATING REVENUES			
Charges for sales and services	$ 2,059,590	$ 312,654	$ 2,372,244
Other	3,066	0	3,066
Total operating revenues	2,062,656	312,654	2,375,310
OPERATING EXPENSES			
Costs of sales and services	702,993	311,476	1,014,469
Personal services	694,014	40,376	734,390
Depreciation	408,107	0	408,107
Total operating expenses	1,805,114	351,852	2,156,966
Operating income (loss)	257,542	(39,198)	218,344
Non-operating revenues (expenses)			
Interest revenue	12,933	0	12,933
Interest expense	(130,563)	0	(130,563)
Total non-operating revenues (expenses)	(117,630)	0	(117,630)
Income (loss) before capital contributions and transfers	139,912	(39,198)	100,714
Capital contributions			
Capital contributions	3,027	0	3,027
Income (loss) before transfers	142,939	(39,198)	103,741
Transfers in (out)			
Transfers in	0	31,616	31,616
Change in net assets	142,939	(7,582)	135,357
Net assets, January 1	8,496,115	7,582	8,503,697
Net assets, December 31	$ 8,639,054	$ 0	$ 8,639,054

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended December 31, 2010

	Water and Sewer	Solid Waste	Totals
Cash flows from operating activities:			
Receipts from customers	$ 2,097,095	$ 316,589	$ 2,413,684
Payments to suppliers	(742,234)	(304,805)	(1,047,039)
Payments to employees	(685,901)	(40,620)	(726,521)
Other receipts	3,066	0	3,066
Net cash provided (used) by operating activities	672,026	(28,836)	643,190
Cash flows from non-capital financing activities:			
Receipts from other funds	5,883	28,836	34,719
Cash flows from capital and related financing activities:			
Receipt of capital contributions	3,027	0	3,027
Payments for acquisitions of capital assets	(125,134)	0	(125,134)
Principal payments - capital leases	(16,060)	0	(16,060)
Principal payments - promissory notes	(665,777)	0	(665,777)
Principal payments - revenue bonds	(39,777)	0	(39,777)
Interest paid	(132,893)	0	(132,893)
Net cash provided (used) by capital and related financing activities	(976,614)	0	(976,614)
Cash flows from investing activities:			
Proceeds from sale of certificates of deposit	600,000	0	600,000
Purchase of certificates of deposit	(300,000)	0	(300,000)
Interest received	21,733	0	21,733
Net cash provided (used) by investing activities	321,733	0	321,733
Net increase (decrease) in cash and cash equivalents cash equivalents	23,028	0	23,028
Cash and cash equivalents, January 1	338,682	0	338,682
Cash and cash equivalents, December 31	$ 361,710	$ 0	$ 361,710

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended December 31, 2010

	Water and Sewer	Solid Waste	Totals
Reconciliation of operating income (loss) to net cash cash provided (used) by operating activities:			
Operating income (loss)	$ 257,542	$ (39,198)	$ 218,344
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	408,107	0	408,107
(Increase) decrease in accounts receivable	36,162	4,368	40,530
(Increase) decrease in inventory	(33,504)	0	(33,504)
(Increase) decrease in prepaid items	3,399	(88)	3,311
Increase (decrease) in accounts payable	(11,136)	6,759	(4,377)
Increase (decrease) in unearned revenue	(103)	(244)	(347)
Increase (decrease) in payroll liabilities	2,000	0	2,000
Increase (decrease) in other liabilities	8,113	(433)	7,680
Increase (decrease) in deposits payable	1,446	0	1,446
Total adjustments	414,484	10,362	424,846
Net cash provided (used) by operating activities	$ 672,026	$ (28,836)	$ 643,190
Cash and cash equivalents reconciliation:			
Cash and cash equivalents	$ 233,666	$ 0	$ 233,666
Restricted assets			
Cash and cash equivalents	128,044	0	128,044
Total cash and cash equivalents	$ 361,710	$ 0	$ 361,710

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
December 31, 2010

	Municipal Court Agency Fund
ASSETS	
Cash and cash equivalents	$ 4,735
Accounts receivable (net)	88,596
Total assets	93,331
LIABILITIES	
Due to other agencies	$ 93,331

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

1. Description of Government Unit

The City of Lavonia incorporated under the laws of the State of Georgia in 1964. The City operates under a council/mayor form of government and provides the following services: public safety, street and sanitation, culture and recreation, public improvements and general and administrative services. In addition, the City operates a public utility (water and sewer) for the incorporated and immediate surrounding areas.

The City is governed by an elected five-member council.

2. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the City of Lavonia, Georgia, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies established in GAAP and used by the City are discussed below.

B. Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Lavonia (the primary government) and material component units. The component unit discussed below is included in the City's reporting entity because of the significance of its operational and financial relationship with the City. In conformity with generally accepted accounting principles, as set forth in Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, the financial statements of the following component unit have been included as discretely presented component unit.

2. Summary of Significant Accounting Policies (continued)

B. Reporting Entity, continued

City of Lavonia Downtown Development Authority

The City of Lavonia Downtown Development Authority was established as a legally separate entity, which operates pursuant to the Official Code of Georgia Annotated. The Authority consists of seven members appointed by the City Council and an executive director. The Downtown Development Authority provides for the vitalization of the downtown area of the City of Lavonia. In many respects, the Authority functions similar to a City department through regular participation in department director meetings, budget approval, accounting, payroll, etc.

The City of Lavonia Downtown Development Authority is reported in a separate column to emphasize that it is legally separate from the City. Individual financial statements are presented as part of the City's Annual Financial Report in the sections labeled "Component Unit" (See Exhibit H). The City of Lavonia Downtown Development Authority has a December 31st year-end. Individual financial statements may be obtained by contacting the City of Lavonia Downtown Development Authority, PO Box 564, Lavonia, GA 30553-0564.

C. 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 non-fiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

2. Summary of Significant Accounting Policies (continued)

C. Government-wide and Fund Financial Statements, continued

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, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The City's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type activities for the City. Fiduciary activities of the City are not included in these statements.

These statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Accordingly, all the City's assets and liabilities, including capital assets, as well as infrastructure assets reported since 2003, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in assets. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

2. Summary of Significant Accounting Policies (continued)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

The types of transaction reported as program revenues for the City are reported in three categories: 1) charges for services to customers who directly benefit from goods, services or privileges provided by a given function, 2) operating grants and contributions that are restricted to meeting the operational needs requirements of a particular function and 3) capital grants and contributions that are restricted to meeting the capital needs requirements of a particular function.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated, however, those transactions between governmental and business-type activities have not been eliminated. Governmental activities that 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.

Governmental Fund Financial Statements

Governmental Fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. Governmental Fund financial statements and Permanent funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

2. Summary of Significant Accounting Policies (continued)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

Governmental Fund Financial Statements (continued)

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Those revenues susceptible to accrual are property taxes, sales taxes, licenses, interest revenue and charges for services. Sales taxes collected and held by the state at year-end on behalf of the government also are recognized as revenue. The City considers property taxes as available in the period for which they were levied if they are collected within 60 days subsequent to year-end. A 60-day availability period is also used for revenue recognition for all other governmental fund revenue.

The City reports the following major governmental fund:

General Fund - The general operating fund of the City is used to account for all financial resources except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

Water and Sewer Fund - This fund is used to account for activities connected with the development, operation and maintenance of water and sewer services in the City of Lavonia.

Solid Waste Fund – This fund is used to account for activities connected with the collection and disposal of residential, commercial, industrial and institutional solid waste in the City of Lavonia.

2. Summary of Significant Accounting Policies (continued)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

Additionally, the City reports the following fund types:

Governmental Fund Types

Special Revenue Funds – This fund type is used to account for the proceeds of specific revenue sources that are legally or donor restricted to expenditure for specified purposes.

Capital Projects Fund – This fund type is used to account for financial resources to be used for the acquisition or construction of capital assets (other than those financed by the proprietary or fiduciary funds).

Fiduciary Fund Types

Agency Funds – Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that are held either for the City or for others. The City has an agency fund to account for the activity of the Municipal Court.

Component Unit

The Lavonia Downtown Development Authority is accounted for using a current financial resources measurement focus and uses the modified accrual basis of accounting. Under this method, revenues are recognized when susceptible to accrual (i.e. when they both become measurable and available).

2. Summary of Significant Accounting Policies (continued)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

Private-sector standards of accounting and financial reporting issued on or before November 30, 1989, are generally followed in the governmental and business-type activities and enterprise 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 for 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds and internal services 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 non-operating revenues and expenses.

Certain indirect costs have been included as part of the program expenses reported for the various functional activities.

2. Summary of Significant Accounting Policies (continued)

E. Budgets and Budgetary Accounting

Formal budgetary accounting is employed as a management control for the General Fund, Special Revenue Funds, and Enterprise Funds. The Capital Projects Fund is budgeted by the City Council when capital projects are approved. Annual operating budgets are adopted each fiscal year through approval by the Council. Each year about the middle of November, the City Manager submits a proposed budget to the City Council for their review. Prior to adoption, a public hearing is held to receive comment from the citizenry on the proposed budget. This hearing is publicized in the local newspaper one week before the hearing, and the budget document is made available for public inspection during this week. After the public hearing, the budget is then revised by the City Council and the first reading of the proposed budget is made. At the next City Council meeting, the second reading of the proposed budget is made and the City Council votes to adopt the proposed budget. The annual operating budget is adopted no later than December 31 for the following year.

The annual budgets for the General Fund and Special Revenue Funds are prepared in accordance with the basis of accounting utilized by that fund. The budgets for the Enterprise Funds are adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, non-operating income and expense items are not considered. All unencumbered budget appropriations, except project budgets, lapse at the end of each year.

The legal level of budgetary control is the departmental level. Any increases in total appropriations of a department require approval and amendment of the budget by the City Council. Except as indicated on the major fund budgetary comparison statement, budget amounts included in this report are as amended as of December 31, 2010.

F. Cash and Investments

Cash and cash equivalents, as reported in the statement of cash flows, includes amounts in demand deposits, amounts with fiscal agents and investments with an original maturity at three months or less. Investments are reported at fair value with accrued interest shown under a separate caption on the balance sheet. Reinvested interest on certain debt service and capital project investments is included in the investment accounts.

2. Summary of Significant Accounting Policies (continued)

G. Intergovernmental Receivables

Receivables for state, federal, and local governments are recorded as revenue for the period of the allocation or as earned based on expenditures made for which reimbursement is due.

H. Inventories

Inventories of the Water and Sewer Fund are valued at cost on the first-in, first-out method.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2010, are recorded as prepaid items.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements

GASB Statement No. 34 required the City to report and depreciate new infrastructure assets effective with the year ended December 31, 2004. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical costs nor related depreciation has historically been reported in the financial statements. For entities the size of the City of Lavonia, retroactive reporting of infrastructure assets was not required.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

2. Summary of Significant Accounting Policies (continued)

J. Capital Assets, continued

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets ranging as follows:

	Useful Life in Years	Capitalization Threshold
Buildings	40	$ 2,000
Distribution systems	40	$ 10,000
Roads – per lane mile	40	$ 50,000
Bridges and culverts	40	$ 20,000
Machinery and equipment	10	$ 2,000
Vehicles	5	$ 2,000
Furniture and fixtures	5	$ 2,000
Land improvements	15	$ 2,000

All land will be valued and capitalized. The costs of normal maintenance and repairs that do not add value or materially extend the life of the asset are charged to operations as incurred. Costs of major additions and improvements are capitalized.

K. Restricted Assets

Restricted assets of the Enterprise Funds represent certain resources set aside for the repayment of revenue bonds because they are maintained in a separate bank account and their use is limited by applicable bond covenants.

2. Summary of Significant Accounting Policies (continued)

L. Compensation for Future Absences

It is the City's policy to permit employees to accumulate earned but unused vacation benefits which will be paid to the employees upon separation from City service. Accumulated unpaid vacation pay amounts are accrued when incurred by the City in the government-wide and proprietary fund financial statements. The liability of the proprietary funds is recorded as an expense and a liability of those funds as the benefits accrue to the employees. In governmental fund types, a liability is recorded only if the benefit has matured and is expected to be liquidated with expendable available financial resources.

M. Long-Term Obligations

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, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. The face amount of debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financial sources while discounts on debt issuances are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

N. Capital Contributions

Federal, state and local government assistance in the form of grants that are permanent in nature and restricted for the construction or acquisition of specific property and equipment is recorded as an asset and as non-operating revenue.

2. Summary of Significant Accounting Policies (continued)

O. Reservations and Designations of Fund Balances

Reservations represent the portions of fund balances which are not appropriable for expenditure or have been segregated for specific future uses by legal mandate. Designations represent the portions of fund balance for which the government has made tentative plans.

P. Comparative Data and Reclassifications

Comparative total data of the prior period has been presented in the accompanying individual fund financial statements in order to provide an understanding of changes in the City's financial position and operations. Certain 2009 amounts have been reclassified to conform with the 2010 presentation.

3. Deposit and Investment Risk

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned. The City has no formal policy, but follows the State of Georgia requirement that all deposits be federally insured or fully collateralized. At December 31, 2010, the City had no uninsured, uncollateralized deposits.

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.

Credit Risk

State of Georgia law limits investments to include certificates of deposit, repurchase agreements, direct and agency obligations of the United States, obligations of the State of Georgia or other states, obligations of other political subdivisions of the State of Georgia, and pooled investment programs of the State of Georgia. The City has no investment policy that would further limit its investment choices. Investments are reported at fair value.

3. Deposit and Investment Risk (continued)

Concentration of Credit Risk

The City has no formal policy on the amount the City may invest in any one issuer.

Foreign currency risk

The City has no investments denominated in a foreign currency.

4. Accounts Receivable

Net accounts receivable at December 31, 2010 consist of the following:

Major Funds		
Enterprise Funds		
Water and Sewer	$ 470,839	
Less: Allowances for Uncollectibles	(233,029)	
Solid Waste	79,603	
Less: Allowances for Uncollectibles	(42,398)	$ 275,015
Total Primary Government		$ 275,015
Fiduciary Funds		
Agency Fund		
Municipal Court Agency Fund	$ 196,881	
Less: Allowance for Uncollectiables	(108,285)	$ 88,596

5. Intergovernmental Receivables

Intergovernmental receivables at December 31, 2010 consist of the following:

Major Funds		
General Fund		
Franklin County Board of Commissioners	$ 1,082	
GMA Safety and Liability Management	2,964	$ 4,046
Nonmajor Governmental Funds		
Hotel/Motel Tax Fund		
TVA Depot		1,026
Total Primary Government		$ 5,072

6. Taxes Receivable

Property Taxes

Property taxes receivable as of December 31, 2010 consist of property taxes for seven years as follows:

Year of Levy	Amount
2010	$ 84,982
2009	12,948
2008	431
2007	395
2006	395
2005	12,020
2004	4,216
	115,387
Less allowance for uncollectible	(20,722)
	94,665
Add amount due from Franklin County Tax Commissioner	7,456
Total	$ 102,121

Property tax rates are set by the City Council each year and are limited by statutory or constitutional provision. Property values are assessed as of January 1st each year. Property taxes for the year 2010, based upon the assessments of January 1, 2010, were billed on August 17, 2010, and due on November 15, 2010. Tax liens are issued 90 days after the due date. The tax rate of 10.0 mils for 2010 was levied on August 2, 2010.

Other Taxes

$238,609 of franchise taxes, $34,263 of sales taxes, and $9,132 of hotel/motel taxes are also included in taxes receivable.

7. Interfund Receivables, Payables, and Transfers

A summary of interfund receivables and payables as of December 31, 2010 is as follows:

	Due from: Major Funds		
	General	Solid Waste	Total
Due to:			
Major Funds			
Water and Sewer	$ 4,645	$ 4,346	$ 8,991
Nonmajor Governmental	4,297	0	4,297
Total	$ 8,942	$ 4,346	$ 13,288

The balance reported as Due to/Due from represent loans between the borrow fund and the lender fund. The balances result mainly from the time lag between the dates that (1) reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between the funds are made. The balance reported in the Water and Sewer Fund and the Solid Waste Fund resulted from transactions to alleviate an equity in pooled cash deficit at year-end.

Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”.

A summary of interfund transfers is as follows:

	Transfers out: Major Funds	Nonmajor Funds	
	General	Governmental	Totals
Transfers in:			
Major Funds			
Solid Waste	$ 31,616	$ 0	$ 31,616
Nonmajor Governmental	27,639	19,880	47,519
Total	$ 59,255	$ 19,880	$ 79,135

Interfund transfers were used to transfer unrestricted revenues from the General Fund to the Solid Waste Fund to subsidize operations in accordance with budgetary authorizations. Interefund transfers were used to transfer unrestricted revenues from the General and Hotel/Motel Special Revenue Funds to the 2004 SPLOST Capital Projects Fund for the Depot renovation project. Transfers are eliminated in the government-wide financial statements if the interfund transfer is within the governmental fund group or business-type fund group.

8. Capital Assets

Capital asset activity for the primary government for the year ended December 31, 2010 was as follows:

	Balance 12/31/2009	Increases	Decreases	Balance 12/31/2010
Governmental activities				
Non-depreciable assets				
Land	$ 493,811	$ 0	$ 0	$ 493,811
Construction in progress	20,343	144,088	(164,431)	0
Total non-depreciable assets	514,154	144,088	(164,431)	493,811
Depreciable assets				
Buildings	4,281,349	110,240	0	4,391,589
Infrastructure	1,108,474	35,348	(20,136)	1,123,686
Vehicles	1,758,518	71,487	(70,624)	1,759,381
Machinery and equipment	663,866	11,369	(7,856)	667,379
Furniture and fixtures	120,677	22,103	(3,853)	138,927
Total depreciable assets	7,932,884	250,547	(102,469)	8,080,962
Accumulated depreciation				
Buildings	(1,450,338)	(83,731)	0	(1,534,069)
Infrastructure	(528,733)	(90,501)	20,136	(599,098)
Vehicles	(1,344,792)	(153,299)	68,782	(1,429,309)
Machinery and equipment	(460,805)	(43,902)	7,856	(496,851)
Furniture and fixtures	(95,344)	(12,777)	3,853	(104,268)
Total accumulated depreciation	(3,880,012)	(384,210)	100,627	(4,163,595)
Total depreciable assets, net	4,052,872	(133,663)	(1,842)	3,917,367
Governmental activities capital assets, net	$ 4,567,026	$ 10,425	$ (166,273)	$ 4,411,178
Business-type activities				
Non-depreciable assets				
Land	$ 384,565	$ 28,507	$ 0	$ 413,072
Construction in progress	63,554	47,404	(40,947)	70,011
Total non-depreciable assets	448,119	75,911	(40,947)	483,083
Depreciable assets				
Buildings	153,559	24,000	0	177,559
Land improvements	0	3,800	0	3,800
Distribution system	14,280,059	40,949	0	14,321,008
Vehicles	253,799	13,900	0	267,699
Machinery and equipment	279,104	15,265	0	294,369
Furniture and fixtures	71,012	0	0	71,012
Total depreciable assets	15,037,533	97,914	0	15,135,447
Accumulated depreciation				
Buildings	(42,956)	(5,845)	0	(48,801)
Land improvements	0	(190)	0	(190)
Distribution system	(4,665,505)	(359,801)	0	(5,025,306)
Vehicles	(227,129)	(11,641)	0	(238,770)
Machinery and equipment	(187,513)	(16,829)	0	(204,342)
Furniture and fixtures	(34,785)	(13,801)	0	(48,586)
Total accumulated depreciation	(5,157,888)	(408,107)	0	(5,565,995)
Total depreciable assets, net	9,879,645	(310,193)	0	9,569,452
Business-type activities capital assets, net	$ 10,327,764	$ (234,282)	$ (40,947)	$ 10,052,535

8. Capital Assets (continued)

Capital asset activity for the Downtown Development Authority Component Unit for the year ended December 31, 2010 was as follows:

	Balance 12/31/2009	Increases	Decreases	Balance 12/31/2010
Downtown Development Authority Component Unit				
Non-depreciable assets				
Land	$ 40,000	$ 0	$ 0	$ 40,000
Construction in progress	3,996	0	(3,996)	0
Total non-depreciable assets	43,996	0	(3,996)	40,000
Depreciable assets				
Buildings	100,751	0	0	100,751
Land improvements	22,533	0	0	22,533
Trademark	0	2,496	0	2,496
Furniture and fixtures	2,174	0	0	2,174
Total depreciable assets	125,458	2,496	0	127,954
Less accumulated depreciation				
Buildings	(5,877)	(2,519)	0	(8,396)
Land improvements	(6,909)	(1,502)	0	(8,411)
Trademark	0	(208)	0	(208)
Furniture and fixtures	(2,174)	0	0	(2,174)
Total accumulated depreciation	(14,960)	(4,229)	0	(19,189)
Total depreciable assets, net	110,498	(1,733)	0	108,765
Downtown Development Authority Component Unit capital assets, net	$ 154,494	$ (1,733)	$ (3,996)	$ 148,765

$1,500 of construction in progress above was transferred to the Primary Government during the year.

Depreciation expense was charged to functions/programs as follows:

Primary Government	
Governmental activities	
General Government	$ 22,666
Public Safety	193,163
Public Works	41,552
Culture and Recreation	117,918
Housing and Development	8,911
Total depreciation expense for governmental activities	$ 384,210
Business-type activities	
Water and Sewer	$ 408,107
Component Unit	
Downtown Development Authority	$ 4,229

9. Capital and Operating Lease Agreements

The City has entered into an agreement for the lease of certain equipment. The terms of the agreements meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The balance of this lease at December 31, 2010 is $161,694 for governmental activities.

The following is a schedule of the future minimum lease payments together with the present value of the net minimum lease payments as of December 31, 2010:

Year Ending December 31,	Governmental activities
2011	$ 27,039
2012	27,039
2013	27,039
2014	27,039
2015	27,039
2016 - 2017	54,081
Total minimum lease payments	189,276
Less amounts representing interest	(27,582)
Present value of minimum lease payments	$ 161,694

Total assets leased under capital leases are $224,818 for the governmental activities, respectively, and are classified as vehicles.

The City's lease agreements, other than such agreements described above, are relatively minor commitments (generally for office machines) and are in compliance with state law.

10. Long-Term Debt

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities, while revenue bonds are issued for the construction and expansion of proprietary activities. General obligation bonds are direct obligations and pledge the full faith, credit and taxing powers of the City while revenue bonds pledge the revenues of the proprietary activity for repayment of the bond issues.

Revenue Bonds

Revenue bonds have been issued for business-type activities and are comprised of the following individual issues at December 31, 2010:

$2,655,000 1997 Water and Sewerage Revenue Series Bonds due in monthly installments of $12,373 through March 21, 2038; interest at 4.75% ($2,266,789 outstanding), for the expansion of the water and sewer system in the City of Lavonia.

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending December 31,	Principal	Interest	Total
2011	$ 41,668	$ 106,808	$ 148,476
2012	43,691	104,785	148,476
2013	45,812	102,664	148,476
2014	48,036	100,440	148,476
2015	50,368	98,108	148,476
2016-2020	290,981	451,399	742,380
2021-2025	368,813	373,567	742,380
2026-2030	467,463	274,917	742,380
2031-2035	592,500	149,880	742,380
2036-2038	317,457	18,079	335,536
Totals	$ 2,266,789	$ 1,780,647	$ 4,047,436

10. Long-Term Debt (continued)

Changes in Long-Term Debt

The following is a summary of changes in long-term debt of the City for the year ended December 31, 2010:

	Balance 12/31/2009	Additions	Deductions	Balance 12/31/2010	Due Within One Year
Governmental activities					
Capital lease obligations	$ 192,007	$ 0	$ 30,313	$ 161,694	$ 20,410
Compensated absences	68,351	77,126	68,351	77,126	77,126
Total governmental activities	$ 260,358	$ 77,126	$ 98,664	$ 238,820	$ 97,536
Business-type activities					
Revenue bonds	$ 2,306,566	$ 0	$ 39,777	$ 2,266,789	$ 41,668
Notes payable	665,777	0	665,777	0	0
Capital lease obligations	16,060	0	16,060	0	0
Compensated absences	46,645	52,540	46,645	52,540	52,540
Total business-type activities	$ 3,035,048	$ 52,540	$ 768,259	$ 2,319,329	$ 94,208

Revenue bond issue costs and discounts/premiums are amortized over the life of the related debt using the straight-line method. In prior years, capital lease obligations and compensated absences of the governmental activities were liquidated in the General Fund.

11. Conduit Debt

The City, through the Hospital Authority of the City of Lavonia, has issued revenue bonds to provide financial assistance to a private-sector entity for the acquisition and construction of the Ty Cobb Regional Medical Center. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loan. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City nor the State, or any political subdivision thereof, is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2010, the principal amount payable for the bonds issued totaled $8,500,000; the original issue amount totaled $8,500,000.

12. Designated Equity Balances

General Fund – An amount of $50,000 has been designated for the 2011 budget.

Special Revenue Funds – An amount of $3,000 has been designated for the 2011 budget in the Confiscated Assets Fund. An amount of $50,000 has been designated for the 2011 budget in the Hotel/Motel Tax Fund.

Downtown Development Authority Component Unit – An amount of $26,000 has been designated for the 2011 budget.

13. Reserved/Restricted Equity Balances

General Fund – An amount of $13,153 has been reserved for prepaid items since this amount is not legally available for appropriation.

Special Revenue Funds – An amount of $403 has been reserved for prepaid items in the Hotel/Motel Tax Fund since this amount is not legally available for appropriation

Water and Sewer Enterprise Fund – An amount of $86,430 has been restricted for debt service since this amount is not legally available for appropriation.

14. Pension Plan

Plan Description

The City of Lavonia is a participating member in the Georgia Municipal Employees Benefit System (GMEBS), a defined benefit plan ("Plan"), which is a service of Georgia Municipal Association (GMA). GMEBS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipalities in Georgia. The City elected to participate in GMEBS as of March 1, 1979, as a result of City Ordinance and a contract between the City and GMA. The Plan's assets may be used only for the payment of benefits to the members of the Plan, in accordance with the terms of the Plan. See Note 2 – Summary of Significant Accounting Policies for reporting of investments.

14. Pension Plan (continued)

Plan Description, continued

All City employees who work a minimum of twenty hours per week are eligible to participate in the Plan after completing one year of service. Mayor and Council are eligible immediately. Benefits vest after five years of service. Participants become eligible to retire with unreduced benefits at age 65 with five years of service. Mayor and Council are not subject to the five-year minimum service.

GMA issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to Georgia Municipal Association at 21 Pryor Street, SW, Atlanta, Georgia 30303.

Vested employees who have reached the age of 65 and have completed five years of credited service are eligible to receive a monthly benefit, payable for life. The benefit is equal to 1.0% of the employee's average salary up to a floating break point and 1.75% of the employee's average salary above the floating break point for the five highest years of employment multiplied by the years of credited service. The floating break point is based upon average Social Security earnings determined by the employee's year of employment termination. The plan also provides benefits in the event of death or disability. These benefits provisions were established by an adoption agreement executed by the City Council.

Vested employees who have reached age 55 with at least ten years of credited service are eligible to receive an early retirement benefit, payable monthly for life, reduced on an actuarial equivalent basis. Death benefits and optional forms of retirement income on an actuarial equivalent basis are also available.

Current Membership is as follows:

Retirees and beneficiaries currently receiving benefits	18
Terminated vested participants entitled to but not yet receiving benefits	14
Active participants	47
Total number of participants	79

14. Pension Plan (continued)

Funding Policy

The funding policy for the plan is to contribute an amount equal to the recommended contribution each year. The rate for 2010 is 9.56% of annual covered payroll. The Plan is a noncontributory participant plan. The recommended contribution meets the guidelines for calculating an annual required contribution set forth in Paragraphs 9-10 of GASB Statement No. 27. These contributions are determined under the projected unit credit actuarial cost method and the asset valuation method for developing the actuarial value of assets. The period, and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years from 1982 and current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods as a level dollar amount. These amortization periods, if applicable, are closed for this plan year. The remaining amortization period at July 1, 2010 varies for the bases. The City Council provides for the benefits and funding policy through City ordinance and maintains the authority to change the policy. The projection of benefits does not incorporate the potential effect of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Annual Pension Cost

For 2010, the City's annual pension cost of $163,340 was equal to the City's recommended and actual contributions. The minimum contribution under the Public Retirement Systems Standards Law (OCGA 47-20-10) was $156,135. The recommended contribution (projected December 31, 2010) was computed as part of an actuarial valuation as of March 1, 2009. Significant actuarial assumptions used in the valuation include: (a) a rate of return on the investment of present and future assets of 7.75 percent per year compounded annually, (b) projected salary increases ranging from 6.0 to 4.0 percent per year compounded annually (a range of 2.5 to 0.5 percent and 3.5 percent attributable to inflation and merit, respectively), (c) no post-retirement benefit increases. In 2010, the actuarial valuation date was changed from March 1 to July 1. Changes in recommended contributions are effective beginning January 1 following the July 1 valuation.

14. Pension Plan (continued)

Historical Trend Information

Historical trend information for annual pension cost and funding progress is as follows:

Schedule of Employer Contributions

Plan Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2005	$ 71,820	100%	0
12/31/2006	91,318	100%	0
12/31/2007	105,755	100%	0
12/31/2008	111,393	100%	0
12/31/2009	143,270	100%	0
12/31/2010	163,340	100%	0

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Funded) Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
3/1/2005	$ 1,153,070	$ 1,133,350	(19,720)	101.74%	$ 924,845	(2.13)%
3/1/2006	1,249,482	1,195,046	(54,436)	104.56%	919,493	(5.92)%
3/1/2007	1,368,242	1,380,195	11,953	99.13%	1,100,769	1.09%
3/1/2008	1,506,009	1,551,014	45,005	97.10%	1,140,547	3.95%
3/1/2009	1,299,626	1,681,845	382,219	77.27%	1,378,063	27.74%
7/1/2010	1,815,879	1,918,433	102,554	94.65%	1,385,259	7.40%

Additional ten year historical trend information can be found in separate reports issued by GMA, which provides information about progress made in accumulating sufficient assets to pay benefits when due. The actuarial value of assets is calculated as the roll forward of prior year's actuarial value with contributions, disbursements, and expected return on investments, plus 10% of investment gains (losses) during 10 prior years

15. Post Employment Life Insurance Benefits

In addition to providing pension benefits, the City provides, through passage of local ordinance, certain life insurance benefits for retired employees. Substantially all of the City's employees may become eligible for those benefits if they reach normal retirement age while working for the City and do not seek employment after retirement from the City. The City's share of retiree life insurance benefits is recognized as an expenditure as premiums are paid. As of December 31, 2010, there were 7 retirees eligible for and receiving the benefits. For 2010, the cost of providing these benefits totaled $294.

The City has elected not to adopt the provisions of GASB Statement No. 45. Any unrecorded liability for other post employment benefits would be immaterial to the financial statements.

16. Hotel/Motel Lodging Tax

The City has levied a 5% lodging tax, in accordance with Official Code of Georgia Annotated (OCGA) Section 48-13-51(3). The City is required to spend an amount equal to the amount by which the total taxes collected under the Code section exceed the taxes which would be collected at a rate of 3 percent for the purpose of promoting tourism, conventions, and trade shows. A summary of the transactions for the year ending December 31, 2010 follows:

Lodging tax receipts	$109,198	
Disbursements to promote tourism, conventions, and trade shows	$70,634	65% of tax receipts

17. Joint Ventures

The City of Lavonia participates with various other cities in the Northern Piedmont Multi-Agency Narcotics Squad (MANS) to facilitate the investigation, arrest, prosecution and conviction of those residents and non-residents involved in the manufacture, use, distribution, and sale of illicit drugs. The City has an ongoing financial responsibility of funding for this unit. This funding is determined each year from a budget of grant monies and individual municipalities' participation. The MANS unit is funded primarily through grant monies and operates on a balanced budget determined by revenue. The financial records of the MANS unit are maintained by Franklin County Georgia and reported in their audit report. During the year ended December 31, 2010, the City contributed $6,991 in cash financing. A copy of the MANS unit financial statements can be obtained from Franklin County, Georgia, PO Box 419, Carnesville, GA 30521.

Under Georgia law, the City, in conjunction with other cities and counties in the northeast Georgia area, is a member of the Georgia Mountains Regional Development Center and is required to pay annual dues thereto. During its year ended December 31, 2010, the City paid $2,275 in such dues. Membership in an RDC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the RDC in Georgia. The RDC Board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of an RDC. Separate financial statements may be obtained from Georgia Mountains Regional Development Center, PO Box 1720, Gainesville, GA 30503.

The City of Lavonia has entered into an intergovernmental agreement with the Joint Development Authority of Hart, Franklin, and Stephens Counties, Georgia, to provide sewer services to the occupants of the Gateway Business Park, an industrial park development located jointly in Hart and Franklin Counties. During 2010, the City recognized no expenditures for this joint venture. Separate financial statements may be obtained from Joint Development Authority of Hart, Franklin, and Stephens Counties, Georgia, PO Box 793, Hartwell, GA 30643.

18. Related Organizations

The Housing Authority of the City of Lavonia is considered a related organization to the City of Lavonia. The City appoints members to the Authority, but does not have the ability to impose its will or create a financial benefit or burden for the Authority. The Authority provides low-income housing for the individuals in the City of Lavonia. The City received $12,580 as payment-in-lieu-of-taxes for 2010. Separate financial statements may be obtained from Housing Authority of the City of Lavonia, PO Box 453, Lavonia, GA 30553.

19. Commitments and Contingencies

Commitments

The City has active construction projects as of December 31, 2010. At year-end, the City's commitments with contractors are as follows:

Projects	Amount Expended To Date	Remaining Commitment
Water and sewer distribution system improvements	$ 70,011	$ 115,974

Contingencies

The City is a defendant in several lawsuits. Management intends to contest these open cases vigorously. The City's legal counsel has stated that the outcome of these lawsuits is not presently determinable.

20. Risk Management

Material estimates have been made by management about the life of depreciated fixed assets. Management has used a conservative approach on these estimates.

The City is exposed to various risks of loss related to torts; injuries to employees; theft of, damage to and destruction of assets; errors and omissions; 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, a public entity risk pool currently operating as a common risk management and insurance program 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 obligated 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 worker's compensation law of Georgia. The funds are to pay all cost taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

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

Management estimates liabilities for unpaid claims based on the probability of losses exceeding the occurrence limits and the reasonableness of estimating those losses. At December 31, 2010, the City has no losses that are probable or estimable and accordingly has not recognized any liability.

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COMBINING STATEMENTS

Nonmajor Governmental Funds

CITY OF LAVONIA, GEORGIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2010

	Special Revenue			Capital Projects	Total Nonmajor
	Confiscated Assets	Hotel/Motel Tax	Revolving Loan	2004 SPLOST	Governmental Funds
ASSETS					
Cash and cash equivalents	$ 3,902	$ 62,242	$ 195,077	$ 0	$ 261,221
Receivables					
Taxes	0	9,132	0	0	9,132
Intergovernmental	0	1,026	0	0	1,026
Prepaid items	0	403	0	0	403
Notes receivable	0	0	357,589	0	357,589
Due from other funds	0	4,297	0	0	4,297
Total assets	$ 3,902	$ 77,100	$ 552,666	$ 0	$ 633,668
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 751	$ 6,212	$ 0	$ 0	$ 6,963
Other liabilities	140	125	0	0	265
Total liabilities	891	6,337	0	0	7,228
Fund balances					
Reserved for prepaid items	0	403	0	0	403
Unreserved, designated for budget	3,000	50,000	0	0	53,000
Unreserved, undesignated	11	20,360	552,666	0	573,037
Total fund balances	3,011	70,763	552,666	0	626,440
Total liabilities and fund balances	$ 3,902	$ 77,100	$ 552,666	$ 0	$ 633,668

CITY OF LAVONIA, GEORGIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the year ended December 31, 2010

	Special Revenue			Capital Projects	Total Nonmajor
	Confiscated Assets	Hotel/Motel Tax	Revolving Loan	2004 SPLOST	Governmental Funds
REVENUES					
Taxes	$ 0	$ 109,198	$ 0	$ 0	$ 109,198
Fees, fines, and forfeitures	4,647	0	0	0	4,647
Intergovernmental	0	0	0	149,928	149,928
Interest	0	54	11,478	0	11,532
Other	0	3,450	0	0	3,450
Total revenues	4,647	112,702	11,478	149,928	278,755
EXPENDITURES					
Current					
Public Safety	3,324	0	0	0	3,324
Housing and Development	0	70,634	1,956	0	72,590
Capital outlay	0	0	0	196,143	196,143
Total expenditures	3,324	70,634	1,956	196,143	272,057
Excess (deficiency) of revenues over (under) expenditures	1,323	42,068	9,522	(46,215)	6,698
Other financing sources (uses)					
Transfers in	0	0	0	47,519	47,519
Transfers out	0	(19,880)	0	0	(19,880)
Total other financing sources (uses)	0	(19,880)	0	47,519	27,639
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	1,323	22,188	9,522	1,304	34,337
Fund balances, January 1	1,688	48,575	543,144	(1,304)	592,103
Fund balances, December 31	$ 3,011	$ 70,763	$ 552,666	$ 0	$ 626,440

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GENERAL FUND

The general operating fund of the City is used to account for all financial resources except those required to be accounted for in another fund.

CITY OF LAVONIA, GEORGIA
GENERAL FUND
COMPARATIVE BALANCE SHEETS
December 31, 2010 and 2009

	2010	2009
ASSETS		
Cash and cash equivalents	$ 883,130	$ 626,839
Certificates of deposit	900,000	1,200,000
Receivables (net)		
Accounts	0	1,300
Taxes	374,993	391,806
Intergovernmental	4,046	974
Interest	13,979	10,296
Prepaid items	13,153	24,344
Property held for resale	1,052,980	1,003,657
Due from other funds	0	6,295
Total assets	$ 3,242,281	$ 3,265,511
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	$ 33,329	$ 31,336
Accrued payroll liabilities	3,483	0
Deferred revenue	58,922	60,442
Due to other funds	8,942	7,748
Other liabilities	2,815	893
Total liabilities	107,491	100,419
Fund balances		
Reserved for prepaid items	13,153	24,344
Unreserved, designated for budget	50,000	48,079
Unreserved, undesignated	3,071,637	3,092,669
Total fund balances	3,134,790	3,165,092
Total liabilities and fund balances	$ 3,242,281	$ 3,265,511

CITY OF LAVONIA, GEORGIA
GENERAL FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the years ended December 31, 2010 and 2009

	2010	2009
REVENUES		
Taxes	$ 1,822,309	$ 1,828,543
Licenses and permits	35,557	41,325
Fines, fees and forfeitures	140,128	114,862
Charges for services	10,165	18,619
Intergovernmental	75,431	29,497
Interest	23,965	31,787
Contributions	3,798	0
Other	18,038	37,728
Total revenues	2,129,391	2,102,361
EXPENDITURES		
Current		
General Government	418,029	427,956
Judical	7,878	8,477
Public Safety	1,061,229	1,071,641
Public Works	363,908	340,860
Culture and Recreation	84,722	90,134
Housing and Development	141,438	138,981
Debt service	37,964	38,957
Total expenditures	2,115,168	2,117,006
Excess (deficiency) of revenues over (under) expenditures	14,223	(14,645)
Other financing sources (uses)		
Transfers in (out)		
2004 SPLOST Capital Projects Fund	(27,639)	0
Solid Waste Enterprise Fund	(31,616)	(30,297)
Proceeds from the sale of capital assets	14,730	3,023
Total other financing sources (uses)	(44,525)	(27,274)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(30,302)	(41,919)
Fund balances, January 1	3,165,092	3,207,011
Fund balances, December 31	$ 3,134,790	$ 3,165,092

CITY OF LAVONIA, GEORGIA
GENERAL FUND
SCHEDULE OF REVENUES
BUDGET (GAAP BASIS) AND ACTUAL
For the year ended December 31, 2010
(With comparative actual amounts for the year ended December 31, 2009)

	2010			2009
	Final Budget	Actual	Variance	Actual
REVENUES				
Taxes				
General property taxes				
Property tax	$ 751,200	$ 833,915	$ 82,715	$ 872,552
Motor vehicle tax	50,000	33,832	(16,168)	35,441
Cost, penalties, and interest	3,000	0	(3,000)	449
Total general property taxes	804,200	867,747	63,547	908,442
Local option sales tax	410,000	395,274	(14,726)	371,390
Intangible tax	6,000	13,484	7,484	5,165
Franchise tax	285,000	250,655	(34,345)	252,840
Insurance premium tax	101,000	98,351	(2,649)	101,295
Alcoholic beverage excise tax	135,000	132,681	(2,319)	135,864
Occupational tax	55,000	64,117	9,117	53,547
Total taxes	1,796,200	1,822,309	26,109	1,828,543
Licenses and Permits				
Alcohol licenses	28,000	29,600	1,600	35,900
Building permits	4,600	4,505	(95)	3,905
Sign permits	1,500	1,452	(48)	1,520
Total licenses and permits	34,100	35,557	1,457	41,325
Fines, fees and forfeitures	130,000	140,128	10,128	114,862
Charges for Services				
Fire protection	1,200	980	(220)	1,140
Recreation	7,500	4,401	(3,099)	7,628
Cemetary	5,000	4,545	(455)	9,575
Other	500	239	(261)	276
Total charges for services	14,200	10,165	(4,035)	18,619
Intergovernmental				
Grants	42,584	37,165	(5,419)	17,162
Other	27,000	38,266	11,266	12,335
Total intergovernmental	69,584	75,431	5,847	29,497
Interest	60,000	23,965	(36,035)	31,787
Contributions	0	3,798	3,798	0
Other	20,500	18,038	(2,462)	37,728
Total revenues	$ 2,124,584	$ 2,129,391	$ 4,807	$ 2,102,361

CITY OF LAVONIA, GEORGIA
GENERAL FUND
SCHEDULE OF EXPENDITURES
BUDGET (GAAP BASIS) AND ACTUAL
For the year ended December 31, 2010
(With comparative actual amounts for the year ended December 31, 2009)

	2010			2009
	Final Budget	Actual	Variance	Actual
EXPENDITURES				
Current				
General Government				
Governing Body				
Personal services	$ 62,111	$ 61,791	$ 320	$ 57,386
Contract services	33,150	33,580	(430)	34,036
Supplies and materials	200	0	200	46
Total Governing Body	95,461	95,371	90	91,468
Financial Administration				
Personal services	169,964	167,976	1,988	166,493
Contract services	120,300	123,290	(2,990)	131,832
Supplies and materials	41,100	31,392	9,708	38,163
Capital outlay	835	0	835	0
Total Financial Administration	332,199	322,658	9,541	336,488
Total General Government	427,660	418,029	9,631	427,956
Judical				
Municipal Court				
Personal services	100	0	100	100
Contract Services	9,350	7,878	1,472	8,377
Total Judical	9,450	7,878	1,572	8,477
Public Safety				
Police Department				
Personal services	747,108	744,297	2,811	743,874
Contract services	104,300	107,341	(3,041)	99,761
Supplies and materials	36,300	38,038	(1,738)	45,268
Capital outlay	82,787	82,856	(69)	0
Payments to other agencies	16,500	14,457	2,043	14,491
Total Police Department	986,995	986,989	6	903,394
Fire Department				
Personal services	25,285	24,009	1,276	24,162
Contract services	19,550	21,161	(1,611)	27,086
Supplies and materials	11,580	26,241	(14,661)	16,516
Capital outlay	15,000	0	15,000	90,000
Total Fire Department	71,415	71,411	4	157,764
Communications				
Contract services	1,500	0	1,500	1,473
Supplies and materials	4,500	2,829	1,671	3,125
Capital outlay	0	0	0	5,885
Total Communications	6,000	2,829	3,171	10,483
Total Public Safety	1,064,410	1,061,229	3,181	1,071,641

CITY OF LAVONIA, GEORGIA
GENERAL FUND
SCHEDULE OF EXPENDITURES
BUDGET (GAAP BASIS) AND ACTUAL
For the year ended December 31, 2010
(With comparative actual amounts for the year ended December 31, 2009)

	2010			2009
	Final Budget	Actual	Variance	Actual
Public Works				
Highways and Streets				
Personal services	$ 141,236	$ 139,532	$ 1,704	$ 137,071
Contract services	50,450	48,722	1,728	35,955
Supplies and materials	70,700	74,131	(3,431)	72,239
Total Highways and Streets	262,386	262,385	1	245,265
Maintenance Shop				
Personal services	37,191	37,145	46	35,373
Contract services	5,750	5,586	164	5,331
Supplies and materials	9,650	9,857	(207)	8,756
Total Maintenance Shop	52,591	52,588	3	49,460
Cemetery				
Contract services	1,000	0	1,000	3,010
Supplies and materials	1,000	0	1,000	569
Total Cemetery	2,000	0	2,000	3,579
Detention Services				
Contract services	45,450	45,270	180	40,530
Supplies & material	3,500	3,665	(165)	2,026
Total Detention Services	48,950	48,935	15	42,556
Total Public Works	365,927	363,908	2,019	340,860
Culture and Recreation				
Parks and Recreation				
Personal services	35,338	35,795	(457)	34,685
Contract services	7,800	5,555	2,245	8,807
Supplies and materials	22,650	16,720	5,930	25,149
Total Parks and Recreation	65,788	58,070	7,718	68,641
Community Center				
Contract services	2,200	1,879	321	1,948
Supplies and materials	4,050	7,651	(3,601)	3,962
Capital outlay	5,000	0	5,000	0
Total Community Center	11,250	9,530	1,720	5,910
Library				
Contract services	3,200	1,023	2,177	1,913
Supplies and materials	5,700	6,099	(399)	5,670
Payments to other agencies	10,000	10,000	0	8,000
Total Library	18,900	17,122	1,778	15,583
Total Culture and Recreation	95,938	84,722	11,216	90,134

CITY OF LAVONIA, GEORGIA
GENERAL FUND
SCHEDULE OF EXPENDITURES
BUDGET (GAAP BASIS) AND ACTUAL
For the year ended December 31, 2010
(With comparative actual amounts for the year ended December 31, 2009)

	2010			2009
	Final Budget	Actual	Variance	Actual
Housing and Development				
Inspections				
Personal services	$ 93,292	$ 93,963	$ (671)	$ 90,791
Contract services	6,100	5,278	822	5,165
Supplies and materials	1,250	1,399	(149)	1,065
Total Inspections	100,642	100,640	2	97,021
Better Home Towns				
Personal services	37,145	37,901	(756)	37,975
Contract services	5,800	1,248	4,552	2,820
Supplies and materials	2,500	1,649	851	1,165
Total Better Home Towns	45,445	40,798	4,647	41,960
Total Housing and Development	146,087	141,438	4,649	138,981
Total current	2,109,472	2,077,204	32,268	2,078,049
Debt service				
General Government				
Financial Administration	12,500	10,925	1,575	11,918
Pubilc Safety				
Fire	27,100	27,039	61	27,039
Total debt service	39,600	37,964	1,636	38,957
Total expenditures	$ 2,149,072	$ 2,115,168	$ 33,904	$ 2,117,006

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SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally or donor restricted to expenditure for specified purposes.

Confiscated Assets Fund - This fund is used to account for the cash received either from a cash confiscation or cash received from a sale of capital assets acquired from a drug raid.

Hotel/Motel Tax Fund - This fund is used to collect Hotel/Motel taxes which are used to support trade and tourism in the City of Lavonia.

Revolving Loan Fund – This fund is used to record activities connected with US Department of Housing and Urban Development Community Development Block Grant/Employment Incentive Program. The objective of the grant is to develop employment opportunities, principally to persons of low and moderate income.

CITY OF LAVONIA, GEORGIA
CONFISCATED ASSETS SPECIAL REVENUE FUND
COMPARATIVE BALANCE SHEETS
December 31, 2010 and 2009

	2010	2009
ASSETS		
Cash and cash equivalents	$ 3,902	$ 1,829
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	$ 751	$ 0
Other liabilities	140	141
Total liabilities	891	141
Fund balances		
Unreserved, designated for budget	3,000	1,500
Unreserved, undesignated	11	188
Total fund balances	3,011	1,688
Total liabilities and fund balances	$ 3,902	$ 1,829

CITY OF LAVONIA, GEORGIA
CONFISCATED ASSETS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
BUDGET (GAAP BASIS) AND ACTUAL
For the year ended December 31, 2010
(With comparative actual amounts for the year ended December 31, 2009)

	2010			2009
	Final Budget	Actual	Variance	Actual
REVENUES				
Fines, fees, and forfeitures	**$** 10,000	$ 4,647	$ (5,353)	$ 5,562
Total revenues	10,000	4,647	(5,353)	5,562
EXPENDITURES				
Current				
Public Safety				
Contract services	5,000	0	5,000	4,735
Supplies and materials	3,000	3,324	(324)	2,603
Total expenditures	8,000	3,324	4,676	7,338
Excess (deficiency) of revenues over (under) expenditures	2,000	1,323	(677)	(1,776)
Other financing sources (uses)				
Contingency	(3,500)	0	3,500	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,500)	1,323	2,823	(1,776)
Fund balances, January 1	1,500	1,688	188	3,464
Fund balances, December 31	$ 0	$ 3,011	$ 3,011	$ 1,688

CITY OF LAVONIA, GEORGIA
HOTEL/MOTEL TAX SPECIAL REVENUE FUND
COMPARATIVE BALANCE SHEETS
December 31, 2010 and 2009

	2010	2009
ASSETS		
Cash and cash equivalents	$ 62,242	$ 50,839
Taxes receivable	9,132	7,488
Intergovernmental receivable	1,026	0
Prepaid items	403	696
Due from other funds	4,297	0
Total assets	$ 77,100	$ 59,023
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	$ 6,212	$ 5,332
Other liabilities	125	125
Due to other funds	0	4,991
Total liabilities	6,337	10,448
Fund balances		
Reserved for prepaid items	403	696
Unreserved, designated for budget	50,000	0
Unreserved, undesignated	20,360	47,879
Total fund balances	70,763	48,575
Total liabilities and fund balances	$ 77,100	$ 59,023

CITY OF LAVONIA, GEORGIA
HOTEL/MOTEL TAX SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
BUDGET (GAAP BASIS) AND ACTUAL
For the year ended December 31, 2010
(With comparative actual amounts for the year ended December 31, 2009)

	2010			2009
	Final Budget	Actual	Variance	Actual
REVENUES				
Hotel/Motel taxes	$ 94,801	$ 109,198	$ 14,397	$ 97,076
Intergovernmental	33,921	0	(33,921)	0
Interest	200	54	(146)	38
Other	100	3,450	3,350	2,099
Total revenues	129,022	112,702	(16,320)	99,213
EXPENDITURES				
Current				
Housing and Development				
Personal services	17,322	22,123	(4,801)	21,596
Contract services	12,700	13,396	(696)	14,940
Supplies and materials	17,000	22,155	(5,155)	17,125
Capital outlay	72,000	2,960	69,040	8,848
Payments to other agencies	10,000	10,000	0	10,000
Total expenditures	129,022	70,634	58,388	72,509
Excess (deficiency) of revenues over (under) expenditures	0	42,068	42,068	26,704
Other financing sources (uses)				
Transfers in (out)				
2004 SPLOST Fund	0	(19,880)	(19,880)	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	0	22,188	22,188	26,704
Fund balances, January 1	0	48,575	48,575	21,871
Fund balances, December 31	$ 0	$ 70,763	$ 70,763	$ 48,575

CITY OF LAVONIA, GEORGIA
REVOLVING LOAN SPECIAL REVENUE FUND
COMPARATIVE BALANCE SHEETS
December 31, 2010 and 2009

	2010	2009
ASSETS		
Cash and cash equivalents	$ 195,077	$ 155,341
Notes receivable	357,589	387,803
Total assets	$ 552,666	$ 543,144
LIABILITIES AND FUND BALANCES		
Fund balances		
Unreserved	$ 552,666	$ 543,144

CITY OF LAVONIA, GEORGIA
REVOLVING LOAN SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
BUDGET (GAAP BASIS) AND ACTUAL
For the year ended December 31, 2010
(With comparative actual amounts for the year ended December 31, 2009)

	2010			2009
	Final Budget	Actual	Variance	Actual
REVENUES				
Interest	$ 41,435	$ 11,478	$ (29,957)	$ 12,313
Total revenues	41,435	11,478	(29,957)	12,313
EXPENDITURES				
Current				
Housing and Development				
Contract services	2,000	1,956	44	2,006
Total expenditures	2,000	1,956	44	2,006
Excess (deficiency) of revenues over (under) expenditures	39,435	9,522	(29,913)	10,307
Other financing sources (uses)				
Contingency	(39,435)	0	39,435	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	0	9,522	9,522	10,307
Fund balances, January 1	0	543,144	543,144	532,837
Fund balances, December 31	$ 0	$ 552,666	$ 552,666	$ 543,144

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CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of specifically planned projects (other than those financed by proprietary funds.

2004 Special Purpose Local Option Sales Tax Fund – This fund is used to account for long-term projects financed by the passage of the 2004 special purpose local option sales tax.

CITY OF LAVONIA, GEORGIA
2004 SPECIAL PURPOSE LOCAL OPTION SALES TAX
CAPITAL PROJECTS FUND
COMPARATIVE BALANCE SHEETS
December 31, 2010 and 2009

	2010	2009
ASSETS		
Total assets	$ 0	$ 0
LIABILITIES AND FUND BALANCES		
Liabilities		
Due to other funds	$ 0	$ 1,304
Fund balances		
Unreserved	0	(1,304)
Total liabilities and fund balances	$ 0	$ 0

CITY OF LAVONIA, GEORGIA
2004 SPECIAL PURPOSE LOCAL OPTION SALES TAX
CAPITAL PROJECTS FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
For the years ended December 31, 2010 and 2009

	2010	2009
REVENUES		
Intergovernmental	$ 149,928	$ 10,522
Contributions	0	2,000
Total revenues	149,928	12,522
EXPENDITURES		
Capital outlay		
Public Works		
Highways and Streets	51,574	7,079
Culture and Recreation		
Parks and Recreation	35,829	6,747
Housing and Development		
Welcome Center	108,740	0
Total expenditures	196,143	13,826
Excess of revenues over (under) expenditures	(46,215)	(1,304)
Other financing sources (uses)		
Transfers in (out)		
General Fund	27,639	0
Hotel/Motel Tax Fund	19,880	0
Total other financing sources (uses)	47,519	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	1,304	(1,304)
Fund balances, January 1	(1,304)	0
Fund balances, December 31	$ 0	$ (1,304)

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ENTERPRISE FUNDS

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The funds are self-supporting in nature where the costs, including depreciation, of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

Water and Sewer Fund - Used to account for activities connected with the development, operation and maintenance of water and sewer services in the City of Lavonia.

Solid Waste Fund - Used to account for activities connected with the collection and disposal of residential, commercial, industrial, and institutional solid waste in the City of Lavonia.

CITY OF LAVONIA, GEORGIA
WATER AND SEWER ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
December 31, 2010 and 2009

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 233,666	$ 206,754
Certificates of deposit	300,000	600,000
Receivables		
Accounts (net)	237,811	273,973
Interest	5,176	13,976
Inventory	78,205	44,701
Prepaid items	7,344	10,743
Due from other funds	8,991	14,874
Total current assets	871,193	1,165,021
Restricted assets		
Bond Redemption		
Cash and cash equivalents	89,454	94,784
Customer Deposits		
Cash and cash equivalents	38,590	37,144
Total restricted assets	128,044	131,928
Capital assets		
Land	413,072	384,565
Land improvements	3,800	0
Buildings	177,559	153,559
Vehicles	267,699	253,799
Furniture and fixtures	71,012	71,012
Plant and facilities	7,783,452	7,742,504
Water and sewer lines and towers	6,537,555	6,537,555
Machinery and equipment	294,368	279,103
Construction in progress	70,011	63,554
Accumulated depreciation	(5,565,993)	(5,157,887)
Total capital assets (net of accumulated depreciation)	10,052,535	10,327,764
Total assets	11,051,772	11,624,713

CITY OF LAVONIA, GEORGIA
WATER AND SEWER ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
December 31, 2010 and 2009

	2010	2009
LIABILITIES		
Current liabilities		
Accounts payable	$ 25,830	$ 36,966
Accrued payroll liabilities	1,878	0
Compensated absences	52,358	46,123
Unearned revenue	12,603	12,706
Capital leases payable	0	16,060
Notes payable	0	23,655
Retainages payable	7,744	0
Other	3,902	1,902
Total current liabilities	104,315	137,412
Current liabilities payable from restricted assets		
Customer deposits payable	38,590	37,144
Revenue bonds payable	41,668	39,739
Interest payable	3,024	5,354
Total liabilities payable from restricted assets	83,282	82,237
Long-term liabilities		
Notes payable	0	642,122
Revenue bonds payable	2,225,121	2,266,827
Total long-term liabilities	2,225,121	2,908,949
Total liabilities	2,412,718	3,128,598
NET ASSETS		
Invested in capital assets, net of related debt	7,785,746	7,339,361
Restricted for debt service	86,430	89,430
Unrestricted	766,878	1,067,324
Total net assets	$ 8,639,054	$ 8,496,115

CITY OF LAVONIA, GEORGIA
WATER AND SEWER ENTERPRISE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the years ended December 31, 2010 and 2009

	2010	2009
OPERATING REVENUES		
Charges for sales and services		
Water sales	$ 1,611,689	$ 1,468,425
Sewer charges	431,521	419,338
Tap fees	16,380	28,025
Other	3,066	11
Total operating revenues	2,062,656	1,915,799
OPERATING EXPENSES		
Cost of sales and services	702,993	652,838
Personal services	694,014	702,909
Depreciation	408,107	400,758
Total operating expenses	1,805,114	1,756,505
Operating income (loss)	257,542	159,294
Non-operating revenues (expenses)		
Interest revenue	12,933	15,400
Interest expense	(130,563)	(139,643)
Total non-operating revenues (expenses)	(117,630)	(124,243)
Net income (loss) before capital contributions	139,912	35,051
Capital contributions		
Capital contributions	3,027	17,028
Change in net assets	142,939	52,079
Net assets, January 1	8,496,115	8,444,036
Net assets, December 31	$ 8,639,054	$ 8,496,115

CITY OF LAVONIA, GEORGIA
WATER AND SEWER ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For the years ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Receipts from customers	$ 2,097,095	$ 1,868,609
Payments to suppliers	(742,234)	(629,631)
Payments to employees	(685,901)	(710,140)
Other receipts	3,066	11
Net cash provided (used) by operating activities	672,026	528,849
Cash flows from non-capital financing activities:		
Receipts from other funds	5,883	0
Payments to other funds	0	(9,997)
Net cash provided (uses) by non-capital financing activities	5,883	(9,997)
Cash flows from capital and related financing activities:		
Receipts of capital contributions	3,027	17,028
Payments for acquisitions of capital assets	(125,134)	(128,323)
Principal payments - capital leases	(16,060)	(16,854)
Principal payments - promissory notes	(665,777)	(22,701)
Principal payments - revenue bonds	(39,777)	(37,935)
Interest paid	(132,893)	(139,766)
Net cash provided (used) by capital and related financing activities	(976,614)	(328,551)
Cash flows from investing activities:		
Proceeds from certificates of deposit	600,000	300,000
Purchases of certificates of deposit	(300,000)	(600,000)
Interest received	21,733	5,119
Net cash provided (used) by investing activities	321,733	(294,881)
Net increase (decrease) in cash and cash equivalents	23,028	(104,580)
Cash and cash equivalents, January 1	338,682	443,262
Cash and cash equivalents, December 31	$ 361,710	$ 338,682

CITY OF LAVONIA, GEORGIA
WATER AND SEWER ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For the years ended December 31, 2010 and 2009

	2010	2009
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ 257,542	$ 159,294
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	408,107	400,758
(Increase) decrease in accounts receivable	36,162	(48,096)
(Increase) decrease in inventory	(33,504)	15,101
(Increase) decrease in prepaid items	3,399	(3,416)
Increase (decrease) in accounts payable	(11,136)	11,583
Increase (decrease) in unearned revenue	(103)	(862)
Increase (decrease) in payroll liabilities	8,113	(7,231)
Increase (decrease) in other liabilities	2,000	(61)
Increase (decrease) in deposits payable	1,446	1,779
Total adjustments	414,484	369,555
Net cash provided (used) by operating activities	$ 672,026	$ 528,849
Cash reconciliation:		
Cash and cash equivalents	$ 233,666	$ 206,754
Bond Redemption		
Cash and cash equivalents	89,454	94,784
Customer Deposits		
Cash and cash equivalents	38,590	37,144
Total cash and cash equivalents	$ 361,710	$ 338,682

CITY OF LAVONIA, GEORGIA
SOLID WASTE ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
December 31, 2010 and 2009

	2010	2009
ASSETS		
Current assets		
Accounts receivable (net)	$ 37,204	$ 41,572
Prepaid items	88	0
Total assets	37,292	41,572
LIABILITIES		
Accounts payable	31,946	25,187
Accrued salaries	96	0
Compensated absences	182	522
Unearned revenue	722	1,155
Due to other funds	4,346	7,126
Total liabilities	37,292	33,990
NET ASSETS		
Unrestricted	0	7,582
Total net assets	$ 0	$ 7,582

CITY OF LAVONIA, GEORGIA
SOLID WASTE ENTERPRISE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the years ended December 31, 2010 and 2009

	2010	2009
OPERATING REVENUES		
Charges for sales and services	$ 312,654	$ 301,217
OPERATING EXPENSES		
Cost of sales and services	311,476	295,520
Personal services	40,376	39,981
Total operating expenses	351,852	335,501
Operating income (loss)	(39,198)	(34,284)
Transfers in (out)		
General Fund	31,616	30,297
Change in net assets	(7,582)	(3,987)
Net assets, January 1	7,582	11,569
Net assets, December 31	$ 0	$ 7,582

CITY OF LAVONIA, GEORGIA
SOLID WASTE ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For the years ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Receipts from customers	$ 316,589	$ 303,507
Payments to suppliers	(304,805)	(294,915)
Payments to employees	(40,620)	(41,138)
Net cash provided (used) by operating activities	(28,836)	(32,546)
Cash flows from non-capital financing activities:		
Receipts from other funds	28,836	32,546
Net increase (decrease) in cash and cash equivalents	0	0
Cash and cash equivalents, January 1	0	0
Cash and cash equivalents, December 31	$ 0	$ 0
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ (39,198)	$ (34,284)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
(Increase) decrease in accounts receivable	4,368	2,212
(Increase) decrease in prepaid items	(88)	0
Increase (decrease) in accounts payable	6,759	605
Increase (decrease) in unearned revenue	(244)	78
Increase (decrease) in payroll liabilities	(433)	(1,157)
Total adjustments	10,362	1,738
Net cash provided (used) by operating activities	$ (28,836)	$ (32,546)

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AGENCY FUNDS

Agency funds are used to account for assets held by the City as an agent to be expended in accordance with the conditions of its agency capacity.

Municipal Court Fund – This fund is used to account, on a temporary basis, for fines collected by the municipal court that ultimately are transmitted to the general fund or another agency.

CITY OF LAVONIA, GEORGIA
MUNICIPAL COURT AGENCY FUND
COMPARATIVE STATEMENTS OF ASSETS AND LIABILITIES
December 31, 2010 and 2009

	2010	2009
ASSETS		
Cash and cash equivalents	$ 4,735	$ 6,635
Accounts receivable (net)	88,596	85,633
Total assets	$ 93,331	$ 92,268
LIABILITIES		
Liabilities		
Due to other agencies	$ 93,331	$ 92,268

CITY OF LAVONIA, GEORGIA
MUNICIPAL COURT AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the year ended December 31, 2010

	Balance January 1	Additions	Deletions	Balance December 31
ASSETS				
Cash and cash equivalents	$ 6,635	$ 193,904	$ 195,804	$ 4,735
Accounts receivable	85,633	51,740	48,777	88,596
Total assets	$ 92,268	$ 245,644	$ 244,581	$ 93,331
LIABILITIES				
Due to others agencies	$ 92,268	$ 245,644	$ 244,581	$ 93,331

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COMPONENT UNIT

Downtown Development Authority – This component unit is used to account for governmental revenues and contributions reserved for City business development.

CITY OF LAVONIA, GEORGIA
DOWNTOWN DEVELOPMENT AUTHORITY (A COMPONENT UNIT)
COMPARATIVE BALANCE SHEETS
December 31, 2010 and 2009

ASSETS	**2010**	**2009**
Cash and cash equivalents	$ 30,066	$ 28,989
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	$ 633	$ 1,506
Other liabilities	88	88
Total liabilities	721	1,594
Fund balances		
Unreserved, designated for budget	26,000	24,000
Unreserved, undesignated	3,345	3,395
Total fund balances	29,345	27,395
Total liabilities and fund balances	$ 30,066	$ 28,989

CITY OF LAVONIA, GEORGIA
DOWNTOWN DEVELOPMENT AUTHORITY (A COMPONENT UNIT)
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL
For the year ended December 31, 2010
(With comparative actual amounts for the year ended December 31, 2009)

	2009			2009
	Final Budget	Actual	Variance	Actual
REVENUES				
Intergovernmental	$ 10,000	$ 10,000	$ 0	$ 10,000
Charges for services	200	683	483	33
Contributions	1,250	7,029	5,779	1,619
Rent	7,938	7,638	(300)	7,934
Other	5,400	2,180	(3,220)	2,560
Total revenues	24,788	27,530	2,742	22,146
EXPENDITURES				
Current				
Housing and Development				
Contract services	21,500	14,320	7,180	14,282
Supplies and materials	4,500	9,710	(5,210)	1,926
Capital outlay	4,000	0	4,000	3,996
Payments to other agencies	1,000	1,550	(550)	0
Total expenditures	31,000	25,580	5,420	20,204
Excess of revenues over (under) expenditures	(6,212)	1,950	8,162	1,942
Other financing sources (uses)				
Contingency	(17,788)	0	17,788	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(24,000)	1,950	25,950	1,942
Fund balances, January 1	24,000	27,395	3,395	25,453
Fund balances, December 31	$ 0	$ 29,345	$ 29,345	$ 27,395

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OTHER REPORTING SECTION

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards*

Honorable Mayor and Members
of the City Council
City of Lavonia, Georgia

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lavonia, Georgia, as of and for the year ended December 31, 2010, which collectively comprise the City of Lavonia, Georgia's basic financial statements, and have issued our report thereon dated March 30, 2011. 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 Lavonia, 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Comment 10-1

Condition: City personnel lack the necessary training and experience to perform the duties of financial director of the City. Currently, the City relies on the external auditors for technical assistance in applying generally accepted accounting principles and the preparation of the financial statements. This is common for governments of similar size and structure to the City of Lavonia. Under current auditing standards, providing technical assistance does not impair the independence of the external auditor. However, future changes to auditing standards could state that providing technical assistance would impair the independence of the external auditor.

Criteria: Effective internal control requires that employees possess the necessary qualifications and training to fulfill their assigned duties.

Effect: Failure to ensure that employees possess the necessary qualifications to perform their assigned duties may lead to financial statements that are materially misstated.

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Recommendation: City personnel should receive additional training in the identification and application of generally accepted accounting principles and the preparation of the City's financial statements. However, this may be cost prohibitive without hiring a qualified financial director.

Management Response: Management concurs with this finding. The City has determined that the cost of training City personnel to fully perform the duties of financial director is prohibitive. The governing body and management have determined that personnel should receive training to the extent that is economically feasible and to continue to rely on the technical assistance of the external auditor or other qualified professional when necessary. This action was taken immediately upon receipt of the comment from our auditors.

Compliance and Other Matters

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

We noted certain matters that we have reported to management of the City of Lavonia, Georgia, in a separate letter dated March 30, 2011.

The City of Lavonia, Georgia's, response to the findings identified in our audit is described above. We did not audit the City of Lavonia, Georgia's, responses and, accordingly, we express no opinion on them.

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

Rushton & Company, LLC

Certified Public Accountants

Gainesville, Georgia
March 30, 2011

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CITY OF LAVONIA, GEORGIA
SCHEDULE OF PROJECTS FINANCED WITH
SPECIAL PURPOSE LOCAL OPTION SALES TAX
For the year ended December 31, 2010

Project	Estimated Cost *		Expenditures		
	Original	Current	Prior Years	Current Year	Total
2004 Referendum					
Water Expansion	$ 385,715	$ 385,715	$ 388,567	$ 0	$ 388,567
Police Department Facilities	192,857	192,857	194,303	0	194,303
Fire Department Facilities	200,000	200,000	225,549	0	225,549
Library Facilities	45,000	45,000	22,500	0	22,500
Recreation Facilities	192,857	192,857	258,771	63,548	322,319
Construction and Improvement of Roads	385,713	385,713	422,827	52,112	474,939
Total	$ 1,402,142	$ 1,402,142	$ 1,512,517	$ 115,660	$ 1,628,177

Current year 2004 SPLOST expenditures	$ 115,660
Expenditures financed through other revenues and transfers from other funds	80,483
Total expenditures of the 2004 SPLOST Capital Projects Fund	$ 196,143

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