CITY OF LULA, GEORGIA

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

WALKER & ASSOCIATES, CPA'S, PC

CITY OF LULA, GEORGIA
FISCAL YEAR ENDED JUNE 30, 2011
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Walker and Associates
Certified Public Accountants

Independent Auditor's Report

To the City Council
City of Lula, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the City of Lula, Georgia, as of and for the year ended June 30, 2011, 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 Lula, 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 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 and each major fund of the City of Lula, Georgia, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2012, on our consideration of the City of Lula, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City of Lula, Georgia has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements. However, the City of Lula, Georgia has presented budget comparison information on pages 21 through 22 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lula, Georgia's financial statements as a whole. The Schedule of Special Purpose Local Option Sales Tax is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the financial statements. The Schedule of Expenditures of Federal Awards and the Schedule of Special Purpose Local Option Sales Tax 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.

Sincerely,

Walker & Associates

Walker & Associates, CPA's, P.C.
Gainesville, Georgia
February 1, 2012

CITY OF LULA, GEORGIA

Statement of Net Assets

June 30, 2011

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit
Assets				
Cash and cash equivalents	$ 374,862	$ 904,479	$ 1,279,341	$ -
Receivables (net)	75,586	2,879,327	2,954,913	-
Other current assets	881	171,610	172,491	-
Prepaid expenses	26,886	-	26,886	-
Construction in progress	60,690	-	60,690	-
Nondepreciable capital assets	20,000	560,516	580,516	-
Depreciable capital assets, net	427,822	11,768,814	12,196,636	-
Total assets	986,727	16,284,746	17,271,473	-
Liabilities				
Current liabilities:				
Accounts payable and other liabilities	51,100	242,673	293,773	-
Internal balances	(1,507,455)	1,507,455	-	-
Noncurrent liabilities:				
Due within one year	-	39,348	39,348	-
Due in more than one year	-	2,531,354	2,531,354	-
Compensated absences	3,274	2,621	5,895	-
Total liabilities	(1,453,081)	4,323,451	2,870,370	-
Net assets				
Invested in capital assets, net of related debt	508,512	9,758,628	10,267,140	-
Restricted for:				
Capital projects	260,046	-	260,046	-
Unrestricted	1,671,250	2,202,667	3,873,917	-
Total net assets	$ 2,439,808	$ 11,961,295	$ 14,401,103	$ -

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

CITY OF LULA, GEORGIA

Statement of Activities

For the Year Ended June 30, 2011

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants Contributions	Net (Expenses) Revenues and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Unit
Primary government:								
Governmental activities								
General government	$ 348,837	$ 146,649	$ -	$ 183,805	$ (18,383)		$ (18,383)	
Streets and sanitation	255,465	98,735	-	-	(156,730)		(156,730)	
Culture and Recreation	7,221	-	-	-	(7,221)		(7,221)	
Total governmental activities	611,523	245,384	-	183,805	(182,334)		(182,334)	
Business-type activities								
Water and Sewer	552,496	3,844,456	-	5,998,305		$ 9,290,265	9,290,265	
Total business-type activities	552,496	3,844,456	-	5,998,305		9,290,265	9,290,265	
Total primary government	$ 1,164,019	$ 4,089,840	$ -	$ 6,182,110			9,107,931	
Component units:								
Downtown Development Authority	$ -	$ -	$ -	$ -				$ -
Total component units	$ -	$ -	$ -	$ -				-
General revenues:								
Taxes								
Franchise tax					111,507	-	111,507	
Sales taxes					282,080	-	282,080	
Interest and investment earnings					420	1,888	2,308	
Miscellaneous					11,667	-	11,667	
Transfers					(42,653)	42,653	-	
Total general revenues, special items, and transfers					363,021	44,541	407,562	
Change in net assets					180,687	9,334,806	9,515,493	
Net assets - beginning					2,259,121	2,626,489	4,885,610	-
Net assets - ending					$ 2,439,808	$11,961,295	$14,401,103	$ -

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

CITY OF LULA, GEORGIA

Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Capital Projects Fund	Total Governmental Funds
Assets			
Cash	$ 150,093	$ 224,769	$ 374,862
Due from Other Governments	25,485	35,277	60,762
Receivables (net)	15,705	-	15,705
Prepaid Expenditures	26,886	-	26,886
Due from Other Funds	1,507,455	-	1,507,455
Total Assets	$ 1,725,624	$ 260,046	$ 1,985,670
Liabilities			
Accounts Payable	$ 51,100	$ -	$ 51,100
Total Liabilities	51,100	-	51,100
Fund Balance			
Nonspendable:			
Prepaid expenditures	26,886	-	26,886
Interfund receivable	1,507,455	-	1,507,455
Restricted for:			
Capital projects	-	260,046	260,046
Unassigned	140,183	-	140,183
Total Fund Balance	1,674,524	260,046	1,934,570
Total Liabilities and Fund Balance	$ 1,725,624	$ 260,046	$ 1,985,670

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

CITY OF LULA, GEORGIA

Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets
June 30, 2011

Total fund balances - governmental funds	$ 1,934,570
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Governmental capital assets	875,495
Less: Accumulated depreciation	(366,983)
Accrued personal leave not reported in governmental funds	(3,274)
Net assets of governmental activities	$ 2,439,808

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

CITY OF LULA, GEORGIA

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
Sales Taxes	$ 282,080	$ -	$ 282,080
Franchise Tax	110,033	-	110,033
Intergovernmental	-	200,166	200,166
Charges for services	245,384	-	245,384
Interest	420	457	877
Miscellaneous	13,141	-	13,141
Total Revenue	651,058	200,623	851,681
Expenditures			
Current			
General government	318,947	18,520	337,467
Streets and Sanitation	257,255	-	257,255
Culture and recreation	7,221	-	7,221
Total Expenditures	583,423	18,520	601,943
Excess of revenues (expenditures)	67,635	182,103	249,738
Other financing sources (uses)			
Transfer out	-	(42,653)	(42,653)
Total other financing sources and uses	-	(42,653)	(42,653)
Net Change in Fund Balance	67,635	139,450	207,085
Beginning fund balance	1,606,889	120,596	1,727,485
Ending fund balance	$ 1,674,524	$ 260,046	$ 1,934,570

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

CITY OF LULA, 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 June 30, 2011

Net change in fund balances-total governmental funds	$	207,085
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation ($38,462) exceeded capital outlay ($29,582) in the current period.		(8,880)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This balance represents the change in compensated absence liability from the prior year.		(700)
Because some revenues will not be collected for several months after the City's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues changed by this amount this year.		(16,818)
Net change in assets of governmental activities	$	180,687

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

CITY OF LULA, GEORGIA

Statement of Net Assets
Proprietary Fund
June 30, 2011

	Water and Sewer Enterprise Fund
Assets	
Current Assets	
Cash	$ 223,468
Accounts Receivable (net)	31,256
Other Receivables	102,879
Intergovernmental Receivable	2,745,192
Total Current Assets	3,102,795
Noncurrent Assets:	
Restricted Cash	681,011
Nondepreciable Capital Assets	560,516
Plant, Property and Equipment (Net of accumulated depreciation)	11,768,814
Deferred Charge	171,610
Total Noncurrent Assets	13,181,951
Total Assets	16,284,746
Liabilities	
Current Liabilities:	
Accounts Payable	194,810
Due to Other Funds	1,507,455
Customer Deposits	47,863
Current Portion of Long Term Debt	39,348
Total Current Liabilities	1,789,476
Noncurrent Liabilities:	
Compensated Absences	2,621
Notes Payable (Net of current portion)	2,531,354
Total Noncurrent Liabilities	2,533,975
Total Liabilities	4,323,451
Fund Net Assets	
Invested in capital assets, net of related debt	9,758,628
Unrestricted	2,202,667
Total Fund net assets	$ 11,961,295

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

CITY OF LULA, GEORGIA

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2011

	Water and Sewer Enterprise Fund
Operating revenue	
Charges for Services	$ 396,053
Connection Fees	246
Miscellaneous Income	2,965
Total Operating Revenues	399,264
Operating expenses	
Personal services	
Compensation	118,836
Total Personal Services	118,836
Expenses	
Supplies	96,234
Repairs and Maintenance	44,216
Utilities	63,684
Miscellaneous	29,579
Depreciation	158,395
Insurance	11,874
Engineering, Lab Fees and Training	14,395
Total Expenses	418,377
Total Operating Expenses	537,213
Operating Income (Loss)	(137,949)
Nonoperating revenues/(expenses)	
Interest Income	1,888
Interest Expense on Loans	(15,283)
Total Nonoperating Revenues (Expenses)	(13,395)
Capital Contribution - Debt Forgiveness	5,998,305
Sale of Sewer Capacity	3,445,192
Transfers In	42,653
Change in Fund Net Assets	9,334,806
Fund Net Assets - Beginning	2,626,489
Fund Net Assets - Ending	$ 11,961,295

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

CITY OF LULA, GEORGIA
Statement of Cash Flows
Proprietary Fund
For The Year Ended June 30, 2011

	Water and Sewer
Cash flows from operating activities:	
Receipts from customers	$ 399,264
Payments to suppliers	(224,677)
Payments to employees	(118,836)
Net cash provided (used) by operating activities:	55,751
Cash flows from noncapital financing activities:	
Increase in advances from other funds	34,439
Net cash provided by noncapital financing activities	34,439
Cash flows from capital and related financing activities:	
Proceeds from debt	1,439,140
Decrease in Accrued Liability for Construction-in-Process	(312,256)
Capital grant proceeds - debt forgiveness	3,357,992
Transfers in	42,653
Acquisition and construction of capital assets	(5,042,887)
Net cash provided (used) by capital and related financing activities	(515,358)
Cash flows from investing activities:	
Interest income	1,888
Net cash provided by investing activities	1,888
Net increase in cash and cash equivalents	(423,280)
Cash and cash equivalents - beginning of year	1,327,759
Cash and cash equivalents - end of year	$ 904,479
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	$ (137,949)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	158,395
Changes in assets and liabilities:	
Receivables and accrued revenue	(2,276)
Accounts payable	32,029
Other liabilities	5,552
Net cash provided by operating activities	$ 55,751

Noncash capital and financing activities:

The Water and Sewer fund recongnized $2,640,313 of capital grant proceeds recorded in prior year as deferred revenue.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of City of Lula, Georgia, have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and Accounting Principles Board (APB) opinions, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The more significant of the government's accounting policies are described below.

1-A The Reporting Entity

The City of Lula, Georgia is a municipal corporation governed by an elected mayor and five member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government- wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of a primary government.

The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

Component Units:

On February 19, 2007, the City Council voted to establish the Lula Downtown Development Authority. The Authority will have a seven member board of directors, all of whom are appointed by the City of Lula. Currently there are no separate financial statements.

1-B Basis of Presentation, Basis of Accounting
Basis of Presentation-Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. 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 certain legally separate component units for which the primary government is financially accountable.

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.

Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

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

Capital Projects Fund. This fund accounts for *Special Purpose Local Option Sales Tax* financial resources expended for purposes approved by referendum.

The City reports the following major proprietary fund:

Water and Sewer Fund. This fund accounts for the operations of the City's water and sewer services.

Proprietary fund operating revenues and expenses result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues and expenses, such as subsidies, investment earnings or interest expense, result from nonexchange transactions or ancillary activities.

Measurement Focus, Basis of Accounting

Government-wide and Proprietary Financial Statements. The government-wide and proprietary financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within thirty days after year-end except for property taxes for which sixty days after year end applies. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and adjustments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursements 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.

All business-type activities and proprietary funds of the City follow FASB Statements and interpretations issued before or after November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

1-C Assets, Liabilities, and Equity [Primary government]

Investments

As of June 30, 2011, the City did not have investments.

Cash and Cash Equivalents

The City considers short-term liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates to be cash equivalents. Only investments with original maturities of three months or less meet this definition. Nonnegotiable certificates of deposit are considered as cash equivalents.

Restricted Assets

These assets are held in the capital projects fund for specific purposes defined by statute, referendum, or grant contract and not generally available for general government operations. Restricted assets held in the proprietary fund represent deposits paid by customers as a requirement for service and escrow funds required by debt covenants.

Receivables and Payables

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e., the current portion of interfund loans) or "advances to / from other funds" (i.e., the non-current portion of interfund loans.) All other outstanding balances between funds are reported as "due to / from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade accounts receivable for the City of Lula, are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles, including those for the City of Lula.

Property Tax Calendar

The City does not levy a property tax.

Inventories and Prepaid Items

Inventories are valued at the lower of cost or market. In the governmental funds, the cost of inventory items are recorded as expenditures at the time of purchase. The City maintains no significant inventories. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of two years. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of amount.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense of $31,369 incurred by the Water/Sewer Fund during the current fiscal year was included as part of the cost of capital assets under construction in connection with the waste water treatment construction project.

After the implementation of GASB 34, the client is recording infrastructure assets prospectively.

Property, plant and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Assets	Years	Assets	Years
Buildings	50	Vehicles	5
Building Improvements	40	Office equipment	5
Equipment	10	Computer equipment	5

Compensated Absences

The liability for compensated absences reported in the governmental and proprietary fund statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vested method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Retirement Plans

The City has adopted a 457 deferred compensation plan named "The City of Lula 457 Deferred Compensation Plan". The Plan is a defined contribution plan administered by the Georgia Municipal Association who may amend the plan at its discretion. All City employees who are eligible may contribute to the Plan through salary deferrals up to the statutory limits. The employer matches employee deferrals up to 3% of compensation. As of June 30, 2011, there were 5 employees participating in the plan. For the year ended June 30, 2011, the employees deferred a total of $4,118 and the City's match totaled $3,250.

1-D Fund Equity[Primary goverment]

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net assets."

Fund Balance - Generally fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

Nonspendable - Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally contractually required to be maintained intact.

Restricted - Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Committed - Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the adoption of a resolution. The City Council also may modify or rescind the commitment.

Assigned - Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City's finance officer to assign fund balances.

1-D Fund Equity(continued)

Unassigned - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balances only in the general fund. Negative unassigned fund balances may be reported in all funds.

When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order:

Committed
Assigned
Unassigned

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the City has spent) for the acquisition, construction or improvement of those assets. Net assets are reported as restricted as described in the fund balance section above. All other net assets are reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 2. CASH [Primary government]

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

The City's custodial credit risk policy is to require all banks to collateralize the City's deposits at 110% of account balances and to have a perfected security agreement supporting the collateral agreement with the bank. The City does not have a foreign credit risk. At June 30, 2011, all bank deposits were insured or fully collateralized.

NOTE 3. RECEIVABLES [Primary government]

The following is a summary of amounts due from others at June 30, 2011.

Receivables from:		
Governmental funds:		
Due from other governments	$	60,762
Accounts receivable, net		15,705
	$	76,467
Business-Type funds:		
Due from other governments	$	2,745,192
Other receivables		102,879
Accounts receivable, net		31,256
	$	2,879,327

NOTE 3. RECEIVABLES [continued]

The Intergovernmental receivable of $2,745,192 is due from the Hall County Board of Commissioners per the terms of an intergovernmental agreement dated June 16, 2006 for the sale of capacity in the City's Waste water treatment plant completed in April 2011.

NOTE 4. LITIGATION [Primary government]

The Attorneys for the City have advised that there are no known legal matters which will have a material effect on the City's financial condition. No provision has been made to provide reserves for litigation settlements.

NOTE 5. LONG-TERM DEBT [Primary government]

Intergovernmental loan

On November 3, 2009, the City signed a loan agreement with the Clean Water State Revolving Fund, administered by the Georgia Environmental Facilities Authority to borrow $8,569,007 to finance the construction of a waste water treatment plant. In accordance with Title VII of Division A of the American Recovery and Reinvestment Act of 2010 ("ARRA") the lender has agreed to forgive 70% of the loan balance once construction is completed. Construction on the plant was completed in April 2011. The remaining 30% balance totaling $2,570,702 is a 20 year note at 3.00 percent interest repaid by the City in monthly installments of $14,257.05 beginning on February 1, 2012. The remaining 70%, totaling $5,998,305, has been recorded as nonoperating debt forgiveness revenue for the year ended June 30, 2011.

Changes in Long-term Debt – Changes in the City's long-term obligations, including current portions, consisted of the following for the year ended June 30, 2011.

	July 1, 2010	Additions	Reductions	June 30, 2011	Due within one year
Governmental Activities:					
Compensated Absences	$ 2,574	$ 700	$ -	$ 3,274	$ -
Business-Type Activities:					
Intergovernmental loan	$ 1,131,562	$ 1,439,140	$ -	$ 2,570,702	$ 39,348
Compensated Absences	1,300	1,321	-	2,621	-
Net Business-Type Activities	$ 1,132,862	$ 1,440,461	$ -	$ 2,573,323	$ 39,348

Compensated absences is composed of accumulated vacation pay at June 30, 2011, which will be paid from the General and Proprietary Funds respectively from which the salaries are paid.

The maturities and debt service requirements are as follows:

Year	Principal	Interest	Total
2012	$ 39,348	$ 31,937	$ 71,285
2013	96,463	74,622	171,085
2014	99,397	71,687	171,084
2015	102,421	68,664	171,085
2016	105,536	65,549	171,085
2017-2021	577,826	277,597	855,423
2022-2026	671,212	184,211	855,423
2027-2031	779,691	75,732	855,423
2032	98,808	990	99,798
Totals:	$ 2,570,702	$ 850,989	$ 3,421,691

NOTE 6. RISK MANAGEMENT [Primary government]

The City purchases Workers Compensation Insurance through the Georgia Municipal Association Worker's Compensation Self Insurance Fund. The City's policy year starts on January 1st and ends on December 31st of each year. The premium for the policy year of 2011 was $16,688. The City also purchases General Liability Insurance through the Georgia Interlocal Management Agency. The City's policy year starts May 1st and ends on April 30th of each year. The premium for the year ending April 30, 2011 was $21,237. As part of these risk pools, the Government 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 Government is also to allow the pool's agents and attorneys to represent the Government in investigation, settlement discussions and all levels of litigation arising out of any claim made against the Government 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 costs 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.

With respect to other types of risk including torts, theft or destruction of assets, errors of omissions, and acts of God, the City has purchased sufficient insurance and, therefore, transferred risk of loss. There have been no settlements in the previous three years in excess of insurance.

NOTE 7. COMPENSATED ABSENCES [Primary government]

Governmental Accounting Standards Board Statement 16, effective for fiscal years beginning after June 15, 1993, requires that such benefits be accrued when: (1) the employer's obligation to employees' right to receive compensation for future benefits is attributable to employees' service already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated. Accrued vacation and personal leave in the amount of $5,895 is included in the government-wide financial statements, under noncurrent liabilities.

NOTE 8. CAPITAL ASSETS (Primary Government)

Depreciation expense was charged to functions as follows:

Governmental activities:		Business-type activities:	
General government	$31,702	Water and Sewer	$158,395
Streets and sanitation	6,760		
Total depreciation	$ 38,462		

NOTE 8. CAPITAL ASSETS [continued]

Capital asset activity for the year ended June 30, 2011, was as follows:

Governmental activities:	**Balances 7/1/2010**	**Additions**	**Deletions**	**Balances 6/30/2011**
Capital assets not being depreciated				
Construction in progress	$ 31,108	$ 29,582	$ -	$ 60,690
Land and improvements	20,000	-	-	20,000
Total Non-Depreciable Capital Assets	51,108	29,582	-	80,690
Capital assets being depreciated				
Buildings	527,633	-	-	527,633
Vehicles	123,683	-	-	123,683
Equipment	143,489	-	-	143,489
Total capital assets being depreciated	794,805	-	-	794,805
Less accumulated depreciation for:				
Buildings	82,008	28,191	-	110,199
Vehicles	123,683	-	-	123,683
Equipment	122,830	10,271	-	133,101
Total accumulated depreciation	328,521	38,462	-	366,983
Total capital assets being depreciated, net	466,284	(38,462)	-	427,822
Governmental activity assets, net	$ 517,392	$ (8,880)	$ -	$ 508,512

Business-type activities:	**Balances 7/1/2010**	**Additions**	**Deletions**	**Balances 6/30/2011**
Capital assets not being depreciated				
Construction in Progress	$ 3,907,098	$ 5,042,887	$ 8,949,985	$ -
Land	560,516	-	-	560,516
Total Non-Depreciable capital assets	4,467,614	5,042,887	8,949,985	560,516
Capital assets being depreciated				
Water and Sewer Plant	1,858,252	8,949,985	-	10,808,237
Improvements	1,213,760	-	-	1,213,760
Equipment	1,030,611	27,776	-	1,058,387
Total capital assets being depreciated	4,102,623	8,977,761	-	13,080,384
Less accumulated depreciation for:				
Water and Sewer Plant	674,573	81,454	-	756,027
Improvements	299,975	40,626	-	340,601
Equipment	178,627	36,315	-	214,942
Total accumulated depreciation	1,153,175	158,395	-	1,311,570
Total capital assets being depreciated, net	2,949,448	8,819,366	-	11,768,814
Business-type activity assets, net	$ 7,417,062	$ 13,862,253	$ 8,949,985	$ 12,329,330

NOTE 9. INTERFUND BALANCES AND TRANSFERS

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

		Due from			
		General Fund	Water and Sewer	Capital Projects	Total
Due to	General Fund	$ -	$ 1,507,455	$ -	$ 1,507,455
	Water & Sewer	-	-	-	-
	Capital Projects	-	-	-	-
	Total	$ -	$ 1,507,455	$ -	$ 1,507,455

This government reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. These transfers have been eliminated from the government-wide financial statements.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that the statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) provide unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

		Transfer from			
		General Fund	Grant Fund	Capital Projects	Total
Transfer to	Water & Sewer	$ -	$ -	$ 42,653	$ 42,653
	Total	$ -	$ -	$ 42,653	$ 42,653

NOTE 10. ALLOWANCE FOR UNCOLLECTABLE TAXES AND ACCOUNTS

The balance of taxes and accounts receivable at June 30, 2011, are net of the following allowances for doubtful accounts:

Fund	Accounts
Enterprise	$1,959
Total	$1,959

NOTE 11. JOINT VENTURES

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 Commission (GMRC) and required to pay annual dues thereto. During the year ended June 30, 2011, the City paid $2,487 in such dues. Membership in the Commission is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the Commission in Georgia. The Commission Board membership includes the chief elected official of each city and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of the Commission. Separate financial statements may be obtained from:

Georgia Mountains Regional Commission
1310 W. Ridge Road
Gainesville, GA 30501

NOTE 12. BUDGETS

The following is a Governmental Fund for which expenditures exceeded appropriations:

	Budgeted Expenditures and Other Financing Uses	Actual Expenditures and Other Financing Uses	Actual in Excess of Appropriations
General Fund			
General Government	$ 366,812	$ 318,947	$ -
Streets & Sanitation	$ 265,387	$ 257,255	$ -
Culture & Recreation	$ 6,100	$ 7,221	$ 1,121

The City's legal level of control is at the department level which is the basis on which the Budgetary Comparison Schedule is prepared.

NOTE 13. COMPLIANCE

At June 20, 2011, the City was not in compliance with the following statutes:

- O.C.G.A. 36-81-3 Relating to expenditures in excess of budgeted amounts.

CITY OF LULA, GEORGIA
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Budget to GAAP Differences	Actual Amounts	Variance with Final Budget
	Original	Final	Budgetary Basis	Over / (Under)	GAAP Basis	Over / (Under)
Revenues						
Sales Taxes	$ 260,100	$ 260,100	$ 282,080	$ -	$ 282,080	$ 21,980
Franchise Taxes	94,000	94,000	110,033	-	110,033	16,033
Charges for Services	242,500	242,500	245,384	-	245,384	2,884
Interest	4,000	4,000	420	-	420	(3,580)
Transfer In	27,000	27,000	-	-	-	(27,000)
Miscellaneous	10,699	10,699	13,141	-	13,141	2,442
Total Revenues	638,299	638,299	651,058	-	651,058	12,759
Expenditures						
Current Operating:						
General Government	366,812	366,812	318,947	-	318,947	(47,865)
Streets and Sanitation	265,387	265,387	257,255	-	257,255	(8,132)
Culture and Recreation	6,100	6,100	7,221	-	7,221	1,121
Total Expenditures	638,299	638,299	583,423	-	583,423	(54,876)
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ -	$ -	$ 67,635	$ -	$ 67,635	$ 67,635
Fund Balance - beginning	-	-	1,606,889		1,606,889	-
Fund Balance - ending	-	-	$ 1,674,524		$ 1,674,524	-

CITY OF LULA, GEORGIA
Notes to Required Supplementary Information
On Budgetary Accounting and Control
Year Ended June 30, 2011

BUDGETARY ACCOUNTING AND CONTROL

Budget Law

The City prepares its annual operating budget under the provisions of the official Code of Georgia. In accordance with those provisions, the following process is used to adopt the annual budget:

(a). Prior to June 1, the City manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

(b). Public hearings are conducted at advertised times to obtain taxpayer comments. Public hearings are normally scheduled no later than 15 days prior to the beginning of the budget year.

(c). Subsequent to the public hearings, the budget is legally enacted through the passage of a resolution by the City Council.

All governmental funds with revenues and/or expenditures as defined by State law are required to have annual budgets. The legal level of control at which expenditures may not legally exceed appropriations is at the department level within a fund.

Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

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

To the Mayor and City Council
Lula, Georgia

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Lula, Georgia, as of and for the year ended June 30, 2011, which collectively comprise the City of Lula, Georgia's basic financial statements and have issued our report thereon dated February 1, 2012. 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 Lula, Georgia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lula, Georgia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lula, Georgia's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs, 2011-1 through 2011-2, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lula, Georgia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The

results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2011-3.

The City of Lula, Georgia's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City of Lula, Georgia's response and, accordingly, we express no opinion on it.

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

Walker & Associates

Walker & Associates, CPA's, P.C.
Gainesville, Georgia
February 1, 2012

THE CITY OF LULA, GEORGIA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Lula, Georgia.

2. Significant deficiencies relating to the audit of the financial statements are reported in this schedule under the caption "Findings-Financial Statement Audit". Findings 2011-1 through 2011-2 are considered material weaknesses.

3. Instances of noncompliance material to the financial statements of the City of Lula were disclosed during the audit.

4. No significant deficiencies relating to the audit of the major federal award programs were reported.

5. The auditor's report on compliance for the *Capitalization Grants for Clean Water Revolving Funds Program* expresses an unqualified opinion.

6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

7. The programs tested as major programs include: *Capitalization Grants for Clean Water Revolving Funds Program* CFDA # 66.458.

8. The threshold used for distinguishing between Type A and B programs was $300,000.

9. The City of Lula, Georgia did not qualify as a low-risk auditee.

Findings-Financial Statement Audit

Internal Control

2011-1

Condition: The City does not possess the ability to prepare its own financial statements or have access to someone with adequate technical training and education to review the financial statements prepared by others.

Criteria: The City should possess the ability to prepare its own financial statements or have access to someone with adequate technical training and education to review the financial statements prepared by others.

Cause: The City staff does not possess adequate capabilities to prepare financial statements in accordance with accounting principles generally accepted in the United States.

Effect: The City does not possess adequate capabilities to prepare financial statements in accordance with accounting principles generally accepted in the United States.

Recommendation: The City should consider employing someone or contracting with another entity to review the financial statements prepared by the auditor.

Response: The City agrees with the finding.

2011-2

Condition: The City issued payments to vendors from the incorrect bank account.

Criteria: The City should issue payments to vendors from the appropriate source of funds.

Cause: An oversight by staff allowed the issuing of checks from the incorrect bank account to pay vendors.

Effect: Funds from the incorrect account were used to pay vendors creating liabilities between City accounting funds.

Recommendation: The City should implement policies and procedures to prevent the issuance of checks to vendors written from the incorrect bank account.

Response: The City agrees with the finding.

Compliance

2011-3

Condition: The City had expenditures in excess of appropriations in the general fund.

Criteria: Georgia code OCGA 36-81-3 requires limiting expenditures to the legally approved budget amounts.

Cause: The City did not amend its budget to authorize expenditures in excess of its original budget.

Effect: At June 30, 2011, the City was not in compliance with OCGA 36-81-3.

Recommendation: We recommend the City comply with all relevant statutes concerning the operation of a local government in order to reduce the risk of litigation and other unforeseen actions.

Response: The City agrees with the finding.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Mayor and City Council
Lula, Georgia

Compliance

We have audited City of Lula, Georgia's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Lula, Georgia's major federal programs for the year ended June 30, 2011. The City of Lula, Georgia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Lula, Georgia's management. Our responsibility is to express an opinion on the City of Lula, Georgia's compliance based on our audit.

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

In our opinion, the City of Lula, Georgia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the City of Lula, Georgia is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Lula, Georgia's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Lula, Georgia's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses, as defined above.

The City of Lula, Georgia's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Lula, Georgia's responses and, accordingly, we express no opinion on the responses.

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

Walker & Associates

Walker & Associates, CPA's, P.C.
Gainesville, Georgia
February 1, 2012

City of Lula, Georgia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U. S. Environmental Protection Agency			
Pass-through programs:			
Georgia Environmental Facilities Authority			
ARRA-Capitalization Grants for Clean Water Revolving Loan Funds	66.458	CWSRF 09-014	$ 3,636,286
Capitalization Grants for Clean Water Revolving Loan Funds	66.458	CWSRF 09-014	928,677
Total pass through programs			4,564,963
Total U.S. Environmental Protection Agency			4,564,963
Total expenditures of federal awards			$ 4,564,963

City of Lula, Georgia

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Lula, Georgia and is presented on the accrual basis of accounting. The information is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basis financial statements.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of Accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

CITY OF LULA, GEORGIA
Schedule of Special Purpose Local Option Sales Tax
Estimated Cost and Expenditure Summary
For the Year Ended June 30, 2011

Project Description	Estimated Cost		Expenditures		
	Original	Current	Prior Years	Current Year	Total
HALL CO. SPLOST IV					
Water and Sewer Improvement	$ 652,700	$ 581,119	$ 583,642	$ -	$ 583,642
Streets and Sidewalks	200,000	89,278	89,278	-	89,278
Recreation Building	100,000	60,722	-	-	-
Total Hall Co. SPLOST IV	$ 952,700	$ 731,119	$ 672,920	$ -	$ 672,920
HALL CO. SPLOST V					
Division 1:					
Roads	$ 358,111	$ 358,111	$ 356,817	$ -	$ 356,817
Public Safety		-	-	-	-
Library		-	-	-	-
Division 2:					
Roads	84,261	84,261	45,367	-	45,367
Total Hall Co. SPLOST V	$ 442,372	$ 442,372	$ 402,184	$ -	$ 402,184
HALL CO. SPLOST VI					
Water and Sewer Facilities	$1,300,000	$1,300,000	$ 64,160	$ 42,653	$ 106,813
Historic Downtown Streetscape	300,000	300,000	-	11,203	11,203
Roads	300,000	300,000	85,959	7,294	93,253
Total Hall Co. SPLOST VI	$1,900,000	$1,900,000	$ 150,119	$ 61,150	$ 211,269

Note: SPLOST IV and SPLOST V were completed as of June 30, 2010.

City of Lula

"Home of Railroad Days"

P.O. Box 99 • 6055 Main Street
Lula, Georgia 30554

(770) 869-3801
Fax: (770) 869-1299
Email: lulacity@bellsouth.net

February 27th, 2011

Georgia Department of Audits and Accounts
Nonprofit and Local Government Audits
254 Washington Street, S.W.
Suite 322
Atlanta, Georgia 30334-8400

Subject City Of Lula Correctives Action Plan Fiscal Year Ended June 2011

To Whom It May Concern:

Please find below the City of Lula's Corrective Action Plan based on the City's FYE June 30, 2011 audit findings.

Compliance/ Internal Control

2011-I **The City does not possess the ability to prepare its own financial statements or have access to someone with adequate training and education to review the financial statements prepared by others.**

Management's Response

The City Council has limited resources reflective of budget restraints regarding revenue to employ a person of these qualifications, however the city by council direction does employ an individual on a contractual basis who by qualifications audits monthly financial statements that are created internally by city staff, and report's findings on a monthly basis as to the status of the financial condition of the city. The City council will continue to evaluate this matter on an annual basis reflective of available revenue verses expenditure(s) so to support this expectation.

2011-2 The City issued payments to vendors from Incorrect bank accounts.

Management's response

The City on few occasions (less than -10) has mistakenly made payments to vendors over the past fiscal year. On these rare occasions staff has made corrections when identified.
Current staffing levels have been addressed for review of payments to vendors so to insure that payments are paid from the correct accounts.

2100-3 The City ad expenditures in excess of appropriation in the general fund.

Management's response

The city council acquired the responsibility to overtake an obligation of Hall County Government to maintain and operate a park located in the city, mid-year of the fiscal cycle. As this item was not anticipated in the original budget development of the year the city could not appropriate funds without prior knowledge. The Council will amend the fiscal budget to reflect this excess appropriation in the general fund.

Questions regarding the adopted corrective action plan are welcome and can be made directly to the City of Lula, through the position of the Mayor or the City Manager

With best regards,

Dennis Bergin
City Manager

Attachments (yes)

Cc. File, 2001 Audit, Mayor and Council