CITY OF LULA, GEORGIA

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

WALKER & ASSOCIATES, CPA'S, PC

CITY OF LULA, GEORGIA
FISCAL YEAR ENDED JUNE 30, 2012
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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, 2012, 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, 2012, and the respective changes in financial position, and, where applicable, cash flows 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 December 20, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City of Lula, Georgia has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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 accompanying schedule of expenditures of special purpose local option sales tax proceeds is presented for purposes of additional analysis as required by Official Code of Georgia 48-8-121 and is not a required part of the basic financial statements. The schedule of expenditures of special purpose local option sales tax proceeds has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The budget comparison information on pages 21 through 22 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Walker & Associates

Walker & Associates, CPA's, PC
Gainesville, Georgia
December 20, 2012

CITY OF LULA, GEORGIA

Statement of Net Position

June 30, 2012

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit
Assets				
Cash and cash equivalents	$ 398,544	$ 220,858	$ 619,402	$ -
Receivables (net)	87,009	2,780,819	2,867,828	-
Restricted assets - escrow accounts	-	643,516	643,516	-
Other current assets	1,732	171,831	173,563	-
Prepaid expenses	12,472	-	12,472	-
Construction in progress	209,164	-	209,164	-
Nondepreciable capital assets	20,000	560,516	580,516	-
Depreciable capital assets, net	403,333	11,415,035	11,818,368	-
Total assets	1,132,254	15,792,575	16,924,829	-
Deferred outflows of resources	-	-	-	-
Liabilities				
Accounts payable and other liabilities	31,816	13,689	45,505	-
Internal balances	(1,566,582)	1,566,582	-	-
Accrued balances	845	475	1,320	-
Deposits payable	-	43,516	43,516	-
Noncurrent liabilities:				
Due within one year	-	96,463	96,463	-
Due in more than one year	-	2,434,891	2,434,891	-
Compensated absences	4,387	2,799	7,186	-
Total liabilities	(1,529,534)	4,158,415	186,804	-
Deferred inflows of resources	-	-	-	-
Net Position				
Net investment in capital assets	632,497	9,444,197	10,076,694	-
Restricted for:				
Capital projects	224,624	-	224,624	-
Debt Service Escrow	-	600,000	600,000	-
Unrestricted	1,804,667	1,589,963	3,394,630	-
Total net position	$ 2,661,788	$ 11,634,160	$ 14,295,948	$ -

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

CITY OF LULA, GEORGIA

Statement of Activities

For the Year Ended June 30, 2012

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants Contributions	Net (Expenses) Revenues and Changes in Net Position: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Unit
Primary government:								
Governmental activities								
General government	$ 566,294	$ 199,305	$ -	$ 213,611	$ (153,378)		$ (153,378)	
Streets and sanitation	262,157	115,161	-	95,597	(51,399)		(51,399)	
Culture and Recreation	9,930	-	-	-	(9,930)		(9,930)	
Total governmental activities	838,381	314,466	-	309,208	(214,707)		(214,707)	
Business-type activities								
Water and Sewer	812,302	425,397	-	-		$ (386,905)	(386,905)	
Total business-type activities	812,302	425,397	-	-		(386,905)	(386,905)	
Total primary government	$ 1,650,683	$ 739,863	$ -	$ 309,208			(601,612)	
Component units:								
Downtown Development Authority	$ -	$ -	$ -	$ -				$ -
Total component units	$ -	$ -	$ -	$ -				-
General revenues:								
Taxes								
Franchise tax					115,320	-	115,320	
Sales taxes					315,467	-	315,467	
Interest and investment earnings					352	1,004	1,356	
Miscellaneous					64,314	-	64,314	
Transfers					(58,766)	58,766	-	
Total general revenues, special items, and transfers					436,687	59,770	496,457	
Change in net position					221,980	(327,135)	(105,155)	
Net position - beginning					2,439,808	11,961,295	14,401,103	-
Net position - ending					$ 2,661,788	$ 11,634,160	$14,295,948	$ -

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

CITY OF LULA, GEORGIA
Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	Capital Projects Fund	Total Governmental Funds
Assets			
Cash	$ 209,197	$ 189,347	$ 398,544
Due from Other Governments	25,989	38,214	64,203
Receivables (net)	24,538	-	24,538
Prepaid Expenditures	12,472	-	12,472
Due from Other Funds	1,662,179	-	1,662,179
Total Assets	1,934,375	227,561	2,161,936
Deferred outflows of resources	-	-	-
Total assets and deferred outflows	$ 1,934,375	$ 227,561	$ 2,161,936
Liabilities			
Accounts Payable	$ 31,816	$ -	$ 31,816
Accrued Expenditures	845	-	845
Due to Other Funds	-	95,597	95,597
Total Liabilities	32,661	95,597	128,258
Deferred inflows of resources	-	-	-
Total liabilites and deferred inflows	32,661	95,597	128,258
Fund Balance			
Nonspendable:			
Prepaid expenditures	12,472	-	12,472
Interfund receivable	1,662,179	-	1,662,179
Restricted for:			
Capital projects	-	131,964	131,964
Unassigned	227,063	-	227,063
Total Fund Balance	1,901,714	131,964	2,033,678
Total liabilities, deferred inflows and fund balance	$ 1,934,375	$ 227,561	$ 2,161,936

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 Position
June 30, 2012

Total fund balances - governmental funds	$ 2,033,678
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	1,034,469
Less: Accumulated depreciation	(401,972)
Accrued personal leave not reported in governmental funds	(4,387)
Net position of governmental activities	$ 2,661,788

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, 2012

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
Sales Taxes	$ 315,467	$ -	$ 315,467
Franchise Tax	114,243	-	114,243
Intergovernmental	95,597	213,179	308,776
Charges for services	314,466	-	314,466
Interest	352	432	784
Miscellaneous	27,231	38,160	65,391
Total Revenue	867,356	251,771	1,119,127
Expenditures			
Current			
General government	364,262	162,113	526,375
Streets and Sanitation	265,974	-	265,974
Culture and recreation	9,930	-	9,930
Capital Outlay	-	158,974	158,974
Total Expenditures	640,166	321,087	961,253
Excess of revenues (expenditures)	227,190	(69,316)	157,874
Other financing sources (uses)			
Transfer out	-	(58,766)	(58,766)
Total other financing sources and uses	-	(58,766)	(58,766)
Net Change in Fund Balance	227,190	(128,082)	99,108
Beginning fund balance	1,674,524	260,046	1,934,570
Ending fund balance	$ 1,901,714	$ 131,964	$ 2,033,678

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, 2012

Net change in fund balances-total governmental funds	$	99,108
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 capital outlay ($158,974) exceeded depreciation ($34,989)		123,985
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.		(1,113)
Net change in position of governmental activities	$	221,980

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

CITY OF LULA, GEORGIA

Statement of Net Position
Proprietary Fund
June 30, 2012

	Water and Sewer Enterprise Fund
Assets	
Current Assets	
Cash	$ 220,858
Accounts Receivable (net)	35,627
Intergovernmental Receivable	2,745,192
Accrued Revenue	4,511
Total current assets	3,006,188
Noncurrent Assets:	
Restricted Cash	643,516
Nondepreciable Capital Assets	560,516
Plant, Property and Equipment (Net of accumulated depreciation)	11,415,035
Deferred Charge	167,320
Total noncurrent assets	12,786,387
Total Assets	15,792,575
Deferred outflows of resources	-
Liabilities	
Accounts Payable	13,689
Accrued Expenses	475
Due to Other Funds	1,566,582
Current Portion of Long Term Debt	96,463
Customer Deposits	43,516
Noncurrent Liabilities:	
Compensated Absences	2,799
Due in more than one year	2,434,891
Total liabilities	4,158,415
Deferred inflows of resources	-
Net Position	
Net invested in capital assets	9,444,197
Restricted for:	
Escrow Account	600,000
Unrestricted	1,589,963
Total net position	$ 11,634,160

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

CITY OF LULA, GEORGIA

Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2012

	Water and Sewer Enterprise Fund
Operating revenue	
Charges for Services	$ 421,691
Connection Fees	3,250
Miscellaneous Income	456
Total Operating Revenues	425,397
Operating expenses	
Personal services	
Compensation	147,377
Total Personal Services	147,377
Expenses	
Supplies	86,968
Repairs and Maintenance	55,782
Utilities	60,062
Miscellaneous	60,269
Amortization	4,290
Depreciation	297,081
Insurance	26,660
Engineering, Lab Fees and Training	5,883
Total Expenses	596,995
Total Operating Expenses	744,372
Operating Income (Loss)	(318,975)
Nonoperating revenues/(expenses)	
Interest Income	1,004
Interest Expense on Loans	(67,930)
Total Nonoperating Revenues (Expenses)	(66,926)
Transfers In	58,766
Change in net position	(327,135)
Total Net Position - beginning	11,961,295
Total Net Position - ending	$ 11,634,160

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, 2012

	Water and Sewer
Cash flows from operating activities:	
Receipts from customers	$ 425,397
Payments to suppliers	(386,442)
Payments to employees	(147,377)
Net cash provided (used) by operating activities:	(108,422)
Cash flows from noncapital financing activities:	
Increase in advances from other funds	59,127
Net cash provided by noncapital financing activities	59,127
Cash flows from capital and related financing activities:	
Decrease in Accrued Liability for Construction-in-Process	92,283
Transfers in	58,766
Acquisition and construction of capital assets	(35,585)
Debt payments, principal and interest and deferred charge	(107,278)
Net cash provided (used) by capital and related financing activities	8,186
Cash flows from investing activities:	
Interest income	1,004
Net cash provided by investing activities	1,004
Net (decrease) in cash and cash equivalents	(40,105)
Cash and cash equivalents - beginning of year	904,479
Cash and cash equivalents - end of year	$ 864,374
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	$ (318,975)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	297,081
Amortization	4,290
Changes in assets and liabilities:	
Receivables and accrued revenue	(8,882)
Other Receivables	102,879
Accounts payable	(181,121)
Other liabilities	(3,694)
Net cash provided (used) by operating activities	$ (108,422)

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 position and the statement of changes in net position) 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.

Receivables from and payables to external parties are reported separately and not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

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 position 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.

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

Investments

As of June 30, 2012, 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.

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

General leave for the City includes both vacation and sick pay. General leave is based on an employee's length of employment and is earned ratably during the span of employment. Upon termination, employees are paid full value for any accrued leave earned not to exceed the number of leave hours outlined in the employee policy manual.

Vested or accumulated general leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated general leave that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations. Vested or accumulated general leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. The balance of compensated absences is recorded as a noncurrent liability and disclosed as a long term debt.

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.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources(expense/expenditure) until then. Currently the City does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Currently the Town does not have any items that qualify for reporting in this category.

Recently Issued Accounting Pronouncements

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements.* GASBS No. 60 provides financial reporting guidance for service concession arrangements (SCAs). SCAs are defined as an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This Statement is effective for periods beginning after December 15, 2011. The City does not have any SCAs and therefore the adoption of GASBS No. 60 does not have any impact on the City's financial statements.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34.* GASBS No. 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This Statement is effective for periods beginning after June 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In December 2010, the GASB issued Statement No. 62,*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The provisions of Statement 62 are effective for periods beginning after December 15, 2011. Early application is encouraged which Management has elected to do.

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, 2012, there were 6 employees participating in the plan. For the year ended June 30, 2012, the employees deferred a total of $7,589, and the City's match totaled $4,990.

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 position."

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.

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 position - Net position represents the difference between assets and liabilities. Net position 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 position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position 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, 2012, 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, 2012.

Receivables from:		
Governmental funds:		
Due from other governments	$	61,266
Accounts receivable, net		24,538
	$	85,804
Business-Type funds:		
Due from other governments	$	2,745,192
Accounts receivable, net		35,627
	$	2,780,819

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 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, was 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, 2012.

	July 1, 2011	Additions	Reductions	June 30, 2012	Due within one year
Governmental Activities:					
Compensated Absences	$ 3,274	$ 1,113	$ -	$ 4,387	$ -
Business-Type Activities:					
Intergovernmental loan	$ 2,570,702	$ -	$ 39,348	$ 2,531,354	$ 96,463
Compensated Absences	2,621	178	-	2,799	-
Total Business-Type Activities	$ 2,573,323	$ 178	$ 39,348	$ 2,534,153	$ 96,463

Compensated absences is composed of accumulated vacation pay at June 30, 2012, 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
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	108,746	62,339	171,085
2018-2022	595,402	260,022	855,424
2023-2027	691,628	163,795	855,423
2028-2032	731,761	52,374	784,135
Totals:	$ 2,531,354	$ 819,052	$ 3,350,406

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 2012 was $19,849. 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, 2012 was $26,736. 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 $7,186 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	$ 30,068	Water and Sewer	$297,081
Streets and sanitation	4,921		
Total depreciation	$ 34,989		

Capital asset activity for the year ended June 30, 2012, was as follows:

Governmental activities:	**Balances 7/1/2011**	**Additions**	**Deletions**	**Balances 6/30/2012**
Capital assets not being depreciated:				
Construction-in-progress	$ 60,690	$ 148,474	$ -	$ 209,164
Land and improvements	20,000	-	-	20,000
Total capital assets, not being depreciated	80,690	148,474	-	229,164
Capital assets, being depreciated				
Buildings	527,633	-	-	527,633
Vehicles	123,683	10,500	-	134,183
Equipment	143,489	-	-	143,489
Total capital assets, being depreciated	794,805	10,500	-	805,305
Less accumulated depreciation for:				
Buildings	110,199	28,191	-	138,390
Vehicles	123,683	2,100	-	125,783
Equipment	133,101	4,698	-	137,799
Total accumulated depreciation	366,983	34,989	-	401,972
Total capital assets being depreciated, net	427,822	(24,489)	-	403,333
Governmental activity capital assets, net	$ 508,512	$ 123,985	$ -	$ 632,497

Business-type activities:	**Balances 7/1/2011**	**Additions**	**Deletions**	**Balances 6/30/2012**
Capital assets not being depreciated:				
Construction-in-Progress	$ -	$ -	$ -	$ -
Land	560,516	-	-	560,516
Total capital assets, not being depreciated	560,516	-	-	560,516
Capital assets, being depreciated				
Water and Sewer Plant*	10,808,237	-	92,283	10,715,954
Improvements	1,213,760	35,585	-	1,249,345
Equipment	1,058,387	-	-	1,058,387
Total capital assets, being depreciated	13,080,384	35,585	92,283	13,023,686
Less accumulated depreciation for:				
Water and Sewer Plant	756,027	215,703	-	971,730
Improvements	340,601	27,052	-	367,653
Equipment	214,942	54,326	-	269,268
Total accumulated depreciation	1,311,570	297,081	-	1,608,651
Total capital assets being depreciated, net	11,768,814	(261,496)	92,283	11,415,035
Business-type activities capital assets, net	$ 12,329,330	$ (261,496)	$ 92,283	$ 11,975,551

*Water and Sewer Plant deletion represents reduction of cost to complete accrual.

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		
		Water and Sewer	Capital Projects	Total
Due to	General Fund	$ 1,566,582	$ 95,597	$ 1,662,179
	Total	$ 1,566,582	$ 95,597	$ 1,662,179

		Tranfer from	
		Capital Projects	Total
Transfer to	Water & Sewer	$ 58,766	$ 58,766
	Total	$ 58,766	$ 58,766

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.

NOTE 10. ALLOWANCE FOR UNCOLLECTABLE TAXES AND ACCOUNTS

The balance of taxes and accounts receivable at June 30, 2012, 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, 2012, the City paid $2,538 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	$ 328,078	$ 364,262	$ 36,184
Streets & Sanitation	$ 257,487	$ 265,974	$ 8,487
Culture & Recreation	$ 7,600	$ 9,930	$ 2,330

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 30, 2012, 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.

NOTE 14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 17, 2012. In December, 2012 the City reached an agreement on the outstanding receivable with Hall County concerning the previously negotiated sale of sewerage treatment capacity of the City's new treatment plant. This agreement will require the write-off of approximately $2,000,000 in the Water and Sewer Fund in the fiscal year ending June 30, 2013.

CITY OF LULA, GEORGIA
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Budget to GAAP Differences	Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Over / (Under)	GAAP Basis	Final Budget Over / (Under)
Resources (inflows):						
Sales Taxes	$ 233,960	$ 233,960	$ 315,467	$ -	$ 315,467	$ 81,507
Franchise Taxes	92,000	92,000	114,243	-	114,243	22,243
Charges for Services	269,956	269,956	314,466	-	314,466	44,510
Interest	1,000	1,000	352	-	352	(648)
Miscellaneous	8,999	8,999	27,231	-	27,231	18,232
Budgeted use of fund balance	9,500	9,500	-	-	-	(9,500)
Amount Available for Appropriation	615,415	615,415	771,759	-	771,759	156,344
Charges to appropriations (outflows):						
Current Operating:						
General Government	328,078	328,078	364,262	-	364,262	36,184
Streets and Sanitation	257,487	257,487	265,974	-	265,974	8,487
Culture and Recreation	7,600	7,600	9,930	-	9,930	2,330
Transfers to Other Funds	22,250	22,250	-	-	-	(22,250)
Total Charges to Appropriations	615,415	615,415	640,166	-	640,166	24,751
Excess of Resources over (under) Charges to Appropriations	-	-	131,593	-	131,593	131,593
Fund Balance - beginning	1,674,524	1,674,524	1,674,524	-	1,674,524	1,674,524
Fund balance - ending	$ 1,674,524	$ 1,674,524	$ 1,806,117	$ -	$ 1,806,117	$ 131,593

CITY OF LULA, GEORGIA
Notes to Required Supplementary Information
On Budgetary Accounting and Control
Year Ended June 30, 2012

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.

Excess expenditures at the Legal Level of Control:

	Budgeted Expenditures and Other Financing Uses	Actual Expenditures and Other Financing Uses	Actual in Excess of Appropriations
General Fund			
General Government	$ 328,078	$ 364,262	$ 36,184
Streets & Sanitation	$ 257,487	$ 265,974	$ 8,487
Culture & Recreation	$ 7,600	$ 9,930	$ 2,330

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
City of 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, 2012, which collectively comprise the City of Lula, Georgia's basic financial statements, and have issued our report thereon dated December 20, 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 responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or its 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 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, 2012-1 through 2012-2, described in the accompanying schedule of findings and responses, 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 one instance, 2012-3 described in the accompanying schedule of findings and responses, of noncompliance that are required to be reported under *Government Auditing Standards*..

We noted certain other matters that we reported to management of the City of Lula, Georgia in a separate letter dated December 20, 2012.

The City of Lula, Georgia's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the City of Lula, Georgia's responses and, accordingly, we express no opinion on them.

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, PC
Gainesville, Georgia
December 20, 2012

THE CITY OF LULA, GEORGIA
Schedule of Findings and Responses
Year Ended June 30, 2012

Findings-Financial Statement Audit

Internal Control

2012-1

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.

2012-2

Condition: The City does not reconcile their associated account balances on their balance sheet to any subsidiary ledger on a monthly basis.

Criteria: All balance sheet accounts should have reconciliations performed each month.

Cause: Internal controls over balance sheet accounts are inadequately designed.

Effect: The City's balance sheet accounts are not being reconciled to supporting subsidiary ledgers resulting in the over statement / understatement of the City's assets or liabilities.

Recommendation: The City should reconcile all balance sheet accounts on a monthly basis.

Response: The City agrees with the finding and will begin reconciling all balance sheet accounts on a monthly basis.

THE CITY OF LULA, GEORGIA
Schedule of Findings and Responses
Year Ended June 30, 2012

Compliance

2012-3

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, 2012, 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.

CITY OF LULA, GEORGIA
Schedule of Special Purpose Local Option Sales Tax
Estimated Cost and Expenditure Summary
For the Year Ended June 30, 2012

Project Description	Estimated Cost		Expenditures		
	Original	Current	Prior Years	Current Year	Total
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	51,322	96,689
Total Hall Co. SPLOST V	$ 442,372	$ 442,372	$ 402,184	$ 51,322	$ 453,506

Note: SPLOST V is complete.

HALL CO. SPLOST VI					
Water and Sewer Facilities	$1,300,000	$1,300,000	$ 106,813	$ 58,766	$ 165,579
Historic Downtown Streetscape	300,000	300,000	11,203	168,999	180,202
Roads	300,000	300,000	93,253	100,766	194,019
Total Hall Co. SPLOST VI	$1,900,000	$1,900,000	$ 211,269	$ 328,531	$ 539,800