CITY OF LULA, GEORGIA

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

WALKER & ASSOCIATES, CPA'S, PC

CITY OF LULA, GEORGIA
FISCAL YEAR ENDED JUNE 30, 2013
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Walker and Associates
Certified Public Accountants

Independent Auditor's Report

To the City Council
City of Lula, Georgia

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information. Accounting principles generally accepted in the United States also requires that budgetary comparison information, on pages 22-23, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lula, Georgia's basic financial statements. The Schedule of Expenditures of Special Purpose Local Option Sales Tax, as required by O.C.G.A. 48-8-121as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

The Schedule of Expenditures of Special Purpose Local Option Sales Tax is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Special Purpose Local Option Sales Tax is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2013, 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* in considering the City of Lula's internal control over financial reporting and compliance.

Walker & Associates

Walker & Associates, CPA's, PC
Gainesville, Georgia
December 4, 2013

CITY OF LULA, GEORGIA

Statement of Net Position

June 30, 2013

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit
Assets				
Cash and cash equivalents	$ 1,191,772	$ 237,416	$ 1,429,188	$ -
Receivables (net)	101,345	32,062	133,407	-
Restricted assets - escrow accounts	-	648,941	648,941	-
Other current assets	-	6,051	6,051	-
Prepaid expenses	14,551	-	14,551	-
Construction in progress	19,015	-	19,015	-
Nondepreciable capital assets	20,000	560,516	580,516	-
Depreciable capital assets, net	631,538	11,098,865	11,730,403	-
Total assets	1,978,221	12,583,851	14,562,072	-
Deferred outflows of resources	-	-	-	-
Liabilities				
Accounts payable and other liabilities	70,195	24,873	95,068	-
Internal balances	(1,014,558)	1,014,558	-	-
Accrued balances	760	496	1,256	-
Deposits payable	-	48,941	48,941	-
Noncurrent liabilities:				
Due within one year	-	99,397	99,397	-
Due in more than one year	-	2,335,494	2,335,494	-
Compensated absences	4,079	2,525	6,604	-
Total liabilities	(939,524)	3,526,284	2,586,760	-
Deferred inflows of resources	-	-	-	-
Net Position				
Net investment in capital assets	670,553	9,224,490	9,895,043	-
Restricted for:				
Capital projects	206,731	-	206,731	-
Debt Service Escrow	-	600,000	600,000	-
Unrestricted	2,040,461	(766,923)	1,273,538	-
Total net position	$ 2,917,745	$ 9,057,567	$11,975,312	$ -

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

CITY OF LULA, GEORGIA
Statement of Activities
For the Year Ended June 30, 2013

	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	$ 514,963	$ 209,018	$ 40,324	$ 218,272	$ (47,349)		$ (47,349)	
Streets and sanitation	269,405	122,958	-	31,599	(114,848)		(114,848)	
Culture and Recreation	11,235	-	-	-	(11,235)		(11,235)	
Total governmental activities	795,603	331,976	40,324	249,871	(173,432)		(173,432)	
Business-type activities								
Water and Sewer	2,862,173	449,254	-	-		$ (2,412,919)	(2,412,919)	
Total business-type activities	2,862,173	449,254	-	-		(2,412,919)	(2,412,919)	
Total primary government	$ 3,657,776	$ 781,230	$ 40,324	$ 249,871			(2,586,351)	
Component units:								
Downtown Development Authority	$ -	$ -	$ -	$ -				$ -
Total component units	$ -	$ -	$ -	$ -				-
General revenues:								
Franchise tax					110,057	-	110,057	
Sales taxes					305,367	-	305,367	
Interest and investment earnings					611	820	1,431	
Miscellaneous					13,354	2,826	16,180	
Total general revenues, special items, and transfers					429,389	3,646	433,035	
Change in net position					255,957	(2,409,273)	(2,153,316)	
Net position - beginning					2,661,788	11,634,160	14,295,948	-
Prior period adjustment					-	(167,320)	(167,320)	-
Adjusted net position - beginning					2,661,788	11,466,840	14,128,628	-
Net position - ending					$ 2,917,745	$ 9,057,567	$11,975,312	$ -

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

CITY OF LULA, GEORGIA
Balance Sheet
Governmental Funds
June 30, 2013

	General Fund	Capital Projects Fund	Total Governmental Funds
Assets			
Cash	$ 940,914	$ 250,858	$ 1,191,772
Due from other governments	24,307	35,848	60,155
Receivables (net)	41,190	-	41,190
Prepaid expenditures	14,551	-	14,551
Due from oother funds	1,066,923	-	1,066,923
Total Assets	2,087,885	286,706	2,374,591
Deferred outflows of resources	-	-	-
Total assets and deferred outflows	$ 2,087,885	$ 286,706	$ 2,374,591
Liabilities			
Accounts payable	$ 42,585	$ 27,610	$ 70,195
Accrued expenditures	760	-	760
Due to other funds	-	52,365	52,365
Total Liabilities	43,345	79,975	123,320
Deferred inflows of resources	-	-	-
Total liabilites and deferred inflows	43,345	79,975	123,320
Fund Balance			
Nonspendable:			
Prepaid expenditures	14,551	-	14,551
Interfund receivable	1,066,923	-	1,066,923
Restricted for:			
Capital projects	-	206,731	206,731
Unassigned	963,066	-	963,066
Total Fund Balance	2,044,540	206,731	2,251,271
Total liabilities, deferred inflows and fund balance	$ 2,087,885	$ 286,706	$ 2,374,591

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, 2013

Total fund balances - governmental funds	$ 2,251,271
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	1,109,071
Less: Accumulated depreciation	(438,518)
Accrued personal leave not reported in governmental funds	(4,079)
Net position of governmental activities	$ 2,917,745

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, 2013

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
Sales taxes	305,367	-	305,367
Franchise tax	110,057	-	110,057
Intergovernmental	71,923	218,011	289,934
Charges for services	331,976	-	331,976
Interest	611	261	872
Miscellaneous	13,354	-	13,354
Total Revenue	833,288	218,272	1,051,560
Expenditures			
Current			
General government	358,151	117,799	475,950
Streets and sanitation	272,180	-	272,180
Culture and recreation	11,235	-	11,235
Capital outlay	48,896	25,706	74,602
Total expenditures	690,462	143,505	833,967
Excess of revenues (expenditures)	142,826	74,767	217,593
Other financing sources (uses)			
Transfer in	-	-	-
Transfer out	-	-	-
Total other financing sources and uses	-	-	-
Net Change in fund balance	142,826	74,767	217,593
Beginning fund balance	1,901,714	131,964	2,033,678
Ending fund balance	$ 2,044,540	$ 206,731	$ 2,251,271

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, 2013

Net change in fund balances-total governmental funds	$	217,593
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 ($74,602) exceeded depreciation ($36,546)		38,056
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.		308
Net change in position of governmental activities	$	255,957

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

CITY OF LULA, GEORGIA

Statement of Net Position

Proprietary Fund

June 30, 2013

	Water and Sewer Enterprise Fund
Assets	
Current Assets:	
Cash	$ 237,416
Accounts receivable (net)	32,062
Accrued revenue	6,051
Total current assets	275,529
Noncurrent Assets:	
Restricted cash	648,941
Nondepreciable capital assets	560,516
Plant, property and equipment (Net of accumulated depreciation)	11,098,865
Total noncurrent assets	12,308,322
Total assets	12,583,851
Deferred outflows of resources	-
Liabilities	
Current Liabilities:	
Accounts payable	24,873
Accrued expenses	496
Current portion of long term debt	99,397
Customer deposits	48,941
Total current liabilities	173,707
Noncurrent Liabilities:	
Due to other funds	1,014,558
Compensated absences	2,525
Due in more than one year	2,335,494
Total noncurrent liabilities	3,352,577
Total liabilities	3,526,284
Deferred inflows of resources	-
Net Position	
Net invested in capital assets	9,224,490
Restricted for:	
Escrow account	600,000
Unrestricted	(766,923)
Total net position	$ 9,057,567

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, 2013

	Water and Sewer Enterprise Fund
Operating revenue	
Charges for services	$ 449,254
Miscellaneous income	2,826
Total operating revenues	452,080
Operating expenses	
Personal services	
Compensation	152,421
Total personal services	152,421
Expenses	
Supplies	63,164
Repairs and maintenance	52,536
Bad debt	6,105
Utilities	53,372
Miscellaneous	65,741
Depreciation	294,223
Insurance	30,509
Engineering, lab fees and training	52,342
Total expenses	617,992
Total operating expenses	770,413
Operating income (loss)	(318,333)
Nonoperating revenues/(expenses)	
Loss on disposition of asset	(21,947)
Loss on sewer capacity settlement (note 16)	(1,995,192)
Interest income	820
Interest expense on loans	(74,621)
Total nonoperating revenues (expenses)	(2,090,940)
Change in net position	(2,409,273)
Total net position - beginning	11,634,160
Prior period adjustment	(167,320)
Adjusted beginning net position	11,466,840
Total net position-ending	$ 9,057,567

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, 2013

	Water and Sewer
Cash flows from operating activities:	
Receipts from customers	$ 455,645
Payments to suppliers	(298,648)
Payments to employees	(162,726)
Net cash provided (used) by operating activities:	(5,729)
Cash flows from noncapital financing activities:	
Increase in advances to other funds	71,285
Increase in advances from other funds	(623,309)
Decrease in intergovernmental accounts receivable	2,745,192
Loss on liquidation of intergovernmental receivable	(1,995,192)
Net cash provided by noncapital financing activities	197,976
Cash flows from capital and related financing activities:	
Debt payments, principal and interest and deferred charge	(171,084)
Net cash provided (used) by capital and related financing activities	(171,084)
Cash flows from investing activities:	
Interest income	820
Net cash provided by investing activities	820
Net (increase) in cash and cash equivalents	21,983
Cash and cash equivalents - beginning of year	864,374
Cash and cash equivalents - end of year	$ 886,357
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	$ (318,333)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	294,223
Changes in assets and liabilities:	
Receivables and accrued revenue	2,025
Other Receivables	(5,281)
Accounts payable	11,184
Customer deposits	10,706
Other liabilities	(253)
Net cash provided (used) by operating activities	$ (5,729)

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 a 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 activities) report information on all of the non-fiduciary 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.

Activity between governmental funds that are representative of lending / borrowing arrangements or interfund transfers are eliminated from the government-wide financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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.

Basis of presentation-fund financial statements

The fund financial statements provide information about the government's funds. Separate statements for each fund category-governmental and proprietary-are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported

as nonmajor funds. Major individual governmental and enterprise 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 Fund Financial Statements. The government-wide and proprietary financial statements are reported using the flow of 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. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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. Non-operating revenues and expenses, such as subsidies, investment earnings or interest expense, result from non-exchange 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.

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 sixty days after year-end. 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-reimbursement 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, 2013, 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 are not generally available for general government operations. In addition, restricted assets are also held in the proprietary fund and the business-type activities of the government-wide financial statements in amounts required to pay customer deposit balances 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 90 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
Buildings	50
Building Improvements	40
Equipment	10
Vehicles	5
Office equipment	5
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 net 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 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 City does not have any items that qualify for reporting in this category.

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 City also adopted a 401 (a) plan. All City employees who are eligible, the City matches employee deferrals up to 3% of gross salary per payroll period. As of June 30, 2013, there were 6 employees participating in the plan. For the year ended June 30, 2013, the employees deferred a total of $10,983, and the City's match totaled $5,745.

1-D Fund Equity[Primary government]

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, 2013, 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, 2013:

Receivables from:	
Governmental funds:	
Due from other governments	$ 60,155
Accounts receivable, net	41,190
	$ 101,345
Business-Type funds:	
Accounts receivable, net	$ 32,062
	$ 32,062

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. See note 16 regarding litigation settlement on sale of sewer capacity.

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, 2013.

	July 1, 2012	Additions	Reductions	June 30, 2013	Due within one year
Governmental Activities:					
Compensated Absences	$ 4,387	$ -	$ 308	$ 4,079	$ -
Business-Type Activities:					
Intergovernmental loan	$ 2,531,354	$ -	$ 96,463	$ 2,434,891	$ 99,397
Compensated Absences	2,799	-	274	2,525	-
Total Business-Type Activities	$ 2,534,153	$ -	$ 96,737	$ 2,437,416	$ 99,397

Compensated absences is composed of accumulated vacation pay at June 30, 2013, 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
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	112,053	59,031	171,084
2019-2023	613,513	241,913	855,426
2024-2028	712,664	142,758	855,422
2029-2032	580,561	32,489	613,050
Totals:	$ 2,434,891	$ 744,430	$ 3,179,321

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 2013 was $20,052. 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, 2013 was $26,716. 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 $6,604 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	$294,223
Streets and sanitation	6,478		
Total depreciation	$ 36,546		

Capital asset activity for the year ended June 30, 2013, was as follows:

Governmental activities:	Balances 7/1/2012	Additions	Deletions	Balances 6/30/2013
Capital assets not being depreciated:				
Construction-in-progress	$ 209,164	$ 29,463	$ 219,612	$ 19,015
Land and improvements	20,000	-	-	20,000
Total capital assets, not being depreciated	229,164	29,463	219,612	39,015
Capital assets, being depreciated				
Buildings	527,633	219,612	-	747,245
Vehicles	134,183	22,933	-	157,116
Equipment	143,489	22,206	-	165,695
Total capital assets, being depreciated	805,305	264,751	-	1,070,056
Less accumulated depreciation for:				
Buildings	138,390	28,191	-	166,581
Vehicles	125,783	5,540	-	131,323
Equipment	137,799	2,815	-	140,614
Total accumulated depreciation	401,972	36,546	-	438,518
Total capital assets being depreciated, net	403,333	228,205	-	631,538
Governmental activity capital assets, net	$ 632,497	$ 257,668	$ 219,612	$ 670,553

Business-type activities:	Balances 7/1/2012	Additions	Deletions	Balances 6/30/2013
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	10,715,954	-	29,792	10,686,162
Improvements	1,249,345	-	-	1,249,345
Equipment	1,058,387	-	1,200	1,057,187
Total capital assets, being depreciated	13,023,686	-	30,992	12,992,694
Less accumulated depreciation for:				
Water and Sewer Plant	971,730	213,858	-	1,185,588
Improvements	367,653	27,052	-	394,705
Equipment	269,268	53,313	9,045	313,536
Total accumulated depreciation	1,608,651	294,223	9,045	1,893,829
Total capital assets being depreciated, net	11,415,035	(294,223)	21,947	11,098,865
Business-type activities capital assets, net	$ 11,975,551	$ (294,223)	$ 21,947	$ 11,659,381

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. Since the amount which is due to the General fund is not expected to be repaid within one year it is classified as a non-spendable fund balance in the General Fund.

		Due from		
		Water and Sewer	Capital Projects	Total
Due to	General Fund	$1,014,558	$ 52,365	$1,066,923
	Total	$1,014,558	$ 52,365	$1,066,923

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, 2013, 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, 2013, the City paid $4,410 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	$ 398,609	$ 407,047	$ 8,438
Streets & Sanitation	$ 259,421	$ 272,180	$ 12,759
Culture & Recreation	$ 9,283	$ 11,235	$ 1,952

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, 2013, 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.

At June 30, 2013, the City was not in compliance with their GEFA debt covenants, with respect to the fixed charges coverage ratio.

NOTE 14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 25, 2013.

NOTE 15. PRIOR PERIOD ADJUSTMENT

The City has elected to implement the provisions of GASB 65 which among other things requires the expensing of loan origination fees in the year incurred. Previously the City of Lula, in the Proprietary Fund, capitalized loan origination fees at the inception of the Clean Water State Revolving Loan through GEFA. GASB 65 requires the remaining balance of these fees to be expensed through retroactively restating all prior financial statements, if practical. The City has determined that such restatement would not be cost effective and has chosen the alternative method of restatement. Consequently, the cumulative effect of this change in accounting principal is reported as a restatement of beginning net position on the government wide Statement of Activities and the Statement of Revenues, Expenses, and Changes in Net Position of the Proprietary Fund.

NOTE 16. LITIGATION SETTLEMENT

As a result of legal action regarding the disputed sale price of sewer capacity to Hall County, the city accepted a negotiated settlement of $750,000 as payment in full of an original receivable of $2,745,195. The settlement resulted in the city's water and sewer fund recognizing a write off of $1,995,192.

CITY OF LULA, GEORGIA
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Budget to GAAP Differences	Actual Amounts	Variance with Final Budget
	Original	Final	Budgetary Basis	Over / (Under)	GAAP Basis	Over / (Under)
Resources (inflows):						
Sales Taxes	251,894	251,894	305,367	-	305,367	53,473
Franchise Taxes	94,000	94,000	110,057	-	110,057	16,057
Charges for Services	311,720	311,720	331,976	-	331,976	20,256
Interest	500	500	611	-	611	111
Intergovernmental	-	-	71,923	-	71,923	71,923
Miscellaneous	9,199	9,199	13,354	-	13,354	4,155
Amount Available for Appropriation	667,313	667,313	833,288	-	833,288	165,975
Charges to appropriations (outflows):						
Current Operating:						
General Government	398,609	398,609	407,047	-	358,151	8,438
Streets and Sanitation	259,421	259,421	272,180	-	272,180	12,759
Culture and Recreation	9,283	9,283	11,235	-	11,235	1,952
Total Charges to Appropriations	667,313	667,313	690,462	-	641,566	23,149
Excess of Resources over (under) Charges to Appropriations	$ -	$ -	142,826	$ -	191,722	$ 142,826
Fund Balance - beginning			1,901,714		1,901,714	
Fund balance - ending			$ 2,044,540		$ 2,093,436	

CITY OF LULA, GEORGIA
Notes to Required Supplementary Information
On Budgetary Accounting and Control
Year Ended June 30, 2013

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	$ 398,609	$ 407,047	$ 8,438
Streets & Sanitation	$ 259,421	$ 272,180	$ 12,759
Culture & Recreation	$ 9,283	$ 11,235	$ 1,952

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

To the Mayor and City Council
City of Lula, Georgia

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise City of Lula, Georgia's basic financial statements, and have issued our report thereon dated December 4, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Lula, Georgia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City of Lula, Georgia's internal control.

Our consideration of internal control was for the limited purpose described in the first preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of finding and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 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 deficiency, 2013-1 described in the accompanying schedule of findings and responses, to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies, 2013-2 described in the accompanying schedule of findings and responses, to be significant deficiencies.

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 responses costs as items 2013-3 through 2013-5.

City of Lula Georgia's Response to Findings

City of Lula, Georgia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Lula, Georgia's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Walker & Associates

Walker & Associates, CPA's, PC
Gainesville, Georgia
December 4, 2013

THE CITY OF LULA, GEORGIA
Schedule of Findings and Responses
Year Ended June 30, 2013

Internal Control

2013-1

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.

2013-2

Condition: The City does not have a procedure for the approval and timely processing of water/sewer write-offs and adjustments of uncollectable accounts receivable as bad debt.

Criteria: The City should have written procedures in order to have write offs and adjustments to customer's Utility billing balances.

Cause: Internal controls over the authorization and processing of bad debt write offs and adjustments are insufficient.

Effect: The City has no documentation or approval for write offs or adjustments to customer's utility balances.

Recommendation: The City needs to have policies and procedures that require documentation and approval of write offs and Adjustments to customer's utility billing balances.

Response: The City agrees with the finding.

THE CITY OF LULA, GEORGIA
Schedule of Findings and Responses
Year Ended June 30, 2013

Compliance

2013-3

Condition: The City used SPLOST proceeds on a capital project not authorized by the SPLOST resolution approved by Hall County voters.

Criteria: SPLOST funds are restricted for the purchase of items listed in the SPLOST resolution approved by Hall County voters.

Cause: Internal controls over the authorization of SPLOST expenditures is insufficient..

Effect: The City has used SPLOST funds on a project not authorized by the SPLOST resolution.

Recommendation: The City should implement procedures to insure that all SPLOST expenditures are for only items included in the SPLOST resolution.

Response: The City agrees with the finding.

2013-4

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, 2013, 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.

2013-5

Condition: The City was not in compliance with GEFA loan requirements to maintain a fixed coverage ratio of less than 1.05.

Criteria: The City should be in compliance with debt covenants required by GEFA.

Cause: The City did not have a fixed coverage ratio of less than 1.05.

Effect: At June 30, 2013, the City was not in compliance with GEFA debt covenants.

Recommendation: We recommend the City comply with all relevant debt covenant requirements in order to be in compliance with debt covenants.

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, 2013

Project Description	Estimated Cost		Expenditures		
	Original	Current	Prior Years	Current Year	Total
HALL CO. SPLOST VI					
Water and Sewer Facilities	$1,300,000	$1,300,000	$ 165,579	$ -	$ 165,579
Historic Downtown Streetscape	300,000	300,000	180,202	12,602	192,804
Roads	300,000	300,000	194,019	130,903	324,922
Total Hall Co. SPLOST VI	$1,900,000	$1,900,000	$ 539,800	$ 143,505	$ 683,305
2012 BANKS CO. SPLOST					
Water/Sewer Improvements	$ 30,000	$ 30,000	$ -	$ -	$ -
Road Improvements	15,000	15,000	-	-	-
Total 2012 Banks Co.SPLOST	$ 45,000	$ 45,000	$ -	$ -	$ -