CITY OF LYONS, GEORGIA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

DECEMBER 31, 2011

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INDEPENDENT AUDITORS' REPORT

To the City Council
Lyons, Georgia 30436

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lyons, Georgia, as of December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's elected officials and 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 Governmental 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, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lyons, Georgia, as of December 31, 2011, and the respective changes in financial position 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 June 25, 2012 on our consideration of City of Lyons' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 35 through 41 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.

Management has omitted the 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.

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

McLain Calhoun McCullough Clark + Co, P.C.

June 25, 2012

BASIC FINANCIAL STATEMENTS

CITY OF LYONS, GEORGIA
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	$ 1,146,717	$ 521,194	$ 1,667,911
Certificates of deposit	4,000,000	-	4,000,000
Receivables:			
Accounts	-	124,066	124,066
Property tax	46,912	-	46,912
Fees for services	21,079	-	21,079
Other receivables	216,502	-	216,502
Due from other governments	307,863	-	307,863
Prepaid expenditures	19,530	-	19,530
Capital Assets:			
Land and construction in progress	1,219,504	15,270	1,234,774
Machinery and equipment	698,881	2,140,332	2,839,213
Buildings and improvements	2,023,267	1,432,351	3,455,618
Vehicles	895,932	146,494	1,042,426
Infrastructure	5,515,381	5,285,612	10,800,993
Accumulated depreciation	(2,370,091)	(4,325,879)	(6,695,970)
Capital assets, net of depreciation	7,982,874	4,694,180	12,677,054
Net pension obligation	165,617	-	165,617
Total Assets	13,907,094	5,339,440	19,246,534
Liabilities			
Accounts payable	86,815	70,990	157,805
Customer deposits	-	121,163	121,163
Internal balances	124,723	(124,723)	-
Total Liabilities	211,538	67,430	278,968
Net Assets			
Invested in capital assets	7,982,874	4,694,180	12,677,054
Restricted for:			
Recreation	62,728	-	62,728
Capital projects - grants	1,311	-	1,311
Special local option sales tax	3,267,674	-	3,267,674
General fund - pension obligation	165,617	-	165,617
Unrestricted	2,215,352	577,830	2,793,182
Total Net Assets	$ 13,695,556	5,272,010	18,967,566

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF LYONS, GEORGIA
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Function/Program	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions	Program Revenues: Capital Grants, Contributions
Governmental Activities				
General Government				
Legislative and Executive	$ 473,761	$ 173,510	$ -	$ -
Judicial	46,925	147,123	-	-
Public Safety	1,005,586	21,959	21,107	-
Public Works	477,147	-	-	811,890
Community Development	114,525	-	-	40,187
Recreation and Culture	425,159	214,293	103,550	-
Interest on long-term debt	82	-	-	-
Total Governmental Activities	2,543,185	556,885	124,657	852,077
Business-Type Activities				
Water and Sewer	1,134,766	1,098,963	-	-
Sanitation	446,610	361,138	-	-
Total Business-Type Activities	1,581,376	1,460,101	-	-
Total Primary Government	$ 4,124,561	$ 2,016,986	$ 124,657	$ 852,077
General Revenues				
Property Taxes				
Motor Vehicle Taxes				
Sales Tax				
Insurance Premium Taxes				
Alcoholic Beverage Taxes				
Real Estate Transfer Taxes				
Franchise Tax				
Interest				
Other Revenues				
Total General Revenues				
Transfers				
Change in Net Assets				
Net Assets, Beginning -Restated				
Net Assets, Ending				

The accompanying notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets Primary Government		
Governmental Activities	Business-Type Activities	Total
$ (300,251)	$ -	$ (300,251)
100,198	-	100,198
(962,520)	-	(962,520)
334,743	-	334,743
(74,338)	-	(74,338)
(107,316)	-	(107,316)
(82)	-	(82)
(1,009,566)	-	(1,009,566)
	(35,803)	(35,803)
-	(85,472)	(85,472)
-	(121,275)	(121,275)
$ (1,009,566)	$ (121,275)	$ (1,130,841)
$ 166,809	$ -	$ 166,809
3,950	-	3,950
666,899	-	666,899
204,831	-	204,831
97,731	-	97,731
4,717	-	4,717
259,386	-	259,386
48,093	2,448	50,541
25,033	-	25,033
1,477,449	2,448	1,479,897
(142,903)	142,903	-
324,980	24,076	349,056
13,370,576	5,247,934	18,618,510
$ 13,695,556	$ 5,272,010	$ 18,967,566

CITY OF LYONS, GEORGIA
FUND FINANCIAL STATEMENTS
BALANCE SHEET – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Special Local Option Sales Tax Fund	Recreation Department	Other Governmental Funds	Total
Assets					
Cash	$ 385,672	$ 647,006	$ 112,728	$ 1,311	$ 1,146,717
Certificates of deposit	1,521,869	2,478,131	-	-	4,000,000
Receivables:					
Property taxes	46,912	-	-	-	46,912
Fees for services	21,079	-	-	-	21,079
Other receivables	215,611	891	-	-	216,502
Interfund receivables	87,461	-	-	-	87,461
Due from other governments	118,547	189,316	-	-	307,863
Prepaid expenditures	19,530	-	-	-	19,530
Total assets	$ 2,416,681	$ 3,315,344	$ 112,728	$ 1,311	$ 5,846,064
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 86,815	$ -	$ -	$ -	$ 86,815
Interfund payable	114,514	47,670	50,000	-	212,184
Deferred taxes	32,529	-	-	-	32,529
Total liabilities	233,858	47,670	50,000	-	331,528
Fund Balances					
Fund balance:					
Restricted	-	3,267,674	62,728	1,311	3,331,713
Unassigned	2,182,823	-	-	-	2,182,823
Total fund balances	2,182,823	3,267,674	62,728	1,311	5,514,536
Total liabilities and fund balances	$ 2,416,681	$ 3,315,344	$ 112,728	$ 1,311	$ 5,846,064

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF LYONS, GEORGIA
RECONCILIATION OF NET ASSETS – GOVERNMENTAL FUNDS IN THE STATEMENT OF NET ASSETS TO TOTAL FUND BALANCE – GOVERNMENTAL FUNDS ON THE BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2011

Total Governmental Fund Balances	$	5,514,536
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Net pension obligation		165,617
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		7,982,874
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Property tax revenue		32,529
Net Assets of Governmental Activities	$	13,695,556

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF LYONS, GEORGIA
FUND FINANCIAL STATEMENTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Special Local Option Sales Tax Fund	Recreation Department	Other Governmental Funds	Total
Revenues:					
Taxes	$ 1,428,809	$ -	$ -	$ 6,455	$ 1,435,264
Grants	21,107	-	-	40,187	61,294
Licenses and permits	57,011	-	-	-	57,011
Intergovernmental	-	728,033	61,500	-	789,533
Charges for services	52,757	-	207,983	-	260,740
Fines and court costs	147,122	-	-	-	147,122
Miscellaneous	85,701	-	6,310	-	92,011
Donations	-	-	42,050	-	42,050
Interest	47,413	83,857	680	-	131,950
Total revenues	1,839,920	811,890	318,523	46,642	3,016,975
Expenditures:					
Current operating:					
General government	465,381	-	-	-	465,381
Public safety	1,007,041	-	-	-	1,007,041
Public works	49,501	-	-	-	49,501
Street department	310,775	-	-	-	310,775
Culture and recreation	165,034	-	228,952	-	393,986
Community development	109,521	-	-	5,004	114,525
Capital outlay		330,102	61,540	46,376	438,018
Debt service:					
Principal retirement	5,972	-	-	-	5,972
Interest	82	-	-	-	82
Total expenditures	2,113,307	330,102	290,492	51,380	2,785,281
Excess revenues(expenditures):	(273,387)	481,788	28,031	(4,738)	231,694
Other financing sources(uses):					
Transfers	(97,441)	(52,011)	8,000	(1,451)	(142,903)
Total other financing sources(uses)	(97,441)	(52,011)	8,000	(1,451)	(142,903)
Net change in fund balances	(370,828)	429,777	36,031	(6,189)	88,791
Fund balance - beginning of year	2,553,651	2,837,897	26,697	7,500	5,425,745
Fund balance - end of year	$ 2,182,823	$ 3,267,674	$ 62,728	$ 1,311	$ 5,514,536

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF LYONS, GEORGIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Net change in fund balances - total governmental funds			$ 88,791
Amounts reported for governmental activities on the statement of activities are different because of the following:			
Net pension obligation - to recognize pension assets resulting from contributions in excess of the annual contribution			46,652
Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year:			
Recreation department		$ 61,540	
Capital projects - SPLOST		382,113	
Capital projects - CDBG		46,376	
Capital outlay transferred from capital projects to water/sewer proprietary fund		(52,011)	
Total		438,018	
Depreciation expense		(248,547)	
		189,471	189,471
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:			
Property taxes	(5,906)		(5,906)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets:			
Principal retirement	5,972		5,972
Change in Net Assets of Governmental Activities			$ 324,980

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF LYONS, GEORGIA
PROPRIETARY FUND FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
DECEMBER 31, 2011

	Water and Sewer	Sanitation	Total
Assets			
Current Assets			
Cash and cash equivalents	$ 333,671	$ 187,523	$ 521,194
Accounts receivable-net	74,047	50,019	124,066
Due from other funds	12,745	111,978	124,723
Total current assets	420,463	349,520	769,983
Noncurrent Assets			
Capital Assets:			
Nondepreciable	10,265	-	10,265
Machinery and equipment	1,497,974	740,234	2,238,208
Water system	5,187,736	-	5,187,736
Buildings and improvements	1,432,351	-	1,432,351
Vehicles	146,494	-	146,494
Construction in progress	5,005	-	5,005
Accumulated depreciation	(3,852,570)	(473,309)	(4,325,879)
Total non-current assets	4,427,255	266,925	4,694,180
Total Assets	4,847,718	616,445	5,464,163
Liabilities			
Current Liabilities			
Accounts payable	41,727	29,263	70,990
Customer deposits	121,163	-	121,163
Total Current Liabilities	162,890	29,263	192,153
Net Assets			
Investment in capital assets	4,427,255	266,925	4,694,180
Unrestricted	257,573	320,257	577,830
Total Net Assets	$ 4,684,828	$ 587,182	$ 5,272,010

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF LYONS, GEORGIA
PROPRIETARY FUND FINANCIAL STATEMENTS
STATEMENT OF CHANGES IN NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Water and Sewer	Sanitation	Total
Operating Revenues			
Current use charges	$ 1,096,008	$ 360,298	$ 1,456,306
Other charges	2,955	840	3,795
Total operating revenues	1,098,963	361,138	1,460,101
Operating Expenses			
Personal Services	500,883	138,707	639,590
Repairs and maintenance	100,791	57,079	157,870
Bad debts	11,958	-	11,958
Utilities	186,552	-	186,552
Materials and supplies	61,986	16,201	78,187
Drinking water fees	19,360	-	19,360
Landfill fees	-	102,370	102,370
Recycling fees	-	15,600	15,600
Other	61,684	42,630	104,314
Depreciation	191,552	74,023	265,575
Total Operating Expenses	1,134,766	446,610	1,581,376
Operating Income (Loss)	(35,803)	(85,472)	(121,275)
Non-Operating Revenue (Expenses)			
Interest revenue	1,556	892	2,448
Total Non-Operating Revenues (Expenses)	1,556	892	2,448
Loss before transfers	(34,247)	(84,580)	(118,827)
Transfers	38,813	104,090	142,903
Change in Net Assets	4,566	19,510	24,076
Net Assets Beginning of Year	4,680,262	567,672	5,247,934
Net Assets End of Year	$ 4,684,828	$ 587,182	$ 5,272,010

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF LYONS, GEORGIA
PROPRIETARY FUND FINANCIAL STATEMENTS
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Water and Sewer	Sanitation	Total
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash received from customers	$ 1,100,698	$ 371,687	$ 1,472,385
Cash received from others	2,955	840	3,795
Cash payments for personal services	(500,883)	(138,707)	(639,590)
Cash payments for repairs and maintenance	(100,791)	(57,079)	(157,870)
Cash payments for other operating expenses	(279,554)	(160,600)	(440,154)
Cash payments for materials and supplies	(58,411)	(1,254)	(59,665)
Net Cash Provided by(Used for) Operating Activities	164,014	14,887	178,901
Cash Flows from Noncapital Financing Activities			
Loan to other funds	(7,968)	(95,000)	(102,968)
Transfers out	(13,198)		(13,198)
Transfers in	-	104,090	104,090
Net Cash Provided by Noncapital Financing Activities	(21,166)	9,090	(12,076)
Cash Flows from Capital and Related Financing Activities			
Transfers in - Special Local Option Sales Tax Fund	52,011	-	52,011
Cash payments to purchase capital assets	(52,011)	-	(52,011)
Net Cash Provided by Capital and Related Financing Activities	-	-	-
Cash Flows from Investing Activities			
Cash received from interest	1,556	892	2,448
Net Cash Flows Provided by Investing Activities	1,556	892	2,448
Net Increase in Cash and Cash Equivalents	144,404	24,869	169,273
Cash and Cash Equivalents at Beginning of Year	189,267	162,654	351,921
Cash and Cash Equivalents at End of Year	$ 333,671	$ 187,523	$ 521,194

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF LYONS, GEORGIA
PROPRIETARY FUND FINANCIAL STATEMENTS
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Water and Sewer	Sanitation	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating loss	$ (35,803)	$ (85,472)	$ (121,275)
Adjustments to reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities			
Depreciation	191,552	74,023	265,575
Changes in Assets and Liabilities:			
Increase in accounts receivable	3,645	11,388	15,033
Increase in accounts payable	3,575	14,948	18,523
Decrease in customer deposits	1,045	-	1,045
Net cash provided by operating activities	$ 164,014	$ 14,887	$ 178,901

The accompanying notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

The City of Lyons, Georgia operates a Mayor and Council form of government. The City provides the following services: public safety (police, fire and animal control), streets, culture and recreation, public improvements, and general administrative services. Other services include the sanitation system and water distribution and sewer retrieval systems.

These financial statements present all fund types and account groups of the City and its component units. In conformity with generally accepted accounting principles, as set forth in GASB Statement No. 14, The Financial Reporting Entity, the financial statements of component units have been included either as blended or discretely presented component units. Blended component units, although legally separate entities, are, in substance, part of the City's operations. The Downtown Development Authority meets the requirements of being reported as a discretely presented component unit but is immaterial to the financial statements and is therefore, not presented. There are no other discretely presented component units.

Although the Lyons Housing Authority is not a discretely presented component unit, it is a related organization to the City. There is no financial relationship between the Lyons Housing Authority and the City. The City council approves appointments to the Lyons Housing Authority's Board.

Blended Component Units

The Lyons Recreation Department is governed by a committee of six people appointed by the mayor and approved by the City Council and includes one Council member. The City provides funding to the Recreation Department. The Director is an employee of the City of Lyons. The Recreation Department operates under the legal authority of the City. The Lyons Recreation Department is reported as a special revenue fund in accordance with GASB. Separate financial statements can be obtained from the Lyons Recreation Department, 1 South Washington Street, Lyons, Georgia, 30436.

Expenditures to the Ohoopee Regional Library, the Toombs County Chamber of Commerce, the Vidalia Tourism Council, Lyons Boys and Girls Club, the Lyons Merchant Association, Southeastern Technical College, and the Family Intervention Center are by contractual agreement and are expended as a part of the regular operations of the City.

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Presentation

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except the fiduciary funds or component units that are fiduciary in nature. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limitations. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

B. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds used by the City: governmental and proprietary.

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Funds

Governmental funds are those through which most functions of the government are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's fund types:

General Fund

The General Fund is the general operating fund of City of Lyons, Georgia. It is used to account for all revenues and expenditures of the general Government, which are not required to be accounted for in other funds. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Georgia. The General Fund is considered a major fund.

Special Revenue Funds

Special Revenue Funds are generally used to account for certain specific revenue sources, including special services districts, grants, and similar funds that are legally restricted to expenditures for specified purposes.

Recreation Department – The fund accounts for recreation fees, tournament fees and other specific grants and donations to be used specifically for recreation purposes. Recreation Department is considered a major fund.

Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds, special assessment funds, and trust funds.

Special Purpose Local Option Sales Tax – The fund accounts for special purpose local option sales tax collected and used for street improvements, water/sewer construction and improvements, recreation construction, public facility construction and capital outlay projects. Special Purpose Local Option Sales Tax is considered a major fund.

Community Development Block Grant – This fund accounts for financial resources to be used for specific construction projects as designated by the grant agreement. Community Development Block Grant is considered a non major fund.

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income changes in net assets, financial position, and cash flows. The City's enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's enterprise funds:

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund (cont)

Water/Sewer Fund - The fund accounts for fees collected in connection with the furnishing of water and sewerage service to the citizens. The Water/Sewer Fund is considered a major fund.

Sanitation Fund – The fund accounts for the operations of the citywide garbage collection system. The Sanitation Fund is considered a major fund.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Proprietary Funds. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions. Operating expenses consist of services, supplies and maintenance required to operate the system.

Fund Equity

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

Fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund 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:

Non-spendable – Fund balances are reported as non-spendable 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 or contractually required to be maintained intact.

Restricted – Fund balances are reported as restricted when there are limitations imposed on their use whether through 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 approval of a motion. Only the City Council 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.

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

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- Committed
- Assigned
- Unassigned

Net Assets – Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the City has not spent) for the acquisition, construction or improvement of those assets. Net assets 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. All other net assets are reported as unrestricted.

Restricted and Unrestricted Resources - When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the City's policy to apply those expenses to restricted net assets to the extent such are available and then to the unrestricted net assets.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement revenues, expenditures and change in fund balance reflect the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, includes a reconciliation with brief explanations to better identify the relationship between the government–wide financial statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in revenues, expenses, and changes in fund net assets presents increases (i.e. revenues) & decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the City finances and meets the cash flow needs of its enterprise activities.

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; enterprises and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions

Revenue resulting from exchange transactions, in which the party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available means the resources will be collected within the year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within one year of the balance sheet date.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales tax is recognized in the period in which the sales are made. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: sales taxes, property taxes, franchise taxes, insurance premium taxes, charges for services, fines and forfeitures, grants, interest and rent.

Modified Accrual Basis of Accounting

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are generally recognized when they become measurable and available as net, current assets. Revenues, which are susceptible to accrual, are property taxes, sales taxes, and grants from other governments. Property tax revenues are considered measurable and available to the extent they are collected within the current period or collected within sixty days after the end of the period. Property taxes not collected within sixty days after the end of the period are recorded as deferred revenues and recognized when collected.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) inventory type items, which are, expensed when purchased; (2) principal and interest on general long-term debt which is recognized when due; and (3) prepaid items which are expensed when purchased.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrual Basis of Accounting

The proprietary fund and fiduciary funds are accounted for on an economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

Budgetary Process

As set forth in the City Charter, the City Council adopts an annual budget for the General Fund and Enterprise Funds. The annual budget for the General Fund is prepared in accordance with the basis of accounting utilized by the fund. The budget for the Enterprise Funds is prepared under the basis consistent with GAAP, except that depreciation, certain capital expenses, non-operating income and certain non-operating expense items are not considered. Any revisions that alter the total expenditures/expenses must be approved by the City Council. The legal level of control is at the department level. All annual appropriations lapse at fiscal year-end. The City budgets for Capital Project Funds on a project basis since budgetary control is maintained on an individual project basis. Since project periods may differ from the City's fiscal year, a comparison of budgetary information for the combined Capital Project Funds would not be meaningful and has not been presented in the accompanying financial statement.

The Lyons Recreation Department ordinance requires an annual budget be adopted and submitted to the City Council for approval on an annual basis. The Recreation Department did adopt a budget for 2011 and it is presented in the accompanying financial statements as required supplementary information.

Cash and Investments

Cash includes amounts in demand deposits and short-term certificates of deposit. Statutes authorize the city to invest in U.S. Government obligations, U.S. Government Agency obligations, State of Georgia obligations, obligations fully insured or guaranteed by the U.S. Government, obligations of any U.S. Government corporation, obligations of other political subdivisions of the State of Georgia and certificates of deposit issued by banks.

Eliminations

GASB 34 eliminated the presentation of Account Groups, but provides for these records to be maintained and used to account for capital assets and long-term liabilities that are not reflected on the balance sheet of Governmental-type funds due to the current financial resources measurement focus that they use.

The effect of interfund activity has been removed from the government-wide financial statements. Due to/from other funds have been eliminated as well as transfers between funds.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interfund Receivables and Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables and Payables." Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets.

The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances."

Inventories

Inventory consists of expendable supplies held for consumption. The costs of these supplies on hand are considered immaterial to the balance sheets of the various funds and are not shown as assets of the funds nor is any portion of the fund balance reported as reserved for inventories. Inventory type items are recorded as expenditure when purchased.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2011, are reported as prepaid expenses using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which the services are consumed.

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 columns in the governmental-wide financial statements. All purchased capital assets are valued at historical cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. General infrastructure assets acquired prior to January 1, 2004 are not reported in the governmental-wide financial statements.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Major outlays for capital assets and improvements are capitalized as projects are constructed. GASB statement 34 prohibits the capitalization of interest for assets constructed for use in governmental activities. However, interest from debt not considered to be a general long-term debt may be included as part of the cost of assets constructed for business – type activities. In 2011, there were no interest expenses incurred by the City included as part of the cost of capital assets under construction in connection with public building construction projects.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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

Buildings	40-50 years
Vehicles	5 years
Machinery and equipment	5-20 years
Roads, Bridges, and Sidewalks	40-50 years

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed. Accordingly, encumbrances outstanding at year-end are not reported as reservations of fund balances, nor do they constitute expenditures or liabilities. Generally accepted accounting principles do not require encumbrance accounting.

Compensated Absences and Other Employee Benefits

Accumulated unpaid vacation, sick pay and other fringe benefits are not accrued since the amounts do not exceed a normal year's accumulation. These expenses are recorded as incurred.

Application of FASB Pronouncements

Proprietary activities apply all FASB statements and interpretations issued after November 30, 1989 except for those that conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Receivables

All trade and property tax receivables are reported net of an allowance for uncollectibles, where applicable.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principles

As of January 1, 2011, the City implemented GASB No. 54, *Fund Balance Reporting and Governmental Type Definitions*. This pronouncement by GASB establishes criteria for classifying fund balances into specifically defined classifications. These classifications change the presentation of Fund Balances in the Governmental Funds' Balance Sheets. Please see pages 16 and 17 of the Notes for the definitions of the classifications of Fund Balance.

NOTE 2- CONTINGENCIES

Litigation

City management believes that potential claims from pending litigation would not materially affect the financial position of the City.

Grants

The City participates in both federal-assisted and state-assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

NOTE 3- PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Taxes are generally levied by October 20, due by December 20 and considered delinquent with interest accruing after January 20 of the following year. Tax liens are recorded in the sixth year. Property tax revenues are recognized when levied to the extent they result in current receivables. Taxes not collected within sixty days after the year end, are reported as deferred revenues. The deferred revenue is combined with property tax revenue on the statement of activities and the deferred revenue account on the statement of net assets is eliminated.

NOTE 4- DUE FROM OTHER GOVERNMENTS

Amounts due from other governmental entities at December 31, 2011 are as follows:

	General Fund	Capital Projects	Total
State of Georgia Sales Tax	$ 118,547	$ 189,316	$ 307,863

NOTE 5- CHANGES IN CAPITAL ASSETS

Primary government

Capital asset activity for the year ended December 31, 2011 was as follows:

	Primary Government			
	Balance January 1, 2011	Additions	Deletions	Balance December 31, 2011
Governmental activities				
Capital assets:				
Non-depreciable:				
Land	$ 1,027,011	$ 10,000	$ -	$ 1,037,011
Construction in progress	43,303	139,190		182,493
Depreciable:				
Buildings	1,996,276	26,991	-	2,023,267
Machinery and equipment	1,511,091	83,722	-	1,594,813
Infrastructure	5,337,265	178,116	-	5,515,381
Total capital assets	9,914,946	438,019	-	10,352,965
Less: accumulated depreciation				
Buildings	(442,953)	(55,230)	-	(498,183)
Machinery & equipment	(1,066,190)	(76,626)	-	(1,142,816)
Infrastructure	(612,401)	(116,691)	-	(729,092)
Total accumulated depreciation	(2,121,544)	(248,547)	-	(2,370,091)
Governmental activites capital assets, net	$ 7,793,402	$ 189,472	$ -	$ 7,982,874

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	$ 55,305
Public Safety	45,197
Public Works	116,872
Recreation and Culture	31,173
Total governmental activities depreciation expense	$ 248,547

NOTE 5- CHANGES IN CAPITAL ASSETS (CONTINUED)

Business –Type Activity

A summary of proprietary fund type capital asset activity for the year ended December 31, 2011 was as follows:

	Balance January 1, 2011	Additions	Deletions	Balance December 31, 2011
Water/Sewer Enterprise Fund				
Capital assets:				
Non-depreciable:				
Land	$ 10,265	$ -	$ -	$ 10,265
Construction in progress	5,005	-	-	5,005
Depreciable:				
Buildings	1,432,351			1,432,351
Water and sewer system in service	5,187,736	-		5,187,736
Machinery and equipment	1,592,457	52,011	-	1,644,468
Less accumulated depreciation:				
Buildings	(262,602)	(35,809)	-	(298,411)
Water and sewer system in service	(1,904,058)	(144,928)		(2,048,986)
Machinery and equipment	(1,494,358)	(10,815)	-	(1,505,173)
Total accumulated depreciation	(3,661,018)	(191,552)	-	(3,852,570)
Total water/sewer capital assets, net	4,566,796	(139,541)	-	4,427,255
Sanitation Enterprise Fund				
Machinery and equipment	740,234	-	-	740,234
Less accumulated depreciation:				
Machinery and equipment	(399,286)	(74,023)	-	(473,309)
Total accumulated depreciation	(399,286)	(74,023)	-	(473,309)
Total sanitation capital assets, net	340,948	(74,023)	-	266,925
Total	$ 4,907,744	$ (213,564)	$ -	$ 4,694,180

NOTE 6- CHANGES IN LONG-TERM DEBT

General Fund Activity

The General Fund has a 36 month installment note obligation with the United States Department of Agriculture (USDA) dated April 17, 2008 for $25,500 at 4.625% interest. The promissory note in conjunction with matching grant is for the purpose of purchasing two police vehicles. The note is to be repaid by general fund revenues.

Transactions for 2011 related to this note were as follows:

	Amount at December 31, 2010	Additions	Payments	Amount at December 31, 2011	Amount Due in One Year
Interest-police #2	$ 82	-	82	$ -	$ -
Principal-police #2	5,972	-	5,972	-	-
	$ 6,054	-	6,054	$ -	$ -

NOTE 7- DEFINED BENEFIT PENSION PLAN

PLAN DESCRIPTION, CONTRIBUTION INFORMATION AND FUNDING POLICIES

The City contributes to the Georgia Municipal Employees Benefit System Defined Plan (GMEBS Plan), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating cities in Georgia. This pension plan does not issue a stand-alone financial report, but is included in the GMEBS Plan report and can be obtained from the GMEBS. The City's payroll as of July 1, 2011 (the most recent actuarial evaluation date) was $1,365,880 on W-2 earnings for the preceding year including $1,210,524 payroll covered by the plan.

The City's defined benefit pension plan provides retirement, disability, and death benefits to plan members and beneficiaries. All full-time city employees are eligible to participate in the Plan after completing one year of service. City officials are eligible to participate immediately with no waiting period. Upon eligibility to retire, participants are entitled to a monthly benefit which is 1/12 of the sum of: 1 percent of the final average earnings up to covered compensation plus 1.75 percent of final average earnings up to covered compensation, multiplied by the years of total credited service. This benefit is payable as a life annuity. Compensation is averaged over a five-year period prior to retirement or termination. All amendments to the plan must be approved by the City Council. There were no amendments to the defined benefit pension plan during the current plan year. The plan is also subject to minimum funding standards of the Public Retirement Systems Standards Law (Georgia Code Section 47-20-10).

Plan Membership	
Non-vested active members	25
Fully vested active members	22
Retirees and beneficiaries currently receiving benefits	23
Terminated plan members entitled to but not yet receiving benefits	10
Total	80

NOTE 7- DEFINED BENEFIT PENSION PLAN (CONTINUED)

GMEBS Plan funding policy provides for contributions to be made in an amount equal to the pension expense in each year. This cost method utilizes a funding "target" consistent with the standardized measure of pension obligation described by Statement No. 5 of the Government Accounting Standards Board (GASB 5). This measure, the Actuarial Accrued Liability (AAL), can be described as the value of benefits attributable to service as of the valuation date but calculated based on salaries projected to assumed retirement age. Any excess of the AAL over the Plan's assets is amortized over closed periods on a two-tier basis as follows: (a) if the value of benefits accumulated as of the valuation date (based on current salary history, not projected) exceeds the Plan's assets that excess is amortized over ten years; plus (b) the additional unfunded AAL is amortized over 30 years. The amortization period for the unfunded actuarial accrued liability is closed for this plan year.

The City's contributions to GMEBS were all made in accordance with actuarially determined requirements.

Additional information and ten year historical trend information can be obtained from the separately issued GMEBS Financial Report.

The following is a summary of funding policies, contribution methods, and benefit provisions:

Year established and governing authority		1978, Lyons City Council
Determination of contribution requirements		Actuarially Determined
Employer		3% of covered payroll
Plan members		No contribution required
Funding of administrative costs		Investment earnings
Period requred to vest		10 years - Employees Immediate vesting - Officials
Post-retirement benefit increases		None
Eligibility for distribution		Officials: Age 62 with no minimum years Employees: Age 65 with 5 years Early: Age 55 with 10 years Department Heads: Age 62 with 5 years
Provisions for:	Disability benefits	Yes
	Death benefits	Yes

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan asset matters and accounting policies

The Plan's financial statements are prepared on a cash basis, modified to include contributions receivable, unrealized gains or losses on marketable securities owned by the Plan, and increments in the cash value of death benefits. Investments in securities are valued at current market prices. Plan assets do not include any loans, notes, bonds, or other instruments or securities of the City or related parties.

Significant actuarial assumptions are as follows:

1. Rate of return on investments - 7.75% per year
2. Projected salary increases - 3.50% per year plus age and service based merit increase.
3. Post retirement benefit increase - Not applicable
4. Inflation - None

Annual Pension Cost and Net Pension Obligation

The Plan is subject to minimum funding standards of the Public Retirement Systems Standards Law (Georgia Code Section 47-20-10). The minimum annual contribution under these standards for 2011 is $88,263. This minimum contribution has been determined as a sum of 1) the normal cost (including administrative expenses), 2) the 30-year level percentage of payroll amortization of the unfunded actuarial accrued liability, and 3) interest on these amounts from the valuation date to the date contributions are paid (assumed monthly). The annual pension cost (APC) for 2011 is equal to the minimum annual required contribution (ARC) of $88,263.

The components of the City's annual pension cost that reconcile the beginning net pension obligation (asset) to the ending net pension obligation (asset) is as follows:

Annual required contribution	$	64,641
Interest on net pension obligation (asset)		(2,379)
Adjustments to annual required contribution		26,001
Annual pension cost		88,263
Contributions made		(134,915)
Change in net pension obligation (asset)		(46,652)
Net pension obligation (asset), beginning of year		(118,965)
Net pension obligation (asset), end of year	$	(165,617)

Three year trend information for annual pension cost is as follows:

Fiscal Year	Annual Pension Cost	Percentage Contributed	Employer Contributions	Percentage of Covered Payroll	Net Pension Obligation (Asset)
2009	94,619	112%	106,380	10.0%	(98,390)
2010	121,188	117%	141,763	13.0%	(118,965)
2011	88,263	153%	134,915	11.0%	(165,617)

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Schedule of Funding Current Year

Actuarial Valuation Date		*Actuarial Value of Assets (a)*	*Actuarial Accrued Liability (AAL) -projected unit credit (b)*	*Unfunded (Excess) AAL (UAAL) (b-a)*	*Funded Ratio (a/b)*	*Covered Payroll (c)*	*UAAL as a Percentage of Covered Payroll ((b-a)/c)*
7/1/2011	$	1,605,470	2,065,331	459,861	78%	1,210,524	38%

II. Notes

Valuation date	07/01/11
Actuarial cost method	Projected unit credit
Amortization method	Closed level dollar amount
Amortization period	Varies for the bases
Actuarial asset valuation method	Fair market value
	Sum of the actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at the end of the year. The actuarial value is adjusted, if necessary, to be within 20% of the market value.

Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	3.5% plus age and service based merit increases
Post retirement benefit increases	Not applicable
Inflation	Not applicable

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

NOTE 8- CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

It is the City's policy for deposits to be 110% secured by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation insurance. The City's deposits are categorized to give an indication of the level of risk assumed by the City at December 31, 2011.

The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 - Uncollateralized

		Category			
Description	Bank Balance	1	2	3	Carrying Amount
Total Deposits	$ 5,757,235	$ 2,688,230	$ 3,069,005	$ -	$ 5,667,460

NOTE 9 - RISK MANAGEMENT

The City is exposed to various risks of losses related to torts, thefts of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The City has joined together with other municipalities in the state of Georgia Interlocal Risk Management Agency (GIRMA) for property and liability insurance and Workers' Compensation Self-Insurance Fund (WCSIF), public entity risk pools currently operating as common risk management and insurance programs for member local governments. The Georgia Municipal Association (GMA) administers both risk pools.

As part of these risk pools, the City is obligated to pay all contributions and assessments as prescribed by the pools, to cooperate with the pools' 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 findings being required to pay any claim of loss. The City is also to allow the pools' agents and attorneys to represent the city in investigation, settlement discussions and all levels of litigation arising out of any claim made against the City within the scope of loss protection furnished by the funds.

The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member governments' contracts and in accordance with the workers' compensation laws of the state of Georgia. The funds are to pay all cost taxed against members in any legal proceeding defended by the other members, all interest accruing after entry of judgment, and all expenses for investigations, negotiation or defense.

NOTE 10-EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The individual funds, which had expenditures in excess of appropriates are as follows:

General Fund	Expenditures	Appropriations	Expenditures Over Appropriations
Current Operating Expenditures:			
Legislative and Executive	$ 148,727	$ 131,086	$ (17,641)
General Administration	269,729	221,099	(48,630)
Fire Department	98,920	91,237	(7,683)
Public Works	49,501	38,492	(11,009)
Street Department	310,775	289,896	(20,879)
Culture and Recreation	165,034	156,932	(8,102)
Economic Development	109,521	59,034	(50,487)
Debt Retirement and Interest	6,054	-	(6,054)
Total Current Operating Expenditures	$ 1,158,261	$ 987,776	$ (170,485)
Recreation Department			
Culture and Recreation	$ 290,492	$ 145,000	$ (145,492)

The General Fund and Recreation Department had excess expenditures over appropriations for the year ended December 31, 2011. All expenditures were approved by either City Council or the Recreation Department Board. The excess was funded by the prior year's fund balance.

NOTE 11-OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Generally accepted accounting principles require disclosure, as part of the Combined Statements, certain information concerning individual funds including:

A. Summary disclosure of changes in general capital assets by major asset class. This requirement has been met by Note 5.

B. Summary of disclosure of debt service requirements to maturity for all types of outstanding debt. This requirement has been met by Note 6.

C. Summary disclosure of changes in general long-term debt. This requirement has been met by Note 6.

D. Excess of expenditures over appropriations in individual funds. This requirement has been met by Note 10.

E. Deficit fund balances of individual funds. At December 31, 2011 there are no funds with deficit balances.

F. Segment information for certain individual Enterprise Funds. The Enterprise Fund combining statements can be found on pages 9, 10, 11, and 12. The City maintains two Enterprise Funds.

G. At December 31, 2011 the following amounts were due between funds:

Due to	Due from	Amount	Purpose
General Fund	SPLOST	$ 37,460	Deposit error
General Fund	Recreation Department	$ 50,000	Capital project
Sanitation Fund	General Fund	$ 111,978	Operating expenses
Water/Sewer	General Fund	$ 2,536	Operating expenses
Water/Sewer	SPLOST	$ 10,209	Deposit error

NOTE 12-CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows for proprietary funds, demand deposits and certificates of deposit are considered cash. All certificates of deposit maturing within a three month period are considered cash.

NOTE 13-EXCISE TAX ON LODGING

The City levies an excise tax on lodging at the rate of five percent. The City is required to spend at least $5,000 of this amount promoting tourism. In 2011 the City collected $6,455 and expended $5,004.

NOTE 14-RESTRICTED NET ASSETS

Restricted net assets are used to indicate that a portion of the net assets is not appropriable for expenditure or is legally segregated for a specific future use. The following restricted net assets are used by the City of Lyons.

Primary Government:

General, Special Revenue and Capital Projects Funds:		
Restricted by ordinance	$	62,728
Restricted by projects financed by grant revenues		1,311
Restricted sales tax revenue		3,267,674
Total Restricted Fund Balance	$	3,331,713

NOTE 15-JOINT VENTURE

The City, in conjunction with cities and counties in the fifteen (15) county Southeast Georgia area are members of the Heart of Georgia Altamaha Regional Development Center (RDC). Membership in an RDC is automatic for each municipality and county in the state. The official Code of Georgia Section 50-8-34 (Georgia Planning Act of 1989) provides for the organizational structure of the RDC's. Each municipality and county in the state is required by law to pay minimum annual dues to the RDC. The City paid annual dues in the amount of $4,441 to the RDC for the year ended December 31, 2011. The RDC Board membership includes the chief elected official of each municipality and the chief elected official of each county. The City Council members and the county board members from the same county elect one member of the Board, who is a resident (but not elected or appointed official or employee of the City or county) to serve as the non-public Board member from a City.

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RDC's as "public agencies and instrumentalities of their members." Georgia laws also provide that the member governments are liable for any debts or obligations of an RDC beyond its resources. (O.C.G.A. 50-8-39.1)

Separate financial statements can be obtained from Heart of Georgia Altamaha Regional Development Center, 5405 Oak Street, Eastman, Georgia, 31023.

NOTE 16-INTERFUND TRANSFERS

Transferred from:	Amount	Transferred to:	Purpose
General Fund	$ 8,000	Recreation Department	Operations
General Fund	94,757	Sanitation Proprietary Fund	Operations
Spec. Local Op. Sales Tax	52,011	Water/Sewer Prop. Fund	Capital Outlay
Water/Sewer Prop. Fund	3,865	General Fund	Operations
Water/Sewer Prop. Fund	9,333	Sanitation Proprietary Fund	Operations
Hotel/Motel Spl. Rev. Fund	1,451	General Fund	Operations
Total Transferred	$ 169,417		

NOTE 17-PRIOR PERIOD ADJUSTMENT

In prior years the Government did not record net pension obligation (asset) or annual pension cost resulting in an understatement of the Government-wide governmental net assets by $118,965.

	Governmental Funds General Fund Fund Balance	Government-Wide Governmental Net-Assets
As previously reported	$ 5,425,745	$ 13,251,611
Net pension obligation (asset) prior	-	118,965
December 31, 2010 restated	$ 5,425,745	$ 13,370,576

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LYONS, GEORGIA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original and Final Budget	Actual	Variance Over(Under)
Taxes:			
Property taxes	$ 186,438	$ 172,716	$ (13,722)
Prior taxes & penalties	13,000	7,211	(5,789)
Vehicle tags & taxes	-	1,612	1,612
Mobile home taxes	1,000	2,338	1,338
Intangible tax	500	-	(500)
Transfer tax	1,000	4,717	3,717
Timber tax	-	18	18
GPC franchise tax	166,000	201,151	35,151
Atlanta Gas franchise tax	6,500	12,905	6,405
Northland Cable franchise tax	32,000	29,115	(2,885)
Bell South franchise tax	7,000	16,215	9,215
Housing Authority tax	11,000	11,350	350
Local option sales tax	755,000	666,899	(88,101)
Alcoholic beverage tax	94,000	97,731	3,731
Insurance premium tax	227,000	204,831	(22,169)
Total	1,500,438	1,428,809	(71,629)
Licenses and Permits:			
Business licenses	58,000	56,311	(1,689)
Alcoholic beverage licenses	1,150	-	(1,150)
Building & wiring permits	200	700	500
Total	59,350	57,011	(2,339)
Intergovernmental:			
Family Prevention grant	-	21,107	21,107
Total	-	21,107	21,107
Charges for Services:			
City payment - fire protection	24,000	21,959	(2,041)
Debris charge	26,000	24,771	(1,229)
Animal control revenue	200	5,685	5,485
Election fees	-	342	342
Total	50,200	52,757	2,557
Subtotal	$ 1,609,988	$ 1,559,684	$ (50,304)

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF LYONS, GEORGIA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original and Final Budget	Actual	Variance Over(Under)
Subtotal carryforward	$ 1,609,988	$ 1,559,684	$ (50,304)
Fines and forfeits:			
Fees & court costs	288,000	147,122	(140,878)
Total	288,000	147,122	(140,878)
Miscellaneous:			
Interest earned	-	47,413	47,413
Rent - miscellaneous	36,000	48,287	12,287
Bellsouth	7,000	4,376	(2,624)
Hargray	16,500	18,437	1,937
Southern Linc	6,000	6,900	900
Georgia Power Company	3,600	3,600	-
Miscellaneous	4,500	4,101	(399)
Total	73,600	133,114	59,514
Total General Fund Revenues	$ 1,971,588	$ 1,839,920	$ (131,668)

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF LYONS, GEORGIA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original and Final Budget	Actual	Variance (Over)Under
General Government:			
Legislative and Executive:			
Personal services	$ 109,336	$ 118,510	$ (9,174)
Operating expenditures	21,750	30,217	(8,467)
Total	131,086	148,727	(17,641)
Judicial:			
Personal services	4,200	4,200	-
Operating expenditures	60,000	42,725	17,275
Total	64,200	46,925	17,275
General Administration:			
Personal services	68,599	57,898	10,701
Operating expenditures	152,500	211,831	(59,331)
Total	221,099	269,729	(48,630)
Total General Government	416,385	465,381	(48,996)
Public Safety:			
Police Department:			
Personal services	670,400	673,247	(2,847)
Operating expenditures	209,550	204,960	4,590
Total	879,950	878,207	1,743
Fire Department:			
Personal services	68,237	70,652	(2,415)
Operating expenditures	23,000	28,268	(5,268)
Total	91,237	98,920	(7,683)
Total Public Safety	971,187	977,127	(5,940)
Public Works:			
Personal services	28,142	31,088	(2,946)
Operating expenditures	10,350	18,413	(8,063)
Total	38,492	49,501	(11,009)
Animal Control Facility:			
Personal services	28,607	22,880	5,727
Operating expenditures	5,111	7,034	(1,923)
Total	$ 33,718	$ 29,914	$ 3,804

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF LYONS, GEORGIA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original and Final Budget	Actual	Variance (Over)Under
Street Department:			
Personal services	$ 100,521	$ 72,899	$ 27,622
Operating expenditures	189,375	237,876	(48,501)
Total	289,896	310,775	(20,879)
Culture & Recreation:			
Personal services	131,530	161,960	(30,430)
Operating expenditures	25,402	3,074	22,328
Total	156,932	165,034	(8,102)
Economic Development:			
Personal services	54,134	68,334	(14,200)
Operating expenditures	4,900	41,187	(36,287)
Total	59,034	109,521	(50,487)
Debt Service:			
Principal retirement	-	5,972	(5,972)
Interest expense	-	82	(82)
Total	-	6,054	(6,054)
Total General Fund Expenditures before Other financing sources/uses:	1,965,644	2,113,307	(147,663)
Other financing (sources)uses:			
Transfer to recreation	24,000	8,000	16,000
Transfer to sanitation	-	94,757	(94,757)
Transfer from water/sewer	-	(3,865)	3,865
Transfer from hotel/motel	-	(1,451)	1,451
Total	24,000	97,441	(73,441)
Total General Fund Expenditures	$ 1,989,644	$ 2,210,748	$ (221,104)

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF LYONS, GEORGIA
BUDGETARY COMPARISON SCHEDULE
RECREATION DEPARTMENT
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original and Final Budget	Actual	Variance Over(Under)
Intergovernmental:			
Toombs County	$ 58,500	$ 61,500	$ 3,000
Total	58,500	61,500	3,000
Charges for Services:			
Sports and tournament fees	60,000	63,459	3,459
Concessions	-	78,363	78,363
Picture fees	2,500	1,995	(505)
Building fee income	-	64,166	64,166
Total	62,500	207,983	145,483
Miscellaneous:			
Interest earned	-	680	680
Donations	-	42,050	42,050
Miscellaneous	-	6,310	6,310
Total	-	49,040	49,040
Total Recreation Dept Revenues	$ 121,000	$ 318,523	$ 197,523

	Original and Final Budget	Actual	Variance (Over)Under
Culture and Recreation:			
Operating expenditures	$ 145,000	$ 228,952	$ (83,952)
Capital outlay	-	61,540	(61,540)
Total	145,000	290,492	(145,492)
Total Recreation Dept Expenditures before Other financing sources/uses	145,000	290,492	(145,492)
Other financing (sources)uses:			
Transfer from General Fund	(24,000)	(8,000)	(16,000)
Total	(24,000)	(8,000)	(16,000)
Total Recreation Dept Expenditures	$ 121,000	$ 282,492	$ (161,492)

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF LYONS, GEORGIA
NOTE TO BUDGETARY COMPARISON SCHEDULE
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Budgets for the General Fund and the Recreation Department are adopted on a basis consistent with generally accepted accounting principles.

NOTE 2 -EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The individual funds, which had expenditures in excess of appropriates are as follows:

General Fund	Expenditures	Appropriations	Expenditures Over Appropriations
Current Operating Expenditures:			
Legislative and Executive	$ 148,727	$ 131,086	$ (17,641)
General Administration	269,729	221,099	(48,630)
Fire Department	98,920	91,237	(7,683)
Public Works	49,501	38,492	(11,009)
Street Department	310,775	289,896	(20,879)
Culture and Recreation	165,034	156,932	(8,102)
Economic Development	109,521	59,034	(50,487)
Debt Retirement and Interest	6,054	-	(6,054)
Total Current Operating Expenditures	$ 1,158,261	$ 987,776	$ (170,485)
Recreation Department			
Culture and Recreation	$ 290,492	$ 145,000	$ (145,492)

The General Fund and Recreation Department had excess expenditures over appropriations for the year ended December 31, 2011. All expenditures were approved by either City Council or the Recreation Department Board. The excess was funded by the prior year's fund balance.

CITY OF LYONS, GEORGIA
DEFINED BENEFIT PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011

Actuarial Valuation Date		*Actuarial Value of Assets (a)*	*Actuarial Accrued Liability (AAL) -projected unit credit (b)*	*Unfunded (Excess) AAL (UAAL) (b-a)*	*Funded Ratio (a/b)*	*Covered Payroll (c)*	*UAAL as a Percentage of Covered Payroll ((b-a)/c)*
7/1/2006	$	1,354,703	1,487,221	132,518	91%	873,075	15%
7/1/2007	$	1,422,163	1,626,444	204,281	87%	906,861	23%
7/1/2008	$	1,500,167	1,716,620	216,453	87%	1,013,153	21%
7/1/2009	$	1,108,459	1,855,201	746,742	60%	1,068,680	70%
7/1/2010	$	1,480,576	2,015,315	534,739	73%	1,053,147	51%
7/1/2011	$	1,605,470	2,065,331	459,861	78%	1,210,524	38%

II. Notes

Valuation date	07/01/11
Actuarial cost method	Projected unit credit
Amortization method	Closed level dollar amount
Amortization period	Varies for the bases
Actuarial asset valuation method	Fair market value

Sum of the actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at the end of the year. The actuarial value is adjusted, if necessary, to be within 20% of the market value.

Actuarial assumptions:

Investment rate of return	7.75%
Projected salary increases	3.5% plus age and service based merit increases
Post retirement benefit increases	Not applicable
Inflation	Not applicable

The accompanying notes to financial statements are an integral part of this statement.

SUPPLEMENTARY INFORMATION

CITY OF LYONS, GEORGIA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	Hotel Motel Tourism	Community Development Block Grant	Total Nonmajor Governmental Funds
Assets			
Cash	$ -	$ 1,311	$ 1,311
Due from other governments	-	-	-
Total assets	$ -	$ 1,311	$ 1,311
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ -	$ -	$ -
Interfund payable	-	-	-
Total liabilities	-	-	-
Fund Balances			
Fund balance:			
Restricted	-	1,311	1,311
Total fund balances	-	1,311	1,311
Total liabilities and fund balances	$ -	$ 1,311	$ 1,311

CITY OF LYONS, GEORGIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Hotel Motel Tourism	Community Development Block Grant	Total Nonmajor Governmental Funds
Revenues:			
Grants	$ -	$ 40,187	$ 40,187
Hotel/Motel Tax	6,455	-	6,455
Total revenues	6,455	40,187	46,642
Expenditures:			
Current operating:			
Community Development	5,004	-	5,004
Capital outlay	-	46,376	46,376
Total expenditures	5,004	46,376	51,380
Excess revenues(expenditures):	1,451	(6,189)	(4,738)
Other financing sources(uses):			
Transfers	(1,451)	-	(1,451)
Total other financing sources(uses)	(1,451)	-	(1,451)
Net change in fund balances	-	(6,189)	(6,189)
Fund balance - beginning of year	-	7,500	7,500
Fund balance - end of year	$ -	$ 1,311	$ 1,311

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Nicole A. Eason, C.P.A.

INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF SPECIAL PURPOSE LOCAL OPTION SALES TAX

To the City Council
Lyons, Georgia

We have audited the accompanying Schedule of Special Local Option Sales Tax for the City of Lyons, Georgia, for the year ended December 31, 2011. This schedule is the responsibility of the City of Lyon's management. Our responsibility is to express an opinion on the Schedule of Special Purpose Local Option Sales Tax 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 Schedule of Special Purpose Local Option Sales Tax is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Special Purpose Local Option Sales Tax. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Schedule of Special Purpose Local Option Sales Tax. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Schedule of Special Purpose Local Option Sales Tax was prepared for the purpose of complying with the Official Code of Georgia Annotated, 48-8-121 on the accrual basis of accounting and is not intended to be a complete presentation of City of Lyons' revenues and expenditures.

In our opinion, the Schedule of Special Purpose Local Option Sales Tax referred to above presents fairly, in all material respects, the original estimated cost, the current estimated cost, and the current and prior year expenditures for each project in City of Lyons' resolution or ordinance calling for the tax for the year ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

McLain Calhoun McCullough Clark & Co., P.C.

June 25, 2012

CITY OF LYONS, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE ONE (1) PERCENT LOCAL OPTION SALES AND USE TAX PROCEEDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Project Years	Projects	Original Estimated Cost	Amended Estimated Cost	Expenditures			Percentage of Completion
				Prior Years	Current Year	Total	
1998-2003	Public buildings	$ 100,000	100,000	131,546	-	$ 131,546	
1998-2003	Roads and streets: Drainage	150,532	150,532	201,832	-	201,832	
1998-2003	Roads and streets: Paving	650,000	650,000	650,000	-	650,000	
1998-2003	Water and Sewer	1,000,000	1,000,000	520,584	78,567	599,151	
1998-2003	Industrial Park	750,000	750,000	611,325	-	611,325	
1998-2003	Recreation: Paving	20,000	20,000	20,000	-	20,000	
Total		2,670,532	2,670,532	2,135,287	78,567	2,213,854	82.90%
2004-2008	Public buildings	650,000	1,350,000	1,350,000	-	1,350,000	
2004-2008	Roads and streets	1,000,000	800,000	801,646	-	801,646	
2004-2008	Water and Sewer	1,430,000	672,019	129,409	-	129,409	
2004-2008	Equipment acq: Public Safety	200,000	300,000	286,195	13,805	300,000	
2004-2008	Equipment acq: Sanitation	300,000	400,000	385,469	-	385,469	
2004-2008	Equipment acq: Streets	100,000	100,000	86,777	-	86,777	
Total		3,680,000	3,622,019	3,039,496	13,805	3,053,301	82.97%
2009-2014	Public buildings	313,000	313,000	122,572		122,572	
2009-2014	Roads and streets	2,304,667	2,304,667	-	181,964	181,964	
2009-2014	Water and Sewer	2,416,000	2,416,000	-	-	-	
2009-2014	Equipment acq: Public Safety	368,333	368,333	-	55,766	55,766	
2009-2014	Equipment acq: Sanitation	483,000	483,000	207,997	52,011	260,008	
2009-2014	Recreation	195,000	195,000	25,000	-	25,000	
Total		$ 6,080,000	6,080,000	355,569	289,741	$ 645,310	10.61%

The accompanying notes to financial statements are an integral part of this statement.

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

To the City Council
Lyons, Georgia

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the and the remaining fund information of the City of Lyons, Georgia, as of and for the year ended December 31, 2011, which collectively comprise the City of Lyons' basic financial statements and have issued our report thereon dated June 25, 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 City of Lyons, Georgia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that here 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 06-02 described in the accompanying schedule of findings and responses to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Lyons, 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. The findings are described in the accompanying schedule of findings and responses on page 48 as items 06-01 and 06-02.

We also noted certain other matters involving the internal control over financial reporting that we have reported to the management of City of Lyons, Georgia in a separate letter dated June 25, 2012.

The City of Lyons' response to the findings identified in our audits is described in the accompanying schedule of findings and responses. We did not audit the City of Lyons' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, 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.

McLain Calhoun McCullough Clark & Co., P.C.

June 25, 2012

CURRENT YEAR FINDINGS AND RESPONSES – FINANCIAL STATEMENT AUDIT

06-01 EXPENDITURES OVER APPROPRIATIONS:

Condition: The City and the Recreation Department was in violation of State budget statutes for the year ended December 31, 2011 because certain departmental expenditures exceeded their budget at the legal level of control. The Georgia Statutes define the legal level of control at a minimum to be at the department level.

Criteria: O.C.G.A. 36-81 establishes the budgetary requirements.

Recommendation: Emphasize to management excess expenditures and importance of periodic comparison to enacted budget and amend budget if deemed necessary.

Response: Concur

06-02 SEGREGATION OF DUTIES

Condition: There is a lack of segregation of duties in the clerk's office and the recreation department offices.

Criteria: There should be segregation of duties in financial functions to reduce the risk of asset misappropriation and to ensure fiduciary responsibility to the public.

Recommendation: Close supervision by management and reduction of incompatible duties by the same personnel.

Response: Concur