CITY OF WALESKA, GEORGIA

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF WALESKA, GEORGIA
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CITY OF WALESKA, GEORGIA

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Honorable Doris Ann Jones, Mayor
and Members of the City Council
Waleska, Georgia

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 City of Waleska, Georgia as of and for the year ended June 30, 2012 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Waleska's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Waleska, Georgia, as of June 30, 2012, and the respective changes in financial position, and cash flows, and the respective budgetary comparison for the General Fund, 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 January 18, 2013 on our consideration of the City of Waleska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City has elected not to present the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of the basic financial statements.

Accounting principles generally accepted in the United States of America require that the statement of funding progress for the City's Retirement Plan on pages 26 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Waleska's financial statements as a whole. The Schedule of Projects Constructed with Special Purpose Local Option Sales Tax is presented for purposes of additional analysis as required by the Official Code of Georgia Section 48-8-121, and is also not a required part of the financial statements. The Schedule of Projects Constructed with Special Purpose Local Option Sales Tax is the responsibility of management and was 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.

Waleska, Georgia
January 18, 2013

CITY OF WALESKA, GEORGIA
STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities	Business-type Activities	Total Primary Government
ASSETS			
Current Assets:			
Cash	$ 44,400	$ 121,585	$ 165,985
Restricted cash	456,386	-	456,386
Cash equivalents	10,032	2,460	12,492
Accounts receivable, net	-	77,159	77,159
Taxes receivable, net	389	-	389
Receivable from other governments	55,535	-	55,535
Prepaid expenses	8,298	1,047	9,345
Total Current Assets	575,040	202,251	777,291
Capital assets, not being depreciated	200,837	41,219	242,056
Capital assets, net of accumulated depreciation	845,281	4,228,480	5,073,761
Total Capital Assets	1,046,118	4,269,699	5,315,817
Total Assets	$ 1,621,158	$ 4,471,950	$ 6,093,108
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts payable	$ 5,106	$ 120,606	$ 125,712
Accrued salaries	557	-	557
Accrued interest	-	5,607	5,607
Liabilities Payable from Restricted Assets:			
Customer deposits	-	142,408	142,408
Current Portion of Long-term Liabilities:			
Notes payable	-	81,887	81,887
Total Current Liabilities	5,663	350,508	356,171
Long-term Liabilities:			
Notes payable	-	1,274,523	1,274,523
Total Long-term Liabilities	-	1,274,523	1,274,523
Total Liabilities	5,663	1,625,031	1,630,694
Net Assets:			
Invested in capital assets, net of related debt	1,046,118	2,913,289	3,959,407
Restricted for:			
Capital projects	510,969	-	510,969
Unrestricted	58,408	(66,370)	(7,962)
Total Net Assets	1,615,495	2,846,919	4,462,414
Total Liabilities and Net Assets	$ 1,621,158	$ 4,471,950	$ 6,093,108

The accompanying notes are an integral part of this statement.

CITY OF WALESKA, GEORGIA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total
Primary Government						
Governmental Activities:						
General government	$ 146,602	$ 1,060	$ 306,160	$ 160,618	$ -	$ 160,618
Public works	53,251	-	-	(53,251)	-	(53,251)
Total Governmental Activities	199,853	1,060	306,160	107,367	-	107,367
Business-type Activities:						
Water and sewer	771,310	614,359	-	-	(156,951)	(156,951)
Total Business-type Activities	771,310	614,359	-	-	(156,951)	(156,951)
Total Primary Government	$ 971,163	$ 615,419	$ 306,160	107,367	(156,951)	(49,584)
General revenues:						
Taxes:						
Property taxes, levied for general purposes				22,721	-	22,721
Franchise taxes				54,889	-	54,889
Business taxes				32,981	-	32,981
Unrestricted investment earnings				899	24	923
Miscellaneous				10,936	2,804	13,740
Transfers				(66,277)	66,277	-
Total general revenues and transfers				56,149	69,105	125,254
Change in net assets				163,516	(87,846)	75,670
Net assets, beginning of year				1,451,979	2,934,765	4,386,744
Net assets, end of year				$ 1,615,495	$ 2,846,919	$ 4,462,414

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF WALESKA, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General	SPLOST	Total Governmental Funds
ASSETS			
Cash	$ 44,400	$ -	$ 44,400
Restricted cash	-	456,386	456,386
Cash equivalents	10,032	-	10,032
Taxes receivable, net	389	-	389
Interfund receivable	-	-	-
Receivable from other governments	-	55,535	55,535
Other receivables	-	-	-
Prepaid items	8,298	-	8,298
Total Assets	$ 63,119	$ 511,921	$ 575,040
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 4,154	$ 952	$ 5,106
Taxes payable	-	-	-
Accrued salaries	557	-	557
Deferred revenue	242	-	242
Court bonds outstanding	-	-	-
Other accrued items	-	-	-
Total Liabilities	4,953	952	5,905
Fund balances:			
Nonspendable	8,298	-	8,298
Restricted for:			
Capital projects funds	-	510,969	510,969
Assigned	-	-	-
Unassigned	49,868	-	49,868
Total Fund Balances	58,166	510,969	569,135
Total Liabilities and Fund Balances	$ 63,119	$ 511,921	$ 575,040

The accompanying notes are an integral part of this statement.

CITY OF WALESKA , GEORGIA
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2012

Total fund balance, governmental funds	$	569,135
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. The cost of the capital assets is $1,330,789, and the accumulated depreciation is $284,671.		1,046,118
Some of the City's tax revenues will be collected after the fiscal year end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred on the fund financial statements.		242
Net Assets of Governmental Activities in the Statement of Net Assets	$	1,615,495

The accompanying notes are an integral part of this statement.

CITY OF WALESKA, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012

	General	SPLOST	Total Governmental Funds
Revenues:			
Taxes	$ 113,104	$ -	$ 113,104
Licenses and permits	1,060	-	1,060
Intergovernmental	-	306,160	306,160
Investment earnings	288	241	529
Miscellaneous	10,936	-	10,936
Penalties and interest on delinquent taxes	370	-	370
Total Revenues	125,758	306,401	432,159
Expenditures:			
Current:			
General government	175,022	-	175,022
Public works	21,152	-	21,152
Total Expenditures	196,174	-	196,174
Excess (deficiency) of revenues over (under) expenditures	(70,416)	306,401	235,985
Other Financing Sources (Uses):			
Transfers in	164,647	109,330	273,977
Transfers out	(83,578)	(256,676)	(340,254)
Total other financing sources and uses	81,069	(147,346)	(66,277)
Net changes in fund balances	10,653	159,055	169,708
Fund balances (deficit), beginning of year	47,513	351,914	399,427
Fund balances, end of year	$ 58,166	$ 510,969	$ 569,135

The accompanying notes are an integral part of this statement.

CITY OF WALESKA, GEORGIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

Net change in fund balances - total governmental funds:	$	169,708
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		
This is the amount of capital outlays $31,503 netted with depreciation $36,462 in the current period.		(4,959)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.		(2,513)
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:		
Compensated absences		1,280
Change in net assets of governmental activities in the Statement of Activities	$	163,516

The accompanying notes are an integral part of this statement.

CITY OF WALESKA, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final	(See Note 2)	Positive (Negative)
Budgetary fund balance, beginning of year	$ 47,513	$ 47,513	$ 47,513	$ -
Revenues (inflows):				
Property taxes	24,500	24,000	25,234	1,234
Franchise taxes	46,000	53,000	54,889	1,889
Business taxes	35,000	33,000	32,981	(19)
Licenses and permits	800	950	1,060	110
Investment earnings	-	-	288	288
Miscellaneous	5,150	9,900	10,936	1,036
Penalties and interest on delinquent taxes	-	-	370	370
Transfer from other funds	131,845	131,845	164,647	32,802
Amounts available for appropriation	243,295	252,695	290,405	37,710
Changes to appropriations (outflows):				
General government:				
Legislative	14,400	13,400	13,400	-
Executive	56,800	51,400	39,362	12,038
Financial administration	132,120	142,464	63,411	79,053
General government buildings	48,320	46,320	58,849	(12,529)
Public Works:				
Highways and streets	22,600	18,600	21,152	(2,552)
Non-departmental:				
Transfer out	-	-	83,578	(83,578)
Total changes to appropriations	274,240	272,184	279,752	(7,568)
Net change	(30,945)	(19,489)	10,653	30,142
Budgetary fund balance, end of year	$ 16,568	$ 28,024	$ 58,166	$ 30,142

The accompanying notes to RSI are an integral part of this schedule.

CITY OF WALESKA, GEORGIA
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
June 30, 2012

	Business-type Activities Water
ASSETS	
Current Assets:	
Cash	$ 121,585
Cash equivalents	2,460
Accounts receivable, net	77,159
Prepaid items	1,047
Total Current Assets	202,251
Non-Current Assets:	
Capital Assets Not Being Depreciated:	
Land and improvements	41,219
Construction in progress	-
Capital Assets Net of Accumulated Depreciation:	
Buildings and improvements	7,110
Machinery and equipment	115,621
Vehicles	-
Infrastructure	4,105,749
Total Non-Current Assets	4,269,699
Total Assets	$ 4,471,950
LIABILITIES AND FUND NET ASSETS	
Current Liabilities:	
Accounts payable	$ 120,606
Accrued interest payable	5,607
Liabilities Payable from Restricted Assets:	
Customer deposits	142,408
Current Portion of Long-term Liabilities:	
Notes payable	81,887
Total Current Liabilities	350,508
Non-Current Liabilities:	
Notes payable	1,274,523
Total Non-Current Liabilities	1,274,523
Total Liabilities	1,625,031
Fund Net Assets:	
Invested in capital assets, net of related debt	2,913,289
Unrestricted	(66,370)
Total Fund Net Assets	2,846,919
Total Liabilities and Fund Net Assets	$ 4,471,950

The accompanying notes are an integral part of this statement.

CITY OF WALESKA, GEORGIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2012

	Enterprise Funds
	Water
Operating Revenues:	
Charges for services	$ 614,359
Miscellaneous	2,804
Total Operating Revenues	617,163
Operating Expenses:	
Water administration	179,625
Water supply	303,715
Water distribution	94,618
Total Operating Expenses before Depreciation	577,958
Depreciation expense	126,265
Total Operating Expenses	704,223
Operating Income (Loss)	(87,060)
Non-Operating Revenues (Expenses):	
Interest revenue	24
Interest expense	(67,087)
Total Non-Operating Revenue (Expenses)	(67,063)
Income (loss) before contributions and transfers	(154,123)
Transfers in	308,751
Transfers out	(242,474)
Change in fund net assets	(87,846)
Total fund net assets, beginning	2,934,765
Total fund net assets, ending	$ 2,846,919

The accompanying notes are an integral part of this statement.

CITY OF WALESKA, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012

	Business-type Activities Enterprise Funds
	Water Fund
Cash Flows from Operating Activities:	
Receipts from customers	$ 634,909
Payments to suppliers	(445,683)
Payments to employees	(83,231)
Net cash provided by (used in) operating activities	105,995
Cash Flows from Noncapital Financing Activities:	
Interfund loans - proceeds and collections	50,000
Transfers in	142,101
Transfers out	(133,145)
Net cash provided by (used in) noncapital financing activities	58,956
Cash Flows from Capital Financing Activities:	
Purchase of capital assets	(92,699)
Principal paid on capital debt	(68,838)
Interest paid on capital debt	(68,286)
Proceeds from issuance of capital debt	109,330
Net cash provided by (used in) capital financing activities	(120,493)
Cash Flows from Investing Activities:	
Interest income	24
Net cash provided by (used in) investing activities	24
Net increase (decrease) in cash	44,482
Cash, beginning of year	77,103
Cash, end of year	$ 121,585
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating income (loss)	$ (87,846)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation expense	126,265
Change in assets and liabilities:	
Accounts receivable	3,933
Other receivables	12,300

The accompanying notes are an integral part of this statement.

CITY OF WALESKA, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012

	Business-type Activities Enterprise Funds
	Water Fund
Inventory	-
Prepaid expenses	4,968
Accounts payable	44,076
Customer deposits	3,498
Accrued salaries and benefits	-
Other accrued expenses	(1,199)
	193,841
Net cash provided by (used in) operating activities	$ 105,995

The accompanying notes are an integral part of this statement.

1. SUMMARY OF ACCOUNTING POLICIES

The financial statements of the City of Waleska, Georgia, herein referred to as "the City", have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. THE REPORTING ENTITY

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The City's financial statements include the accounts of all operations. The criteria for including organizations within the City's reporting entity, as set forth in Governmental Accounting Standards Board's Statement No. 14 (GASB 14), "The Financial Reporting Entity", is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. As a result of applying the criteria of GASB 14, the Downtown Development Authority of the City of Waleska, herein referred to as "the Authority", has been included as a discretely presented component unit. Generally, the discretely presented component unit is reported in a separate column in the government-wide statements to emphasize that they are legally separate from the primary government. A brief description of the discretely presented component unit is as follows:

The Authority was created for the sole purpose of issuing revenue bonds for Reinhardt College, the City's largest employer. Revenue bonds have been issued by the Authority during 1995, 2001 and 2003 for the purpose of financing various capital projects at Reinhardt College (a non-profit organization). A majority of the Authority's board members are appointed, either directly or indirectly, by the City. The Authority is prohibited from issuing bonded debt without the approval of the City Council. Complete financial statements of the Authority are not available at June 30, 2012. Other than conduit debt obligations (as further discussed in Note M), the Authority has no assets or liabilities.

B. GOVERNMENT-WIDE STATEMENTS AND FUND FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which may rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of net assets, both governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net

assets. Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for capital improvements result from both the capital projects and enterprise funds and the restriction on their net asset use.

The government-wide statement of activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expense identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The City has no nonmajor funds in the current year.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The measurement focus describes the type of transactions and events that are reported in a fund's operating statements. Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund statements. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized in the accounting period in which they become both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are property taxes, intergovernmental revenues (including sales tax allocations), licenses, interest revenue and charges for services.

The City's funds are grouped into two broad fund categories and four generic fund types for financial statement presentation purposes. Governmental funds include the general, special revenue, and capital project funds. Proprietary funds include enterprise funds. The City has no special revenue funds in the current year.

Governmental Funds

The focus of the governmental funds' measurement in the funds statement is upon determination of financial position and changes in financial positions (sources, uses, and balances of financial resources) rather than upon net income.

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.

SPLOST Fund – This is a capital projects fund that accounts for financial resources to be used for the acquisition and construction of major capital projects, and for the maintenance of streets and roads, which are not financed by another source of governmental funds.

Proprietary Funds

The City applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 in accounting and reporting for its enterprise operations, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Proprietary funds distinguish operating revenues and expense from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges for water usage. Operating expenses for the enterprise funds include all costs to operate the water system and to deliver water service to customers. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The generally accepted accounting principles applicable are those similar to business in the private sector.

The City reports the following major enterprise fund:

Water Fund – This fund accounts for the development, operation and maintenance of the water distribution system.

D. ENCUMBRANCES

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of applicable appropriation, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

E. CASH AND INVESTMENTS

For the purposes of the Statement of Cash Flows, the City considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash equivalents.

Cash includes amounts in demand deposits. Statutes authorize the City to invest in U.S. Government obligations, U.S. Government agency obligations, State of Georgia obligations, obligations of other counties, municipal corporations and political subdivisions of the State of Georgia which are rated "AA" or better by Moody's Investors Service, Inc., negotiable certificates of deposit issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association, repurchase agreements

when collateralized by U.S. Government or agency obligations, and pooled investment programs sponsored by the State of Georgia for the investment of local government funds.

F. INTEREST CAPITALIZATION

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds are used to finance the construction of assets. During fiscal year 2012, the City incurred interest expense of $7,503 which was attributable to such debt.

G. INVENTORIES

Inventories, if any, are valued at the lower of cost or market in the proprietary fund types. Inventories consist of expendable supplies and items needed for repairs or improvements to the water utility system. Inventories are accounted for on the first-in, first-out (FIFO) method of accounting for inventories. During fiscal year 2010, the management made the decision to no longer maintain an inventory of water materials and supplies. Instead, the City contracts for labor and materials to be provided by the contractors performing the water repairs and improvements.

H. PREPAID ITEMS

Expenditures for insurance and similar services extending over more than one accounting period in governmental funds are amortized over their useful policy period. Prepaid expenditures are similarly reported in the government-wide and fund financial statements.

I. CAPITAL ASSETS AND DEPRECIATION

Capital assets which include property, equipment and infrastructure (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $1,600 and an estimated useful life in excess of two years. All purchased or constructed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, are not reported in the basic financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to July 1, 2003. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Infrastructure	30-50 years
Buildings and improvements	15-50 years
Machinery and equipment	10-15 years
Office furniture	10 years
Vehicles	5 years

J. INTANGIBLE ASSETS

Intangible assets consist of geological studies. The intangible costs of $9,720 were amortized over an estimated term of their usefulness of 60 months. This intangible asset was fully amortized as of the end of fiscal year 2011.

K. COMPENSATED ABSENCES

Vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only, if they matured. The current City policy

does not allow for vacation pay to carry forward to subsequent fiscal years if unused. Therefore, there is no liability shown for vacation pay on the government-wide or proprietary fund financial statements.

Accumulated sick pay benefits have not been recorded as a liability because the payment of these benefits is contingent upon the future illness of an employee. It is not expected that any unrecorded sick pay benefits will exceed a normal year's accumulation. In accordance with the provisions of Statement of Financial Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay bonus.

L. LONG-TERM OBLIGATIONS

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Assets. In the fund financial statements, governmental fund types recognize the face amount of debt issued in the current period as other financing sources.

M. CONDUIT DEBT OBLIGATIONS – COMPONENT UNIT

From time to time, the Downtown Development Authority of the City of Waleska has issued three series of revenue bonds to provide financial assistance to Reinhardt College (a nonprofit organization) for the acquisition and construction of various facilities deemed to be in the public interest. Neither the Authority, the City, nor any political subdivision thereof, is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. At June 30, 2012, the revenue bonds outstanding approximated $18 million.

N. FUND EQUITY

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

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The City Council has by resolution authorized the finance director to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

O. 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/expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

P. INTERFUND BALANCES

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables and payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The applicable statutes of the State of Georgia require the City to operate under an annual balanced budget adopted by resolution. A budget is defined as being balanced when the sum of estimated net revenues and appropriated fund balance is equal to appropriations. Because the City adopts each of its operating budgets at the department level, the applicable statutes require that total expenditures not exceed the total amount of appropriations at the departmental level. Unspent appropriations lapse at year-end.

Annual budgets are adopted for all governmental funds and proprietary funds. The budget is adopted on a basis consistent with generally accepted accounting principles, and on the same basis of accounting used by each fund to which the budget applies. An operating budget is adopted for the proprietary Water Fund for administrative control purposes.

Excess of Expenditures over Appropriations – Governmental Funds

For the year ended June 30, 2012, expenditures materially exceeded appropriations in two departments: In general government buildings the expenditures exceeded appropriations by $12,529. This excess was due to expenditures related to renovations at City Hall not included in the capital projects fund because they were not capital in nature. In highways and streets department, the expenditures exceeded appropriations by $2,552. This excess was due to unforeseen necessary sidewalk repairs not included in the budget. The General Fund also had expenditures for transfers to other funds in the amount of $83,578 that were not included in the budget. This represents allocation of salaries to the Water Fund that were not originally included in the budget to be transferred.

3. DEPOSITS

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. As of June 30, 2012, the City had no bank balance that was exposed to custodial credit risk.

4. RECEIVABLES

Property tax revenues are recognized when levied to the extent that they result in current receivables. Property taxes levied each year are based on values as of January 1st and are due within 60 days of the levy date. The City's property tax calendar for the 2011 levy is as follows:

Levy date	October 1st
Due date	December 31st
Delinquent date	February 28th

There is no lien date established.

Accounts receivable in the Water Fund are stated at gross amounts receivable less an allowance for estimated uncollectible amounts, if material. The allowance is computed as a percentage of the revenue at year end based primarily on the age of the indebtedness. The allowance for uncollectible accounts for water receivables at June 30, 2012 amounted to $1,189. Accounts receivable includes unbilled receivables totaling $18,879 at June 30, 2012.

5. CAPITAL ASSETS

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 200,837	$ -	$ -	$ 200,837
Total capital assets not being depreciated	200,837	-	-	200,837
Capital assets being depreciated:				
Buildings and improvements	122,348	31,503	-	153,851
Infrastructure	937,838	-	-	937,838
Machinery and equipment	35,777	-	-	35,777
Office furniture	2,486	-	-	2,486
Total capital assets being depreciated	1,098,449	31,503	-	1,129,952
Less accumulated depreciation:				
Buildings and improvements	33,919	3,460	-	37,379
Infrastructure	181,749	31,261	-	213,010
Machinery and equipment	30,391	1,686	-	32,077
Office furniture	2,150	55	-	2,205
Total accumulated depreciation	248,209	36,462	-	284,671
Total capital assets being depreciated, net	850,240	(4,959)	-	845,281
Governmental activities capital assets, net	$ 1,051,077	$ (4,959)	$ -	$ 1,046,118

Business-type activities:				
Capital assets not being depreciated:				
Land	$ 41,219	$ -	$ -	$ 41,219
Construction in progress	774,143	-	774,143	-
Total capital assets not being depreciated	815,362	-	774,143	41,219
Capital assets being depreciated:				
Buildings and improvements	16,539	-	-	16,539
Equipment and vehicles	229,196	-	-	229,196
Water infrastructure	4,512,035	874,493	-	5,386,528
Total capital assets being depreciated	4,757,770	874,493	-	5,632,263
Less accumulated depreciation:				
Buildings and improvements	8,458	971	-	9,429
Equipment and vehicles	99,730	13,845	-	113,575
Water infrastructure	1,169,331	111,449	-	1,280,779
Total accumulated depreciation	1,277,519	126,265	-	1,403,783
Total capital assets being depreciated, net	3,480,251	748,228	-	4,228,480
Business-type activities capital assets, net	$ 4,295,613	$ 748,228	$ 774,143	$ 4,269,699

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

Governmental activities:	
General government	$ 4,363
Public works	32,099
	$36,462
Business-type activities:	
Water	$126,265
	$126,265

6. INTERFUND BALANCES AND ACTIVITY

A. TRANSFER TO/FROM OTHER FUNDS

Transfers between funds consisted of the following at year end:

Transfers In	Transfers Out	Amount
General Fund	Water Fund	$133,145
General Fund	SPLOST Fund	31,503
Water Fund	General Fund	83,578
Water Fund	SPLOST Fund	225,174
SPLOST Fund	Water Fund	109,330
		$582,730

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) provide unrestricted revenues collected in the General Fund to finance various programs accounted for in accordance with budgetary authorizations.

7. CLASSIFICATIONS OF EQUITY

Nonspendable – The following fund balances are nonspendable because they are allocated to:

General Fund:	
Prepaid items	$ 8,298

Restricted – The following fund balances are restricted for:

Capital Projects Fund:

SPLOST Fund – used to account for capital projects financed with SPLOST tax revenues. $510,969

8. LONG-TERM OBLIGATIONS

Business Type Activities

Notes Payable:

The following notes payable had outstanding balances at June 30, 2012:

Georgia Environmental Facilities Authority, infrastructure construction, payable in monthly installments of $10,119, including interest at 5.56%. Original balance $1,464,000, matures in May 2023. $ 991,923

Georgia Environmental Facilities Authority, infrastructure construction, monthly installments of $2,046, including interest rate of 3%. Original balance $369,000, matures in February 2032. 364,487

1,356,410

Less current portion of debt (81,887)

$1,274,523

Payments of principal and interest related to the above notes payable for the next five years and until maturity are as follows:

	Principal	Interest	Total
2013	$ 81,887	$ 64,102	$ 145,989
2014	86,100	59,889	145,989
2015	90,632	55,357	145,989
2016	95,345	50,644	145,989
2017	100,510	46,479	145,989
2018 – 2022	588,031	141,914	729,945
2023 – 2027	207,185	26,791	233,976
2028 – 2032	106,720	7,785	114,601
	$1,356,410	$ 452,961	$ 1,808,467

The following represents the changes in long-term debt from the previous year:

	Beginning Balance	Additions	Reductions	Adjustments	Ending Balance	Amounts Due in One Year
Governmental Activities:						
Compensated absences	$ 1,280	$ -	$ 1,280	$ -	$ -	$ -
Business-Type Activities:						
Notes payable	$ 1,316,000	$109,330	$ 68,838	$ (82)	$ 1,356,410	$ 81,887

Long-term liabilities such as compensated absences are liquidated by the fund to which the liability is related. Reductions shown above in governmental activities were liquidated by General Fund. Reductions shown above in business-type activities were liquidated by Water Fund.

9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and workers compensation for which the City carries the insurance coverage. There were no significant

reductions of insurance coverage compared to the prior year. Settled claims have not exceeded the commercial excess coverage in any of the past three years.

Risk Pools

The City has joined the Georgia Interlocal Risk Management Agency Property and Liability Insurance Fund (GIRMA). Insurance coverage and deductible options for property, casualty and crime under the policy are selected by the City's management based on anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed by GIRMA, as well as following loss reduction and prevention procedures established by GIRMA. GIRMA's responsibility includes paying claims and representing the City in defense and settlement of claims. GIRMA's basis for establishing the liabilities for unpaid claims is "IBNR" established by an actuary. The City has not compiled a record of claims paid up to the applicable deductible for the prior or the current fiscal year. The City is unaware of any claims for which the City is liable (up to the applicable deductible) which were outstanding and unpaid at June 30, 2012. No provisions have been made in the financial statements for the year ended June 30, 2012 for any estimate of potential unpaid claims.

The City has elected to be a member of the Georgia Municipal Association Worker's Compensation Self-Insurance Fund (GMAWCSIF), a risk management agency created under Georgia law. As a participant in the GMAWCSIF, the City has no legal obligation to pay its own worker's compensation claims. The City is required to make an annual contribution to the fund in an amount that is determined on the basis of actuarial projections of losses. With payment of the City's annual contribution, the City has effectively transferred the risk and responsibility for payment of its worker's compensation claims. However, the enabling statute creating the GMAWCSIF permits the fund to levy an assessment upon its members to make up any deficiency the fund may have in surplus of revenues. No amount has been recorded in the financial statements for this contingency, as management believes the likelihood for assessment is remote.

Self Insurance

The City pays unemployment claims to the state department of labor on a reimbursement basis. There were no liabilities for such claims at June 30, 2012.

10. RETIREMENT PLANS

Plan Description. The City sponsors the City of Waleska Retirement Plan (CWRP) (the "Plan") for the City's employees, which is a defined benefit plan. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Plan, through execution of the adoption agreement, is affiliated with the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer pension plan administered by the Georgia Municipal Association. The GMEBS assigns the authority to establish and amend the benefit provisions of the plans that participate in GMEBS to respective employer entities. The GMEBS issues a publicly available financial report that includes the financial statements and required supplementary information for GMEBS-Retirement Trust Fund. That report may be obtained by writing to Georgia Municipal Association, 201 Pryor Street, SW, Atlanta, GA 30303.

Membership of the Plan. Participants as of January 1, 2012 (the most recent actuarial date) are shown below.

Plan Membership:	
Retirees and beneficiaries	1
Terminated plan members entitled but not yet receiving benefits	2
Active plan members	2
	5

Funding Policy. City employees are not required to contribute to the plan. Only the City, as employer, makes contributions to the plan. The funding policy for the plan is to contribute an amount each year equal to the actuarially determined recommended contribution. The recommended contribution meets the guidelines for calculating an

annual required contribution set forth in Paragraphs 9 – 10 of GASB Statement No. 27. Employees become eligible after the first full year of employment and become vested in the plan after five years of service. The contribution requirements of plan members and the City are established and may be amended by the GMEBS Board of Trustees.

Annual Pension Cost. Based on results of the January 1, 2011 actuarial valuation, the City's annual pension cost of $7,314 was equal to the recommended and actual contribution. The City's recommended contribution was calculated at an actuarially determined rate of 5.81% of covered payroll. Covered payroll for the plan period was $123,682. Current year total payroll was $126,609.

Actuarial Assumptions for Basis of Valuation.

Current Valuation Date	January 1, 2012
Annual Return on Invested Plan Assets	7.75%
Projected Annual Salary Increases	3.50% plus age and service based merit increases
Cost of Living Adjustments	0.00%
Actuarial Value of Assets	Sum of actuarial value at the beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value at the end of the year. The actuarial value is adjusted, if necessary, to be within 50% of market value for 2009, 44% of market value for 2010, 38% of market value for 2011, 32% of market value for 2012, 26% of market value for 2013, and 20% of market value for 2014 and later years.
Actuarial Cost Method	Projected unit credit
Amortization Method	Closed level dollar for remaining unfunded liability
Remaining Amortization Period	N/A

Three Year Schedule of Employer Contributions

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1-1-2011	$7,314	100%	$-
1-1-2010	$5,827	100%	$-
12-31-10	$3,699	100%	$-

Funding Schedule for Most Recent Valuation Date

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1-1-2012	$41,363	$23,632	$(17,731)	175.03%	$70,000	0.00%

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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of January 1, 2012.

Deferred Compensation Plan

The City, in past years, offered to the employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is considered to be a defined contribution plan. The plan is closed and the City's current employees are not permitted to make contributions. The former employees covered under this Section 457 plan have not elected to receive their compensation; therefore, the plan still has assets.

In accordance with Section 457 of the Internal Revenue Code, plan assets are held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the assets and liabilities of the deferred compensation plan are not included in the financial statements.

11. JOINT VENTURE

The City, in conjunction with other cities and counties in the Metro Atlanta area are members of the Atlanta Regional Commission (ARC). Membership in ARC 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 RDCs, and was amended in 2008 to consolidate the existing RDC's into fewer larger organizations called Regional Commissions (RC). Each county and municipality in the state is required by law to pay minimum annual dues to the RC. The City did not pay annual dues to the RC for during this fiscal year because currently all dues are paid on the City's behalf by Cherokee County. The RC Board membership includes the chief elected official of each county and the chief elected official of the largest municipality in each county. The county board members elect one member of the Board who is a resident (but not an elected or appointed official or employee of the County or municipality) to serve as the non-public Board member from a county.

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RDC's (later transferred to RC'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 RC beyond its resources, (O.C.G.A. 50-8-39.1). Complete financial statements of the Atlanta Regional Commission can be obtained directly from their office:

Atlanta Regional Commission
40 Courtland Street, NE
Atlanta, GA 30303-2538

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WALESKA, GEORGIA
SCHEDULE OF FUNDING PROGRESS FOR THE
CITY OF WALESKA RETIREMENT PLAN
For the Fiscal Year Ended June 30, 2012

Funded Status

The table below sets forth required supplementary information to be disclosed in the schedule of funding progress. The items presented are based on the actuarial valuation date:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (ALL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/12	$41,363	$23,632	$(17,731)	175.03%	$ 70,000	0.00%
1/1/11	$36,634	$31,927	$(4,707)	114.7%	$ 123,682	0.00%
1/1/10	$33,951	$23,844	$(10,107)	142.4%	$ 87,776	0.00%
3/1/09	$26,163	$19,907	$(6,256)	131.4%	$ 57,616	0.00%

Effect of plan changes on the actuarial accrued liability

The effect on the actuarial accrued liability of any current-year changes in actuarial assumptions or benefit provisions is:

> The plan provisions valued and the actuarial assumptions are the same as those used in the preceding valuation.

Effect of plan changes on recommended contributions

The effect on the recommended contributions of any current-year changes in actuarial assumptions, benefit provisions or actuarial funding method is:

> The plan provisions valued and the actuarial assumptions and cost methods are the same as those used to determine the contribution requirement for the preceding year.

See actuarial assumptions used, disclosed in Note 10 to the financial statements.

OTHER SUPPLEMENTARY INFORMATION

CITY OF WALESKA, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
For the Fiscal Year Ended June 30, 2012

	Estimated Cost		Expenditures			
Project	Original	Current	Prior Years	Current Year	Total	Estimated % of Completion
SPLOST II						
Water system improvements, including debt retirement	$ 1,464,000	$ 1,464,000	$ 1,490,587	$ -	$ 1,490,587	100.00%
Roads, streets and sidewalks	136,000	136,000	326,083	-	326,083	100.00%
	$ 1,600,000	$ 1,600,000	$ 1,816,670	$ -	$ 1,816,670	
SPLOST III						
Water system improvements, including debt retirement	$ 1,269,000	$ 1,269,000	$ 1,235,681	$ 290,709	$ 1,526,390	100.00%
Public facilities:						
Roads, streets and sidewalks	-	-	59,098	-	59,098	100.00%
Land	-	-	198,422	31,503	229,925	100.00%
	$ 1,269,000	$ 982,482	$ 1,477,974	$ 322,212	$ 1,800,186	
GRAND TOTALS	**$ 2,869,000**	**$ 2,582,482**	**$ 3,294,644**	**$ 322,212**	**$ 3,616,856**	

Note A: The SPLOST Schedule has been prepared on the modified accrual basis of accounting

INTERNAL CONTROL AND COMPLIANCE

WELCH WALKER
& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

489 HIGHLAND CROSSING SUITE #208
EAST ELLIJAY, GA 30540
PH (706) 515-2000 FAX (706) 515-2011

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

Honorable Doris Ann Jones, Mayor

and Members of the City Council

City of Waleska, Georgia

We have audited the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Waleska ,Georgia, as of and for the year ended June 30, 2012, which collectively comprise the City of Waleska's basic financial statements and have issued our report thereon dated January 18, 2013. 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

Management of the City of Waleska is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Waleska's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Waleska's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Waleska's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses 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 certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Waleska'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 the following instance of noncompliance that is required to be reported under *Government Auditing Standards*. The

State of Georgia Official Code Annotated Section36-81-3 requires the City to operate under a balanced budget for each fund. The SPLOST fund budget did not balance since its revenues exceeded expenditures by $102,382.

We noted certain matters that we reported to management of City of Waleska, in a separate letter dated January 18, 2012.

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

Waleska, Georgia
January 18, 2012

CITY OF WALESKA

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

2012-01 – Segregation of Duties

Criteria: Segregation of employees' duties is a common practice in an effective internal control structure. Policies should be in place requiring the segregation of certain duties.

Condition/Context: During the course of our testing procedures, we noted several areas in which the segregation of duties could be improved. Ideally, the duties of cash handling and bookkeeping should be segregated in order to prevent those handling cash from having access to the accounting records. Also, the duties of posting detailed transactions to the general ledger system should be segregated from other functions, such as cash reconciliation, accounts receivable, accounts payable and/or purchasing.

Effect: Without segregation of duties within these functions, there is increased exposure that City assets could be intentionally or unintentionally misappropriated.

Cause: The limited number of employees involved in these functions and the resulting overlapping of duties causes segregation of duties to be difficult.

Recommendation: We recommend the City continue their efforts in the design of their internal controls in order to operate with effective segregation of duties. Having adequate segregation of duties will ensure the proper recording and recognition of accounting transactions and will lessen the potential for misappropriation of City assets.

Response: This is a reoccurring item. Due to the size of the City's administration, total segregation of duties is not practical at this time. The City Council will continue to be closely involved in financial reporting and will continue to provide oversight as practical in order to mitigate risk of misappropriation of assets.

CITY OF WALESKA

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

2012-02 – Material Adjustments and Maintenance of General Ledger

Criteria: The City is responsible for preparing annual financial statements in accordance with generally accepted accounting principles (GAAP). Timely recording transactions on an accrual basis/modified accrual basis is in accordance with GAAP and provides more meaningful financial information.

Condition/Context: Although the year-end financial statements are prepared on the appropriate accrual/modified basis, the City maintains its general ledger on a cash basis throughout the year. Accrual entries for revenue, receivable, expenditures, payables and other general ledger account adjustments are posted only at year end. Reconciliations are not reconciled on a timely basis.

Effect: Failure to properly account for and reconcile revenue, receivables, expenditures, payables and other general ledger transactions could distort financial information provided to management and the City Council, and could result in critical financial decisions being made in consideration of incomplete data.

Cause: Routine preparation of reconcilements of detailed account balances within the general ledger is not being performed due to limited available personnel.

Recommendation: We recommend that the general ledger account balances be reconciled on a timely routine basis. We understand that reconciliation procedures to maintain the City's general ledger on the accrual/modified accrual basis throughout the year can be a time consuming task. However, this practice would enable the City to prepare properly adjusted accrual financial statements for yearend accounting and more easily produce interim financial statements for monthly reporting to management.

Response: The City agrees with this finding and will implement procedures for the maintenance and reconciliation of general ledger account balances prior to year end as well as timely reconciling asset accounts.