

CITY OF LAVONIA, GEORGIA

Annual Financial Report

For the year ended December 31, 2012

This page intentionally left blank.

CITY OF LAVONIA, GEORGIA
FINANCIAL REPORT
For the year ended December 31, 2012

TABLE OF CONTENTS

INTRODUCTORY SECTION:

Page(s)

Table of Contents

i-v

FINANCIAL SECTION:

Independent Auditor's Report

1-3

Management's Discussion and Analysis

4-14

BASIC FINANCIAL STATEMENTS

Exhibit

Government-wide Statements

A-1 Statement of Net Position

15-16

A-2 Statement of Activities

17

Fund Financial Statements

A-3 Balance Sheet – Governmental Funds

18

A-4 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

19

A-5 Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

20

A-6 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

21

A-7 Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (GAAP Basis) to Actual – General Fund

22-23

A-8 Statement of Net Position – Proprietary Funds

24

A-9 Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds

25

A-10 Statement of Cash Flows – Proprietary Funds

26-27

A-11 Statement of Fiduciary Assets and Liabilities

28

CITY OF LAVONIA, GEORGIA
FINANCIAL REPORT
For the year ended December 31, 2012

Table of Contents, continued

BASIC FINANCIAL STATEMENTS, continued

<u>Exhibit</u>		<u>Page(s)</u>
A-12	Notes to the Financial Statements	29-59
	Item #	Page #
	1. Description of Government Unit	29
	2. Summary of Significant Accounting Policies	29-42
	3. Deposit and Investment Risk	42-43
	4. Accounts Receivable	43
	5. Intergovernmental Receivables	44
	6. Taxes Receivable	44-45
	7. Interfund Receivables, Payables, and Transfers	45-46
	8. Capital Assets	47-48
	9. Capital and Operating Lease Agreements	49
	10. Long-Term Debt	50-51
	11. Conduit Debt	51
	12. Changes in Beginning Balances	52
	13. Pension Plan	52-55
	14. Post Employment Life Insurance Benefits	56
	15. Hotel/Motel Lodging Tax	56
	16. Joint Ventures	57
	17. Related Organizations	57
	18. Risk Management	58
	19. Commitments and Contingencies	59

SUPPLEMENTARY INFORMATION

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

<u>Exhibit</u>		<u>Page (s)</u>
B-1	Combining Balance Sheet – Nonmajor Governmental Funds	60
B-2	Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	61

CITY OF LAVONIA, GEORGIA
FINANCIAL REPORT
For the year ended December 31, 2012

Table of Contents, continued

SUPPLEMENTARY INFORMATION, continued

**COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES,
continued**

<u>Exhibit</u>		<u>Page (s)</u>
	GENERAL FUND	
C-1	Comparative Balance Sheets	62
C-2	Comparative Statements of Revenues, Expenditures and Changes in Fund Balances	63
C-3	Schedule of Revenues - Budget (GAAP Basis) and Actual	64
C-4	Schedule of Expenditures - Budget (GAAP Basis) and Actual	65-67
	SPECIAL REVENUE FUNDS	
D-1	Confiscated Assets Special Revenue Fund Comparative Balance Sheets	68
D-2	Confiscated Assets Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (GAAP Basis) and Actual	69
D-3	Hotel/Motel Tax Special Revenue Fund Comparative Balance Sheets	70
D-4	Hotel/Motel Tax Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (GAAP Basis) and Actual	71
D-5	Revolving Loan Special Revenue Fund Comparative Balance Sheets	72
D-6	Revolving Loan Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (GAAP Basis) and Actual	73
	CAPITAL PROJECTS FUNDS	
E-1	2004 Special Purpose Local Option Sales Tax Capital Projects Fund Comparative Balance Sheets	74
E-2	2004 Special Purpose Local Option Sales Tax Capital Projects Fund Comparative Statements of Revenues, Expenditures, and Changes in Fund Balances	75
E-3	2010 Special Purpose Local Option Sales Tax Capital Projects Fund Comparative Balance Sheets	76
E-4	2010 Special Purpose Local Option Sales Tax Capital Projects Fund Comparative Statements of Revenues, Expenditures, and Changes in Fund Balances	77

CITY OF LAVONIA, GEORGIA
FINANCIAL REPORT
For the year ended December 31, 2012

Table of Contents, continued

SUPPLEMENTARY INFORMATION, continued

**COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES,
continued**

<u>Exhibit</u>	<u>Page (s)</u>
ENTERPRISE FUNDS	
F-1 Water and Sewer Enterprise Fund Comparative Statements of Net Position	78-79
F-2 Water and Sewer Enterprise Fund Comparative Statements of Revenues, Expenses and Changes in Net Position	80
F-3 Water and Sewer Enterprise Fund Comparative Statements of Cash Flows	81-82
F-4 Solid Waste Enterprise Fund Comparative Statements of Net Position	83
F-5 Solid Waste Enterprise Fund Comparative Statements of Revenues, Expenses and Changes in Net Position	84
F-6 Solid Waste Enterprise Fund Comparative Statements of Cash Flows	85
AGENCY FUND	
G-1 Municipal Court Agency Fund Comparative Statements of Assets and Liabilities	86
G-2 Municipal Court Agency Fund Statement of Changes in Assets and Liabilities	87
COMPONENT UNIT	
H-1 Downtown Development Authority Comparative Balance Sheets	88
H-2 Downtown Development Authority Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (GAAP Basis) and Actual	89

CITY OF LAVONIA, GEORGIA
FINANCIAL REPORT
For the year ended December 31, 2012

Table of Contents, continued

SUPPLEMENTARY INFORMATION, continued

SINGLE AUDIT SECTION

<u>Exhibit</u>		<u>Page (s)</u>
	Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	90-91
	Independent Auditor's Report on Compliance with Requirements Applicable to Each Major program and Internal Control over Compliance in Accordance with OMB Circular A-133	92-93
I-1	Schedule of Expenditures of Federal Awards	94
I-2	Notes to the Schedule of Expenditures of Federal Awards	95
I-3	Schedule of Findings and Questioned Costs	96-97

STATE REPORTING SECTION

J-1	Schedule of Projects Financed with Special Purpose Local Option Sales Tax	98
-----	---	-----------

This page intentionally left blank.

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Lavonia, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lavonia, Georgia, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lavonia, Georgia, as of December 31, 2012, and the respective changes in the financial position and cash flows, where applicable, and the budgetary comparison of the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lavonia, Georgia's, basic financial statements as a whole. The combining and individual fund financial statements and schedules, and the special purpose local option sales tax report are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The combining and individual fund financial statements and schedules, the special purpose local option sales tax report, and the schedule of expenditures of federal awards 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules, the special purpose local option sales tax report, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States, the City of Lavonia, Georgia's basic financial statements for the year ended December 31, 2011, which are not presented with the accompanying financial statements. In our report dated April 12, 2012, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lavonia's basic financial statements as a whole. The individual fund financial statements and schedules related to the 2011 financial statements are presented for the purposes of additional analysis and are not a required part of the financial statements.

The individual fund financial statements and schedules related to the 2011 financial statements are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the 2011 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2011 individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2013 on our consideration of the City of Lavonia, Georgia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Rushton & Company, LLC

Certified Public Accountants

Gainesville, Georgia
April 16, 2013

This page intentionally left blank.



CITY OF LAVONIA

"A GEORGIA CITY OF EXCELLENCE"

12221 Augusta Road • P.O. Box 564
Lavonia, GA 30553



Office: (706) 356-8781
Fax: (706) 356-4694
Website: lavonia-ga.com

RALPH M. OWENS

Mayor

City Manager

GARY M. FESPERMAN

Mayor Pro tem

DAVID HOWELL

Council Members

DONALD CANADY

EDDIE FLOYD

HAROLD HARBIN

DAVID HOWELL

City Clerk

ANGELA V. GREER

Assistant City Clerk

SUSAN GORMAN

Utility Billing Clerk

AMY RATCLIFFE

HR Director

CHERYL HUMBERT

Water Superintendent

JAMES MOSELEY

Street Superintendent

RODNEY ANDREWS

Attorney

JOHN DICKERSON

Police Chief

BRUCE CARLISLE

Municipal Court Judge

FRANK GEORGE

Fire Chief

ROBERT C. WHITE

Better Hometown Director

MARIE MORSE

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lavonia, it is our pleasure to present this narrative discussion and analysis of the City of Lavonia's financial performance, providing an overview of the activities for the year ended December 31, 2012. The purpose of this narrative is to provide readers of financial statements with information that will help them make timely and meaningful financial decisions or draw conclusions about the City of Lavonia. This analytical information is designed to be read in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The City of Lavonia's assets exceeded its liabilities at December 31, 2012, by \$17,825,914. (reported as *net position*).
- As of December 31, 2012, Lavonia's governmental funds reported combined ending fund balances of \$3,865,682. Approximately 82% of this total amount, \$3,161,680, is available for spending at the City Council's discretion (unassigned fund balance of the General Fund).

More detailed information regarding these activities and funds begins on page 8.

Overview of the Financial Statements

This discussion and analysis narrative is intended to serve as an introduction to the City of Lavonia's basic financial statements. The City of Lavonia's basic financial statements are composed of three elements: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains required supplementary information in addition to our basic financial statements.

Government-wide Financial Statements (Reporting the City as a whole)

The focus of the government-wide financial statements is on the overall financial position and activities of the City of Lavonia and is designed to provide readers with a broad overview of the City's financial activities in a manner similar to a private business enterprise.

The purpose of the **Statement of Net Position** (pages 15-16) is to attempt to report all of the assets held and liabilities owed by the City. The City reports all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. The difference between the total assets and total liabilities is labeled *net position*. Although the purpose of the City is not to accumulate net position, in general, as this amount increases it indicates that the financial position of the City is improving over time.

The **Statement of Activities** (page 17), on the other hand, presents the revenues and expenses of the City. Under the accrual basis of accounting mentioned earlier, revenues are recognized when earned and expenses when incurred in this statement. Thus, revenues are reported even when they may not be collected for several weeks after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period. The difference is described as *change in net position*. The primary focus of the Statement of Activities is on the *net cost* of various activities provided by the City and identifies the extent to which each function of the City draws from general revenues or is self-financing through fees, grants, or other sources.

In the Statement of Net Position and the Statement of Activities, we divide the City of Lavonia into three types of activities:

- **Governmental activities** – Most of the City's basic services are reported under this category, including police, fire, public works, and general administration. Sales tax, property taxes, and intergovernmental revenues finance most of these services.
- **Business-type activities** – The City charges fees to customers to assist in covering all or most of the cost for certain services it provides. The City's water and sewer system and garbage collection fees are reported in this category.
- **Discretely Presented Component Unit** – Component units are legally separate organizations for which the elected officials of the City are financially accountable. The Downtown Development Authority, although legally separate, functions for all practical purposes as a department of the City of Lavonia, and therefore has been included as an integral part of the primary government.

The City's government-wide financial statements are presented on pages 15-17.

Fund Financial Statements (Reporting the City's Major Funds)

The focus of fund financial statements is directed to specific activities of the City and its most significant funds, not the City as a whole. A fund is an entity with a self-balancing set of accounts that the City uses to track specific resources and expenditures, either for management purposes or because of legal mandates. In addition to the major funds, individual fund data for the City's non-major funds can be found beginning on page 60. The City's funds are divided into three broad categories – governmental, proprietary, and fiduciary – and use different accounting approaches.

- **Governmental Funds** – These funds account for essentially the same functions reported as governmental activities in the government-wide financial statements; however, governmental fund financial statements focus on the short-term view of the City's general government operations and the basic services it provides. Governmental funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

Because the focus of the governmental fund financial statements is narrower than that of the government-wide financial statements and because of the different accounting methods used to prepare them, there are often significant differences between the totals presented in these financial statements. It is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. An analysis of the balance sheet and the statement of revenues, expenditures, and changes in fund balances that reconciles the two statements are provided at the bottom of each statement.

In addition to the General Fund and 2010 SPLOST Capital Projects Fund, which are reported as major funds, the City of Lavonia maintains two governmental fund types:

1. Special Revenue Funds
2. Capital Projects Funds

The City of Lavonia adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The City's basic governmental fund financial statements are presented on pages 18-23 of this report.

- **Proprietary Funds** – When the City charges customers for the services it provides – whether to outside customers or to other departments of the City – these services are generally reported in proprietary funds. These proprietary funds are prepared using the same accounting basis as the government-wide financial statements.

Enterprise fund statements report the same functions presented in the business-type activities columns of the government-wide financial statements. The City of Lavonia uses enterprise funds to account for its Water and Sewer system, and Solid Waste functions, which are reported as major funds.

The City's proprietary fund financial statements are presented on pages 24-27.

- **Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Lavonia's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City acts as a trustee or fiduciary for the Municipal Court Agency Fund.

Fiduciary funds are presented in the fund financial statements but are not reported in the government-wide financial statements.

The City's fiduciary fund Statement of Assets and Liabilities is presented on page 28.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-59 of this report.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds. These funds are added together by fund type and presented in single columns in the basic financial statements but are not reported individually, as with major funds, on the government-wide financial statements.

This report includes two schedules (pages 19 and 21) which reconcile the amounts reported on the governmental fund financial statements (modified accrual basis of accounting) with the governmental activities reported on the government-wide financial statements (accrual basis of accounting). The following summarizes the impact of transitioning from modified accrual to accrual accounting:

- Capital assets used in governmental activities on the government-wide statements are not reported on fund financial statements.
- Certain tax revenues that are earned, but not available, are reported as revenue on the government-wide statement but are reported as deferred revenue on the fund statements.
- Unless due and payable, long-term liabilities, such as lease obligations, compensated absences, bonds and notes payable, and others only appear as liabilities in the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the governmental fund financial statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements but are reported as expenditures on the governmental fund financial statements.

Overview of the City's Financial Position and Operations

The City's overall financial position and operations for this year is summarized as follows based on the information included in the government-wide financial statements (see pages 15-17):

City of Lavonia Net Position As of December 31, 2012 and 2011

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current assets	\$ 4,015,945	\$ 3,538,305	\$ 1,187,197	\$ 1,444,988	\$ 5,203,142	\$ 4,983,293
Capital assets	4,259,817	4,175,782	11,093,069	10,317,177	15,352,886	14,492,959
Other noncurrent assets	0	294,150	0	0	0	294,150
Total assets	8,275,762	8,008,237	12,280,266	11,762,165	20,556,028	19,770,402
Current liabilities	252,103	175,210	244,513	331,253	496,616	506,463
Noncurrent liabilities	97,919	120,037	2,135,578	2,181,390	2,233,497	2,301,427
Total liabilities	350,022	295,247	2,380,091	2,512,643	2,730,113	2,807,890
Net Position						
Net investment in capital assets	4,118,334	4,034,498	8,895,275	8,092,096	13,013,609	12,126,594
Restricted	626,355	561,354	103,246	101,655	729,601	663,009
Unrestricted	3,181,051	3,117,138	901,653	1,055,771	4,082,704	4,172,909
Total net position	\$ 7,925,740	\$ 7,712,990	\$ 9,900,174	\$ 9,249,522	\$ 17,825,914	\$ 16,962,512

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Assets for the City of Lavonia exceeded liabilities by \$17,825,914 at the close of the current year. However, much of the net position either is restricted as to the purposes for which it can be used, or are invested in capital assets.

The largest portion (72%) of the City of Lavonia's net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, infrastructure), less any related debt outstanding that was needed to construct or acquire the assets. The City uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

In addition, the surplus in governmental net position was positively affected by a noticeable increase in capital grants due to the release of 2010 SPLOST funds by Franklin County. Expenses for governmental activities were down 6% and business-type activities were up 7% from 2011.

Although the net position of our business-type activities represents 55% (\$9,900,174) of total net position, these resources cannot be used to add to the net asset surplus in governmental activities. The City generally can only use the net position to finance the continuing operations of the business-type activities.

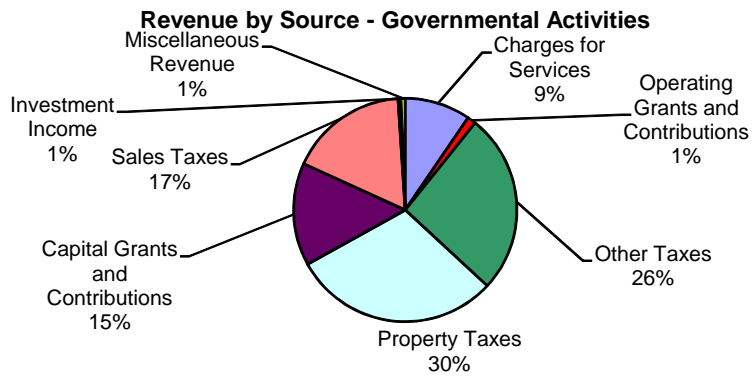
The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the City of Lavonia's net position changed during the year.

City of Lavonia
Changes in Net Position
For the years ending December 31, 2012 and 2011

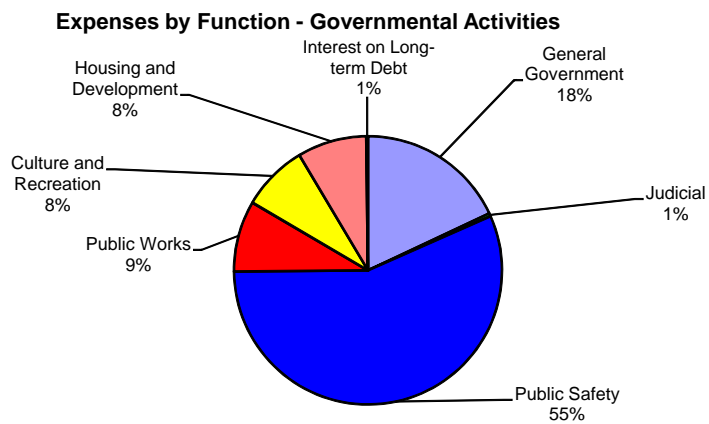
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$ 252,871	\$ 170,424	\$ 2,259,067	\$ 2,490,761	\$ 2,511,938	\$ 2,661,185
Operating grants and contributions	33,863	37,472	0	0	33,863	37,472
Capital grants and contributions	396,566	121,291	791,044	361,730	1,187,610	483,021
General revenues:						
Property taxes	799,744	804,587	0	0	799,744	804,587
Sales tax	455,857	441,246	0	0	455,857	441,246
Other taxes	695,297	676,291	0	0	695,297	676,291
Investment income	11,328	25,081	1,281	4,572	12,609	29,653
Miscellaneous revenue	30,399	23,793	22,688	34,714	53,087	58,507
Total revenues	2,675,925	2,300,185	3,074,080	2,891,777	5,750,005	5,191,962
Expenses						
General Government	428,187	421,885	0	0	428,187	421,885
Judicial	8,352	8,272	0	0	8,352	8,272
Public Safety	1,356,392	1,266,538	0	0	1,356,392	1,266,538
Public Works	203,452	420,537	0	0	203,452	420,537
Culture and Recreation	190,268	186,908	0	0	190,268	186,908
Housing and Development	198,461	218,973	0	0	198,461	218,973
Interest on long-term debt	5,029	5,897	0	0	5,029	5,897
Water and sewer	0	0	2,139,486	1,982,460	2,139,486	1,982,460
Solid Waste	0	0	356,976	340,267	356,976	340,267
Total expenses	2,390,141	2,529,010	2,496,462	2,322,727	4,886,603	4,851,737
Increase (decrease) in net position before transfers	285,784	(228,825)	577,618	569,050	863,402	340,225
Transfers	(73,034)	(41,418)	73,034	41,418	0	0
Increase (decrease) in net assets	212,750	(270,243)	650,652	610,468	863,402	340,225
Net position - beginning	7,712,990	7,983,233	9,249,522	8,639,054	16,962,512	16,622,287
Net position - ending	\$ 7,925,740	\$ 7,712,990	\$ 9,900,174	\$ 9,249,522	\$ 17,825,914	\$ 16,962,512

Governmental Activities –

The following chart depicts revenues of the governmental activities for the year:



The following chart depicts the expenses of the governmental activities for the year:



Business-type Activities –

Business-type activities increased the City of Lavonia's net position by \$650,652; this is \$40,184 more than the increase in net position for 2011. The key elements of this increase are:

- FY2012 operating income decreased by \$404,977 from FY2011 due to decreased customer usage in 2012. Capital grants in FY2012 increased by \$429,314 due to grant received in conjunction with system expansions for the Ty Cobb Medical Center.

Financial Analysis of the City's Funds

As noted earlier, the City of Lavonia uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Lavonia's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As the City completed this year, its governmental funds reported a combined ending fund balance of \$3,865,682. Of this amount, \$3,161,380 (82%) constitutes unassigned fund balance, meaning no constraints have been placed on how this money may be spent. The General Fund is the only governmental fund that can have positive unassigned fund balance. The remainder of fund balance is either nonspendable, restricted by a third party or assigned for a specific purpose, including the 2013 budget.

The **General Fund** is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the General Fund was \$3,161,680, while total fund balance was \$3,182,601. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 154% of total General Fund expenditures, while total fund balance represents 155% of that same amount.

General Fund Budget Highlights

The original budget for the General Fund was amended by various appropriations approved after the beginning of the year. In addition, Council approved several adjustments to prevent budget overruns.

Adjustments to the General Fund Revenue: Several adjustments were made to the General Fund revenue where revenue exceeded the budget to help offset the expenditure amendments:

- Systems Contributions of \$56,088 to reimburse for street repairs on Lauren Drive.
- Municipal Court Fees of \$19,500.

Adjustments to the General Fund Expenditures: Adjustments were made from one department to another department to prevent budget overruns:

- An additional employee position left vacant in 2011 was filled in 2012 and additional computer equipment for several patrol vehicles was purchased thereby necessitating an increase of \$67,850.
- A reimbursement street program for Lauren Drive located behind Hardee's Restaurant resulted in a \$46,900.
- A Crematory Section was added in the Burgess Cemetery which resulted in a \$7,500 adjustment.
- An additional Solid Waste transfer from the General Fund of \$49,500 was needed to offset equipment purchases and leaf and limb pickup costs.
- The budgeted General Fund Contingency was reduced by \$67,000.

It is anticipated that the General Fund will see only a slight increase in revenues in 2013 due to an increase in Local Option Sales Tax, Building Permits, and Franchise Tax categories which should offset any additional loss of property tax revenue. Therefore, the City will continue to hold the line with operating budgets, employee positions and salary increases to help insure that the General Fund reserve balance remains positive.

Proprietary Funds

The City of Lavonia's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net position of the City's two proprietary funds totaled as follows:

▪ Water and Sewer	\$ 9,900,174
▪ Solid Waste	\$ 0

The total increase in net position for both funds was \$650,652. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

Capital Assets and Debt Administration

Capital Assets. The City of Lavonia has invested \$15,352,886 in capital assets (net of accumulated depreciation). Capital assets include infrastructure, land, buildings, and machinery and equipment. Approximately 72% of this investment is related to business-type activities and approximately 28% relates to governmental activities.

During 2012, the City invested \$1,478,124 in new capital assets. Major capital asset events during the current year included the following:

Business-type Activities 2012

2012 Ford 15 Passenger Van	\$ 24,119
Office equipment	4,092
Lift station upgrades	84,094
Lake Hartwell Raw Water Intake upgrade	19,026
Watershed Management Plan required by Georgia EPD	5,105
Ty Cobb Regional Medical Ctr trunkline	120,130
Water Plant upgrade Ty Cobb Regional Medical Ctr	956,321
	<hr/>
	\$ 1,209,774
	<hr/>

Governmental Activities 2012

Lavonia Depot renovation project	\$ 234,217
Welcome Center furniture	6,574
Four Police Department cars and equipment	108,971
Repairs to City Hall roof	24,100
Street Department equipment	18,400
Lauren Drive construction project	56,088
	<hr/>
	\$ 448,350
	<hr/>

Capital assets held by the City at the end of the current year are summarized as follows:

City of Lavonia
Capital Assets (net of accumulated depreciation)
As of December 31, 2012 and 2011

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 493,811	\$ 493,811	\$ 413,072	\$ 413,072	\$ 906,883	\$ 906,883
Buildings	4,649,906	4,391,589	177,559	177,559	4,827,465	4,569,148
Infrastructure	1,250,854	1,194,766	3,800	3,800	1,254,654	1,198,566
Distribution system	0	0	16,005,670	14,315,673	16,005,670	14,315,673
Vehicles and equipment	2,341,048	2,336,981	589,480	577,769	2,930,528	2,914,750
Furniture and fixtures	136,451	142,377	71,012	71,012	207,463	213,389
Intangibles	0	0	61,026	0	61,026	0
Construction in progress	0	0	114,127	680,475	114,127	680,475
Total	8,872,070	8,559,524	17,435,746	16,239,360	26,307,816	24,798,884
Accumulated depreciation	(4,612,253)	(4,383,742)	(6,342,677)	(5,922,183)	(10,954,930)	(10,305,925)
Net Capital Assets	\$ 4,259,817	\$ 4,175,782	\$ 11,093,069	\$ 10,317,177	\$ 15,352,886	\$ 14,492,959

Additional information on the City of Lavonia's capital assets can be found in the Note 8 to the Financial Statements on pages 47-48 of this report.

Long-term debt. At December 31, 2012, the City of Lavonia had \$2,301,427 in bonds and capital leases outstanding, a decrease in total of \$64,938 from 2011.

City of Lavonia
Outstanding Debt
As of December 31, 2012 and 2011

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenue bonds	\$0	\$0	\$2,181,390	\$2,225,081	\$2,181,390	\$2,225,081
Capital leases	120,037	141,284	0	0	120,037	141,284
Total	\$120,037	\$141,284	\$2,181,390	\$2,225,081	\$2,301,427	\$2,366,365

Additional information on the City's long-term debt can be found in the Notes 9 and 10 to the Financial Statements on pages 49-51 of this report.

Economic Condition and Outlook

We, as management, in considering the current and forecasted economic conditions for 2013, still see a continued slow recovery period ahead. During 2009-10, sales tax and franchise tax revenues were considerably lower than 2006-08 levels. We saw increases in 2011 of about 12% and 3% in 2012, and we see this slow upward trend continuing through 2013. Parkdale Mills closed during 2012 and impacted the jobs market as well as our water sales. Although there are other industries looking at the facility, nothing has been announced regarding a new industry locating during 2013 as of yet. With the Franklin County SPLOST court case being resolved, the City has decided to move forward with several proposed General Fund capital projects during 2013. Management has given careful consideration to the uncertainty of the market and the new economic growth in the preparation of the city budgets for 2013. Noteworthy budget item and cost saving considerations were:

- 2013 General Fund budget revenue projections were raised about \$30,000 over the 2012 budget due to increased sales tax revenue anticipated in the state and national economies through most of 2013. General Fund budget expenditures were lowered about \$10,000 due to the moving of the Cemetery Fund into its own fund and employee departmental shifts.
- With most revenue streams expected to remain at or slightly above 2012 levels, certain departmental operational expenditures are expected to rise. Insurance, contract services, infrastructure raw materials, and service provision costs are expected to rise with the upturn in the economic forecast. This has and will continue to have a dramatic impact on the city's ability to maintain current operational levels or repair existing infrastructure as needed with the funding available through our present revenue sources. In addition, grant funding at the state and federal levels is expected to be more competitive with reduced federal funding being allocated to the states for disbursement through EDA, USDA and ARC programs.
- Electricity budgets for all departments have been increased again to try and keep pace with those rising energy costs. Policies have already been put in place to reduce electricity, heating, and cooling usage, and change out inefficient lighting fixtures to conserve energy and help reduce energy costs for the city. Gasoline and diesel fuel costs are also expected to continue to spiral up and down in 2013 and city vehicle usage in all departments will be determined by these increases.
- Interest rates on C.D.'s are expected to be less than ½ % for 2013, which is a decrease from 2012. This prediction is based on the Federal Reserve's reports regarding the lack of a strong economic turnaround and their efforts to stimulate the economy by keeping interest rates low. If the Fed continues to keep interest rates at these record lows, the rate of 2013 return on our investments will be lower than in 2011 and 2012.
- The Mayor and Council decided to suspend 2013 employee raises or COLA adjustments until we have a better understanding of the revenue streams into the city. If revenues increase to the point that a COLA adjustment can be given, the Mayor and Council will determine when that adjustment will be implemented. Management may also elect to not refill a vacant position in other cost cutting measures if necessary. Once again management expects to produce more with less this coming year.

Contacting the City's Financial Services Department

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City of Lavonia's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed as follows:

City of Lavonia
Office of the City Manager
PO Box 564
Lavonia, GA 30553

This page intentionally left blank.

BASIC FINANCIAL STATEMENTS

CITY OF LAVONIA, GEORGIA
STATEMENT OF NET POSITION
December 31, 2012

	Primary Government			Component Unit
	Governmental	Business-type		Downtown
	Activities	Activities	Total	Development
				Authority
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,318,025	\$ 521,254	\$ 1,839,279	\$ 5,209
Certificates of deposit	900,000	0	900,000	0
Restricted assets				
Cash and cash equivalents	0	142,650	142,650	0
Receivables (net)				
Accounts	57,193	264,821	322,014	0
Taxes	337,948	0	337,948	0
Intergovernmental	91,662	151,365	243,027	0
Interest	3,981	0	3,981	0
Internal balances	(42,360)	42,360	0	0
Inventories	0	50,010	50,010	0
Prepaid items	20,921	14,737	35,658	0
Property held for resale	1,328,575	0	1,328,575	0
Total current assets	4,015,945	1,187,197	5,203,142	5,209
Noncurrent assets				
Capital assets				
Non-depreciable	493,811	527,199	1,021,010	40,000
Depreciable (net)	3,766,006	10,565,870	14,331,876	100,223
Total noncurrent assets	4,259,817	11,093,069	15,352,886	140,223
Total assets	8,275,762	12,280,266	20,556,028	145,432
LIABILITIES				
Current liabilities				
Payables				
Accounts	112,251	48,907	161,158	960
Retainages	0	15,249	15,249	0
Interest	4,306	0	4,306	0
Compensated absences	98,588	67,043	165,631	0
Accrued payroll liabilities	6,960	4,301	11,261	0
Unearned revenue	4,799	19,896	24,695	0
Capital lease payable	22,118	0	22,118	0
Other liabilities	3,081	3,902	6,983	88
Liabilities payable from restricted assets				
Customer deposits payable	0	36,525	36,525	0
Revenue bonds payable	0	45,812	45,812	0
Interest payable	0	2,879	2,879	0
Total current liabilities	252,103	244,514	496,617	1,048

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
STATEMENT OF NET POSITION
December 31, 2012

	Primary Government			Component Unit
	Governmental	Business-type		Downtown
	Activities	Activities	Total	Development
				Authority
Noncurrent liabilities				
Capital leases payable	\$ 97,919	\$ 0	\$ 97,919	\$ 0
Revenue bonds payable	0	2,135,578	2,135,578	0
Total noncurrent liabilities	97,919	2,135,578	2,233,497	0
Total liabilities	350,022	2,380,092	2,730,114	1,048
NET POSITION				
Net investment in capital assets	4,118,334	8,895,275	13,013,609	140,223
Restricted for:				
Public Safety	3,372	0	3,372	0
Housing and Development	564,921	0	564,921	0
Capital outlay	58,062	0	58,062	0
Debt service	0	103,246	103,246	0
Unrestricted	3,181,051	901,653	4,082,704	4,161
Total net position	\$ 7,925,740	\$ 9,900,174	\$ 17,825,914	\$ 144,384

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
STATEMENT OF ACTIVITIES
For the year ended December 31, 2012

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
General Government	\$ 428,187	\$ 42,192	\$ 0	\$ 0	\$ (385,995)
Judicial	8,352	0	0	0	(8,352)
Public Safety	1,356,392	156,255	33,863	61,855	(1,104,419)
Public Works	203,452	22,046	0	230,730	49,324
Culture and Recreation	190,268	27,648	0	53,981	(108,639)
Housing and Development	198,461	4,730	0	50,000	(143,731)
Interest on long-term debt	5,029	0	0	0	(5,029)
Total governmental activities	2,390,141	252,871	33,863	396,566	(1,706,841)
Business-type activities					
Water and Sewer	2,139,486	1,955,941	0	791,044	607,499
Solid Waste	356,976	303,126	0	0	(53,850)
Total business-type activities	2,496,462	2,259,067	0	791,044	553,649
Total primary government	4,886,603	2,511,938	33,863	1,187,610	(1,153,192)
Component Unit					
Downtown Development Authority					
Housing and Development	33,563	0	1,999	0	(31,564)
Change in net assets					
Net (expense) revenue	\$ (1,706,841)	\$ 553,649	\$ (1,153,192)	\$ (31,564)	
General revenues					
Taxes					
Property	799,744	0	799,744	0	
Sales	455,857	0	455,857	0	
Franchise	247,523	0	247,523	0	
Insurance premium	107,412	0	107,412	0	
Intangibles	4,770	0	4,770	0	
Alcoholic beverage	123,222	0	123,222	0	
Hotel/Motel	144,919	0	144,919	0	
Occupational	67,451	0	67,451	0	
Interest and investment earnings	11,328	1,281	12,609	0	
Miscellaneous	30,399	22,688	53,087	8,876	
Transfers	(73,034)	73,034	0	0	
Total general revenues and transfers	1,919,591	97,003	2,016,594	8,876	
Change in net position	212,750	650,652	863,402	(22,688)	
Net position - beginning	7,712,990	9,249,522	16,962,512	167,072	
Net position - ending	\$ 7,925,740	\$ 9,900,174	\$ 17,825,914	\$ 144,384	

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012

	<u>General</u>	<u>2010 SPLOST</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 653,781	\$ 46,391	\$ 617,853	\$ 1,318,025
Certificates of deposit	900,000	0	0	900,000
Receivables (net)				
Accounts	56,364	0	829	57,193
Taxes	326,739	0	11,209	337,948
Intergovernmental	1,629	90,033	0	91,662
Interest	3,981	0	0	3,981
Prepaid items	20,921	0	0	20,921
Property held for resale	1,328,575	0	0	1,328,575
Due from other funds	38,516	0	0	38,516
	<u>38,516</u>	<u>0</u>	<u>0</u>	<u>38,516</u>
Total assets	<u><u>\$ 3,330,506</u></u>	<u><u>\$ 136,424</u></u>	<u><u>\$ 629,891</u></u>	<u><u>\$ 4,096,821</u></u>
Liabilities				
Accounts payable	\$ 86,515	\$ 21,446	\$ 4,290	\$ 112,251
Accrued payroll liabilities	6,644	0	316	6,960
Unearned revenue	4,799	0	0	4,799
Due to other funds	23,960	56,916	0	80,876
Other liabilities	2,815	0	266	3,081
	<u>2,815</u>	<u>0</u>	<u>266</u>	<u>3,081</u>
Total liabilities	<u>124,733</u>	<u>78,362</u>	<u>4,872</u>	<u>207,967</u>
Deferred Inflows of Resources				
Unavailable revenue-property taxes	23,172	0	0	23,172
	<u>23,172</u>	<u>0</u>	<u>0</u>	<u>23,172</u>
Fund balances				
Nonspendable prepaid items	20,921	0	0	20,921
Restricted for:				
Public Safety	0	0	3,372	3,372
Housing and Development	0	0	564,921	564,921
Capital outlay	0	58,062	0	58,062
Assigned for budget	0	0	56,726	56,726
Unassigned	3,161,680	0	0	3,161,680
	<u>3,161,680</u>	<u>0</u>	<u>0</u>	<u>3,161,680</u>
Total fund balances	<u>3,182,601</u>	<u>58,062</u>	<u>625,019</u>	<u>3,865,682</u>
Total liabilities, deferred inflows of resources and fund balances	<u><u>\$ 3,330,506</u></u>	<u><u>\$ 136,424</u></u>	<u><u>\$ 629,891</u></u>	<u><u>\$ 4,096,821</u></u>

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
December 31, 2012

Total fund balance - total governmental funds	\$	3,865,682
--	-----------	------------------

Amounts reported for governmental activities in the statement of net assets are different because:

Some assets are not financial resources and, therefore, are not reported in the funds.

These are:

Capital assets, net of accumulated depreciation		4,259,817
---	--	-----------

Long-term assets (receivables) are not available to pay current period expenditures and, therefore, are deferred in the funds.

These are:

Property taxes		23,172
----------------	--	--------

Long-term liabilities are not due and payable in the current period and are not reported in the funds.

These are:

Capital leases	(120,037)		
Interest payable	(4,306)		
Compensated absences	(98,588)		
		(222,931)	

Net position of governmental activities	\$	<u>7,925,740</u>
---	-----------	-------------------------

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year ended December 31, 2012

	General	2010 SPLOST	Nonmajor Governmental Funds	Total
REVENUES				
Taxes	\$ 1,820,758	\$ 0	\$ 144,919	\$ 1,965,677
Licenses and permits	46,630	0	0	46,630
Fines, fees and forfeitures	152,814	0	2,451	155,265
Charges for services	23,328	0	23,643	46,971
Intergovernmental	40,913	495,683	0	536,596
Interest	6,882	68	4,378	11,328
Contributions	56,088	0	0	56,088
Other	14,727	0	5,885	20,612
Total revenues	<u>2,162,140</u>	<u>495,751</u>	<u>181,276</u>	<u>2,839,167</u>
EXPENDITURES				
Current				
General Government	419,646	0	0	419,646
Judicial	8,352	0	0	8,352
Public Safety	1,048,481	0	3,058	1,051,539
Public Works	411,174	0	0	411,174
Culture and Recreation	78,319	0	0	78,319
Housing and Development	56,933	0	196,111	253,044
Debt service	27,039	0	0	27,039
Capital outlay	0	384,525	0	384,525
Total expenditures	<u>2,049,944</u>	<u>384,525</u>	<u>199,169</u>	<u>2,633,638</u>
Excess (deficiency) of revenues over (under) expenditures	<u>112,196</u>	<u>111,226</u>	<u>(17,893)</u>	<u>205,529</u>
Other financing sources (uses)				
Transfers out	(49,303)	(33,831)	0	(83,134)
Proceeds from sales of assets	5,964	0	0	5,964
Total other financing sources (uses)	<u>(43,339)</u>	<u>(33,831)</u>	<u>0</u>	<u>(77,170)</u>
Net change in fund balance	68,857	77,395	(17,893)	128,359
Fund balances, January 1	<u>3,113,744</u>	<u>(19,333)</u>	<u>642,912</u>	<u>3,737,323</u>
Fund balances, December 31	<u><u>\$ 3,182,601</u></u>	<u><u>\$ 58,062</u></u>	<u><u>\$ 625,019</u></u>	<u><u>\$ 3,865,682</u></u>

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the year ended December 31, 2012

Net change in fund balances - total governmental funds **\$ 128,359**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 438,251	
Depreciation	<u>(344,558)</u>	93,693

In the statement of activities, the loss on the disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale of capital assets increase financial resources.

Cost of assets disposed	(135,805)	
Related accumulated depreciation	<u>116,047</u>	(19,758)

Contributions of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.

Proprietary funds		10,100
-------------------	--	--------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These include recognition of unavailable deferred revenue. (14,779)

The proceeds of debt issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Debt principal repayments	21,247	
Debt proceeds	<u>0</u>	21,247

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Interest payable	763	
Compensated absences	<u>(6,875)</u>	<u>(6,112)</u>

Change in net assets of governmental activities		<u><u>\$ 212,750</u></u>
---	--	--------------------------

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET (GAAP) AND ACTUAL
For the year ended December 31, 2012

	Budget			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes	\$ 1,787,300	\$ 1,787,300	\$ 1,820,758	\$ 33,458
Licenses and permits	41,500	41,900	46,630	4,730
Fines, fees and forfeitures	120,000	139,500	152,814	13,314
Charges for services	16,500	10,100	23,328	13,228
Intergovernmental	55,500	55,500	40,913	(14,587)
Interest	19,800	19,800	6,882	(12,918)
Contributions	1,000	56,250	56,088	(162)
Other	7,500	13,500	14,727	1,227
Total revenues	<u>2,049,100</u>	<u>2,123,850</u>	<u>2,162,140</u>	<u>38,290</u>
EXPENDITURES				
Current				
General Government				
Governing Body	82,788	82,788	78,600	4,188
Financial Administration	339,351	339,351	341,046	(1,695)
Judicial				
Municipal Court	9,300	9,300	8,352	948
Public Safety				
Police Department	910,124	977,974	977,955	19
Fire Department	70,120	70,120	66,855	3,265
Communications	4,300	4,300	3,671	629
Public Works				
Highways and Streets	255,330	302,230	302,214	16
Maintenance Shop	31,663	31,663	30,201	1,462
Cemetery	2,000	9,500	9,483	17
Detention Services	73,573	73,573	69,276	4,297
Culture and Recreation				
Parks and Recreation	59,084	59,084	53,415	5,669
Community Center	9,850	9,850	7,239	2,611
Library	18,550	18,550	17,665	885
Housing and Development				
Inspections	30,653	30,653	30,027	626
Better Home Towns	27,438	27,438	26,906	532
Debt service				
Public Safety				
Fire Department	27,100	27,100	27,039	61
Total expenditures	<u>1,951,224</u>	<u>2,073,474</u>	<u>2,049,944</u>	<u>23,530</u>
Excess (deficiency) of revenues over (under) expenditures	<u>97,876</u>	<u>50,376</u>	<u>112,196</u>	<u>61,820</u>

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET (GAAP) AND ACTUAL
For the year ended December 31, 2012

	Budget			Variance with
	Original	Final	Actual	Final Budget
Other financing sources (uses)				
Transfers in (out)				
Transfers out	\$ (30,000)	\$ (49,500)	\$ (49,303)	\$ 197
Proceeds from sales of assets	5,000	5,000	5,964	964
Contingency	(72,876)	(5,876)	0	5,876
Total other financing sources (uses)	(97,876)	(50,376)	(43,339)	7,037
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	0	0	68,857	68,857
Fund balances, January 1	0	0	3,113,744	3,113,744
Fund balances, December 31	\$ 0	\$ 0	\$ 3,182,601	\$ 3,182,601

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2012

	Water and Sewer	Solid Waste	Totals
ASSETS			
Current assets			
Cash and cash equivalents	\$ 521,254	\$ 0	\$ 521,254
Restricted assets			
Cash and cash equivalents	142,650	0	142,650
Receivables			
Accounts (net)	228,802	36,019	264,821
Intergovernmental	151,365	0	151,365
Inventory	50,010	0	50,010
Prepaid items	14,398	339	14,737
Due from other funds	50,634	2,692	53,326
	<hr/>	<hr/>	<hr/>
Total current assets	1,159,113	39,050	1,198,163
	<hr/>	<hr/>	<hr/>
Noncurrent assets			
Capital assets			
Non-depreciable	527,199	0	527,199
Depreciable (net)	10,565,870	0	10,565,870
	<hr/>	<hr/>	<hr/>
Total noncurrent assets	11,093,069	0	11,093,069
	<hr/>	<hr/>	<hr/>
Total assets	12,252,182	39,050	12,291,232
	<hr/>	<hr/>	<hr/>
LIABILITIES			
Current liabilities			
Accounts payable	23,312	25,595	48,907
Accrued payroll liabilities	4,085	216	4,301
Compensated absences	66,419	624	67,043
Unearned revenue	18,247	1,649	19,896
Due to other funds	0	10,966	10,966
Retainages payable	15,249	0	15,249
Other liabilities	3,902	0	3,902
Liabilities payable from restricted assets:			
Customer deposits payable	36,525	0	36,525
Revenue bonds payable	45,812	0	45,812
Interest payable	2,879	0	2,879
	<hr/>	<hr/>	<hr/>
Total current liabilities	216,430	39,050	255,480
	<hr/>	<hr/>	<hr/>
Noncurrent liabilities			
Revenue bonds payable	2,135,578	0	2,135,578
	<hr/>	<hr/>	<hr/>
Total liabilities	2,352,008	39,050	2,391,058
	<hr/>	<hr/>	<hr/>
NET POSITION			
Net investment in capital assets	8,895,275	0	8,895,275
Restricted for debt service	103,246	0	103,246
Unrestricted	901,653	0	901,653
	<hr/>	<hr/>	<hr/>
Total net position	\$ 9,900,174	\$ 0	\$ 9,900,174
	<hr/>	<hr/>	<hr/>

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the year ended December 31, 2012

	Water and Sewer	Solid Waste	Totals
OPERATING REVENUES			
Charges for sales and services	\$ 1,955,941	\$ 303,127	\$ 2,259,068
Other	18,687	0	18,687
Total operating revenues	1,974,628	303,127	2,277,755
OPERATING EXPENSES			
Costs of sales and services	823,878	317,122	1,141,000
Personal services	768,199	39,854	808,053
Depreciation	436,992	0	436,992
Total operating expenses	2,029,069	356,976	2,386,045
Operating income (loss)	(54,441)	(53,849)	(108,290)
Non-operating revenues (expenses)			
Interest revenue	1,281	0	1,281
Interest expense	(104,769)	0	(104,769)
Other	(5,648)	0	(5,648)
Distributions of capital assets	(10,100)	0	(10,100)
Gain (loss) on sale of capital assets	4,000	0	4,000
Total non-operating revenues (expenses)	(115,236)	0	(115,236)
Income (loss) before capital contributions and transfers	(169,677)	(53,849)	(223,526)
Capital contributions			
Capital contributions	791,044	0	791,044
Income (loss) before transfers	621,367	(53,849)	567,518
Transfers in (out)			
Transfers in	33,831	49,303	83,134
Change in net position	655,198	(4,546)	650,652
Net position, January 1	9,244,976	4,546	9,249,522
Net position, December 31	\$ 9,900,174	\$ 0	\$ 9,900,174

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended December 31, 2012

	Water and Sewer	Solid Waste	Totals
Cash flows from operating activities:			
Receipts from customers	\$ 1,983,452	\$ 304,197	\$ 2,287,649
Payments to suppliers	(809,129)	(318,209)	(1,127,338)
Payments to employees	(757,412)	(39,219)	(796,631)
Other receipts	18,687	0	18,687
	<u>435,598</u>	<u>(53,231)</u>	<u>382,367</u>
Net cash provided (used) by operating activities			
	435,598	(53,231)	382,367
Cash flows from non-capital financing activities:			
Receipts from other funds	0	53,231	53,231
Payments to other governments	(5,648)	0	(5,648)
Payments to other funds	(29,588)	0	(29,588)
	<u>(35,236)</u>	<u>53,231</u>	<u>17,995</u>
Net cash provided (used) by non-capital financing activities			
	(35,236)	53,231	17,995
Cash flows from capital and related financing activities:			
Receipts of capital contributions	91,758	0	91,758
Receipts from other governments	905,245	0	905,245
Receipts from other funds	33,831	0	33,831
Proceeds from sale of capital assets	4,000	0	4,000
Payments for acquisitions of capital assets	(1,206,580)	0	(1,206,580)
Payment of capital related accounts payable	(110,034)	0	(110,034)
Principal payments - revenue bonds	(43,691)	0	(43,691)
Interest paid	(104,786)	0	(104,786)
	<u>(430,257)</u>	<u>0</u>	<u>(430,257)</u>
Net cash provided (used) by capital and related financing activities			
	(430,257)	0	(430,257)
Cash flows from investing activities:			
Proceeds from sale of certificates of deposit	400,000	0	400,000
Interest received	4,970	0	4,970
	<u>404,970</u>	<u>0</u>	<u>404,970</u>
Net cash provided (used) by investing activities			
	404,970	0	404,970
Net increase (decrease) in cash and cash equivalents			
	375,075	0	375,075
Cash and cash equivalents, January 1			
	<u>288,829</u>	<u>0</u>	<u>288,829</u>
Cash and cash equivalents, December 31			
	<u>\$ 663,904</u>	<u>\$ 0</u>	<u>\$ 663,904</u>

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended December 31, 2012

	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash cash provided (used) by operating activities:			
Operating income (loss)	\$ (54,441)	\$ (53,849)	\$ (108,290)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	436,992	0	436,992
(Increase) decrease in accounts receivable	26,983	699	27,682
(Increase) decrease in inventory	21,095	0	21,095
(Increase) decrease in prepaid items	99	3	102
Increase (decrease) in accounts payable	(6,445)	(1,090)	(7,535)
Increase (decrease) in unearned revenue	3,531	371	3,902
Increase (decrease) in payroll liabilities	10,787	635	11,422
Increase (decrease) in deposits payable	(3,003)	0	(3,003)
Total adjustments	490,039	618	490,657
Net cash provided (used) by operating activities	<u>\$ 435,598</u>	<u>\$ (53,231)</u>	<u>\$ 382,367</u>
Cash and cash equivalents reconciliation:			
Cash and cash equivalents	\$ 521,254	\$ 0	\$ 521,254
Restricted assets			
Cash and cash equivalents	142,650	0	142,650
Total cash and cash equivalents	<u>\$ 663,904</u>	<u>\$ 0</u>	<u>\$ 663,904</u>

Noncash investing, capital, and financing activities:

Acquisition of capital assets through accounts payable totaled \$16,404 for the year ended December 31, 2012.

Distributions of capital assets to government totaled \$10,100 for the year ended December 31, 2012.

See accompanying notes to the financial statements.

CITY OF LAVONIA, GEORGIA
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
December 31, 2012

	<u>Municipal Court Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 4,068
Accounts receivable (net)	<u>40</u>
Total assets	<u>4,108</u>
 LIABILITIES	
Due to other agencies	<u><u>\$ 4,108</u></u>

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

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

1. Description of Government Unit

The City of Lavonia incorporated under the laws of the State of Georgia in 1964. The City operates under a council/mayor form of government and provides the following services: public safety, street and sanitation, culture and recreation, public improvements and general and administrative services. In addition, the City operates a public utility (water and sewer) for the incorporated and immediate surrounding areas.

The City is governed by an elected five-member council.

2. Summary of Significant Accounting Policies

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

B. Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Lavonia (the primary government) and material component units. The component unit discussed below is included in the City's reporting entity because of the significance of its operational and financial relationship with the City. In conformity with generally accepted accounting principles, as set forth in Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, the financial statements of the following component unit have been included as discretely presented component unit.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. Summary of Significant Accounting Policies (continued)

B. Reporting Entity, continued

City of Lavonia Downtown Development Authority

The City of Lavonia Downtown Development Authority was established as a legally separate entity, which operates pursuant to the Official Code of Georgia Annotated. The Authority consists of seven members appointed by the City Council and an executive director. The Downtown Development Authority provides for the vitalization of the downtown area of the City of Lavonia. In many respects, the Authority functions similar to a City department through regular participation in department director meetings, budget approval, accounting, payroll, etc.

The City of Lavonia Downtown Development Authority is reported in a separate column to emphasize that it is legally separate from the City. Individual financial statements are presented as part of the City's Annual Financial Report in the sections labeled "Component Unit" (See Exhibit H). The City of Lavonia Downtown Development Authority has a December 31st year-end. Individual financial statements may be obtained by contacting the City of Lavonia Downtown Development Authority, PO Box 564, Lavonia, GA 30553-0564.

C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As discussed earlier, the government has one discretely presented component unit. While the Downtown Development Authority is not considered to be a major component unit, it is nevertheless shown in a separate column in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. Summary of Significant Accounting Policies (continued)

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

General Fund - The general operating fund of the City is used to account for all financial resources except those required to be accounted for in another fund.

2010 SPLOST Capital Projects Fund – This fund is used to account for long-term capital projects financed by the passage of the 2010 special purpose local option sale tax.

The City reports the following major proprietary funds:

Water and Sewer Fund - This fund is used to account for activities connected with the development, operation and maintenance of water and sewer services in the City of Lavonia.

Solid Waste Fund – This fund is used to account for activities connected with the collection and disposal of residential, commercial, industrial and institutional solid waste in the City of Lavonia.

Additionally, the City reports the following fund types:

Governmental Fund Types

Special Revenue Funds – This fund type is used to account for the proceeds of specific revenue sources that are legally or donor restricted to expenditure for specified purposes.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. Summary of Significant Accounting Policies (continued)

D. Basis of Presentation – Fund Financial Statements, continued

Capital Projects Funds – This fund type is used to account for financial resources to be used for the acquisition or construction of capital assets (other than those financed by the proprietary or fiduciary funds).

Fiduciary Fund Types

Agency Funds – Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that are held either for the City or for others. The City has an agency fund to account for the activity of the Municipal Court.

Component Unit

The Lavonia Downtown Development Authority is accounted for using a current financial resources measurement focus and uses the modified accrual basis of accounting. Under this method, revenues are recognized when susceptible to accrual (i.e. when they both become measurable and available).

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. Summary of Significant Accounting Policies (continued)

D. Basis of Presentation – Fund Financial Statements, continued

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. Summary of Significant Accounting Policies (continued)

E. Measurement Focus and Basis of Accounting, continued

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

F. Revenues and Expenditures/Expenses

Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. Summary of Significant Accounting Policies (continued)

F. Revenues and Expenditures/Expenses, continued

Proprietary funds distinguish operating revenues and expenses from non-operating 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 Water and Sewer and Solid Waste Funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal services funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

G. Budgets and Budgetary Accounting

Formal budgetary accounting is employed as a management control for the General Fund, Special Revenue Funds, and Enterprise Funds. The Capital Projects Fund is budgeted by the City Council when capital projects are approved. Annual operating budgets are adopted each fiscal year through approval by the Council. Each year about the middle of November, the City Manager submits a proposed budget to the City Council for their review. Prior to adoption, a public hearing is held to receive comment from the citizenry on the proposed budget. This hearing is publicized in the local newspaper one week before the hearing, and the budget document is made available for public inspection during this week. After the public hearing, the budget is then revised by the City Council and the first reading of the proposed budget is made. At the next City Council meeting, the second reading of the proposed budget is made and the City Council votes to adopt the proposed budget. The annual operating budget is adopted no later than December 31 for the following year.

The annual budgets for the General Fund and Special Revenue Funds are prepared in accordance with the basis of accounting utilized by that fund. The budgets for the Enterprise Funds are adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, non-operating income and expense items are not considered. All unencumbered budget appropriations, except project budgets, lapse at the end of each year.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. Summary of Significant Accounting Policies (continued)

G. Budgets and Budgetary Accounting, continued

The legal level of budgetary control is the departmental level. Any increases in total appropriations of a department require approval and amendment of the budget by the City Council. Except as indicated on the major fund budgetary comparison statement, budget amounts included in this report are as amended as of December 31, 2012.

H. Cash and Investments

Cash and cash equivalents, as reported in the statement of cash flows, includes amounts in demand deposits, amounts with fiscal agents and investments with an original maturity at three months or less. Investments are reported at fair value with accrued interest shown under a separate caption on the balance sheet. Reinvested interest on certain debt service and capital project investments is included in the investment accounts.

I. Intergovernmental Receivables

Receivables for state, federal, and local governments are recorded as revenue for the period of the allocation or as earned based on expenditures made for which reimbursement is due.

J. Inventories

Inventories of the Water and Sewer Fund are valued at cost on the first-in, first-out method and consist of expendable supplies. The cost of these inventories is recorded as an expense when consumed rather than when purchased.

K. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2012, are recorded as prepaid items. The cost of the prepaid items is recorded as expenditures/expenses when consumed rather than purchased.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. Summary of Significant Accounting Policies (continued)

L. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements

GASB Statement No. 34 required the City to report and depreciate new infrastructure assets effective with the year ended December 31, 2004. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Prior to January 1, 2007, neither their historical costs nor related depreciation had historically been reported in the financial statements. For entities the size of the City of Lavonia, retroactive reporting of infrastructure assets was not required.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Land and construction-in-progress are not depreciated. The other property, plant equipment, and infrastructure of the primary government are depreciated using the straight-line method over the estimated useful lives of the respective assets ranging as follows:

	Useful Life	Capitalization
	in Years	Threshold
Buildings	40	\$ 2,000
Distribution systems	40	\$ 10,000
Roads – per lane mile	40	\$ 50,000
Bridges and culverts	40	\$ 20,000
Machinery and equipment	10	\$ 2,000
Vehicles	5	\$ 2,000
Furniture and fixtures	5	\$ 2,000
Land improvements	15	\$ 2,000
Intangibles	10	\$ 2,000

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. Summary of Significant Accounting Policies (continued)

L. Capital Assets, continued

All land will be valued and capitalized. The costs of normal maintenance and repairs that do not add value or materially extend the life of the asset are charged to operations as incurred. Costs of major additions and improvements are capitalized. Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. Summary of Significant Accounting Policies (continued)

N. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary 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 – net position to have been depleted before unrestricted – net position is applied.

O. Fund Balance Flow Assumption

Sometimes the government 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.

P. Restricted Assets and Restricted Net Position

Restricted assets of the Enterprise Funds represent certain resources set aside for the repayment of revenue bonds because they are maintained in a separate bank account and their use is limited by applicable bond covenants.

Restricted net position is equal to the excess of the restricted assets funded from operations over the liabilities to be paid with restricted assets which are due in one year or less. Restricted assets exclude bond proceeds for calculation of reserve.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. Summary of Significant Accounting Policies (continued)

Q. Fund Balances – Governmental Funds

The City of Lavonia implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011. In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as nonspendable at December 31, 2012, by the City are nonspendable in form. The City has not reported any amounts that are legally or contractually required to be maintained intact.

Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to resolutions passed by the City Council, the City of Lavonia's highest level of decision making authority, which include the language "committed for the purpose of". Commitments may be modified or rescinded only through adoption of a subsequent resolution, which shall refer to the original resolution by its number. A resolution committing amounts must be adopted prior to the end of the fiscal year; however, the amount to be committed may be determined within 120 days of fiscal year-end.

Assigned – includes amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under the City's adopted policy, amounts may be assigned by the City Manager, under the authorization of the City Council, through a written memorandum. Amounts appropriated to eliminate a projected deficit in the subsequent fiscal year's budget shall constitute assignments and are documented by adoption of the City's annual operating budget. Equity amounts reported in special revenue funds, capital project funds, debt service funds, or permanent funds not otherwise classified as nonspendable, restricted, or committed shall constitute assignments of fund balance.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. Summary of Significant Accounting Policies (continued)

Q. Fund Balances – Governmental Funds, continued

Unassigned – includes amounts that do not fall into one of the above four categories. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The General Fund is the only fund that should report this category of fund balance.

R. Compensation for Future Absences

It is the City's policy to permit employees to accumulate earned but unused vacation benefits which will be paid to the employees upon separation from City service. Accumulated unpaid vacation pay amounts are accrued when incurred by the City in the government-wide and proprietary fund financial statements. The liability of the proprietary funds is recorded as an expense and a liability of those funds as the benefits accrue to the employees. In governmental fund types, a liability is recorded only if the benefit has matured and is expected to be liquidated with expendable available financial resources.

S. 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 position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. Summary of Significant Accounting Policies (continued)

S. Long-Term Obligations, continued

In the fund financial statements, governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. The face amount of debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financial sources while discounts on debt issuances are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

T. Capital Contributions

Federal, state and local government assistance in the form of grants that are permanent in nature and restricted for the construction or acquisition of specific property and equipment is recorded as an asset and as non-operating revenue.

U. Comparative Data and Reclassifications

Comparative total data of the prior period has been presented in the accompanying individual fund financial statements in order to provide an understanding of changes in the City's financial position and operations. Certain 2011 amounts have been reclassified to conform with the 2012 presentation.

3. Deposit and Investment Risk

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned. The City has no formal policy, but follows the State of Georgia requirement that all deposits be federally insured or fully collateralized. At December 31, 2012, the City had no uninsured, uncollateralized deposits.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

3. Deposit and Investment Risk (continued)

Credit Risk

State of Georgia law limits investments to include certificates of deposit, repurchase agreements, direct and agency obligations of the United States, obligations of the State of Georgia or other states, obligations of other political subdivisions of the State of Georgia, and pooled investment programs of the State of Georgia. The City has no investment policy that would further limit its investment choices. Investments are reported at fair value.

Concentration of Credit Risk

The City has no formal policy on the amount the City may invest in any one issuer.

Foreign currency risk

The City has no investments denominated in a foreign currency.

4. Accounts Receivable

Net accounts receivable at December 31, 2012 consist of the following:

Major Funds		
General Fund		\$ 56,364
Enterprise Funds		
Water and Sewer	\$ 445,846	
Less: Allowances for Uncollectibles	(217,044)	
Solid Waste	83,016	
Less: Allowances for Uncollectibles	<u>(46,997)</u>	264,821
Nonmajor Funds		
Hotel/Motel Tax Special Revenue Fund		<u>829</u>
Total Primary Government		<u><u>\$ 322,014</u></u>
Fiduciary Funds		
Agency Fund		
Municipal Court Agency Fund		<u><u>\$ 40</u></u>

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

5. Intergovernmental Receivables

Intergovernmental receivables at December 31, 2012 consist of the following:

Major Funds

General Fund		
Franklin County Board of Commissioners	\$	1,629
2010 SPLOST Capital Projects Fund		
Tennessee Valley Authority	\$	50,000
Franklin County Board of Commissioners	<u>40,033</u>	90,033
Water and Sewer Enterprise Fund		
US Department of Commerce		
Economic Development Administration		<u>151,365</u>
Total Primary Government	<u>\$</u>	<u>243,027</u>

6. Taxes Receivable

Property Taxes

Property taxes receivable as of December 31, 2012 consist of property taxes for seven years as follows:

Year of Levy	Amount
2012	\$ 50,537
2011	5,540
2010	460
2009	531
2008	35
2007	0
2006	<u>0</u>
	57,103
Less allowance for uncollectible	<u>(2,630)</u>
	54,473
Add amount due from Franklin County Tax Commissioner	<u>9,749</u>
Total	<u>\$ 64,222</u>

Property tax rates are set by the City Council each year and are limited by statutory or constitutional provision. Property values are assessed as of January 1st each year. Property taxes for the year 2012, based upon the assessments of January 1, 2012, were billed on August 16, 2012, and due on November 15, 2012. Tax liens are issued 90 days after the due date. The tax rate of 10.0 mills for 2012 was levied on August 1, 2012.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

6. Taxes Receivable (continued)

Other Taxes

\$226,610 of franchise taxes, \$35,907 of sales taxes, and \$11,209 of hotel/motel taxes are also included in taxes receivable.

7. Interfund Receivables, Payables, and Transfers

A summary of interfund receivables and payables as of December 31, 2012 is as follows:

	Due from:			
	Major Funds			
	General	2010 SPLOST	Solid Waste	Total
Due to:				
Major Funds				
General	\$ 0	\$ 38,516	\$ 0	\$ 38,516
Water and Sewer	21,268	18,400	10,966	50,634
Solid Waste	2,692	0	0	2,692
Total	\$ 23,960	\$ 56,916	\$ 10,966	\$ 91,842

The balance reported as Due to/Due from represent loans between the borrow fund and the lender fund. The balances result mainly from the time lag between the dates that (1) reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between the funds are made. The balance reported in the Water and Sewer Fund and the Solid Waste Fund resulted from transactions to alleviate an equity in pooled cash deficit at year-end.

Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

7. Interfund Receivables, Payables, and Transfers (continued)

A summary of interfund transfers is as follows:

	Transfers out:			
	Major Funds			
	General	2010 SPLOST	Water and Sewer	Total
Transfers in:				
Major Funds				
Water and Sewer	\$ 0	\$ 33,831	\$ 0	\$ 33,831
Solid Waste	49,303	0	0	49,303
	49,303	33,831	0	83,134
Transfer of capital assets				
Governmental Activities	0	0	10,100	10,100
	<u>\$ 49,303</u>	<u>\$ 33,831</u>	<u>\$ 10,100</u>	<u>\$ 93,234</u>

Interfund transfers were used to transfer unrestricted revenues from the General Fund to the Solid Waste Fund to subsidize operations in accordance with budgetary authorizations, and to move revenues from the 2010 SPLOST Fund that statute requires to collect them to the Water and Sewer Fund that statute requires to expend them. Transfers are eliminated in the government-wide statements if the interfund transfer is within the governmental fund group or the business-type fund group.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

8. Capital Assets

Capital asset activity for the primary government for the year ended December 31, 2012 was as follows:

	Balance 12/31/2011	Increases	Decreases	Balance 12/31/2012
Governmental activities				
Non-depreciable assets				
Land	\$ 493,811	\$ 0	\$ 0	\$ 493,811
Depreciable assets				
Buildings	4,391,589	258,317	0	4,649,906
Infrastructure	1,194,766	56,088	0	1,250,854
Vehicles	1,669,602	70,455	(62,885)	1,677,172
Machinery and equipment	667,379	56,917	(60,420)	663,876
Furniture and fixtures	142,377	6,574	(12,500)	136,451
Total depreciable assets	8,065,713	448,351	(135,805)	8,378,259
Accumulated depreciation				
Buildings	(1,619,867)	(86,686)	0	(1,706,553)
Infrastructure	(668,945)	(71,027)	0	(739,972)
Vehicles	(1,443,014)	(134,138)	62,885	(1,514,267)
Machinery and equipment	(533,459)	(41,275)	40,662	(534,072)
Furniture and fixtures	(118,457)	(11,432)	12,500	(117,389)
Total accumulated depreciation	(4,383,742)	(344,558)	116,047	(4,612,253)
Total depreciable assets, net	3,681,971	103,793	(19,758)	3,766,006
Governmental activities capital assets, net	<u>\$ 4,175,782</u>	<u>\$ 103,793</u>	<u>\$ (19,758)</u>	<u>\$ 4,259,817</u>
Business-type activities				
Non-depreciable assets				
Land	\$ 413,072	\$ 0	\$ 0	\$ 413,072
Construction in progress	680,475	29,126	(595,474)	114,127
Total non-depreciable assets	1,093,547	29,126	(595,474)	527,199
Depreciable assets				
Buildings	177,559	0	0	177,559
Land improvements	3,800	0	0	3,800
Distribution system	14,315,673	1,689,997	0	16,005,670
Intangibles	0	61,026	0	61,026
Vehicles	277,830	24,118	(16,498)	285,450
Machinery and equipment	299,939	4,091	0	304,030
Furniture and fixtures	71,012	0	0	71,012
Total depreciable assets	15,145,813	1,779,232	(16,498)	16,908,547
Accumulated depreciation				
Buildings	(54,130)	(5,329)	0	(59,459)
Land improvements	(950)	(760)	0	(1,710)
Distribution system	(5,379,321)	(372,416)	0	(5,751,737)
Intangibles	0	(4,577)	0	(4,577)
Vehicles	(201,042)	(25,505)	16,498	(210,049)
Machinery and equipment	(224,352)	(19,779)	0	(244,131)
Furniture and fixtures	(62,388)	(8,626)	0	(71,014)
Total accumulated depreciation	(5,922,183)	(436,992)	16,498	(6,342,677)
Total depreciable assets, net	9,223,630	1,342,240	0	10,565,870
Business-type activities capital assets, net	<u>\$ 10,317,177</u>	<u>\$ 1,371,366</u>	<u>\$ (595,474)</u>	<u>\$ 11,093,069</u>

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

8. Capital Assets (continued)

Capital asset activity for the Downtown Development Authority Component Unit for the year ended December 31, 2012 was as follows:

	Balance 12/31/2011	Increases	Decreases	Balance 12/31/2012
Downtown Development Authority Component Unit				
Non-depreciable assets				
Land	\$ 40,000	\$ 0	\$ 0	\$ 40,000
Depreciable assets				
Buildings	100,751	0	0	100,751
Land improvements	22,533	0	0	22,533
Intangibles	2,496	0	0	2,496
Furniture and fixtures	2,174	0	0	2,174
Total depreciable assets	127,954	0	0	127,954
Less accumulated depreciation				
Buildings	(10,915)	(2,519)	0	(13,434)
Land improvements	(9,913)	(1,502)	0	(11,415)
Intangibles	(458)	(250)	0	(708)
Furniture and fixtures	(2,174)	0	0	(2,174)
Total accumulated depreciation	(23,460)	(4,271)	0	(27,731)
Total depreciable assets, net	104,494	(4,271)	0	100,223
Downtown Development Authority Component Unit capital assets, net	\$ 144,494	\$ (4,271)	\$ 0	\$ 140,223

Depreciation expense was charged to functions/programs as follows:

Primary Government

Governmental activities

General Government	\$ 9,310
Public Safety	198,133
Public Works	27,680
Culture and Recreation	106,483
Housing and Development	2,952
Total depreciation expense for governmental activities	<u>\$ 344,558</u>

Business-type activities

Water and Sewer	<u>\$ 436,992</u>
-----------------	-------------------

Component Unit

Downtown Development Authority	<u>\$ 4,271</u>
--------------------------------	-----------------

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

9. Capital and Operating Lease Agreements

The City has entered into an agreement for the lease of certain equipment. The terms of the agreements meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee. The balance of this lease at December 31, 2012 is \$120,037 for governmental activities.

The following is a schedule of the future minimum lease payments together with the present value of the net minimum lease payments as of December 31, 2012:

Year Ending December 31,	Governmental activities
2013	\$ 27,039
2014	27,039
2015	27,039
2016	27,039
2017	27,039
Total minimum lease payments	135,195
Less amounts representing interest	(15,158)
Present value of minimum lease payments	\$ 120,037

Total assets leased under capital leases are \$224,818 for the governmental activities, respectively, and are classified as vehicles.

The City's lease agreements, other than such agreements described above, are relatively minor commitments (generally for office machines) and are in compliance with state law.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

10. Long-Term Debt

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities, while revenue bonds are issued for the construction and expansion of proprietary activities. General obligation bonds are direct obligations and pledge the full faith, credit and taxing powers of the City while revenue bonds pledge the revenues of the proprietary activity for repayment of the bond issues.

Revenue Bonds

Revenue bonds have been issued for business-type activities and are comprised of the following individual issues at December 31, 2012:

\$2,655,000 1997 Water and Sewerage Revenue Series Bonds due in monthly installments of \$12,373 through March 21, 2038; interest at 4.75% (\$2,181,390 outstanding), for the expansion of the water and sewer system in the City of Lavonia.

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending December 31,	Principal	Interest	Total
2013	\$ 45,812	\$ 102,664	\$ 148,476
2014	48,036	100,440	148,476
2015	50,368	98,108	148,476
2016	52,813	95,663	148,476
2017	55,377	93,099	148,476
2018-2022	319,920	422,460	742,380
2023-2027	405,492	336,888	742,380
2028-2032	513,953	228,427	742,380
2033-2037	651,426	90,954	742,380
2038	38,193	392	38,585
Totals	\$ 2,181,390	\$ 1,569,095	\$ 3,750,485

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

10. Long-Term Debt (continued)

Changes in Long-Term Debt

The following is a summary of changes in long-term debt of the City for the year ended December 31, 2012:

	<u>Balance 12/31/2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/2012</u>	<u>Due Within One Year</u>
Governmental activities					
Capital lease obligations	\$ 141,284	\$ 0	\$ (21,247)	\$ 120,037	\$ 22,118
Compensated absences	91,713	98,588	(91,713)	98,588	98,588
Total governmental activities	<u>\$ 232,997</u>	<u>\$ 98,588</u>	<u>\$ (112,960)</u>	<u>\$ 218,625</u>	<u>\$ 120,706</u>
Business-type activities					
Revenue bonds	\$ 2,225,081	\$ 0	\$ (43,691)	\$ 2,181,390	\$ 45,812
Compensated absences	57,874	67,043	(57,874)	67,043	67,043
Total business-type activities	<u>\$ 2,282,955</u>	<u>\$ 67,043</u>	<u>\$ (101,565)</u>	<u>\$ 2,248,433</u>	<u>\$ 112,855</u>

Revenue bond issue costs and discounts/premiums are amortized over the life of the related debt using the straight-line method. In prior years, capital lease obligations and compensated absences of the governmental activities were liquidated in the General Fund.

11. Conduit Debt

The City, through the Hospital Authority of the City of Lavonia, has issued revenue bonds to provide financial assistance to a private-sector entity for the acquisition and construction of the Ty Cobb Regional Medical Center. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loan. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City nor the State, or 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. As of December 31, 2012, the principal amount payable for the bonds issued totaled \$8,500,000; the original issue amount totaled \$8,500,000.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

12. Changes in Beginning Balances

A prior period adjustment has been made to decrease accounts receivable for fines receivable that are no longer being reported by the City. Fines are not susceptible to accrual because they generally are not measureable until received. This adjustment decreased beginning assets and liabilities by \$90,146.

13. Pension Plan

Plan Description

The City of Lavonia is a participating member in the Georgia Municipal Employees Benefit System (GMEBS), a defined benefit plan ("Plan"), which is a service of Georgia Municipal Association (GMA). GMEBS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipalities in Georgia. The City elected to participate in GMEBS as of March 1, 1979, as a result of City Ordinance and a contract between the City and GMA. The Plan's assets may be used only for the payment of benefits to the members of the Plan, in accordance with the terms of the Plan. See Note 2 – Summary of Significant Accounting Policies for reporting of investments.

All City employees who work a minimum of twenty hours per week are eligible to participate in the Plan after completing one year of service. Mayor and Council are eligible immediately. Benefits vest after five years of service. Participants become eligible to retire with unreduced benefits at age 65 with five years of service. Mayor and Council are not subject to the five-year minimum service.

GMA issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to Georgia Municipal Association at 21 Pryor Street, SW, Atlanta, Georgia 30303.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

13. Pension Plan (continued)

Plan Description, continued

Vested employees who have reached the age of 65 and have completed five years of credited service are eligible to receive a monthly benefit, payable for life. The benefit is equal to 1.0% of the employee's average salary up to a floating break point and 1.75% of the employee's average salary above the floating break point for the five highest years of employment multiplied by the years of credited service. The floating break point is based upon average Social Security earnings determined by the employee's year of employment termination. The plan also provides benefits in the event of death or disability. These benefits provisions were established by an adoption agreement executed by the City Council.

Vested employees who have reached age 55 with at least ten years of credited service are eligible to receive an early retirement benefit, payable monthly for life, reduced on an actuarial equivalent basis. Death benefits and optional forms of retirement income on an actuarial equivalent basis are also available.

Current Membership is as follows:

Retirees and beneficiaries currently receiving benefits	23
Terminated vested participants entitled to but not yet receiving benefits	15
Active participants	<u>44</u>
Total number of participants	<u><u>82</u></u>

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

13. Pension Plan (continued)

Funding Policy

The funding policy for the plan is to contribute an amount equal to the recommended contribution each year. The rate for 2012 is 9.24% of annual covered payroll. The Plan is a noncontributory participant plan. The recommended contribution meets the guidelines for calculating an annual required contribution set forth in Paragraphs 9-10 of GASB Statement No. 27. These contributions are determined under the projected unit credit actuarial cost method and the asset valuation method for developing the actuarial value of assets. The period, and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years from 1982 and current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods as a level dollar amount. These amortization periods, if applicable, are closed for this plan year. The remaining amortization period at July 1, 2012 varies for the bases. The City Council provides for the benefits and funding policy through City ordinance and maintains the authority to change the policy. The projection of benefits does not incorporate the potential effect of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Annual Pension Cost

For 2012, the City's annual pension cost of \$120,259 was equal to the City's recommended and actual contributions. The minimum contribution under the Public Retirement Systems Standards Law (OCGA 47-20-10) was \$103,116. The recommended contribution was computed as part of an actuarial valuation as of July 1, 2012. Significant actuarial assumptions used in the valuation include: (a) a rate of return on the investment of present and future assets of 7.75 percent per year compounded annually, (b) projected salary increases ranging from 6.0 to 4.0 percent per year compounded annually (a range of 2.5 to 0.5 percent and 3.5 percent attributable to inflation and merit, respectively), (c) no post-retirement benefit increases. Changes in recommended contributions are effective beginning January 1 following the July 1 valuation.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

13. Pension Plan (continued)

Historical Trend Information

Historical trend information for annual pension cost and funding progress is as follows:

Schedule of Employer Contributions

Plan Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2007	\$ 105,755	100%	0
12/31/2008	111,393	100%	0
12/31/2009	143,270	100%	0
12/31/2010	163,340	100%	0
12/31/2011	134,681	100%	0
12/31/2012	120,259	100%	0

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Funded) Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
3/1/2007	\$ 1,368,242	\$ 1,380,195	\$ 11,953	99.13%	\$1,100,769	1.09%
3/1/2008	1,506,009	1,551,014	45,005	97.10%	1,140,547	3.95%
3/1/2009	1,299,626	1,681,845	382,219	77.27%	1,378,063	27.74%
7/1/2010	1,815,879	1,918,433	102,554	94.65%	1,385,259	7.40%
7/1/2011	2,023,906	2,091,249	67,343	96.78%	1,278,920	5.27%
7/1/2012	2,170,833	2,272,290	101,457	95.54%	1,310,356	7.74%

Additional ten year historical trend information can be found in separate reports issued by GMA, which provides information about progress made in accumulating sufficient assets to pay benefits when due. The actuarial value of assets is calculated as the roll forward of prior year's actuarial value with contributions, disbursements, and expected return on investments, plus 10% of investment gains (losses) during 10 prior years

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

14. Post Employment Life Insurance Benefits

In addition to providing pension benefits, the City provides, through passage of local ordinance, certain life insurance benefits for retired employees. Substantially all of the City's employees may become eligible for those benefits if they reach normal retirement age while working for the City and do not seek employment after retirement from the City. The City's share of retiree life insurance benefits is recognized as an expenditure as premiums are paid. As of December 31, 2012, there were 10 retirees eligible for and receiving the benefits. For 2012, the cost of providing these benefits totaled \$420.

The City has elected not to adopt the provisions of GASB Statement No. 45. Any unrecorded liability for other post employment benefits would be immaterial to the financial statements.

15. Hotel/Motel Lodging Tax

The City has levied a 5% lodging tax, in accordance with Official Code of Georgia Annotated (OCGA) Section 48-13-51(3). The City is required to spend an amount equal to the amount by which the total taxes collected under the Code section exceed the taxes which would be collected at a rate of 3 percent for the purpose of promoting tourism, conventions, and trade shows. Effective October 1, 2012, the City increased the lodging tax to 8%. The City is required to spend, of the total taxes collected, an amount equal to at least 33 1/3% for the purpose of promoting tourism, conventions, and trade shows, 16 2/3% for the purpose of marketing or operating a community auditorium or theater, and 33 1/3% for general recreation purposes. A summary of the transactions for the year ending December 31, 2012, follows:

Lodging tax receipts	\$144,919
Disbursements to promote tourism, conventions, and trade shows, operation of community theater, and general recreation purposes	\$195,511 135% of tax receipts

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

16. Joint Ventures

Under Georgia law, the City, in conjunction with other cities and counties in the northeast Georgia area, is a member of the Georgia Mountains Regional Commission and is required to pay annual dues thereto. During its year ended December 31, 2012, the City paid \$2,317 in such dues. Membership in an RC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the RC in Georgia. The RC Board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of an RDC. Separate financial statements may be obtained from Georgia Mountains Regional Commission, PO Box 1720, Gainesville, GA 30503.

The City of Lavonia has entered into an intergovernmental agreement with the Joint Development Authority of Hart, Franklin, and Stephens Counties, Georgia, to provide sewer services to the occupants of the Gateway Business Park, an industrial park development located jointly in Hart and Franklin Counties. During 2012, the City recognized no expenditures for this joint venture. Separate financial statements may be obtained from Joint Development Authority of Hart, Franklin, and Stephens Counties, Georgia, PO Box 793, Hartwell, GA 30643.

17. Related Organizations

The Housing Authority of the City of Lavonia is considered a related organization to the City of Lavonia. The City appoints members to the Authority, but does not have the ability to impose its will or create a financial benefit or burden for the Authority. The Authority provides low-income housing for the individuals in the City of Lavonia. The City received \$13,236 as payment-in-lieu-of-taxes for 2012. Separate financial statements may be obtained from Housing Authority of the City of Lavonia, PO Box 453, Lavonia, GA 30553.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

18. Risk Management

Material estimates have been made by management about the life of depreciated fixed assets. Management has used a conservative approach on these estimates.

The City is exposed to various risks of loss related to torts; injuries to employees; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Agency Property and Liability Insurance Fund and the Georgia Municipal Association Group Self-Insurance Workers Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for member local governments.

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 pool's agents and attorneys, to follow loss reduction procedures established by the funds, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss. The City is also obligated to allow the pool's 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 government contract and in accordance with the worker's compensation law of Georgia. The funds are to pay all cost taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

Settled claims in the past three years have not exceeded the coverages.

Management estimates liabilities for unpaid claims based on the probability of losses exceeding the occurrence limits and the reasonableness of estimating those losses. At December 31, 2012, the City has no losses that are probable or estimable and accordingly has not recognized any liability.

CITY OF LAVONIA, GEORGIA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

19. Commitments and Contingencies

Commitments

The City has active construction projects as of December 31, 2012. At year-end, the City's commitments with contractors are as follows:

Projects	Amount Expended To Date	Remaining Commitment
Water and sewer distribution system improvements	<u>\$ 46,375</u>	<u>\$ 23,625</u>

Contingencies

The City is a defendant in a lawsuit. Management intends to contest this open case vigorously. The City's legal counsel has stated that the outcome of this lawsuit is not presently determinable.

COMBINING STATEMENTS

Nonmajor Governmental Funds

**CITY OF LAVONIA, GEORGIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2012**

	Special Revenue			Total Nonmajor Governmental Funds
	Confiscated Assets	Hotel/Motel Tax	Revolving Loan	
ASSETS				
Cash and cash equivalents	\$ 3,513	\$ 49,419	\$ 564,921	\$ 617,853
Receivables				
Accounts	0	829	0	829
Taxes	0	11,209	0	11,209
Total assets	\$ 3,513	\$ 61,457	\$ 564,921	\$ 629,891
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 0	\$ 4,290	\$ 0	\$ 4,290
Accrued payroll liabilities	0	316	0	316
Other liabilities	141	125	0	266
Total liabilities	141	4,731	0	4,872
Fund balances				
Restricted for:				
Public Safety	3,372	0		3,372
Housing and Development	0	0	564,921	564,921
Assigned for budget	0	56,726	0	56,726
Total fund balances	3,372	56,726	564,921	625,019
Total liabilities and fund balances	\$ 3,513	\$ 61,457	\$ 564,921	\$ 629,891

CITY OF LAVONIA, GEORGIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the year ended December 31, 2012

	Special Revenue			Total Nonmajor Governmental Funds
	Confiscated Assets	Hotel/Motel Tax	Revolving Loan	
REVENUES				
Taxes	\$ 0	\$ 144,919	\$ 0	\$ 144,919
Fees, fines, and forfeitures	2,451	0	0	2,451
Charges for services	0	23,643	0	23,643
Interest	0	62	4,316	4,378
Other	30	5,855	0	5,885
Total revenues	2,481	174,479	4,316	181,276
EXPENDITURES				
Current				
Public Safety	3,058	0	0	3,058
Housing and Development	0	195,511	600	196,111
Total expenditures	3,058	195,511	600	199,169
Excess (deficiency) of revenues over (under) expenditures	(577)	(21,032)	3,716	(17,893)
Fund balances, January 1	3,949	77,758	561,205	642,912
Fund balances, December 31	\$ 3,372	\$ 56,726	\$ 564,921	\$ 625,019

This page intentionally left blank.

GENERAL FUND

The general operating fund of the City is used to account for all financial resources except those required to be accounted for in another fund.

**CITY OF LAVONIA, GEORGIA
GENERAL FUND
COMPARATIVE BALANCE SHEETS
December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 653,781	\$ 414,679
Certificates of deposit	900,000	1,300,000
Receivables (net)		
Accounts	56,364	4,631
Taxes	326,739	366,100
Intergovernmental	1,629	10,521
Interest	3,981	11,362
Prepaid items	20,921	20,896
Property held for resale	1,328,575	1,054,027
Due from other funds	38,516	36,486
	<u> </u>	<u> </u>
Total assets	<u><u>\$ 3,330,506</u></u>	<u><u>\$ 3,218,702</u></u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 86,515	\$ 40,863
Accrued payroll liabilities	6,644	3,269
Unearned revenue	4,799	3,360
Due to other funds	23,960	16,700
Other liabilities	2,815	2,815
	<u> </u>	<u> </u>
Total liabilities	<u>124,733</u>	<u>67,007</u>
 Deferred inflows of resources		
Unavailable revenue-property taxes	23,172	37,951
	<u> </u>	<u> </u>
 Fund balances		
Nonspendable prepaid items	20,921	20,896
Assigned for budget	0	145,000
Unassigned	3,161,680	2,947,848
	<u> </u>	<u> </u>
Total fund balances	<u>3,182,601</u>	<u>3,113,744</u>
	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 3,330,506</u></u>	<u><u>\$ 3,218,702</u></u>

CITY OF LAVONIA, GEORGIA
GENERAL FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the years ended December 31, 2012 and 2011

	2012	2011
REVENUES		
Taxes	\$ 1,820,758	\$ 1,826,164
Licenses and permits	46,630	17,656
Fines, fees and forfeitures	152,814	127,227
Charges for services	23,328	14,510
Intergovernmental	40,913	45,876
Interest	6,882	14,819
Contributions	56,088	3,697
Other	14,727	11,034
Total revenues	2,162,140	2,060,983
EXPENDITURES		
Current		
General Government	419,646	405,776
Judicial	8,352	8,272
Public Safety	1,048,481	1,034,223
Public Works	411,174	373,377
Culture and Recreation	78,319	79,698
Housing and Development	56,933	120,154
Debt service	27,039	27,039
Total expenditures	2,049,944	2,048,539
Excess (deficiency) of revenues over (under) expenditures	112,196	12,444
Other financing sources (uses)		
Transfers in (out)		
Solid Waste Enterprise Fund	(49,303)	(41,418)
Proceeds from the sale of capital assets	5,964	7,928
Total other financing sources (uses)	(43,339)	(33,490)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	68,857	(21,046)
Fund balances, January 1	3,113,744	3,134,790
Fund balances, December 31	\$ 3,182,601	\$ 3,113,744

CITY OF LAVONIA, GEORGIA
GENERAL FUND
SCHEDULE OF REVENUES
BUDGET (GAAP BASIS) AND ACTUAL
For the year ended December 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012			2011
	Final Budget	Actual	Variance	Actual
REVENUES				
Taxes				
General property taxes				
Property tax	\$ 754,300	\$ 780,344	\$ 26,044	\$ 787,984
Motor vehicle tax	35,000	34,179	(821)	34,098
Total general property taxes	789,300	814,523	25,223	822,082
Local option sales tax	445,000	455,857	10,857	441,246
Intangible tax	6,000	4,770	(1,230)	7,150
Franchise tax	252,000	247,523	(4,477)	275,447
Insurance premium tax	100,000	107,412	7,412	101,125
Alcoholic beverage excise tax	135,000	123,222	(11,778)	126,424
Occupational tax	60,000	67,451	7,451	52,690
Total taxes	1,787,300	1,820,758	33,458	1,826,164
Licenses and Permits				
Alcohol licenses	37,000	41,900	4,900	12,925
Building permits	3,400	3,415	15	2,920
Sign permits	1,500	1,315	(185)	1,811
Total licenses and permits	41,900	46,630	4,730	17,656
Fines, fees and forfeitures	139,500	152,814	13,314	127,227
Charges for Services				
Fire protection	1,000	930	(70)	1,170
Recreation	3,500	292	(3,208)	3,310
Cemetery	5,500	22,046	16,546	9,945
Other	100	60	(40)	85
Total charges for services	10,100	23,328	13,228	14,510
Intergovernmental				
Grants	16,000	13,611	(2,389)	18,217
Other	39,500	27,302	(12,198)	27,659
Total intergovernmental	55,500	40,913	(14,587)	45,876
Interest	19,800	6,882	(12,918)	14,819
Contributions	56,250	56,088	(162)	3,697
Other	13,500	14,727	1,227	11,034
Total revenues	<u>\$ 2,123,850</u>	<u>\$ 2,162,140</u>	<u>\$ 38,290</u>	<u>\$ 2,060,983</u>

CITY OF LAVONIA, GEORGIA
GENERAL FUND
SCHEDULE OF EXPENDITURES
BUDGET (GAAP BASIS) AND ACTUAL
For the year ended December 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012			2011
	Final Budget	Actual	Variance	Actual
EXPENDITURES				
Current				
General Government				
Governing Body				
Personal services	\$ 50,038	\$ 49,185	\$ 853	\$ 47,454
Contract services	31,750	29,112	2,638	26,920
Supplies and materials	1,000	303	697	903
Total Governing Body	82,788	78,600	4,188	75,277
Financial Administration				
Personal services	177,501	187,594	(10,093)	170,177
Contract services	119,350	110,952	8,398	121,621
Supplies and materials	40,500	42,500	(2,000)	38,701
Capital outlay	2,000	0	2,000	0
Total Financial Administration	339,351	341,046	(1,695)	330,499
Total General Government	422,139	419,646	2,493	405,776
Judicial				
Municipal Court				
Personal services	100	100	0	100
Contract Services	9,200	8,252	948	8,172
Total Judicial	9,300	8,352	948	8,272
Public Safety				
Police Department				
Personal services	820,324	793,177	27,147	724,653
Contract services	109,250	130,505	(21,255)	128,267
Supplies and materials	32,000	45,580	(13,580)	47,730
Capital outlay	7,500	0	7,500	51,039
Payments to other agencies	8,900	8,693	207	8,821
Total Police Department	977,974	977,955	19	960,510
Fire Department				
Personal services	25,320	23,679	1,641	23,116
Contract services	23,600	25,722	(2,122)	22,344
Supplies and materials	6,200	17,454	(11,254)	25,161
Capital outlay	15,000	0	15,000	0
Total Fire Department	70,120	66,855	3,265	70,621
Communications				
Contract services	1,000	0	1,000	0
Supplies and materials	3,300	3,671	(371)	3,092
Total Communications	4,300	3,671	629	3,092
Total Public Safety	1,052,394	1,048,481	3,913	1,034,223

CITY OF LAVONIA, GEORGIA
GENERAL FUND
SCHEDULE OF EXPENDITURES
BUDGET (GAAP BASIS) AND ACTUAL
For the year ended December 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012			2011
	Final Budget	Actual	Variance	Actual
Public Works				
Highways and Streets				
Personal services	\$ 142,230	\$ 114,251	\$ 27,979	\$ 136,435
Contract services	82,000	42,182	39,818	42,715
Supplies and materials	78,000	89,693	(11,693)	87,023
Capital outlay	0	56,088	(56,088)	0
Total Highways and Streets	302,230	302,214	16	266,173
Maintenance Shop				
Personal services	19,588	18,828	760	36,390
Contract services	4,500	4,161	339	4,650
Supplies and materials	7,575	7,212	363	7,201
Total Maintenance Shop	31,663	30,201	1,462	48,241
Cemetery				
Contract services	1,000	9,244	(8,244)	0
Supplies and materials	1,000	239	761	297
Capital outlay	7,500	0	7,500	0
Total Cemetery	9,500	9,483	17	297
Detention Services				
Personal services	24,823	23,825	998	10,252
Contract services	44,750	43,199	1,551	45,136
Supplies and materials	2,000	2,252	(252)	3,278
Capital outlay	2,000	0	2,000	0
Total Detention Services	73,573	69,276	4,297	58,666
Total Public Works	416,966	411,174	5,792	373,377
Culture and Recreation				
Parks and Recreation				
Personal services	36,884	37,253	(369)	34,713
Contract services	5,850	4,919	931	6,239
Supplies and materials	15,350	11,243	4,107	14,871
Capital outlay	1,000	0	1,000	0
Total Parks and Recreation	59,084	53,415	5,669	55,823
Community Center				
Contract services	3,450	2,618	832	1,519
Supplies and materials	4,400	4,621	(221)	4,110
Capital outlay	2,000	0	2,000	0
Total Community Center	9,850	7,239	2,611	5,629
Library				
Contract services	3,150	2,214	936	2,590
Supplies and materials	5,400	5,451	(51)	5,656
Payments to other agencies	10,000	10,000	0	10,000
Total Library	18,550	17,665	885	18,246
Total Culture and Recreation	87,484	78,319	9,165	79,698

CITY OF LAVONIA, GEORGIA
GENERAL FUND
SCHEDULE OF EXPENDITURES
BUDGET (GAAP BASIS) AND ACTUAL
For the year ended December 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012			2011
	Final Budget	Actual	Variance	Actual
Housing and Development				
Inspections				
Personal services	\$ 24,053	\$ 25,147	\$ (1,094)	\$ 78,376
Contract services	4,750	4,069	681	4,928
Supplies and materials	1,850	811	1,039	2,049
Total Inspections	<u>30,653</u>	<u>30,027</u>	<u>626</u>	<u>85,353</u>
Welcome Center				
Contract services	<u>0</u>	<u>0</u>	<u>0</u>	<u>100</u>
Better Home Towns				
Personal services	21,538	22,098	(560)	28,706
Contract services	3,400	3,766	(366)	3,767
Supplies and materials	2,500	1,042	1,458	2,228
Total Better Home Towns	<u>27,438</u>	<u>26,906</u>	<u>532</u>	<u>34,701</u>
Total Housing and Development	<u>58,091</u>	<u>56,933</u>	<u>1,158</u>	<u>120,154</u>
Total current	<u>2,046,374</u>	<u>2,022,905</u>	<u>23,469</u>	<u>2,021,500</u>
Debt service				
Public Safety				
Fire Department	<u>27,100</u>	<u>27,039</u>	<u>61</u>	<u>27,039</u>
Total debt service	<u>27,100</u>	<u>27,039</u>	<u>61</u>	<u>27,039</u>
Total expenditures	<u>\$ 2,073,474</u>	<u>\$ 2,049,944</u>	<u>\$ 23,530</u>	<u>\$ 2,048,539</u>

This page intentionally left blank.

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally or donor restricted to expenditure for specified purposes.

Confiscated Assets Fund - This fund is used to account for the cash received either from a cash confiscation or cash received from a sale of capital assets acquired from a drug raid.

Hotel/Motel Tax Fund - This fund is used to collect Hotel/Motel taxes which are used to support trade and tourism in the City of Lavonia.

Revolving Loan Fund – This fund is used to record activities connected with US Department of Housing and Urban Development Community Development Block Grant/Employment Incentive Program. The objective of the grant is to develop employment opportunities, principally to persons of low and moderate income.

CITY OF LAVONIA, GEORGIA
CONFISCATED ASSETS SPECIAL REVENUE FUND
COMPARATIVE BALANCE SHEETS
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 3,513	\$ 4,089
	<u>3,513</u>	<u>4,089</u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Other liabilities	\$ 141	\$ 140
Fund balances		
Restricted for Public Safety	3,372	3,949
	<u>3,372</u>	<u>3,949</u>
Total liabilities and fund balances	\$ 3,513	\$ 4,089
	<u>3,513</u>	<u>4,089</u>

CITY OF LAVONIA, GEORGIA
CONFISCATED ASSETS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
BUDGET (GAAP BASIS) AND ACTUAL
For the year ended December 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012			2011
	Final Budget	Actual	Variance	Actual
REVENUES				
Fines, fees, and forfeitures	\$ 10,000	\$ 2,451	\$ (7,549)	\$ 11,032
Other	0	30	30	0
Total revenues	10,000	2,481	(7,519)	11,032
EXPENDITURES				
Current				
Public Safety				
Contract services	8,000	3,008	4,992	9,636
Supplies and materials	1,500	50	1,450	458
Total expenditures	9,500	3,058	6,442	10,094
Excess (deficiency) of revenues over (under) expenditures	500	(577)	(1,077)	938
Other financing sources (uses)				
Contingency	(4,300)	0	4,300	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(3,800)	(577)	3,223	938
Fund balances, January 1	3,800	3,949	149	3,011
Fund balances, December 31	\$ 0	\$ 3,372	\$ 3,372	\$ 3,949

CITY OF LAVONIA, GEORGIA
HOTEL/MOTEL TAX SPECIAL REVENUE FUND
COMPARATIVE BALANCE SHEETS
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 49,419	\$ 84,513
Receivables		
Accounts	829	250
Taxes	11,209	15,882
Prepaid items	<u>0</u>	<u>1,000</u>
Total assets	<u><u>\$ 61,457</u></u>	<u><u>\$ 101,645</u></u>
 LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 4,290	\$ 6,609
Accrued payroll liabilities	316	0
Other liabilities	125	125
Due to other funds	<u>0</u>	<u>17,153</u>
Total liabilities	<u>4,731</u>	<u>23,887</u>
 Fund balances		
Nonspendable prepaid items	0	1,000
Assigned for budget	<u>56,726</u>	<u>76,758</u>
Total fund balances	<u>56,726</u>	<u>77,758</u>
 Total liabilities and fund balances	<u><u>\$ 61,457</u></u>	<u><u>\$ 101,645</u></u>

CITY OF LAVONIA, GEORGIA
HOTEL/MOTEL TAX SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
BUDGET (GAAP BASIS) AND ACTUAL
For the year ended December 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012			2011
	Final Budget	Actual	Variance	Actual
REVENUES				
Hotel/Motel taxes	\$ 110,000	\$ 144,919	\$ 34,919	\$ 113,455
Charges for services	0	23,643	23,643	0
Intergovernmental	50,000	0	(50,000)	0
Interest	100	62	(38)	44
Other	36,500	5,855	(30,645)	4,830
Total revenues	196,600	174,479	(22,121)	118,329
EXPENDITURES				
Current				
Housing and Development				
Personal services	38,808	52,922	(14,114)	42,363
Contract services	59,792	60,271	(479)	14,564
Supplies and materials	32,500	22,143	10,357	26,357
Capital outlay	175,500	60,075	115,425	13,050
Payments to other agencies	15,000	100	14,900	15,000
Total expenditures	321,600	195,511	126,089	111,334
Excess (deficiency) of revenues over (under) expenditures	(125,000)	(21,032)	103,968	6,995
Fund balances, January 1	125,000	77,758	(47,242)	70,763
Fund balances, December 31	\$ 0	\$ 56,726	\$ 56,726	\$ 77,758

CITY OF LAVONIA, GEORGIA
REVOLVING LOAN SPECIAL REVENUE FUND
COMPARATIVE BALANCE SHEETS
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 564,921	\$ 234,975
Notes receivable	<u>0</u>	<u>326,230</u>
Total assets	<u><u>\$ 564,921</u></u>	<u><u>\$ 561,205</u></u>
 LIABILITIES AND FUND BALANCES		
Fund balances		
Restricted for Housing and Development	<u><u>\$ 564,921</u></u>	<u><u>\$ 561,205</u></u>

CITY OF LAVONIA, GEORGIA
REVOLVING LOAN SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
BUDGET (GAAP BASIS) AND ACTUAL
For the year ended December 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012			2011
	Final Budget	Actual	Variance	Actual
REVENUES				
Interest	\$ 41,435	\$ 4,316	\$ (37,119)	\$ 10,218
Total revenues	<u>41,435</u>	<u>4,316</u>	<u>(37,119)</u>	<u>10,218</u>
EXPENDITURES				
Current				
Housing and Development				
Contract services	<u>1,800</u>	<u>600</u>	<u>1,200</u>	<u>1,679</u>
Total expenditures	<u>1,800</u>	<u>600</u>	<u>1,200</u>	<u>1,679</u>
Excess (deficiency) of revenues over (under) expenditures	39,635	3,716	(35,919)	8,539
Other financing sources (uses)				
Contingency	<u>(39,635)</u>	<u>0</u>	<u>39,635</u>	<u>0</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	0	3,716	3,716	8,539
Fund balances, January 1	<u>0</u>	<u>561,205</u>	<u>561,205</u>	<u>552,666</u>
Fund balances, December 31	<u><u>\$ 0</u></u>	<u><u>\$ 564,921</u></u>	<u><u>\$ 564,921</u></u>	<u><u>\$ 561,205</u></u>

This page intentionally left blank.

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of specifically planned projects (other than those financed by proprietary funds).

2004 Special Purpose Local Option Sales Tax Fund – This fund is used to account for long-term projects financed by the passage of the 2004 special purpose local option sales tax.

2010 Special Purpose Local Option Sales Tax Fund – This fund is used to account for long-term projects financed by the passage of the 2010 special purpose local option sales tax.

CITY OF LAVONIA, GEORGIA
2004 SPECIAL PURPOSE LOCAL OPTION SALES TAX
CAPITAL PROJECTS FUND
COMPARATIVE BALANCE SHEETS
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Total assets	\$ <u>0</u>	\$ <u>0</u>
LIABILITIES AND FUND BALANCES		
Total liabilities and fund balances	\$ <u>0</u>	\$ <u>0</u>

CITY OF LAVONIA, GEORGIA
2004 SPECIAL PURPOSE LOCAL OPTION SALES TAX
CAPITAL PROJECTS FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
REVENUES		
Intergovernmental	\$ 0	\$ 109,190
Total revenues	<u>0</u>	<u>109,190</u>
EXPENDITURES		
Capital outlay		
Public Works		
Highways and Streets	0	69,029
Culture and Recreation		
Parks and Recreation	0	20,664
Libraries	0	19,497
Total expenditures	<u>0</u>	<u>109,190</u>
Excess of revenues over (under) expenditures	0	0
Fund balances, January 1	<u>0</u>	<u>0</u>
Fund balances, December 31	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

CITY OF LAVONIA, GEORGIA
2010 SPECIAL PURPOSE LOCAL OPTION SALES TAX
CAPITAL PROJECTS FUND
COMPARATIVE BALANCE SHEETS
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 46,391	\$ 0
Intergovernmental receivables	<u>90,033</u>	<u>0</u>
Total assets	<u><u>\$ 136,424</u></u>	<u><u>\$ 0</u></u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 21,446	\$ 0
Due to other funds	<u>56,916</u>	<u>19,333</u>
Total liabilities	<u>78,362</u>	<u>19,333</u>
Fund balances		
Restricted for capital outlay	58,062	0
Unassigned	<u>0</u>	<u>(19,333)</u>
Total fund balances	<u>58,062</u>	<u>(19,333)</u>
Total liabilities and fund balances	<u><u>\$ 136,424</u></u>	<u><u>\$ 0</u></u>

CITY OF LAVONIA, GEORGIA
2010 SPECIAL PURPOSE LOCAL OPTION SALES TAX
CAPITAL PROJECTS FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
REVENUES		
Intergovernmental	\$ 495,683	\$ 0
Interest	<u>68</u>	<u>0</u>
Total revenues	<u>495,751</u>	<u>0</u>
EXPENDITURES		
Capital outlay		
Public Safety		
Police	108,971	0
Fire	48,104	0
Public Works		
Highways and Streets	41,309	0
Culture and Recreation		
Parks and Recreation	<u>186,141</u>	<u>19,333</u>
Total expenditures	<u>384,525</u>	<u>19,333</u>
Excess of revenues over (under) expenditures	111,226	(19,333)
Other financing sources (uses)		
Transfers in (out)		
Water and Sewer	<u>(33,831)</u>	<u>0</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	77,395	(19,333)
Fund balances, January 1	<u>(19,333)</u>	<u>0</u>
Fund balances, December 31	<u><u>\$ 58,062</u></u>	<u><u>\$ (19,333)</u></u>

This page intentionally left blank.

ENTERPRISE FUNDS

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The funds are self-supporting in nature where the costs, including depreciation, of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

Water and Sewer Fund - Used to account for activities connected with the development, operation and maintenance of water and sewer services in the City of Lavonia.

Solid Waste Fund - Used to account for activities connected with the collection and disposal of residential, commercial, industrial, and institutional solid waste in the City of Lavonia.

CITY OF LAVONIA, GEORGIA
WATER AND SEWER ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET POSITION
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 521,254	\$ 144,750
Certificates of deposit	0	400,000
Receivables		
Accounts (net)	228,802	255,784
Intergovernmental	151,365	357,324
Interest	0	3,689
Inventory	50,010	71,105
Prepaid items	14,398	14,497
Due from other funds	50,634	21,046
	<u>1,016,463</u>	<u>1,268,195</u>
Total current assets		
Restricted assets		
Bond Redemption		
Cash and cash equivalents	106,125	104,551
Customer Deposits		
Cash and cash equivalents	36,525	39,528
	<u>142,650</u>	<u>144,079</u>
Total restricted assets		
Capital assets		
Land	413,072	413,072
Land improvements	3,800	3,800
Buildings	177,559	177,559
Vehicles	285,450	277,831
Furniture and fixtures	71,012	71,012
Plant and facilities	8,957,807	7,778,118
Water and sewer lines and towers	7,047,863	6,537,555
Machinery and equipment	304,030	299,938
Intangibles	61,026	0
Construction in progress	114,127	680,475
Accumulated depreciation	(6,342,677)	(5,922,183)
	<u>11,093,069</u>	<u>10,317,177</u>
Total capital assets (net of accumulated depreciation)		
Total assets	<u>12,252,182</u>	<u>11,729,451</u>

CITY OF LAVONIA, GEORGIA
WATER AND SEWER ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET POSITION
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 23,312	\$ 77,328
Accrued payroll liabilities	4,085	1,944
Compensated absences	66,419	57,773
Unearned revenue	18,247	14,716
Retainages payable	15,249	61,307
Other	<u>3,902</u>	<u>3,902</u>
Total current liabilities	<u>131,214</u>	<u>216,970</u>
Current liabilities payable from restricted assets		
Customer deposits payable	36,525	39,528
Revenue bonds payable	45,812	43,691
Interest payable	<u>2,879</u>	<u>2,896</u>
Total liabilities payable from restricted assets	<u>85,216</u>	<u>86,115</u>
Long-term liabilities		
Revenue bonds payable	<u>2,135,578</u>	<u>2,181,390</u>
Total liabilities	<u>2,352,008</u>	<u>2,484,475</u>
NET POSITION		
Net investment in capital assets	8,895,275	7,982,062
Restricted for debt service	103,246	101,655
Unrestricted	<u>901,653</u>	<u>1,161,259</u>
Total net position	<u><u>\$ 9,900,174</u></u>	<u><u>\$ 9,244,976</u></u>

CITY OF LAVONIA, GEORGIA
WATER AND SEWER ENTERPRISE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Charges for sales and services		
Water sales	\$ 1,461,937	\$ 1,692,705
Sewer charges	479,804	466,058
Tap fees	14,200	28,600
Other	18,687	22,016
	<u>1,974,628</u>	<u>2,209,379</u>
OPERATING EXPENSES		
Cost of sales and services	823,878	767,051
Personal services	768,199	688,096
Depreciation	436,992	420,673
	<u>2,029,069</u>	<u>1,875,820</u>
Operating income (loss)	<u>(54,441)</u>	<u>333,559</u>
Non-operating revenues (expenses)		
Interest revenue	1,281	4,573
Interest expense	(104,769)	(106,640)
Other	(5,648)	0
Distribution of capital assets	(10,100)	0
Gain (loss) on sale of capital assets	4,000	12,700
	<u>(115,236)</u>	<u>(89,367)</u>
Net income (loss) before capital contributions and transfers	(169,677)	244,192
Capital contributions		
Capital contributions	791,044	361,730
Net income (loss) before capital contributions and transfers	621,367	605,922
Transfers in (out)		
2010 SPLOST Fund	33,831	0
Change in net position	655,198	605,922
Net position, January 1	9,244,976	8,639,054
Net position, December 31	<u><u>\$ 9,900,174</u></u>	<u><u>\$ 9,244,976</u></u>

CITY OF LAVONIA, GEORGIA
WATER AND SEWER ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from customers	\$ 1,983,452	\$ 2,172,441
Payments to suppliers	(809,129)	(764,333)
Payments to employees	(757,412)	(682,615)
Other receipts	18,687	22,016
	<u>435,598</u>	<u>747,509</u>
Cash flows from non-capital financing activities:		
Payments to other governments	(5,648)	0
Payments to other funds	(29,588)	(12,055)
	<u>(35,236)</u>	<u>(12,055)</u>
Cash flows from capital and related financing activities:		
Receipts of capital contributions	91,758	4,406
Receipts from other governments	905,245	0
Receipts from other funds	33,831	0
Proceeds from sale of capital assets	4,000	12,700
Payments for acquisitions of capital assets	(1,206,580)	(575,281)
Payment of capital related accounts payable	(110,034)	(7,744)
Principal payments - revenue bonds	(43,691)	(41,708)
Interest paid	(104,786)	(106,768)
	<u>(430,257)</u>	<u>(714,395)</u>
Cash flows from investing activities:		
Proceeds from certificates of deposit	400,000	300,000
Purchases of certificates of deposit	0	(400,000)
Interest received	4,970	6,060
	<u>404,970</u>	<u>(93,940)</u>
Net increase (decrease) in cash and cash equivalents	375,075	(72,881)
Cash and cash equivalents, January 1	<u>288,829</u>	<u>361,710</u>
Cash and cash equivalents, December 31	<u><u>\$ 663,904</u></u>	<u><u>\$ 288,829</u></u>

CITY OF LAVONIA, GEORGIA
WATER AND SEWER ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (54,441)	\$ 333,559
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	436,992	420,673
(Increase) decrease in accounts receivable	26,983	(17,973)
(Increase) decrease in inventory	21,095	7,100
(Increase) decrease in prepaid items	99	(7,153)
Increase (decrease) in accounts payable	(6,445)	2,771
Increase (decrease) in unearned revenue	3,531	2,113
Increase (decrease) in payroll liabilities	10,787	5,481
Increase (decrease) in deposits payable	(3,003)	938
Total adjustments	<u>490,039</u>	<u>413,950</u>
Net cash provided (used) by operating activities	<u>\$ 435,598</u>	<u>\$ 747,509</u>
Cash reconciliation:		
Cash and cash equivalents	\$ 521,254	\$ 144,750
Bond Redemption		
Cash and cash equivalents	106,125	104,551
Customer Deposits		
Cash and cash equivalents	<u>36,525</u>	<u>39,528</u>
Total cash and cash equivalents	<u>\$ 663,904</u>	<u>\$ 288,829</u>

Noncash investing, capital, and financing activities:

Acquisition of capital assets through accounts payable totaled \$16,404 and \$110,034 for the years ended December 31, 2012 and 2011, respectively.

Distributions of capital assets to government totaled \$10,100 for the year ended December 31, 2012.

CITY OF LAVONIA, GEORGIA
SOLID WASTE ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET POSITION
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets		
Accounts receivable (net)	\$ 36,019	\$ 36,718
Prepaid items	339	342
Due from other funds	<u>2,692</u>	<u>0</u>
Total assets	<u>39,050</u>	<u>37,060</u>
LIABILITIES		
Accounts payable	25,595	26,685
Accrued payroll liabilities	216	104
Compensated absences	624	101
Unearned revenue	1,649	1,278
Due to other funds	<u>10,966</u>	<u>4,346</u>
Total liabilities	<u>39,050</u>	<u>32,514</u>
NET POSITION		
Unrestricted	<u>\$ 0</u>	<u>\$ 4,546</u>

CITY OF LAVONIA, GEORGIA
SOLID WASTE ENTERPRISE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Charges for sales and services	\$ 303,127	\$ 303,395
OPERATING EXPENSES		
Cost of sales and services	317,122	307,216
Personal services	<u>39,854</u>	<u>33,051</u>
Total operating expenses	<u>356,976</u>	<u>340,267</u>
Operating income (loss)	(53,849)	(36,872)
Transfers in (out)		
General Fund	<u>49,303</u>	<u>41,418</u>
Change in net position	(4,546)	4,546
Net position January 1	<u>4,546</u>	<u>0</u>
Net position, December 31	<u><u>\$ 0</u></u>	<u><u>\$ 4,546</u></u>

CITY OF LAVONIA, GEORGIA
SOLID WASTE ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from customers	\$ 304,197	\$ 304,434
Payments to suppliers	(318,209)	(312,728)
Payments to employees	(39,219)	(33,124)
	<u>(53,231)</u>	<u>(41,418)</u>
Net cash provided (used) by operating activities		
Cash flows from non-capital financing activities:		
Receipts from other funds	<u>53,231</u>	<u>41,418</u>
Net increase (decrease) in cash and cash equivalents	0	0
Cash and cash equivalents, January 1	<u>0</u>	<u>0</u>
Cash and cash equivalents, December 31	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	<u>\$ (53,849)</u>	<u>\$ (36,872)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
(Increase) decrease in accounts receivable	699	486
(Increase) decrease in prepaid items	3	(254)
Increase (decrease) in accounts payable	(1,090)	(5,261)
Increase (decrease) in unearned revenue	371	556
Increase (decrease) in payroll liabilities	635	(73)
	<u>618</u>	<u>(4,546)</u>
Total adjustments		
Net cash provided (used) by operating activities	<u><u>\$ (53,231)</u></u>	<u><u>\$ (41,418)</u></u>

This page intentionally left blank.

AGENCY FUNDS

Agency funds are used to account for assets held by the City as an agent to be expended in accordance with the conditions of its agency capacity.

Municipal Court Fund – This fund is used to account, on a temporary basis, for fines collected by the municipal court that ultimately are transmitted to the general fund or another agency.

CITY OF LAVONIA, GEORGIA
MUNICIPAL COURT AGENCY FUND
COMPARATIVE STATEMENTS OF ASSETS AND LIABILITIES
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 4,068	\$ 2,127
Accounts receivable (net)	<u>40</u>	<u>35</u>
Total assets	<u><u>\$ 4,108</u></u>	<u><u>\$ 2,162</u></u>
 LIABILITIES		
Liabilities		
Due to other agencies	<u><u>\$ 4,108</u></u>	<u><u>\$ 2,162</u></u>

CITY OF LAVONIA, GEORGIA
MUNICIPAL COURT AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the year ended December 31, 2012

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31</u>
ASSETS				
Cash and cash equivalents	\$ 2,127	\$ 197,430	\$ (195,489)	\$ 4,068
Accounts receivable	<u>35</u>	<u>40</u>	<u>(35)</u>	<u>40</u>
Total assets	<u>\$ 2,162</u>	<u>\$ 197,470</u>	<u>\$ (195,524)</u>	<u>\$ 4,108</u>
LIABILITIES				
Due to others agencies	<u>\$ 2,162</u>	<u>\$ 197,470</u>	<u>\$ (195,524)</u>	<u>\$ 4,108</u>

This page intentionally left blank.

COMPONENT UNIT

Downtown Development Authority – This component unit is used to account for governmental revenues and contributions reserved for City business development.

CITY OF LAVONIA, GEORGIA
DOWNTOWN DEVELOPMENT AUTHORITY (A COMPONENT UNIT)
COMPARATIVE BALANCE SHEETS
December 31, 2012 and 2011

ASSETS	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	<u>\$ 5,209</u>	<u>\$ 23,111</u>
 LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 960	\$ 445
Other liabilities	<u>88</u>	<u>88</u>
Total liabilities	<u>1,048</u>	<u>533</u>
 Fund balances		
Assigned for:		
Budget	4,161	22,500
Housing and Development	<u>0</u>	<u>78</u>
Total fund balances	<u>4,161</u>	<u>22,578</u>
 Total liabilities and fund balances	<u><u>\$ 5,209</u></u>	<u><u>\$ 23,111</u></u>

CITY OF LAVONIA, GEORGIA
DOWNTOWN DEVELOPMENT AUTHORITY (A COMPONENT UNIT)
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL
For the year ended December 31, 2012
(With comparative actual amounts for the year ended December 31, 2011)

	2012			2011
	Final Budget	Actual	Variance	Actual
REVENUES				
Intergovernmental	\$ 10,000	\$ 0	\$ (10,000)	\$ 11,690
Charges for services	500	0	(500)	410
Contributions	2,000	1,999	(1)	2,000
Rent	7,800	7,966	166	7,734
Other	900	910	10	715
Total revenues	21,200	10,875	(10,325)	22,549
EXPENDITURES				
Current				
Housing and Development				
Contract services	21,000	19,027	1,973	18,020
Supplies and materials	10,000	9,765	235	9,846
Payments to other agencies	2,000	500	1,500	1,450
Total expenditures	33,000	29,292	3,708	29,316
Excess of revenues over (under) expenditures	(11,800)	(18,417)	(6,617)	(6,767)
Other financing sources (uses)				
Contingency	(10,700)	0	10,700	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(22,500)	(18,417)	4,083	(6,767)
Fund balances, January 1	22,500	22,578	78	29,345
Fund balances, December 31	\$ 0	\$ 4,161	\$ 4,161	\$ 22,578

This page intentionally left blank.

SINGLE AUDIT SECTION

This section contains reports required by OMB A-133 and grantor agencies.

This page intentionally left blank.

**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***

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Lavonia, Georgia

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lavonia, Georgia, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 16, 2013.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Lavonia, Georgia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City'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.

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 reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control described in the accompanying schedule of findings and questioned costs as Comment 12-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lavonia, Georgia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Lavonia, Georgia's Response to Findings

The City of Lavonia, Georgia's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied to the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Rushton & Company, LLC

Certified Public Accountants

Gainesville, Georgia
April 16, 2013

**Report on Compliance with Requirements Applicable to Each Major
Program and Internal Control over Compliance in
Accordance with OMB Circular A-133**

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Lavonia, Georgia

Report on Compliance for Each Major Program

We have audited the City of Lavonia, Georgia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2012. The City of Lavonia, Georgia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibilities

Our responsibility is to express an opinion on compliance for each of the City of Lavonia, Georgia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the City of Lavonia, Georgia's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Lavonia, Georgia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control over Compliance

Management of the City of Lavonia, Georgia, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing on internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Rushton & Company, LLC

Certified Public Accountants

Gainesville, Georgia
April 16, 2013

CITY OF LAVONIA, GEORGIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2012

Federal Grant/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass- Through Number	Expenditures
<u>U.S. Department of Commerce</u>			
Economic Development Administration Investments for Public Works and Economic Development Facilities	11.300	N/A	<u>\$ 698,656</u>
<u>U.S. Department of Justice</u>			
Bureau of Justice Assistance Bulletproof Vest Partnership Program	16.607	N/A	<u>1,050</u>
<u>Appalachian Regional Commission</u>			
Appalachian Area Development	23.002	N/A	<u>50,000</u>
Total Federal Awards			<u><u>\$ 749,706</u></u>

See accompanying notes to the schedule of expenditures of federal awards and the schedule of findings and questioned costs.

CITY OF LAVONIA, GEORGIA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2012

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the SEFA) includes the federal grant activity of the City of Lavonia, Georgia, under programs for the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City.

2. Summary of Significant Accounting Policies

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

CITY OF LAVONIA, GEORGIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended December 31, 2012

1. Summary of the Auditor's Results

A. Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	None noted
Significant deficiency(ies) identified not considered material weaknesses?	Yes
Noncompliance material to financial statements noted?	None noted

B. Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	None noted
Significant deficiency(ies) identified not considered material weaknesses?	None noted
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	None noted
Identification of major programs:	
11.300 Investments for Public Works and Economic Development Facilities	
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

CITY OF LAVONIA, GEORGIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended December 31, 2012

2. Financial Statement Findings

A. Significant Deficiencies

Comment 12-1

Condition: City personnel lack the necessary training and expertise in identification and application of generally accepted accounting policies and financial statement preparation. Currently, the City relies on the external auditors for technical assistance in these areas. This is common for governments of similar size and structure to the City of Lavonia. This does not indicate that the City Clerk is not trained to perform the daily accounting functions, but that the City has elected, as a cost benefit, to outsource this expertise to their auditors.

Criteria: Effective internal control requires that employees possess the necessary qualifications and training to fulfill their assigned duties.

Effect: Failure to ensure that employees possess the necessary qualifications to perform their assigned duties may lead to financial statements that are materially misstated.

Recommendation: City personnel should receive additional training in the identification and application of generally accepted accounting principles and the preparation of the City's financial statements. However, this may be cost prohibitive without hiring a qualified financial director.

Management Response: Management concurs with this finding. The City has determined that the cost of training City personnel to fully perform the duties of financial director is prohibitive. The governing body and management have determined that personnel should receive training to the extent that is economically feasible and to continue to rely on the technical assistance of the external auditor or other qualified professional when necessary. This action was taken immediately upon receipt of the comment from our auditors.

B. Material Noncompliance

None reported.

C. Prior Year Audit Findings Follow-Ups

No prior audit findings to report.

3. Federal Award Findings and Questioned Costs

The audit of our basic financial statements and schedule of expenditures of federal awards disclosed no audit findings or questioned costs which are required to be reported under Section 510(a) of OMB A-133.

STATE REPORTING SECTION

CITY OF LAVONIA, GEORGIA
SCHEDULE OF PROJECTS FINANCED WITH
SPECIAL PURPOSE LOCAL OPTION SALES TAX
For the year ended December 31, 2012

Project	Estimated Cost		Expenditures		
	Original	Current	Prior Years	Current Year	Total
2010 Referendum					
Water Expansion	\$ 385,715	\$ 385,715	\$ 0	\$ 33,831	\$ 33,831
Police Department Facilities	192,857	192,857	0	108,971	108,971
Fire Department Facilities	200,000	200,000	0	48,104	48,104
Library Facilities	45,000	45,000	0	0	0
Recreation Facilities	192,857	192,857	0	136,141	136,141
Construction and Improvement of Roads	385,713	385,713	19,333	41,309	60,642
Total	<u>\$ 1,402,142</u>	<u>\$ 1,402,142</u>	<u>\$ 19,333</u>	<u>\$ 368,356</u>	<u>\$ 387,689</u>
Current year SPLOST expenditures					\$ 368,356
Expenditures financed through other revenues					<u>50,000</u>
Total expenditures and transfer out of the 2010 SPLOST Capital Projects Fund					<u>\$ 418,356</u>