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CITY OF FLOWERY BRANCH, GEORGIA
FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

WALKER & ASSOCIATES, CPA'S, PC

CITY OF FLOWERY BRANCH
FISCAL YEAR ENDED JUNE 30, 2008
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Certified Public Accountants

Walker & Associates

A Professional Corporation

American Institute of
Certified Public Accountants
Georgia Society of
Certified Public Accountants
AICPA Employee Benefit
Quality Audit Center
AICPA Governmental
Audit Quality Center

William D. Walker, CPA
Laura A. Wallace, CPA
Wayne Tuck, CPA
Gail Stepp
Martha P. Smith
Tiffany Standridge

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Independent Auditor's Report

To the City Council
City of Flowery Branch, Georgia
Flowery Branch, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, and each major fund of City of Flowery Branch, Georgia, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Flowery Branch, Georgia's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material aspects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of City of Flowery Branch, Georgia, as of June 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2008 on our consideration of the City of Flowery Branch, Georgia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit. In addition, in accordance with the Official Code of Georgia, we have issued a report dated October 31, 2008 on the schedule of Special Purpose Local Option Sales Tax

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

The budget comparison information on pages 21 through 23 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sincerely,

Walker & Associates
Certified Public Accountants
October 31, 2008

CITY OF FLOWERY BRANCH, GEORGIA

Statement of Net Assets

June 30, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	$ 355,236	$ 3,270,492	$ 3,625,728	$ -
Receivables (net)	356,168	139,181	495,349	-
Other current assets	2,200	8,001	10,201	-
Prepaid Expenses	142,688	-	142,688	-
Deferred charge	-	57,706	57,706	-
Nondepreciable capital assets	195,700	1,862,434	2,058,134	-
Depreciable capital assets, net	2,273,372	9,259,177	11,532,549	-
Total assets	3,325,364	14,596,991	17,922,355	-
Liabilities				
Accounts payable and other liabilities	201,837	269,952	471,789	-
Deferred revenue	70,755	2,187,610	2,258,365	-
Internal balances	(502,415)	502,415	-	-
Accrued balances	72,455	-	72,455	-
Noncurrent liabilities:				
Due within one year	-	3,733,015	3,733,015	-
Due in more than one year	-	4,385,000	4,385,000	-
Total liabilities	(157,368)	11,077,992	10,920,624	-
Net assets				
Invested in capital assets	2,469,072	3,003,595	5,472,667	-
Restricted for:				
Drug awareness and condemnation assets	1,508	-	1,508	-
Capital projects	67,533	-	67,533	-
Unrestricted	944,619	515,404	1,460,023	-
Total net assets	$ 3,482,732	$ 3,518,999	$ 7,001,731	$ -

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

CITY OF FLOWERY BRANCH, GEORGIA

Statement of Activities

For the Year Ended June 30, 2008

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants Contributions	Net (Expenses) Revenues and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Unit
Primary government:								
Governmental activities								
General government	$ 823,818	$ 148,240	$ -	$ -	$ (675,578)		$ (675,578)	
Judicial	79,685	428,787	-	-	349,102		349,102	
Public safety	742,158	-	-	-	(742,158)		(742,158)	
Highways and streets	476,910	-	-	302,339	(174,571)		(174,571)	
Health and welfare	34,135	-	-	-	(34,135)		(34,135)	
Housing and development	478,670	285,109	-	-	(193,561)		(193,561)	
Total governmental activities	2,635,376	862,136	-	302,339	(1,470,901)		(1,470,901)	
Business-type activities								
Water and Sewer	1,702,520	1,566,912	-	-		$ (135,608)	(135,608)	
Sanitation	183,557	222,793	-	-		39,236	39,236	
Total business-type activities	1,886,077	1,789,705	-	-		(96,372)	(96,372)	
Total primary government	$ 4,521,453	$ 2,651,841	$ -	$ 302,339		(96,372)	(1,567,273)	
Component units:								
Downtown Development Authority	$ -	$ -	$ -	$ -				-
Total component units	$ -	$ -	$ -	$ -				-
General revenues:								
Taxes:								
Property taxes, levied for general purposes					581,816	-	581,816	
Franchise tax					378,345	-	378,345	
Sales taxes					527,186	-	527,186	
Alcoholic Beverage Tax					287,957	-	287,957	
Interest and investment earnings					4,804	121,065	125,869	
Contributions					3,785	-	3,785	
Miscellaneous					24,517	497	25,014	
Gain on sale of capital assets					-	-	-	
Transfers					179,671	(179,671)	-	
Total general revenues, special items, and transfers					1,988,081	(58,109)	1,929,972	
Change in net assets					517,180	(154,481)	362,699	
Net assets - beginning					2,965,552	4,010,962	6,976,514	-
Prior period adjustments					-	(337,482)	(337,482)	-
Adjusted beginning net assets					2,965,552	3,673,480	6,639,032	-
Net assets - ending					$ 3,482,732	$ 3,518,999	$ 7,001,731	$ -

The accompanying notes are an integral part of these financial statements

CITY OF FLOWERY BRANCH, GEORGIA

Balance Sheet
Governmental Funds

June 30, 2008

	General Fund	Capital Projects Fund	Grant Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 306,816	$ 46,738	$ 174	$ 353,728
Due from other governments	68,408	-	19,180	87,588
Receivables (net)	268,580	-	-	268,580
Prepaid expenses	142,690	-	-	142,690
Other assets	2,200	-	-	2,200
Due from other funds	612,399	415,662	220,020	1,248,081
Restricted cash	1,508	-	-	1,508
Total assets	$ 1,402,601	$ 462,400	$ 239,374	$ 2,104,375
Liabilities and fund balances				
Liabilities:				
Accounts payable	$ 201,837	$ -	$ -	$ 201,837
Accrued expenses	32,369	-	-	32,369
Due to other funds	130,604	394,867	220,194	745,665
Deferred revenue	51,575	-	19,180	70,755
Total liabilities	416,385	394,867	239,374	1,050,626
Fund balances				
Reserved for:				
Drug awareness program	1,083	-	-	1,083
Confiscated assets program	425	-	-	425
Unreserved, undesignated reported in:				
General fund	984,708	-	-	984,708
Capital projects fund	-	67,533	-	67,533
Total fund balances	986,216	67,533	-	1,053,749
Total liabilities and fund balances	$ 1,402,601	$ 462,400	$ 239,374	$ 2,104,375

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

CITY OF FLOWERY BRANCH, GEORGIA

Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets

June 30, 2008

Total fund balances - governmental funds	$	1,053,749
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets		3,395,040
Less: Accumulated depreciation		(925,970)
Accrued personal leave not reported in governmental funds		(40,087)
Net assets of governmental activities	$	3,482,732

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

CITY OF FLOWERY BRANCH, GEORGIA

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2008

	General Fund	Capital Projects Fund	Grant Fund	Total Governmental Funds
Revenues				
Taxes:				
Property Taxes	$ 585,197	$ -	$ -	$ 585,197
Sales Taxes	407,814	119,373	-	527,187
Franchise Tax	365,416	-	-	365,416
Intergovernmental	41,211	-	302,339	343,550
Licenses and permits	272,073	-	-	272,073
Fines and Forfeitures	428,251	-	-	428,251
Charges for services	125,646	-	-	125,646
Interest	4,753	51	-	4,804
Miscellaneous	324,202	-	-	324,202
Total Revenue	2,554,563	119,424	302,339	2,976,326
Expenditures				
Current				
General government	1,112,907	45	-	1,112,952
Judicial	82,479	-	-	82,479
Public safety	696,554	-	-	696,554
Highways and streets	314,852	76,249	482,010	873,111
Health and welfare	28,306	-	-	28,306
Housing and development	483,086	-	-	483,086
Capital Outlay	-	61,337	-	61,337
Total Expenditures	2,718,184	137,631	482,010	3,337,825
Excess of revenues (expenditures)	(163,621)	(18,207)	(179,671)	(361,499)
Other financing sources				
Transfers in	-	-	179,671	179,671
Total other financing sources and uses	-	-	179,671	179,671
Net change in fund balance	(163,621)	(18,207)	-	(181,828)
Beginning Fund Balance	1,149,837	85,740	-	1,235,577
Ending Fund Balance	$ 986,216	$ 67,533	$ -	$ 1,053,749

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

CITY OF FLOWERY BRANCH, GEORGIA

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

For the Year Ended June 30, 2008

Net change in fund balances-total governmental funds	$	(181,828)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation ($137,224) exceeded capital outlay ($844,890) and prior period adjustment ($22,637) in the current period.		685,029
Because some revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. This is a reversal of prior year entry		(3,440)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures		
Accrued personal leave		17,419
Net change in assets of governmental activities	$	517,180

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

CITY OF FLOWERY BRANCH, GEORGIA

Statement of Net Assets

Proprietary Fund

June 30, 2008

	Enterprise Funds		
	Water and Sewer	Sanitation	Totals
Assets			
Current assets			
Cash and cash equivalents	$ 680,925	$ -	$ 680,925
Accounts Receivable (net)	89,184	49,998	139,182
Due from other funds	300,799	49,856	350,655
Restricted cash and cash equivalents	496,847	-	496,847
Accrued Revenue	8,001	-	8,001
Total Current Assets	1,575,756	99,854	1,675,610
Noncurrent Assets:			
Restricted cash and cash equivalents	2,092,720	-	2,092,720
Deferred Charge	57,707	-	57,707
Capital Assets			
Land	523,201	-	523,201
Buildings	3,255,958	-	3,255,958
Improvements other than buildings	2,648,570	-	2,648,570
Machinery and equipment	5,285,033	-	5,285,033
Construction in Progress	1,339,233	-	1,339,233
Less accumulated depreciation	(1,930,385)	-	(1,930,385)
Total capital assets (net of accumulated depreciation)	11,121,610	-	11,121,610
Total noncurrent assets	13,272,037	-	13,272,037
Total Assets	14,847,793	99,854	14,947,647
Liabilities			
Current Liabilities:			
Accounts Payable	56,805	-	56,805
Accrued Expenses	91,407	-	91,407
Due to Other Funds	853,071	-	853,071
Deferred revenue	2,187,610	-	2,187,610
Current Portion of Long Term Debt	180,000	-	180,000
Total Current Liabilities	3,368,893	-	3,368,893
Noncurrent Liabilities:			
Customer Deposits	121,290	450	121,740
Intergovernmental	3,553,015	-	3,553,015
Notes payable (Net of Current Portion)	4,385,000	-	4,385,000
Total Noncurrent Liabilities	8,059,305	450	8,059,755
Total Liabilities	11,428,198	450	11,428,648
Net Assets			
Invested in capital assets, net of related debt	3,003,595	-	3,003,595
Unrestricted	416,000	99,404	515,404
Total net assets	$ 3,419,595	$ 99,404	$ 3,518,999

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

CITY OF FLOWERY BRANCH, GEORGIA

Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2008

	Enterprise Funds		
	Water and Sewer	Sanitation	Totals
Operating revenue:			
Charges for Service	$ 1,424,386	$ 222,793	$ 1,647,179
Connection Fees	61,612	-	61,612
Miscellaneous Income	81,411	-	81,411
Total operating revenue	1,567,409	222,793	1,790,202
Operating expenses:			
Personal services			
Compensation	374,621	-	374,621
Employment Taxes	28,371	-	28,371
Benefits	46,820	-	46,820
Total Personal Services	449,812	-	449,812
Cost of sales			
Water/vendor contracts	924	183,574	184,498
Supplies	117,321	-	117,321
Repairs and Maintenance	297,362	-	297,362
Utilities	202,655	-	202,655
Miscellaneous	61,192	5	61,197
Depreciation	309,242	-	309,242
Engineering, Lab Fees and Training	69,824	-	69,824
Total cost of sales	1,058,520	183,579	1,242,099
Total Operating Expenses	1,508,332	183,579	1,691,911
Operating Income	59,077	39,214	98,291
Nonoperating revenues (expenses)			
Interest Income	121,065	-	121,065
Interest Expense on Loans	(194,166)	-	(194,166)
Total nonoperating revenues and (expenses)	(73,101)	-	(73,101)
Transfer (Out)	(179,671)	-	(179,671)
Change in Net Assets	(193,695)	39,214	(154,481)
Net Assets - Beginning	3,950,772	60,190	4,010,962
Prior Period Adjustments	(337,482)	-	(337,482)
Adjusted beginning net assets	3,613,290	60,190	3,673,480
Net Assets - Ending	$ 3,419,595	$ 99,404	$ 3,518,999

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

CITY OF FLOWERY BRANCH, GEORGIA

Statement of Cash Flows
Proprietary Fund
For The Year Ended June 30, 2008

	Enterprise Funds		
	Water and Sewer	Sanitation	Totals
Cash flows from operating activities:			
Receipts from customers	$ 1,540,238	$ 207,668	$ 1,747,906
Payments to suppliers	(723,079)	(197,136)	(920,215)
Payments to employees	(449,812)	-	(449,812)
Net cash provided (used) by operating activities:	367,347	10,532	377,879
Cash flows from noncapital financing activities:			
Transfer to other funds	179,671	-	179,671
Advances from other funds	(488,339)	(10,532)	(498,871)
Net cash provided by noncapital financing activities	(308,668)	(10,532)	(319,200)
Cash flows from capital and related financing activities:			
Purchase of capital assets	(209,332)	-	(209,332)
Prior Period Adjustment	337,482	-	337,482
Tap fees	431,862	-	431,862
Debt payments, principal and interest and deferred charge	(396,285)	-	(396,285)
Net cash provided (used) by capital and related financing activities	163,727	-	163,727
Cash flows from investing activities:			
Interest income	121,065	-	121,065
Net cash provided by investing activities	121,065	-	121,065
Net increase (decrease) in cash and cash equivalents	343,471	-	343,471
Balances - beginning of year	2,927,021	-	2,927,021
Balances - end of year	$ 3,270,492	$ -	$ 3,270,492
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$ 59,077	$ 39,214	$ 98,291
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	309,242	-	309,242
Changes in assets and liabilities:			
Receivables and accrued revenue	(25,138)	(15,125)	(40,263)
Accounts and accrued expenses payable	14,556	(13,557)	999
Customer deposits	9,610	-	9,610
Net cash provided by operating activities	$ 367,347	$ 10,532	$ 377,879

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

NOTE 1. Summary of significant accounting policies

The financial statements of City of Flowery Branch, Georgia, have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and Accounting Principles Board (APB) opinions, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The more significant of the government's accounting policies are described below.

1-A The Reporting Entity

The City of Flowery Branch, Georgia is a municipal corporation governed by a five member City Council, Mayor and a full time City Manager. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of a primary government.

The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

Discretely presented component units. The Flowery Branch Development Authority is governed by a separate board and is a separate legal, public body corporate and politic created and existing under instrumentality of the City of Flowery Branch for the purpose of revitalizing and developing the central business district of Flowery Branch, Georgia.

The above component unit's financial statements are reflected on the City's Financial Statements under the Discretely Presented Component Unit caption. The Authority does not issue separate statements.

1-B Basis of Presentation, Basis of Accounting
Basis of Presentation-Government-wide and fund financial statements

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTE 1. Summary of significant accounting policies (cont)

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Fund. This fund accounts for the receipt and expenditure of grant revenue.

Capital Projects Fund. This fund accounts for *Special Purpose Local Option Sales Tax* financial resources expended for purposes approved by referendum.

The City reports the following major enterprise fund:

Water and Sewer Fund. This fund accounts for the operations of The City's water and sewer services.

Sanitation Fund. This fund accounts for the collection and disposal of garbage.

Proprietary fund operating revenues and expenses result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non operating revenues and expenses, such as subsidies, investment earnings or interest expense, result from non exchange transactions or ancillary activities.

Measurement Focus, Basis of Accounting

Government-wide and Proprietary Financial Statements. The government-wide and proprietary financial statements are reported using flow of the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within thirty days after year-end except for property taxes for which sixty days after year end applies. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and adjustments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursements grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All business-type activities and enterprise funds of the City follow FASB Statements and interpretations issued after November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

NOTE 1. Summary of significant accounting policies (cont)

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

Cash and Cash Equivalents

The City considers short-term liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities of three months or less meet this definition.

Investments

As of June 30, 2008 the City did not have any investments. The City's current investment policy is in compliance with O.C.G.A. 36-83-4.

Restricted Assets

These assets are held in the capital project and special revenue funds for specific purposes defined by statute, referendum, or grant contract and are not generally available for general government operations.

Receivables and Payables

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e., the current portion of interfund loans) or "advances to / from other funds" (i.e., the non-current portion of interfund loans.) All other outstanding balances between funds are reported as "due to / from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables, including those for the City of Flowery Branch, are shown net of an allowance for uncollectibles. Trade accounts receivable for the City are the balances in the enterprise funds. Balances due in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles, which was $12,234 at June 30, 2008. The collection rate for property taxes is in excess of 99%, consequently the City has chosen not to make an estimate for uncollectible property tax accounts as of June 30, 2008.

Property Tax Calendar

The City set its milage rate for 2007/2008 fiscal year on September 19, 2007 at 2.837 mils. Property tax bills were mailed on October 1, 2007 and were due December 31, 2007. Penalties and interest are due on all accounts not paid by the due date. Fifa's on delinquent tax accounts could be filed on March 1, 2008

Inventories and Prepaid Items

Inventories are valued at the lower of cost or market. In the governmental funds, the cost of inventory items are recorded as expenditures at the time of purchase. The City maintains no significant inventories. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of one year. The

NOTE 1. Summary of significant accounting policies (cont)

government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

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

Assets	Governmental Activities Years	Business-Type Activities Years
Buildings and improvements	20-50	20-50
Public domain infrastructure	14-40	14-40
Machinery and equipment	5-20	5-20
Vehicles	7	7

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Retirement Plans
The City sponsors the Deferred Compensation Plan of the City of Flowery Branch, a defined contribution plan for the benefit of its employees. At June 30, 2008 there were 14 employees participating in the plan. Contributions to the plan are funded on a monthly basis. The City is required to match one half of the amount the employee elects to contribute up to a maximum of 2% of an employee 4% deferral. All employees who work a minimum of 32 hours a week are eligible to participate in the plan. Employees can begin to participate in the plan the following month after employment begins. The City also has an agreement with the City Manager to contribute 8% of his annual salary into the plan. The plan holds its assets in a separate trust invested in annuity contracts in the name of each participant and consequently is not reported on the City's financial statements. As administrator of the plan, the City may amend the plan at its discretion. For the year ending June 30, 2008 the employees contributed $24,872 to the plan and the employer contributed $14,691.

Short Term Debt
The City did not have short term debt activity during fiscal year end June 30, 2008.

NOTE 2. Cash [Primary government]
The City's cash balance is classified into three categories of credit risk: 1) cash that is insured or collateralized with securities held by the City or by its agent in its name, 2) cash collateralized with securities held by the pledging financial institution's trust department or agent in the City's name, and 3) uncollateralized bank accounts including any bank balance that is collateralized with securities held by the pledging institution's trust department or agent but not in the City's name.

NOTE 2. Cash [Primary government] (cont)

The City's custodial credit risk policy is to require all banks to collateralize the City's deposits at 110% of account balances and to have a perfected security agreement supporting the security agreement with the bank. The City does not have a foreign credit risk.

At June 30, 2008 the carrying amount of the City's institutional deposits was $3,573,353 and the related bank deposits totaled $3,686,196. Of these bank deposits, $200,000 was fully covered by FDIC insurance. The City did obtain substantial collateral coverage for the remaining balances.✓

NOTE 3. Receivables [Primary government]
The following is a summary of amounts due from others at June 30, 2008.

Receivable from:	
Governmental funds:	
Due from other governments	$ 87,588
Taxes receivable, net	425
Other receivables, net	268,155
	356,168
Business-Type funds:	
Accounts receivable, net	139,181
	139,181
	$495,349

NOTE 3. Litigation [Primary government]

The Attorneys for the City have advised that there are no known legal matters which will have a material effect on the City's financial condition. No provision has been made to provide reserves for litigation settlements.

NOTE 4. Deferred charge [Primary government]

Debt issuance cost in the proprietary fund is capitalized as a deferred charge on the balance sheet and is amortized over the life of the bonded indebtedness. The amount reported on the balance sheet is net of amortization of $57,707.

NOTE 5. Long term debt [Primary government]

1. Due to Hall County, Georgia (Water & Sewer Fund)
In 2004 the City of Flowery Branch, Georgia entered into an intergovernmental agreement with Hall County, Georgia. The agreement was made as a settlement in compromise between the City of Flowery Branch and Hall County over the debt structure and financial provisions of previously adopted agreements. The 2004 agreement will allow Hall County 400,000 gallons per day of Flowery Branch's wastewater treatment capacity to be phased in incrementally from the date of the agreement. Pursuant to the agreement Hall County will provide a credit to Flowery Branch in recognition of SPLOST funds expended by Hall County arising out of a 1995 intergovernmental agreement The Capacity Assignment Credit will begin upon execution of the agreement and will continue through September 1, 2009. As of June 30, 2008, $501 credit has been applied and there have been no other transactions related to this liability in the current year. Currently, the City's financial statements report this credit as $3,553,015 of principal remaining and $446,484 of interest to be expensed as the credit is applied. The other credit is the Rate Structure Credit that will account for the remaining $3,504,000 of credit. The Rate Structure Credit will begin upon execution of the agreement and will continue through August 31, 2022. The credit is based on gallons of treatment services at the rate of $1.50 per 1,000 gallons.

2. Revenue Bond, Series 2004 (Water & Sewer Fund)

In 2004, the City issued Series 2004 Water and Sewer Revenue Bonds in the amount of $5,060,000. The proceeds from the issuance of the Bonds were for additions to and improvements of the water and sewerage system. The City funded an

NOTE 5. Long term debt [Primary government] (cont)

expansion of the sewerage treatment plant which has an historical cost of $4,303,813 and accumulated depreciation of $242,089 with the bond proceeds.

2. Revenue Bond, Series 2004 (Water & Sewer Fund)

As of June 30, 2008, the total outstanding debt was $4,565,000 principal due in annual installments of 170,000 to $345,000 through October 2025. The annual interest rate of 3.99% is due April 1 and October 1 each year. Interest in the amount of $188,839 was paid in the year ended June 30, 2008.

	Business Type Activities		
Year Ending	Total Payments	Principal	Interest
2009	$ 358,553	$ 180,000	$ 178,553
2010	356,270	185,000	171,270
2011	353,789	190,000	163,789
2012	356,009	200,000	156,009
2013	357,830	210,000	147,830
2014-2018	1,423,138	920,000	503,138
2019-2023	1,776,495	1,375,000	401,495
2024-2025	1,411,832	1,305,000	106,832
Totals	$ 6,393,916	$ 4,565,000	$ 1,828,916

Changes in long term debt:

	July 1, 2007	Additions	Reductions	June 30, 2008	Due within 1 year
Business type activity					
Revenue bonds	$ 4,735,000	$ -	$ 170,000	$ 4,565,000	$ 180,000
Compensated Absenses	27,346		12,575	14,771	
Hall County	4,000,000	-	501	3,999,499	-
	$ 8,762,346	$ -	$ 183,076	$ 8,579,270	$ 180,000
Governmental activity					
Compensated Absenses	$ 57,507	$ -	$ 17,419	$ 40,088	$ -

NOTE 6. Compensated absences [Primary government]
Governmental Accounting Standards Board Statement 16, effective for fiscal years beginning after June 15, 1993, requires that such benefits be accrued when: (1) the employer's obligation to employees' right to receive compensation for future benefits is attributable to employees' service already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated. Accrued Vacation and Personal Leave in the amount of $54,859 is included in the government wide financial statements. Compensated absences are normally liquidated by the funds bearing the liability which are the General Fund and the Water & Sewer Fund.

NOTE 7. Risk management [Primary government]
The City purchases Workers Compensation Insurance through the Georgia Municipal Association Worker's Compensation Self Insurance Fund. The City's policy year starts on January 1st and ends on December 31st of each year. The premium for the City's fiscal year of 2008 was $130,813. The City also purchases general liability insurance through the Georgia Interlocal Management Agency. The City's policy starts May 1st and ends April 30th of each year. The premium for the year ending June 30, 2008 was $92,740. As part of these risk pools, the Government is obligated to pay all contributions and assessments as prescribed by the pools, to cooperate with the pool's agents and attorneys, to follow loss reduction procedures established by the funds, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss. The Government is also to allow the pool's agents and attorneys to represent the Government in investigation, settlement discussions and all levels of litigation arising out of any claim made against the Government within the scope of loss protection furnished by the funds. The funds are to defend and protect the members of the

NOTE 7. Risk Management [Primary government] (cont)

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. With respect to other types of risk including torts, theft or destruction of assets, errors of omissions, and acts of God; the City has purchased sufficient insurance and, therefore, transferred risk of loss. There have been no settlements in the previous three years in excess of insurance.

NOTE 8. Capital assets [Primary government]

Depreciation expense was charged to the following functions:

Governmental activities:		Business type activities:	
General government	$ 16,551	Water and Sewer:	$ 309,242
Public safety	50,768		
Highways and streets	62,064		
Health and welfare	5,829		
Housing and development	2,012		
	$ 137,224		

Primary Government

	Beginning Balances 07/01/07	Increases	Decreases	Ending Balances 06/30/08
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 160,700	$ 35,000	$ -	$ 195,700
Construction in progress	22,637		22,637	-
Total capital assets not being depreciated	183,337	35,000	22,637	195,700
Capital assets being depreciated:				
Buildings	524,308	269,672	-	793,980
Machinery and equipment	612,281	134,550	-	746,831
Infrastructure	1,252,865	405,666	-	1,658,531
Total capital assets being depreciated	2,389,454	809,888	-	3,199,342
Accumulated depreciation:				
Buildings	262,220	11,996	-	274,216
Machinery and equipment	397,400	92,664	-	490,064
Infrastructure	129,126	32,564	-	161,690
Total accumulated depreciation	788,746	137,224	-	925,970
Total governmental capital assets being depreciated, net	1,600,708	672,664	-	2,273,372
Total governmental capital assets	$ 1,784,045	$ 707,664	$ 22,637	$ 2,469,072

NOTE 8. Capital assets [Primary government] (cont)

Business-type activities:				
Water and Sewer				
Capital assets not being depreciated:				
Land	523,200	-	-	523,200
Construction in progress	2,183,652	189,683	1,034,101	1,339,234
Total capital assets not being depreciated	2,706,852	189,683	1,034,101	1,862,434
Capital assets being depreciated:				
Buildings	3,255,958	-	-	3,255,958
Machinery and equipment	5,265,383	19,650	-	5,285,033
Infrastructure	1,614,469	1,034,101	-	2,648,570
Total capital assets being depreciated	10,135,810	1,053,751	-	11,189,561
Accumulated depreciation:				
Buildings	677,116	65,357	-	742,473
Machinery and equipment	472,422	162,686	-	635,108
Infrastructure	471,604	81,199	-	552,803
Total accumulated depreciation	1,621,142	309,242	-	1,930,384
Total capital assets being depreciated, net	8,514,668	744,509	-	9,259,177
Business-type activity assets, net	11,221,520	934,192	1,034,101	11,121,611

**

Accumulated depreciation:		
Infrastructure	$ 450,922	
Prior Period Adjustment	20,682	SEE NOTE 13
Adjusted infrastructure accum. depr.	$471,604	

NOTE 9. Budgets [Primary government]
The following are Governmental Funds for which budgets were legally adopted:

	Budgeted Expenditures and other Financing Uses	Actual Expenditures and Other Financing Uses	Actual in Excess of Appropriations
General Fund (at the legal level of control)	$ 2,731,522	$ 2,718,814	-
Grant Fund	$ 625,171	$ 482,010	-

The legal level of control for this government is at the department level, which is the basis for the Budgetary Comparison Schedule.

NOTE 10. Deferred revenue (Primary Government)

Deferred revenue in the:		
Governmental fund financial statements		
Property taxes	$ 51,575	Taxes earned in the current year but received beyond the City's period of availability.
Government wide financial statements		
Federal grant	$19,180	Revenue is earned as expenditures are made.
Enterprise Funds		
Water and Sewer Tap Fees	$2,187,610	Developer fees paid to reserve future water and sewerage capacity.

NOTE 10. Deferred Revenue (continued)

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. This government reports interfund transfers between many of its funds. Some of the transfers are considered immaterial and are aggregated into a single column or row titled All Others. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements.

NOTE 11. Internal fund balances and transfers

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

This government reports interfund transfers between many of its funds. Some of the transfers are considered immaterial and are aggregated into a single column or row titled *All Others*. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. These transfers have been eliminated from the government wide financial statements.

Transfers are used to (1) move revenues from the fund that statute or budget requires them to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenue collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund balances:

	Due to:					
Due From:	Sanitation Fund	Capital Projects Fund	Water & Sewer Fund	Grant Fund	General Fund	Total
General fund	$ 39,325	$ 50,930	$ -	$ 40,349	$ -	$ 130,604
Water & Sewer	10,531	364,732	-	179,671	298,137	853,071
Grant	-	-	-	-	220,194	220,194
Capital Projects	-	-	300,799	-	94,068	394,867
Totals	$ 49,856	$ 415,662	$ 300,799	$ 220,020	$ 612,399	$ 1,598,736

Interfund transfers

	Transfer to:	
Transfer from:	Grant fund	Totals
General fund	$ 179,671	$ 179,671
	$179,671	$ 179,671

NOTE 12. 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 Development center (RDC) and is required to pay annual dues thereto. Membership in an RDC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the RDC in Georgia. The RDC Board membership includes the chief elected official of each city and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of an RDC. Separate financial statements may be obtained from:

Georgia Mountains Regional Development Center
1310 W. Ridge Road
Gainesville, GA 30501

NOTE 13. Prior period adjustments

Enterprise Funds

	Water & Sewer Fund
A.	$ 20,682
B.	316,800
Total	$ 337,482

Explanation:

A. Depreciation on an asset placed in service in prior year.
B. Required to restate balance in deferred revenue for deposits received by the City in prior years for sewer capacity.

NOTE 14. Series 2004 Revenue Bond Covenants

A. The City of Flowery Branch has approximately 957 water and sewer customers at June 30, 2008.

B. The following is a list of insurance policies and fidelity bonds paid for and in force at June 30, 2008.

Items Covered	Insurance Company	Limits
General Liabilities	Georgia Interlocal Risk Management Agency	$1,000,000
Workmans Comp.	Georgia Interlocal Risk Management Agency	$1,000,000
Building & Contents	Georgia Interlocal Risk Management Agency	$15,253,892
Vehicles	Georgia Interlocal Risk Management Agency	$1,000,000
Water Plan Equipment	Georgia Interlocal Risk Management Agency	$15,253,892
Fidelity Bond: Blanket		
City Manager & Clerk	Georgia Interlocal Risk Management Agency	$1,000,000
Public Officials	Georgia Interlocal Risk Management Agency	$1,000,000
Law Enforcement	Georgia Interlocal Risk Management Agency	$1,000,000

C. Auditor's Statement

The terms and conditions of the Series 2004 bond resolution have been examined for the fiscal year ending 6/30/08. The City is not in compliance with all bond covenants. ✓

CITY OF FLOWERY BRANCH, GEORGIA

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Budget to GAAP Differences	Actual Amounts	Variance with Final Budget
	Original	Final	Budgetary Basis	Over / (Under)	GAAP Basis	Over / (Under)
Revenues						
Property taxes	$ 468,683	$ 468,683	$ 585,197	$ -	$ 585,197	$ 116,514
Sales taxes	420,000	420,000	407,814	-	407,814	(12,186)
Franchise taxes	267,397	267,397	365,416	-	365,416	98,019
Intergovernmental	40,000	40,000	41,211	-	41,211	1,211
License and permits	433,900	433,900	272,073	-	272,073	(161,827)
Fines and forfeitures	652,000	652,000	428,251	-	428,251	(223,749)
Charges for services	49,950	49,950	125,646	-	125,646	75,696
Interest	4,000	4,000	4,753	-	4,753	753
Transfer In	57,500	57,500	-	-	-	(57,500)
Miscellaneous	266,395	266,395	324,202	-	324,202	57,807
Prior Year Fund Balance	-	71,697	-	-	-	(71,697)
Total Revenues	$2,659,825	$2,731,522	$ 2,554,563	$ -	$ 2,554,563	$ (176,959)
Expenditures						
Current Operating:						
General government	$ 882,790	$1,112,907	$ 1,112,907	$ -	$ 1,112,907	$ -
Judicial	275,817	82,479	82,479	-	82,479	-
Public safety	680,031	696,554	696,554	-	696,554	-
Highways and streets	413,099	328,190	314,852	-	314,852	13,338
Health and welfare	15,000	28,306	28,306	-	28,306	-
Housing and development	393,088	483,086	483,086	-	483,086	-
Total Expenditures	$2,659,825	$2,731,522	$ 2,718,184	$ -	$ 2,718,184	$ 13,338

CITY OF FLOWERY BRANCH, GEORGIA

Budgetary Comparison Schedule
Grant Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Budget to GAAP Differences	Actual Amounts	Variance with Final Budget
	Original	Final	Budgetary Basis	Over / (Under)	GAAP Basis	Over / (Under)
Revenues						
Transfer in	$ 119,000	$ 298,671	$ 179,671	-	$ 179,671	$ (119,000)
Intergovernmental	326,500	326,500	302,339	-	302,339	(24,161)
Total Revenues	$ 445,500	$ 625,171	$ 482,010	$ -	$ 482,010	$ (143,161)
Expenditures						
Current Operating:						
Streets and Highways	445,500	625,171	482,010	-	482,010	143,161
Total Expenditures	$ 445,500	$ 625,171	$ 482,010	$ -	$ 482,010	$ 143,161

CITY OF FLOWERY BRANCH
Notes to Required Supplementary Information
on Budgetary Accounting and Control
Year Ended June 30, 2008

BUDGETARY ACCOUNTING AND CONTROL

Budget Law

The City prepares its annual operating budget under the provisions of the official Code of Georgia. In accordance with those provisions, the following process is used to adopt the annual budget:

(a). Prior to June 1, the City Finance Officer submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

(b). Public hearings are conducted at regular Commission meetings to obtain taxpayer comments. Public hearings are normally scheduled no later than 15 days prior to the beginning of the budget year.

(c). Subsequent to the public hearings, the budget is legally enacted through the passage of a resolution by the City Council.

All governmental funds with revenues and/or expenditures as defined by State law are required to have annual budgets. The legal level of control at which expenditures may not legally exceed appropriations is at the department level within a fund.

Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

BUDGET REQUIREMENTS

Amendments to the original budget appropriations were properly approved by the City Commissioners. For the year ended June 30, 2008, the following supplemental increases and decreases in appropriations were approved:

Fund Type	Original Budget	Supplemental Appropriations	Supplemental Decreases	Revised Appropriations
General Fund	$ 2,659,825	$ 71,697	$ -	$ 2,731,522
Grant Fund	$ 445,500	$ 179,671	$ -	$ 625,171

Certified Public Accountants

Walker & Associates

A Professional Corporation

American Institute of
Certified Public Accountants
Georgia Society of
Certified Public Accountants
AICPA Employee Benefit
Quality Audit Center
AICPA Governmental
Audit Quality Center

William D. Walker, CPA
Laura A. Wallace, CPA
Wayne Tuck, CPA
Gail Stepp
Martha P. Smith
Teresa Standridge

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

To the Mayor and City Council
City of Flowery Branch
Flowery Branch, Georgia

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of the City of Flowery Branch, Georgia as of and for the year ended June 30, 2008 which collectively comprise the City of Flowery Branch's basic financial statements and have issued our report thereon dated October 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Flowery Branch's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement in the City of Flowery Branch's financial statements that is more than inconsequential will not be prevented or detected by the City of Flowery Branch's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting noted as B-1 through B-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Flowery Branch's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and,

accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the aforementioned significant deficiency also to be a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the City of Flowery Branch's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items A-1 through A-2.

City of Flowery Branch, Georgia's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Flowery Branch, Georgia's response and, accordingly, we express no opinion on it.

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

Walker & Associates

Walker & Associates CPA's, PC
October 31, 2008

City of Flowery Branch, Georgia

Schedule of Findings and Responses
For the Year Ended June 30, 2008

Findings – Financial Statement Audit

Compliance

A-1	Condition:	The City is not in compliance with its revenue bond covenants
	Criteria:	Article IV, Section 4 requires the City to maintain rates, fees and charges sufficient to produce net revenues of at least 1.5 times the annual debt service.
	Effect:	Violation of bond covenants jeopardizes the City's credit rating and action by the bond holders.
	Corrective Action:	The City has established a water rate study group to monitor water rates in order to comply with the bond covenants. The City's action will take place within the next physical year.
A-2	Condition:	The City is not incompliance with state laws due to having a fund with a deficit fund balance.
	Criteria:	The state requires that all governments maintain sufficient fund balances to meet future obligations.
	Effect:	Violation of state law
	Corrective Action:	In the future the City will revise their budget in order to be in compliance with state laws.

Internal Control

B-1	Condition:	In previous years the City has deposited water and sewer and sanitation customer deposits into the general operating account.
	Criteria:	Customer deposits are not the property of the City but are funds held in trust for its customers. Such funds should not be used to fund operations or for any other purpose.
	Effect:	Use of customer deposits for other purposes will potentially not allow sufficient funds to pay final customer bill or refund required amounts in a timely manner.
	Corrective Action:	The City has established a separate, non-interest bearing checking account for the deposit of customer deposits and refund of customer deposits.
B-2	Condition:	The City is paying car allowances to two key employees and not reporting this income on the employee's W-2 at year end.
	Criteria:	All wages should be reported on employee's W-2 at year end.
	Effect:	The City could potentially be liable for all associated taxes for under reporting the employee's wages and they are in violation of federal wage laws.
	Corrective Action:	The City plans to properly report this income on the employee's W-2.

See page 29 "Planned Corrective Actions" for client responses.

Certified Public Accountants

Walker & Associates

A Professional Corporation

American Institute of
Certified Public Accountants
Georgia Society of
Certified Public Accountants
AICPA Employee Benefit
Quality Audit Center
AICPA Governmental
Audit Quality Center

William D. Walker, CPA
Laura A. Wallace, CPA
Wayne Tuck, CPA
Gail Stepp
Martha P. Smith
Teresa Standridge

INDEPENDENT AUDITOR'S REPORT ON SPECIAL PURPOSE LOCAL OPTION ✓ ONE PERCENT SALES AND USE TAX

To the City Council
City of Flowery Branch, Georgia
Flowery Branch, Georgia

We have audited the accompanying Schedule of Special Purpose Local Option Sales Tax for the City of Flowery Branch, Georgia for the year ended June 30, 2008. This schedule is the responsibility of the City of Flowery Branch, Georgia's management. Our responsibility is to express an opinion on the Schedule of Special Purpose Local Option Sales Tax based on our audit.

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

The accompanying Schedule of Special Purpose Local Option Sales Tax was prepared for the purpose of complying with the Official Code of Georgia Annotated, 48-8-121 on the modified accrual basis of accounting as described in Note 1 and is not intended to be a complete presentation of the City of Flowery Branch, Georgia's revenues and expenditures.

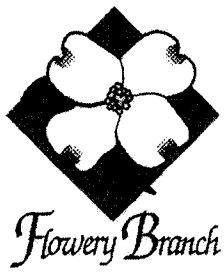
In our opinion, the Schedule of Special Purpose Local Option Sales Tax referred to above presents fairly, in all material respects, the original estimated cost, the current estimated cost, and the current and prior year expenditures for each project in the City of Flowery Branch, Georgia's resolution or ordinance calling for the tax for the year ended June 30, 2008, in conformity with accounting principles generally accepted in the United States of America..

Walker & Associates
Certified Public Accountants
Gainesville, Georgia
October 31, 2008

CITY OF FLOWERY BRANCH, GEORGIA

Schedule of Special Purpose Local Option Sales Tax
Estimated Cost and Expenditure Summary
For the Year Ended June 30, 2008

Project Description	Estimated Cost		Expenditures		
	Original	Current	Prior Years	Current Year	Total
Road projects	$ 112,390	$ 262,713	$ 186,958	$ 92,315	$ 279,273
Other SPLOST projects	477,659	327,336	-	-	-
Recreational facilities	-	-	-	-	-
Public safety facilities	-	-	40,800	45,271	86,071
Water system improvements	-	-	-	-	-
Sewer system improvements	-	-	-	-	-
Additional road improvements	-	-	-	-	-
Capital outlay projects	-	-	-	-	-
Totals	$ 590,049	$ 590,049	$ 227,758	$ 137,586	$ 365,344



December 31, 2008

Department of Audits and Accounts
270 Washington Street, S.W., Room 1-156
Atlanta, Georgia 30334-8400

To Whom It May Concern:

Please find below the City of Flowery Branch's Corrective Action Plan based on the City's FYE June 30, 2008 audit findings.

Compliance

A-1 Condition: The City is not in compliance with its revenue bond covenants

Criteria: Article IV, Section 4 requires the City to maintain rates, fees and charges sufficient to produce net revenues of at least 1.5 times the annual debt service.

Effect: Violation of bond covenants jeopardizes the City's credit rating and action by the bond holders.

Corrective Action: While we agree with this finding, the City Council approved new water and sewer rates effective July 1, 2008 which by our analysis will more than satisfy the requirements of the bond debt service.

Internal Control

B-1 Condition: In previous years the City has deposited water and sewer and sanitation customer deposits into the general operating account.

Criteria: Customer deposits are not the property of the City but are funds held in trust for its customers. Such funds should not be used to fund operations or for any other purpose.

Effect: Use of customer deposits for other purposes will potentially not allow sufficient funds to pay final customer bill or refund required amounts in a timely manner.

Corrective Action: A separate non-interest bearing account was opened August 14, 2007.

B-2 Condition: The City is paying car allowances to two key employees and not reporting this income on the employee's W-2 at year end.

Criteria: All wages should be reported on employee's W-2 at year end.

Effect: The City could potentially be liable for all associated taxes for under reporting the employee's wages and they are in violation of federal wage laws.

Corrective Action: The car allowances for both employees were added to their regular payroll checks with the required taxes deducted. This was begun on the October 10, 2008 payroll.

Sincerely,

Bill Andrew

Bill Andrew, City Manager