CITY OF FLOWERY BRANCH, GEORGIA

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

WALKER & ASSOCIATES, CPA'S, PC

CITY OF FLOWERY BRANCH, GEORGIA
FISCAL YEAR ENDED JUNE 30, 2011
TABLE OF CONTENTS

FINANCIAL SECTION

Independent Auditor's Report 1

Basic Financial Statements
- Government-Wide Financial Statements
  - Statement of Net Assets 3
  - Statement of Activities 4
- Fund Financial Statements
  - Governmental Fund Financial Statements
    - Balance Sheet 5
    - Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 6
    - Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds 7
    - Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 8
  - Proprietary Fund Financial Statements
    - Statement of Net Assets 9
    - Statement of Revenues, Expenses, and Changes in Fund Net Assets 10
    - Statement of Cash Flows 11
- Notes to Financial Statements 12

Required Supplementary Information (other than MD&A)
- Budgetary Comparison Schedules
  - General Fund 25
  - Notes to Required Supplementary Information on Budgetary Accounting and Control 26

Combining and Individual Funds Statements
- Combining Balance Sheet-Nonmajor Governmental Funds 27
- Combining Statement of Revenue, Expenditures and Changes in Fund Balances-Nonmajor Governmental Funds 28

COMPLIANCE SECTION
- 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 29
- Schedule of Findings and Responses 31
- Schedule of Special Purpose Local Option Sales Tax Estimated Cost and Expenditure Summary 32

Walker and Associates
Certified Public Accountants

Independent Auditor's Report

To the City Council
City of Flowery Branch, 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 Flowery Branch, Georgia, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City 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 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 Flowery Branch, Georgia, as of June 30, 2011, 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 December 22, 2011, on our consideration of the City of Flowery Branch, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 have determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budget comparison information on pages 25 through 26 are not a required part of 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 about the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Flowery Branch, Georgia's basic financial statements. The combining and individual nonmajor fund financial statements and the

schedule of expenditures of special local option sales taxes, as required by O.C.G.A. 48-8-121as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Flowery Branch, Georgia. The combining and individual nonmajor fund financial statements and the schedule of expenditures of special purpose local option sales taxes has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sincerely,

Walker & Associates

Walker & Associates
Certified Public Accountants
December 22, 2011

City of Flowery Branch, Georgia

Statement of Net Assets

June 30, 2011

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Unit
Assets				
Cash and cash equivalents	$ 1,278,843	$ 2,812,700	$ 4,091,543	$ -
Receivables (net)	360,068	154,589	514,657	-
Accrued Revenue	-	54,437	54,437	-
Prepaid Expenses	102,370	-	102,370	-
Deferred charge	-	41,727	41,727	-
Nondepreciable capital assets	369,700	1,175,850	1,545,550	-
Depreciable capital assets, net	6,219,662	9,216,568	15,436,230	-
Total assets	8,330,643	13,455,871	21,786,514	-
Liabilities				
Accounts payable and other liabilities	145,885	332,307	478,192	-
Deferred revenue	63,271	1,595,650	1,658,921	-
Accrued balances	52,583	-	52,583	-
Compensated absences due in more than one year	71,250	15,433	86,683	-
Note payable due within one year	-	200,000	200,000	-
Note payable due in more than one year	-	3,810,000	3,810,000	-
Total liabilities	332,989	5,953,390	6,286,379	-
Net assets				
Invested in capital assets, net of related debt	6,589,362	6,382,418	12,971,780	-
Restricted for:				
Law enforcement	23,788	-	23,788	-
Unrestricted	1,384,504	1,120,063	2,504,567	-
Total net assets	$ 7,997,654	$ 7,502,481	$ 15,500,135	$ -

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, 2011

	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	Net (Expenses) Revenues and Changes in Net Assets: Primary Government: Business-Type Activities	Net (Expenses) Revenues and Changes in Net Assets: Primary Government: Total	Net (Expenses) Revenues and Changes in Net Assets: Component Unit
Primary government:								
Governmental activities								
General government	$ 952,323	$ 212,975	$ -	$ 217,972	$ (521,376)		$ (521,376)	
Judicial	118,380	435,412	-	-	317,032		317,032	
Public safety	913,689	-	3,133	51,064	(859,492)		(859,492)	
Highways and streets	471,727	-	-	-	(471,727)		(471,727)	
Health and welfare	31,279	-	-	-	(31,279)		(31,279)	
Housing and development	305,179	70,288	-	-	(234,891)		(234,891)	
Total governmental activities	2,792,577	718,675	3,133	269,036	(1,801,733)		(1,801,733)	
Business-type activities								
Water and Sewer	1,716,724	1,498,393	-	-		$ (218,331)	(218,331)	
Sanitation	78,706	82,099	-	-		3,393	3,393	
Total business-type activities	1,795,430	1,580,492	-	-		(214,938)	(214,938)	
Total primary government	$ 4,588,007	$ 2,299,167	$ 3,133	$ 269,036		-	(2,016,671)	
Component units:								
Downtown Development Authority	$ -	$ -	$ -	$ -				$ -
Total component units	$ -	$ -	$ -	$ -				-
General revenues:								
Taxes:								
Property taxes, levied for general purposes					893,845	-	893,845	
Franchise tax					455,307	-	455,307	
Sales taxes					351,255	-	351,255	
Alcoholic Beverage Tax					366,747	-	366,747	
Interest and investment earnings					1,546	17,984	19,530	
Miscellaneous					1,168	204,976	206,144	
Gain on disposition of miscellaneous assets					-	-	-	
Transfers					126,213	(126,213)	-	
Total general revenues, special items, and transfers					2,196,081	96,747	2,292,828	
Change in net assets					394,348	(118,191)	276,157	
Net assets - beginning					7,603,307	7,620,672	15,223,979	-
Net assets - ending					$ 7,997,655	$ 7,502,481	$15,500,136	$ -

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

City of Flowery Branch, Georgia
Balance Sheet
Governmental Funds

June 30, 2011

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 1,122,556	$ 100,385	$ 32,114	$ 1,255,055
Due from other governments	31,819	22,587	-	54,406
Receivables (net)	302,482	-	3,180	305,662
Prepaid expenditures	102,368	-	-	102,368
Due from other funds	27,716	-	110,671	138,387
Restricted cash	23,788	-	-	23,788
Total assets	$ 1,610,729	$ 122,972	$ 145,965	$ 1,879,666
Liabilities and fund balances				
Liabilities:				
Accounts payable	$ 142,655	$ -	$ 3,230	$ 145,885
Accrued expenses	52,581	-	-	52,581
Due to other funds	110,671	-	27,716	138,387
Deferred revenue	75,893	-	-	75,893
Total liabilities	381,800	-	30,946	412,746
Fund balances				
Nonspendable:				
Prepaid expenditures	102,368	-	-	102,368
Restricted for:				
Capital projects	-	122,972	-	122,972
Tax allocation district	-	-	110,671	110,671
Law enforcement	23,788	-	4,348	28,136
Unassigned	1,102,773	-	-	1,102,773
Total fund balances	1,228,929	122,972	115,019	1,466,920
Total liabilities and fund balances	$ 1,610,729	$ 122,972	$ 145,965	$ 1,879,666

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, 2011

Total fund balances - governmental funds	$ 1,466,920
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	8,114,064
Less: Accumulated depreciation	(1,524,702)
Accrued expenses not reported in the governmental funds:	
Accrued personal leave not reported in governmental funds	(71,250)
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	12,622
Net assets of governmental activities	$ 7,997,654

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, 2011

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes:				
Property Taxes	$ 770,179	$ -	$ -	$ 770,179
Sales Taxes	351,255	-	-	351,255
Franchise Tax	417,137	-	-	417,137
Other Taxes	340,388	-	143,977	484,365
Intergovernmental	43,915	217,385	56,303	317,603
Licenses and permits	213,430	-	-	213,430
Fines and Forfeitures	433,808	-	-	433,808
Charges for services	32,034	-	-	32,034
Interest	1,546	587	-	2,133
Miscellaneous	31,387	-	-	31,387
Total Revenue	2,635,079	217,972	200,280	3,053,331
Expenditures				
Current				
General government	1,066,525	-	38,644	1,105,169
Judicial	120,924	-	-	120,924
Public safety	856,321	-	19,380	875,701
Highways and streets	318,199	-	27,542	345,741
Health and welfare	27,367	-	-	27,367
Housing and development	302,321	-	-	302,321
Debt service				
Capital Outlay	-	95,000	-	95,000
Total Expenditures	2,691,657	95,000	85,566	2,872,223
Excess revenues over (under) expenditures	(56,578)	122,972	114,714	181,108
Other financing sources (uses)				
Transfers In	126,213	-	305	126,518
Transfers Out	(305)	-	-	(305)
Total other financing sources and (uses)	125,908	-	305	126,213
Net change in fund balance	69,330	122,972	115,019	307,321
Beginning Fund Balance	1,159,599	-	-	1,159,599
Ending Fund Balance	$ 1,228,929	$ 122,972	$ 115,019	$ 1,466,920

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, 2011

Net change in fund balances-total governmental funds	$	307,321
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 capital outlay ($268,547)exceeded depreciation ($199,807).		68,740
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		12,622
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures		
Change in accrued personal leave		5,665
Net change in net assets of governmental activities	$	394,348

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

City of Flowery Branch, Georgia

Statement of Net Assets

Proprietary Funds

June 30, 2011

	Business-type Activities-Enterprise Funds		
	Water and Sewer	(nonmajor) Sanitation	Totals
Assets			
Current assets			
Cash and cash equivalents	$ 550,471	$ -	$ 550,471
Accounts Receivable (net)	112,889	41,700	154,589
Restricted cash and cash equivalents	749,883	-	749,883
Accrued Revenue	54,437	-	54,437
Total Current Assets	1,467,680	41,700	1,509,380
Noncurrent Assets:			
Restricted cash and cash equivalents	1,512,346	-	1,512,346
Deferred Charge	41,727	-	41,727
Capital Assets			
Land	553,200	-	553,200
Buildings	3,255,958	-	3,255,958
Improvements other than buildings	3,336,883	-	3,336,883
Machinery and equipment	5,545,937	-	5,545,937
Construction in Progress	622,650	-	622,650
Less accumulated depreciation	(2,922,210)	-	(2,922,210)
Total capital assets (net of accumulated depreciation)	10,392,418	-	10,392,418
Total noncurrent assets	11,946,491	-	11,946,491
Total Assets	13,414,171	41,700	13,455,871
Liabilities			
Current Liabilities:			
Accounts Payable	73,109	-	73,109
Accrued Expenses	151,577	-	151,577
Deferred revenue	1,595,650	-	1,595,650
Current Portion of Long Term Debt	200,000	-	200,000
Total Current Liabilities	2,020,336	-	2,020,336
Noncurrent Liabilities:			
Compensated absences	15,433	-	15,433
Customer Deposits	107,621	-	107,621
Notes payable (Net of Current Portion)	3,810,000	-	3,810,000
Total Noncurrent Liabilities	3,933,054	-	3,933,054
Total Liabilities	5,953,390	-	5,953,390
Fund Net Assets			
Invested in capital assets, net of related debt	6,382,418	-	6,382,418
Unrestricted	1,078,363	41,700	1,120,063
Total fund net assets	$ 7,460,781	$ 41,700	$ 7,502,481

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

City of Flowery Branch, Georgia

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

	Business-type Activities-Enterprise Funds		
	Water and Sewer	(nonmajor) Sanitation	Totals
Operating revenue:			
Charges for Service	$1,631,699	$ 82,099	$ 1,713,798
Connection Fees	24,658	-	24,658
Miscellaneous Income	13,357	-	13,357
Total operating revenue	1,669,714	82,099	1,751,813
Operating expenses:			
Personal services			
Compensation	398,078	-	398,078
Employment Taxes	28,985	-	28,985
Benefits	57,228	-	57,228
Total Personal Services	484,291	-	484,291
Cost of sales			
Water/vendor contracts	284	77,901	78,185
Supplies	148,832	-	148,832
Repairs and Maintenance	151,358	-	151,358
Utilities	321,873	-	321,873
Miscellaneous	15,859	805	16,664
Depreciation	321,359	-	321,359
Engineering, Lab Fees and Training	72,002	-	72,002
Total cost of sales	1,031,567	78,706	1,110,273
Total Operating Expenses	1,515,858	78,706	1,594,564
Operating Income	153,856	3,393	157,249
Nonoperating revenues (expenses)			
Intergovernmental revenue	191,800	-	191,800
Grant Expenses	(191,800)	-	(191,800)
Interest Income	17,984	-	17,984
Interest Expense on Loans	(167,211)	-	(167,211)
Total nonoperating revenues and (expenses)	(149,227)	-	(149,227)
Transfer In	74,853	-	74,853
Transfer (Out)	(120,262)	(80,804)	(201,066)
Change in Net Assets	(40,780)	(77,411)	(118,191)
Fund net assets - beginning	7,501,561	119,111	7,620,672
Fund net assets - ending	$7,460,781	$ 41,700	$ 7,502,481

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

City of Flowery Branch, Georgia
Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2011

	Business-type Activities-Enterprise Funds		
	Water and Sewer	(nonmajor) Sanitation	Totals
Cash flows from operating activities:			
Receipts from customers	$ 1,725,207	$ 84,657	$1,809,864
Payments to suppliers	(920,327)	(78,706)	(999,033)
Payments to employees	(484,291)	-	(484,291)
Net cash provided (used) by operating activities	320,589	5,951	326,540
Cash flows from noncapital financing activities:			
Transfer from other funds	74,853	-	74,853
Transfer to other funds	(120,262)	(80,804)	(201,066)
Advances from other funds	168,327	-	168,327
Advances to other funds	(202,646)	74,853	(127,793)
Net cash provided (used) by noncapital financing activities	(79,728)	(5,951)	(85,679)
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(43,272)	-	(43,272)
Intergovernmental revenue	191,800	-	191,800
Debt payments, principal and interest and deferred charge	(351,883)	-	(351,883)
Net cash provided (used) by capital and related financing activities	(203,355)	-	(203,355)
Cash flows from investing activities:			
Interest income	17,984	-	17,984
Net cash provided by investing activities	17,984	-	17,984
Net increase (decrease) in cash and cash equivalents	55,490	-	55,490
Cash and cash equivalents, July 1, 2010	2,757,210	-	2,757,210
Cash and cash equivalents, June 30, 2011	$ 2,812,700	$ -	$2,812,700
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$ (37,944)	$ 3,393	$ (34,551)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	321,359	-	321,359
Changes in assets and liabilities:			
Receivables and accrued revenue	10,319	22,107	32,426
Accounts and accrued expenses payable	55,095	(19,549)	35,546
Customer deposits	(28,240)	-	(28,240)
Net cash provided by operating activities	$ 320,589	$ 5,951	$ 326,540

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, a 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 (continued)

1-C Fund Equity

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

Fund Balance - Generally fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

Nonspendable - Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally contractually required to be maintained intact.

Restricted - Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Committed - Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the adoption of a resolution. The City Council also may modify or rescind the commitment.

Assigned - Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City manger to assign fund balances.

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

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

Committed
Assigned
Unassigned

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the City has spent) for the acquisition, construction or improvement of those assets. Net assets are reported as restricted as described in the fund balance section above. All other net assets are reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 1. Summary of significant accounting policies (continued)

The City reports the following major governmental funds:

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

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

The City reports the following nonmajor governmental funds:

Grant Fund. This is a special revenue fund which accounts for the receipt and expenditure of grant revenue.

TAD Fund. This is a special revenue fund which accounts for the tax allocation district revenue and expenses.

Hotel/Motel Tax Fund. This is a special revenue fund which accounts for the collection and expenditure of these special tax collections.

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.

The City reports the following nonmajor enterprise fund:

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 Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the flow of economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. 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.

NOTE 1. Summary of significant accounting policies (continued)

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.

Budgets. Formal budgetary accounting is employed as a management control device for the General Fund and Special Revenue Funds. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for the General Fund and Special Revenue Funds. The same basis of accounting is used to reflect actual revenues and expenditures/expenses recognized on a generally accepted accounting principle basis. Budgets for the Capital Project Funds are adopted on a project basis, spanning more than one fiscal year. The City Council must approve any amendments to the budget.

All annual appropriations lapse at the end of each fiscal year.

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.

1-D 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 to be cash equivalents. Only investments with original maturities of three months or less meet this definition.

Investments

The City does not have a formal investment policy that limits maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2011, the City had no investments.

Restricted Assets

These assets are held in the capital projects 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.

NOTE 1. Summary of significant accounting policies (continued)

Receivables and Payables (continued)

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 resulting from the sale of water, sewer and sanitation services. Balances due in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles, which was $23,937 at June 30, 2011. The collection rate for property taxes in the General Fund is in excess of 99%, consequently the City has chosen not to make an estimate for uncollectible property tax accounts as of June 30, 2011.

Property Tax Calendar

The City set its millage rate for the 2010/2011 fiscal year on September 2, 2010 at 2.837 mills. Property tax bills were mailed on October 1, 2010 and were due December 31, 2010. 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 2, 2011.

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 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

NOTE 1. Summary of significant accounting policies (continued)

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, 2011, 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 sponsor of the plan, the City may amend the plan at its discretion. For the year ending June 30, 2011, the employees contributed $13,451 to the plan, and the employer contributed $13,681.

NOTE 2. Deposits [Primary government]

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties or municipalities.

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

At June 30, 2011, all bank deposits were insured or fully collateralized.

NOTE 3. Litigation [Primary government]

The Attorneys for the City have advised that there are several known legal matters which may have a material effect on the City's financial condition. Accordingly the City has chosen to book a reserve for litigation settlements of $10,000.

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 $41,727.

NOTE 5. Receivables [Primary government]

The following is a summary of amounts due from others at June 30, 2011.

Receivable from:

Governmental Funds:		
Due from other governments	$ 54,406	Sales taxes, property tax for tax allocation district
Taxes receivable, net	15,802	Property tax and hotel/motel tax
Other receivables, net	289,860	Fines/forfeitures and excise taxes
Total governmental receivables	$ 360,068	
Business-Type Funds:		
Accounts receivable, net	$ 154,409	Water, Sewer, and Sanitation accounts
Total business-type receivables	$ 154,409	

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 $86,683 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. Long- term debt [Primary government]

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 expansion of the sewerage treatment plant which has an historical cost of $4,303,813 and accumulated depreciation of $564,875 with the bond proceeds.

As of June 30, 2011, the total outstanding debt was $4,010,000 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 $167,211 was paid in the year ended June 30, 2011.

NOTE 7. Long- term debt [Primary government] (continued)

Business -Type Activities

Year Ending	Total Payments	Principal	Interest
2012	$ 356,009	$ 200,000	$ 156,009
2013	357,829	210,000	147,829
2014	354,351	215,000	139,351
2015	355,573	225,000	130,573
2016	356,396	235,000	121,396
2017-2021	1,780,359	1,325,000	455,359
2022-2025	1,764,788	1,600,000	164,788
Totals	$ 5,325,305	$ 4,010,000	$ 1,315,305

Changes in long- term debt:

	July 1, 2010	Additions	Reductions	June 30, 2011	Due within 1 year
Business- type activity					
Revenue bonds	$ 4,200,000	$ -	$ 190,000	$ 4,010,000	$ 200,000
Compensated Absenses	13,158	2,275		15,433	
	$ 4,213,158	$ 2,275	$ 190,000	$ 4,025,433	$ 200,000
Governmental activity					
Compensated Absenses	$ 76,915	$ -	$ 5,665	$ 71,250	$ -

NOTE 8. 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 2011 was $77,655. 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, 2011 was $76,251. As part of these risk pools, the Government is obligated to pay all contributions and assessments as prescribed by the pools, to cooperate with the pool's agents and attorneys, to follow loss reduction procedures established by the funds, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss. The Government is also to allow the pool's agents and attorneys to represent the Government in investigation, settlement discussions and all levels of litigation arising out of any claim made against the Government within the scope of loss protection furnished by the funds. The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member government contract and in accordance with the worker's compensation law of Georgia. The funds are to pay all costs taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense. With respect to other types of risk including torts, theft or destruction of assets, errors of omissions, and acts of God, the City has purchased sufficient insurance and, therefore, transferred risk of loss. There have been no settlements in the previous three years in excess of insurance.

Note 9. Deferred revenue (Primary Government)

Deferred revenue in the:		
Governmental fund financial statements		
Business License	$ 63,271	Taxes not earned in the current year.
Property tax revenues	12,622	Taxes earned in the current year but received beyond the City's period of availability.
Total governmental Deferred Revenue	$ 75,893	
Government wide financial statements		
Business License	$ 63,271	Taxes not earned in the current year.
Enterprise Funds		
Water and Sewer Tap Fees	$1,595,650	Developer fees paid to reserve future water and sewerage capacity.

NOTE 10. 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)	$ 2,615,430	$ 2,691,962	$ 76,532
Hotel/Motel Tax Fund	$ 32,931	$ 33,030	$ 99
Grant Fund	$ 494,630	$ 52,161	$ -
Tax Allocation District Fund	$ 102,356	$ 375	$ -

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

NOTE 11. Hotel/Motel Tax

In the fiscal year ending June 30, 2011, the City began levying a hotel/motel tax at the rate of 5%. During the year the City collected $32,931 in taxes and has contractually committed to the Lake Lanier Convention and Visitors Bureau for the expenditure of $33,030 which brings the City into full compliance with state law.

NOTE 12. Interfund receivables, payables 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.

NOTE 12. Interfund receivables, payables and transfers (cont'd)

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 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) provide unrestricted 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	Tax Allocation Fund	Water & Sewer Fund	General Fund	Total
General Fund	$ -	$ 110,671	$ -	$ -	$ 110,671
Water & Sewer	-	-	-	-	-
Capital Projects	-	-	-	-	-
Tax Allocation Fund	-	-	-	-	-
Grant	-	-	-	27,716	27,716
Totals	$ -	$ 110,671	$ -	$ 27,716	$ 138,387

Transfers:

	Transfer To:				
Transfer From:	General Fund Fund	Grant Fund	Hotel/Motel Fund	Water & Sewer Fund	Total
General Fund	$ -	$ 206	$ 99	$ -	$ 305
Sanitation Fund	5,951	-	-	74,853	80,804
Water & Sewer Fund	120,262	-	-	-	120,262
Grant Fund		-	-	-	-
	$ 126,213	$ 206	$ 99	$ 74,853	$ 201,371

NOTE 13. Capital assets [Primary government]

Depreciation expense was charged to the following functions:

Governmental activities:		Business -type activities:	
General government	$ 25,350	Water and sewer	$ 321,359
Public safety	38,288		
Highways and streets	125,792		
Health and welfare	3,912		
Housing and development	6,465		
	$ 199,807		

NOTE 14. 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 15. Series 2004 Revenue Bond Covenants

A. The City of Flowery Branch has approximately 997 water and sewer customers at June 30, 2011.

B. The following is a list of insurance policies and fidelity bonds paid for and in force at June 30, 2011.

Items Covered	Insurance Company	Limits
General Liability	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	$13,402,150
Vehicles	Georgia Interlocal Risk Management Agency	$1,000,000
Water Plan Equipment	Georgia Interlocal Risk Management Agency	$13,402,150
Fidelity Bond: Blanket		
City Manager & Clerk	Georgia Interlocal Risk Management Agency	$ 500,000
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 6/30/11. The City is in compliance with all bond covenants.

NOTE 16. Capital assets [Primary government](continued)

Primary Government

	Beginning Balances 7/1/2010	Increases	Decreases	Ending Balances 6/30/2011
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 250,700	$ 95,000	$ -	$ 345,700
Construction in progress	24,000	-	-	24,000
Total capital assets not being depreciated	274,700	95,000	-	369,700
Capital assets being depreciated:				
Buildings	1,143,980	173,547	-	1,317,527
Machinery and equipment	830,224	-	-	830,224
Infrastructure	5,596,613	-	-	5,596,613
Total capital assets being depreciated	7,570,817	173,547	-	7,744,364
Accumulated depreciation:				
Buildings	312,206	24,366		336,572
Machinery and equipment	656,696	63,509		720,205
Infrastructure	355,993	111,932		467,925
Total accumulated depreciation	1,324,895	199,807	-	1,524,702
Total governmental capital assets being depreciated, net	6,245,922	(26,260)	-	6,219,662
Total governmental capital assets	$ 6,520,622	$ 68,740	$ -	$ 6,589,362

	Beginning Balances 7/1/2010	Increases	Decreases	Ending Balances 6/30/2011
Business-type activities:				
Water and Sewer				
Capital assets not being depreciated:				
Land	$ 553,200	$ -	$ -	$ 553,200
Construction in progress	579,378	43,272	-	622,650
Total capital assets not being depreciated	1,132,578	43,272	-	1,175,850
Capital assets being depreciated:				
Buildings	3,255,958	-	-	3,255,958
Machinery and equipment	5,545,937	-	-	5,545,937
Infrastructure	3,336,883	-	-	3,336,883
Total capital assets being depreciated	12,138,778	-	-	12,138,778
Accumulated depreciation:				
Buildings	873,187	65,356	-	938,543
Machinery and equipment	1,026,295	202,401	-	1,228,696
Infrastructure	701,369	53,602	-	754,971
Total accumulated depreciation	2,600,851	321,359	-	2,922,210
Total capital assets being depreciated, net	9,537,927	(321,359)	-	9,216,568
Business-type activity assets, net	$10,670,505	$ (278,087)	$ -	$ 10,392,418

NOTE 17. COMPLIANCE

At June 30, 2011, the City was not in compliance with the following statute:

OCGA 36-81-3 Expenditures in excess of appropriations.

City of Flowery Branch, Georgia

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2011

	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	$ 812,310	$ 812,310	$ 770,179	$ -	$ 770,179	$ (42,131)
Sales taxes	347,000	347,000	351,255	-	351,255	4,255
Franchise taxes	394,550	394,550	417,137	-	417,137	22,587
Other taxes	302,500	302,500	340,388	-	340,388	37,888
Intergovernmental	42,050	42,050	43,915	-	43,915	1,865
License and permits	147,014	147,014	213,430	-	213,430	66,416
Fines and forfeitures	455,000	455,000	433,808	-	433,808	(21,192)
Charges for services	42,700	42,700	32,034	-	32,034	(10,666)
Interest	3,000	3,000	1,546	-	1,546	(1,454)
Transfer In	57,450	57,450	126,213	-	126,213	68,763
Sale of capital assets	800	800	-	-	-	(800)
Miscellaneous	11,056	11,056	31,387	-	31,387	20,331
Total Revenues	2,615,430	2,615,430	2,761,292	-	2,761,292	145,862
Expenditures						
Current Operating:						
General government	825,405	825,405	1,066,525	-	1,066,525	241,120
Judicial	127,162	127,162	120,924	-	120,924	(6,238)
Public safety	844,541	844,541	856,321	-	856,321	11,780
Highways and streets	391,124	391,124	318,199	-	318,199	(72,925)
Health and welfare	27,500	27,500	27,367	-	27,367	(133)
Housing and development	306,495	306,495	302,321	-	302,321	(4,174)
Transfer out	93,203	93,203	305	-	305	(92,898)
Total Expenditures	2,615,430	2,615,430	2,691,962	-	2,691,962	76,532
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ -	$ -	69,330	$ -	69,330	$ 69,330
Fund Balance - Beginning	-	-	1,159,599	-	1,159,599	-
Fund Balance - Ending			$ 1,228,929		$ 1,228,929	

City of Flowery Branch, Georgia

Notes to Required Supplementary Information
on Budgetary Accounting and Control
Year Ended June 30, 2011

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

No amendments to the original budget appropriations were made. For the year ended June 30, 2011, the following supplemental increases and decreases in appropriations were approved:

Fund Type	Original Budget	Supplemental Appropriations	Supplemental Decreases	Revised Appropriations
General Fund	$ 2,615,430	$ -	$ -	$ 2,615,430

City of Flowery Branch, Georgia
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	Grant Fund	Tax Allocation District	Hotel/Motel Tax Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	$ 32,064	$ -	$ 50	$ 32,114
Accounts receivable, net	-	-	3,180	3,180
Due from other funds	-	110,671	-	110,671
Total assets	$ 32,064	$ 110,671	$ 3,230	$ 145,965
Liabilities				
Accounts payable	$ -	$ -	$ 3,230	$ 3,230
Due to other funds	27,716	-	-	27,716
Total Liabilities	27,716	-	3,230	30,946
Fund balances				
Restricted for:				
Law enforcement	4,348	-	-	4,348
Tax Allocation District	-	110,671	-	110,671
Total Fund balances	4,348	110,671	-	115,019
Total liabilities and fund balances	$ 32,064	$ 110,671	$ 3,230	$ 145,965

City of Flowery Branch, Georgia

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	Grant Fund	Tax Allocation District	Hotel/Motel Tax Fund	Total Nonmajor Governmental Funds
Revenues				
Taxes	$ -	$ 111,046	$ 32,931	$ 143,977
Intergovernmental	56,303	-	-	56,303
Total Revenues	56,303	111,046	32,931	200,280
Expenditures				
Current				
General Government	5,239	375	33,030	38,644
Public safety	19,380	-	-	19,380
Highways and Streets	27,542	-	-	27,542
Total Expenditures	52,161	375	33,030	85,566
Excess (deficiency) of revenues over (under) expenditures	4,142	110,671	(99)	114,714
Other financing sources and (uses)				
Transfers in:				
General fund	206	-	99	305
Total other financing sources and (uses)	206	-	99	305
Net change in fund balances	4,348	110,671	-	115,019
Fund balance-beginning	-	-	-	-
Fund balance-ending	$ 4,348	$ 110,671	$ -	$ 115,019

Walker and Associates
Certified Public Accountants

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

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

We have audited 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 Flowery Branch, Georgia as of and for the year ended June 30, 2011, and have issued our report thereon dated December 22, 2011. 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, 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 of Flowery Branch, Georgia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Flowery Branch, Georgia'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 combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses, that we consider to be a significant deficiency in internal control over financial reporting, listed as 2011-1. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Flowery Branch, Georgia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters

that are required to be reported under *Government Auditing Standard* and which are described in the accompanying Schedule of Findings and Responses as item 2011-2.

The City of Flowery Branch, Georgia's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. 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
Certified Public Accountants
December 22, 2011

City of Flowery Branch, Georgia
Schedule of Findings and Responses
For the Year Ended June 30, 2011

Findings – Financial Statement Audit

Internal Control

2011-1

Condition: The City does not possess adequate separation of duties and oversight over its various accounting functions.

Criteria: An individual employee's duties should not include all aspects of a transaction.

Cause: The City's finance department has limited staff to perform all accounting functions.

Effect: Inadequate separation of duties presents a risk of unauthorized or incorrect transactions occurring and not being detected within a timely period.

Recommendation: Compensating controls should be established to reduce the inherent risks created by the lack of segregation of duties. These controls may include items such as continual supervision of employees, rotation of duties and periodic internal review by others not directly involved in the daily operations.

Response: The City agrees with this finding.

Compliance

2011-2

Condition: The City is in violation of OCGA 36-81-3 related to general fund expenditures in excess of the legally authorized budget.

Criteria: The City should not have expenditures in excess of the approved budget.

Cause: The City had expenditures in excess of the legally authorized budget.

Effect: The City is in violation of OCGA 36-81-3.

Recommendation: The City should implement procedures to monitor expenditures vs. budget to insure there are no expenditures in excess of the approved budget.

Response: The City agrees with the finding.

City of Flowery Branch, Georgia

Schedule of Special Purpose Local Option Sales Tax
Estimated Cost and Expenditure Summary
For the Year Ended June 30, 2011

Project Description	Estimated Cost		Expenditures		
	Original	Current	Prior Years	Current Year	Total
SPLOST V:					
Road projects	$ 112,390	$ 262,713	$ 279,273	$ -	$ 279,273
Other SPLOST projects	477,659	327,336	-	-	-
Recreational facilities	-	-	-	-	-
Public safety facilities	-	-	163,355	-	163,355
Water system improvements	-	-	-	-	-
Sewer system improvements	-	-	-	-	-
Additional road improvements	-	-	-	-	-
Capital outlay projects	-	-	-	-	-
Totals	$ 590,049	$ 590,049	$ 442,628	$	$ 442,628
SPLOST VI					
Sewer system facilities	$1,300,000	$1,300,000	$ -	$ -	$ -
Police vehicles and equipment	200,000	200,000	-	-	-
Roads and sidewalks	500,000	500,000	-	-	-
Administrative buildings	500,000	500,000	413,201	95,000	508,201
Totals	$2,500,000	$2,500,000	$ 413,201	$ 95,000	$ 508,201