

CITY OF HOLLY SPRINGS, GEORGIA

**FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2010**

CITY OF HOLLY SPRINGS, GEORGIA
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DECEMBER 31, 2010

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FINANCIAL SECTION

RL Jennings & Company, PC
Accountants and Consultants

61 Maddox Circle
E. Ellijay, GA 30540
Mailing Address:
PO Box 2683
Ellijay, GA 30540
706-276-3700
Fax 706-276-3710

Member of
American Institute of
Certified Public Accountants
Georgia Society of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members
of the City Council
City of Holly Springs, 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 City of Holly Springs, Georgia, as of and for the year ended December 31, 2010, 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 Holly Springs, 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 Holly Springs, Georgia, as of December 31, 2010, 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 June 28, 2011, on our consideration of the City of Holly Springs, 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.

City of Holly Springs, Georgia has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The Schedule of Funding Progress for the City of Holly Springs Retirement Plan on page 30 is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Holly Springs, Georgia's financial statements as a whole. The combining and individual nonmajor fund financial statements on pages 31 and 32 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Projects Constructed with Special Purpose Local Option Sales Tax on page 38 is presented for purposes of additional analysis as required by Official Code of Georgia 48-8-121, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the Schedule of Projects Constructed with Special Purpose Local Option Sales Tax are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.



Ellijay, Georgia
June 28, 2011

CITY OF HOLLY SPRINGS, GEORGIA
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Assets				
Current:				
Cash	\$ 2,205,768	\$ 17,754	\$ 2,223,522	\$ 39,526
Restricted cash	1,067,072	-	1,067,072	-
Property taxes receivable	1,996,769	-	1,996,769	-
Stormwater fees receivable	264,696	-	264,696	-
Accounts receivable, net	465,777	-	465,777	-
Fines receivable, net	70,740	-	70,740	-
Due from primary government	-	-	-	1,600
Due from other governments	233,693	-	233,693	-
Internal balances	(312,960)	312,960	-	-
Prepaid expenses	60,518	-	60,518	-
Total current assets	6,052,073	330,714	6,382,787	41,126
Capital Assets:				
Capital assets not depreciated	4,238,266	-	4,238,266	1,693,512
Capital assets depreciated, net	11,749,931	758,950	12,508,881	41,018
Total capital assets	15,988,197	758,950	16,747,147	1,734,530
Other Asset:				
Deposit	230,000	-	230,000	-
Total assets	\$ 22,270,270	\$ 1,089,664	\$ 23,359,934	\$ 1,775,656
Liabilities				
Current:				
Accounts payable	\$ 69,117	\$ 2,569	\$ 71,686	\$ -
Accrued and other liabilities	126,816	-	126,816	23,493
Due to component unit	1,600	-	1,600	-
Due to other governments	266,901	-	266,901	-
Deferred revenue	60,284	-	60,284	-
Compensated absences	57,502	-	57,502	-
Capital lease and promissory note, current portion	441,432	-	441,432	314,705
Total current liabilities	1,023,652	2,569	1,026,221	338,198
Long-term:				
Capital lease and promissory note, net of current portion	933,069	-	933,069	688,885
Total liabilities	1,956,721	2,569	1,959,290	1,027,083
Net Assets				
Investment in capital assets, net of related debt	14,613,696	758,950	15,372,646	730,940
Restricted for:				
Capital projects	1,215,129	-	1,215,129	-
Other purposes	27,305	-	27,305	-
Unrestricted	4,457,419	328,145	4,785,564	17,633
Total net assets	20,313,549	1,087,095	21,400,644	748,573
Total liabilities and net assets	\$ 22,270,270	\$ 1,089,664	\$ 23,359,934	\$ 1,775,656

The accompanying notes are an integral part of this statement.

CITY OF HOLLY SPRINGS, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

Functions/Programs	Net (Expenses) Revenues and Changes in Net Assets						
	Program Revenues			Primary Government			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Downtown Development Authority
Primary Government:							
Governmental Activities:							
General government	\$ 692,663	\$ 24,808	\$ 16,845	\$ -	\$ (651,010)	\$ -	\$ (651,010)
Judicial	190,427	-	-	-	(190,427)	-	(190,427)
Public safety	2,266,681	285,136	-	1,452	(1,980,093)	-	(1,980,093)
Public works	528,658	-	-	875,643	346,985	-	346,985
Health and welfare	160,192	-	160,192	-	-	-	-
Culture and recreation	41,577	6,437	-	-	(35,140)	-	(35,140)
Housing and development	864,632	189,352	-	800,413	125,133	-	125,133
Interest	57,140	-	-	-	(57,140)	-	(57,140)
Total governmental activities	4,801,970	505,733	177,037	1,677,508	(2,441,692)	-	(2,441,692)
Business-type Activities:							
Stormwater Utility	20,690	358,911	-	-	-	338,221	338,221
Total primary government	\$ 4,822,660	\$ 864,644	\$ 177,037	\$ 1,677,508	(2,441,692)	338,221	(2,103,471)
Component Unit:							
Downtown Development Authority	\$ 87,199	\$ 22,060	\$ 371,012	\$ -			\$ 305,873
General revenues:							
Property taxes					2,553,574	-	2,553,574
Franchise taxes					502,270	-	502,270
Business taxes					303,995	-	303,995
Selective sales tax					231,086	-	231,086
Other revenues					88,743	-	88,743
Unrestricted investment earnings					4,322	40	4,362
Transfers					(748,834)	748,834	-
Total general revenues and transfers					2,935,156	748,874	3,684,030
Change in net assets					493,464	1,087,095	1,580,559
Net assets, beginning of year, as restated					19,820,085	-	19,820,085
Net assets, end of year					\$ 20,313,549	\$ 1,087,095	\$ 21,400,644
							\$ 748,573

The accompanying notes are an integral part of this statement.

CITY OF HOLLY SPRINGS, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	General	Capital Improvements	SPLOST III	Nonmajor Governmental	Total Governmental Funds
Assets					
Cash	\$ 1,743,419	\$ 214,870	\$ 1,024,677	\$ 289,874	\$ 3,272,840
Property taxes receivable	1,996,769	-	-	-	1,996,769
Stormwater fees receivable	264,696	-	-	-	264,696
Accounts receivable	403,889	-	155,064	25,824	584,777
Fines receivable	104,740	-	-	-	104,740
Due from other governments	11,503	-	191,641	30,549	233,693
Due from other funds	2,864	16,141	-	192,377	211,382
Prepaid items	60,518	-	-	-	60,518
Total assets	\$ 4,588,398	\$ 231,011	\$ 1,371,382	\$ 538,624	\$ 6,729,415
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 43,149	\$ -	\$ -	\$ 25,968	\$ 69,117
Accrued and other liabilities	107,395	-	-	-	107,395
Due to component unit	1,600	-	-	-	1,600
Due to other governments	11,833	255,068	-	-	266,901
Due to other funds	333,678	187,800	1,189	1,675	524,342
Deferred revenue	2,568,137	-	155,064	14,864	2,738,065
Total liabilities	3,065,792	442,868	156,253	42,507	3,707,420
Fund Balances (Deficit):					
Reserved for:					
Capital projects	-	-	1,215,129	-	1,215,129
Prepaid items	60,518	-	-	-	60,518
Unreserved, reported in:					
General fund	1,462,088	-	-	-	1,462,088
Capital improvements fund	-	(211,857)	-	-	(211,857)
Special revenue funds	-	-	-	496,117	496,117
Total fund balances (deficit)	1,522,606	(211,857)	1,215,129	496,117	3,021,995
Total liabilities and fund balances	\$ 4,588,398	\$ 231,011	\$ 1,371,382	\$ 538,624	\$ 6,729,415

The accompanying notes are an integral part of this statement.

**CITY OF HOLLY SPRINGS, GEORGIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Total fund balances - governmental funds	\$ 3,021,995
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds financial statements, but are reported in the governmental activities column of the Statement of Net Assets.	15,988,197
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Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	2,677,781
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In the Statement of Net Assets management has established an allowance for uncollectible accounts against certain revenues which are deferred in the governmental funds financial statements.	(153,000)
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Deposits in the Statement of Net Assets that are not current financial resources and are not available to pay current obligations, are not reported in the governmental funds financial statements.	230,000
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Certain liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds' Balance Sheet but are reported in governmental activities in the Statement of Net Assets.

Accrued interest	\$	(19,421)	
Capital leases payable		(1,374,501)	
Compensated absences		(57,502)	(1,451,424)

Total net assets - governmental activities	\$ <u>20,313,549</u>
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The accompanying notes are an integral part of this statement.

CITY OF HOLLY SPRINGS, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	General	Capital Improvements	SPLOST III	Nonmajor Governmental	Total Governmental Funds
Revenues					
Property taxes	\$ 2,534,326	\$ -	\$ -	\$ -	\$ 2,534,326
Franchise taxes	502,270	-	-	-	502,270
Business taxes	303,995	-	-	-	303,995
Selective sales taxes	-	-	-	231,086	231,086
Licenses and permits	160,951	-	-	-	160,951
Intergovernmental	16,845	-	1,089,682	218,261	1,324,788
Charges for services	22,650	-	-	6,438	29,088
Fines and forfeitures	259,543	-	-	-	259,543
Interest	3,819	220	1,225	283	5,547
Other revenues	57,783	30,960	-	-	88,743
Total revenues	3,862,182	31,180	1,090,907	456,068	5,440,337
Expenditures					
Current:					
General government	673,863	6,100	-	-	679,963
Judicial	189,273	-	-	-	189,273
Public safety	2,188,611	-	-	-	2,188,611
Public works	220,494	-	17,086	-	237,580
Health and welfare	-	-	-	160,192	160,192
Culture and recreation	-	-	-	26,208	26,208
Housing and development	366,715	-	371,012	116,266	853,993
Capital outlay:					
General government	4,341	-	-	-	4,341
Public safety	6,584	-	1,748	-	8,332
Public works	-	-	418,115	-	418,115
Culture and recreation	-	-	-	18,718	18,718
Housing and development	-	-	1,442	-	1,442
Debt service:					
Principal	9,662	-	438,128	-	447,790
Interest	575	-	64,128	-	64,703
Total expenditures	3,660,118	6,100	1,311,659	321,384	5,299,261
Excess of revenues over (under) expenditures	202,064	25,080	(220,752)	134,684	141,076
Other financing sources (uses):					
Transfers in	-	-	-	40,000	40,000
Transfers out	(40,000)	-	-	-	(40,000)
Total other financing sources (uses)	(40,000)	-	-	40,000	-
Net change in fund balances	162,064	25,080	(220,752)	174,684	141,076
Fund balances (deficit), beginning of year, as restated	1,360,542	(236,937)	1,435,881	321,433	2,880,919
Fund balances (deficit), end of year	\$ 1,522,606	\$ (211,857)	\$ 1,215,129	\$ 496,117	\$ 3,021,995

The accompanying notes are an integral part of this statement.

CITY OF HOLLY SPRINGS, GEORGIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

Net change in fund balances - total governmental funds	\$	141,076
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which assets charged to capital outlays exceeded depreciation in the current year.

Capital outlays	\$	446,230	
Depreciation expense		<u>(440,035)</u>	6,195

The estimated value of capital assets donated to the City is reported in the Statement of Activities as revenue but not on the Governmental Funds' Statement of Revenues, Expenditures and Changes in Fund Balances since such amount does not represent current available resources.		513,668
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Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.		243,264
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Repayment of long-term debt principal is an expenditure of governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		447,790
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Capital assets transferred from general government are reported as capital contributions in the proprietary fund operating statement, but are reported as transfers from governmental activities to business-type activities in the Statement of Activities.		(748,834)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Provision for bad debts	(153,000)	
Compensated absences	35,742	
Accrued interest	<u>7,563</u>	<u>(109,695)</u>

Change in net assets - governmental activities	\$	<u>493,464</u>
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The accompanying notes are an integral part of this statement.

CITY OF HOLLY SPRINGS, GEORGIA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2010

	<u>Stormwater Utility</u>
Assets	
Current:	
Cash	\$ 17,754
Due from General Fund	<u>312,960</u>
Total current assets	330,714
 Capital assets depreciated, net	 <u>758,950</u>
Total assets	<u>\$ 1,089,664</u>
 Liabilities and Net Assets	
Current:	
Accounts payable	<u>\$ 2,569</u>
Total current liabilities	<u>2,569</u>
 Net Assets:	
Invested in capital assets, net of related debt	758,950
Unrestricted	<u>328,145</u>
Total net assets	<u>1,087,095</u>
Total liabilities and net assets	<u>\$ 1,089,664</u>

The accompanying notes are an integral part of this statement.

**CITY OF HOLLY SPRINGS, GEORGIA
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Stormwater Utility</u>
Operating Revenues	
Charges for services - stormwater fees	\$ 358,911
Total operating revenues	<u>358,911</u>
Operating Expenses	
Administrative expenses	2,190
Repairs and maintenance	4,468
Depreciation expense	<u>14,032</u>
Total operating expenses	<u>20,690</u>
Operating income	<u>338,221</u>
Nonoperating revenue	
Interest income	<u>40</u>
Total nonoperating revenue	<u>40</u>
Income before contribution	338,261
Contribution of capital assets from general government	<u>748,834</u>
Change in net assets	1,087,095
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u><u>\$ 1,087,095</u></u>

The accompanying notes are an integral part of this statement.

CITY OF HOLLY SPRINGS, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Stormwater Utility</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 45,951
Payments to suppliers	<u>(4,089)</u>
Net cash provided by operating activities	<u>41,862</u>
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	<u>(24,148)</u>
Cash (used) by capital and related financing activities	<u>(24,148)</u>
Cash Flows from Investing Activities	
Interest received	<u>40</u>
Cash provided by investing activities	<u>40</u>
Net increase in cash and cash equivalents	17,754
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	<u><u>\$ 17,754</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	338,221
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	14,032
(Increase) in due from General Fund	(312,960)
Increase in accounts payable	<u>2,569</u>
Net cash provided by operating activities	<u><u>\$ 41,862</u></u>
Noncash capital and related financing activities:	
Contribution of capital assets from general government	<u><u>\$ 748,834</u></u>

The accompanying notes are an integral part of this statement.

**CITY OF HOLLY SPRINGS, GEORGIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of City of Holly Springs, Georgia (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. The Reporting Entity

The City operates under a City Commission form of government. The accompanying financial statements include those of the City (the primary government) and its component unit. In defining the reporting entity for financial reporting purposes, and as required by accounting principles generally accepted in the United States of America, City management has considered all potential component units. The criteria used for including an organization within the reporting entity as a component unit, as set forth in Governmental Accounting Standards Board ("GASB") Statement No. 14, "The Financial Reporting Entity" and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units", is financial accountability. Financial accountability is defined as appointment of a voting majority of the organization's board and either the ability to impose will by the primary government or the possibility that the organization will provide a financial benefit or impose a financial burden on the primary government. As a result of applying these criteria, the Holly Springs Downtown Development Authority (the "Authority") has been determined to be a component unit and is included in the City's financial statements in discrete presentation in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

The Authority was created June 21, 1999, with the primary purpose of revitalizing and redeveloping the downtown area of the City. The Authority derives revenue from rent charged on a building contributed to the Authority by the City, but is primarily dependent on contributions from the City for operating capital and for meeting debt service obligations. The City appoints all members to the board. Financial information related to the Development Authority may be obtained from the City upon request.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The statement of activities reports the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to those who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. The comparison of direct expenses and program revenues identifies the extent to which each program is self-financing or draws from the general revenues of the City.

The City's accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The City's funds are grouped into two broad fund categories and four generic fund types for financial statement presentation purposes. Governmental funds include the general, special revenue and capital projects funds. Proprietary funds include enterprise funds. At present, the City has one proprietary fund.

Separate financial statements are provided for the City's governmental funds and its proprietary fund. Governmental and proprietary fund financial statements report detailed information about the City. The focus of fund financial statements is on major funds rather than reporting funds by type. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

Stormwater Utility, the City's proprietary fund, was formed in 2009 and began operations in January, 2010. The Utility was formed to provide stormwater management services and stormwater management systems and facilities in order to reduce pollution and increase water quality within the City. The operations of the Utility are supported by stormwater service fees based on the relative contribution of each customer to the demand for stormwater management services. In January, 2010 the City contributed all existing stormwater assets with a net book value of \$748,834 to the Utility. See Note 5.

The City reports the following major governmental funds:

The General Fund 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.

The Capital Improvements Fund is used to account for private donations and other revenues received and used for the acquisition or construction of major capital assets and capital improvements.

The Special Purpose Local Option Sales Tax (SPLOST III) Fund is used to account for the revenues and expenditures relating to the 2006 referendum authorizing a one percent Special Purpose Local Option Sales Tax for Cherokee County to be shared with the City.

The City reports the following major proprietary fund:

The Stormwater Utility Fund accounts for the activities of the Stormwater Utility.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additionally, the City reports the following fund type:

Special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Sales taxes are recognized when the underlying transaction occurs. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government-wide net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for capital projects reflect the restrictions of their use.

Governmental fund financial statements, on the other hand, are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Revenues

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes, sales taxes, franchise taxes, licenses, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized by the governmental funds.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Private-sector Standards

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

D. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not used by the City because it is considered unnecessary to assure effective budgetary control or to facilitate effective cash planning and control.

E. Cash and Investments

State of Georgia statutes require all financial institution deposits and investments in excess of the federal depository insured amount to be fully collateralized by an equivalent amount of state or U.S. obligations. State of Georgia statutes authorize the City to invest in U.S. Government obligations, U.S. Government agency obligations, State of Georgia obligations, obligations of other counties, municipal corporations and political subdivisions of the State of Georgia which are rated "AA" or better by Moody's Investor's Service, Inc., negotiable certificates of deposit issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association, repurchase agreements when collateralized by U.S. Government or agency obligations, and pooled investment programs sponsored by the State of Georgia for the investment of local government funds. The City had no investments at December 31, 2010.

For purposes of the statement of cash flows, the City considers cash on hand, demand deposits and short-term investments with original maturities of three months or less to be cash equivalents.

F. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items reported in governmental funds are also equally offset by a fund balance reserve, indicating they do not constitute "available, spendable financial resources" even though they are a component of net current assets.

G. Capital Assets

Capital assets of governmental activities, which include land, buildings, machinery and equipment, vehicles, furniture and fixtures and infrastructure assets (such as roads, bridges, sidewalks and similar items), are reported in the government-wide financial statements. In accordance with GASB 34, infrastructure assets acquired prior to July 1, 2004, have been capitalized as of December 31, 2007. Capital assets are defined by the City as assets with an initial, individual cost of \$1,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' useful lives are expensed as incurred.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<i>Asset Class</i>	<i>Years</i>
Land improvements	20-30
Buildings and improvements	20-50
Vehicles	6-15
Machinery and equipment	3-15
Furniture and fixtures	20
Infrastructure	30-50

H. Compensated Absences

The City's policy allows employees meeting eligibility requirements to accumulate earned but unused vacation leave benefits up to a maximum of 280 hours. Employees who have completed six months of satisfactory job performance are reimbursed for accumulated vacation benefits upon separation of service. Accordingly, the liability for compensated absences in the government-wide statements consists of unpaid, accumulated vacation leave. Accrued, but unpaid sick leave at year end is not recorded as a liability as it is contingent upon employees' future illness and is not paid upon separation of service.

I. Interfund Transactions and Balances

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursement to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Outstanding interfund balances at year end related to such transactions are reported as "due to/from other funds" in the governmental fund financial statements. All other interfund transactions are reported as transfers. At year end, all interfund balances outstanding and all transfers among governmental funds are eliminated in the government-wide statements.

Receipts and/or payments to or from other governmental units not included in the reporting entity of the City are not reported as transfers. They are classified according to the purpose for which the receipt or payment has been made.

J. Use of Estimates

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

2. LEGAL COMPLIANCE – BUDGETS

A. Budgets and Budgetary Accounting

The City's annual budgets are prepared on anticipated revenues and appropriated expenditures. Revenue anticipation, generally conservative, is designed to help ensure fiscal responsibility and maintain a balanced budget. The operating budget includes proposed expenditures and the means of financing them are based on prior year results and estimated current needs.

The legal level of control (the level at which expenditures may not legally exceed appropriations) for each legally adopted annual operating budget is at the department level.

Annual appropriated budgets, which are adopted on a basis consistent with generally accepted accounting principles, are adopted for the General Fund and each special revenue fund. Budget amounts are as originally adopted, or as amended by the City's council members. There were no material supplementary appropriations made during the year. All annual appropriations lapse at year end.

B. Excess of Expenditures over Appropriations

During fiscal year 2010, actual General Fund expenditures for public safety (including the debt service on public safety vehicles) and public works exceeded the appropriated budget by \$66,487 and \$910, respectively, as shown in the accompanying budgetary comparison schedule. Expenditures in excess of budget resulted from unanticipated costs and were funded by greater than anticipated revenues or available fund balance.

3. CASH DEPOSITS

Cash on the accompanying financial statements includes cash on hand, demand deposits and money market accounts. 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. At December 31, 2010, the City had no cash deposits that were exposed to custodial credit risk.

4. RECEIVABLES

The City bills and collects its own property taxes. Property taxes were levied on December 15, 2010, with bills being payable on or before February 15, 2011, after which the account is assessed penalties and interest or the property is subject to a lien as applicable. The penalty and lien dates are April 22, 2011 and June 21, 2011, respectively. Property taxes receivable at year end is estimated based on the tax levy, less amounts collected

4. RECEIVABLES (CONTINUED)

prior to December 31, 2010. The property taxes levied on December 15th were intended for use in the 2011 calendar year, the period in which they were due. Therefore, the entire 2010 digest levy of \$2,390,631 is included in deferred revenue on the governmental fund balance sheet. Prior year levies were recorded using substantially the same principles, and remaining receivables are re-evaluated annually for collectability.

Stormwater fees of \$321,393 were billed on behalf of the Stormwater Utility Fund by the General Fund in connection with its tax levy of December 15, 2010. Such fees are for the calendar year 2010 and, accordingly, are not deferred at year end. Stormwater fees receivable at year end have been reviewed for collectability by management, and the fees owed to Stormwater Utility at year end are recorded in the due from/due to accounts of the General Fund and the Stormwater Utility Fund.

Accounts receivable consist of payments due to the City as of December 31, 2010, for services rendered during 2010. Fines receivable represent adjudicated amounts outstanding at December 31, 2010, and include surcharge amounts of \$36,659 which, when collected, are remitted to other governments. Accounts receivable and fines receivable not collected within 60 days following year end are not considered available to liquidate liabilities of the current period and, accordingly, have been included in deferred revenue.

Receivables as of year end for the City's individual major funds and nonmajor funds in the aggregate, including the applicable deferred revenues, are as follows:

	General	SPLOST III	Nonmajor Governmental	Total
Receivables:				
Property taxes	\$ 1,996,769	\$ -	\$ -	\$ 1,996,769
Stormwater fees	264,696	-	-	264,696
Accounts	403,889	155,064	25,824	584,777
Fines	104,740	-	-	104,740
Due from other governments	11,503	191,641	30,549	233,693
Total Receivables	<u>\$ 2,784,597</u>	<u>\$ 346,705</u>	<u>\$ 56,373</u>	<u>\$ 3,184,675</u>

Allowances for uncollectible accounts have been recorded in the Statement of Net Assets based on historical experience and management's estimates of collectability. As of year end, allowances for uncollectible accounts receivable and fines receivable are \$119,000 and \$34,000, respectively.

5. CAPITAL ASSETS

A. Primary Government

Capital asset activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Transfers	Ending Balance
<u>Governmental activities:</u>				
Capital assets not depreciated:				
Land	\$ 4,048,854	\$ -	\$ -	\$ 4,048,854
Construction in progress	161,128	28,284	-	189,412
Total capital assets not depreciated	4,209,982	28,284	0	4,238,266
Capital assets depreciated:				
Land improvements	29,308	-	-	29,308
Buildings and improvements	1,973,186	-	-	1,973,186
Vehicles	1,049,850	-	-	1,049,850
Machinery and equipment	1,507,106	28,115	-	1,535,221
Infrastructure	9,696,556	673,500	(856,387)	9,513,669
Total capital assets depreciated	14,256,006	701,615	(856,387)	14,101,234
Less accumulated depreciation for:				
Land improvements	2,534	2,534	-	5,068
Buildings and improvements	259,441	45,106	-	304,547
Vehicles	297,642	82,535	-	380,177
Machinery and equipment	463,924	93,911	-	557,835
Infrastructure	995,280	215,949	(107,553)	1,103,676
Total accumulated depreciation	2,018,821	440,035	(107,553)	2,351,303
Total capital assets depreciated, net	12,237,185	261,580	(748,834)	11,749,931
Governmental activities capital assets, net	\$ 16,447,167	\$ 289,864	\$ (748,834)	\$ 15,988,197
<u>Business-type activities:</u>				
Capital assets depreciated:				
Machinery and equipment	\$ -	\$ 12,684	\$ -	\$ 12,684
Infrastructure	-	11,464	856,387	867,851
Total capital assets depreciated	-	24,148	856,387	880,535
Less accumulated depreciation for:				
Machinery and equipment	-	2,461	-	2,461
Infrastructure	-	11,571	107,553	119,124
Total accumulated depreciation	-	14,032	107,553	121,585
Total capital assets depreciated, net	-	10,116	748,834	758,950
Business-type activities capital assets, net	\$ -	\$ 10,116	\$ 748,834	\$ 758,950

5. CAPITAL ASSETS (CONTINUED)

As discussed in Note 1, the City contributed all existing stormwater assets with a net book value of \$748,834 to the Utility in January, 2010. This event has been reported as a capital contribution in the Stormwater Utility operating statement. In the government-wide Statement of Activities, this event has been reported as a transfer.

Depreciation expense for the year ended December 31, 2010, was charged to functions/programs of the primary government as follows:

<u>Governmental activities:</u>	
General government	\$ 21,994
Public safety	100,752
Public works	291,592
Culture and recreation	15,369
Housing and development	10,328
Total depreciation expense – Governmental activities	<u>\$ 440,035</u>
 <u>Business-type activities:</u>	
Stormwater	<u>\$ 14,032</u>

B. Component Unit – Holly Springs Downtown Development Authority

Capital asset activity for the year ended December 31, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers / Deletions</u>	<u>Ending Balance</u>
Capital assets not depreciated:				
Land	\$ 1,693,512	\$ -	\$ -	\$ 1,693,512
Total capital assets not depreciated	<u>1,693,512</u>	<u>-</u>	<u>-</u>	<u>1,693,512</u>
Capital assets depreciated:				
Buildings and improvements	58,600	-	-	58,600
Furniture and fixtures	10,901	-	-	10,901
Total capital assets depreciated	<u>69,501</u>	<u>-</u>	<u>-</u>	<u>69,501</u>
Less accumulated depreciation for:				
Buildings and improvements	15,629	1,953	-	17,582
Furniture and fixtures	10,901	-	-	10,901
Total accumulated depreciation	<u>26,530</u>	<u>1,953</u>	<u>-</u>	<u>28,483</u>
Total capital assets depreciated, net	<u>42,971</u>	<u>(1,953)</u>	<u>-</u>	<u>41,018</u>
Total component unit capital assets, net	<u>\$ 1,736,483</u>	<u>\$ (1,953)</u>	<u>\$ -</u>	<u>\$ 1,734,530</u>

Depreciation of \$1,953 for the year ended December 31, 2010, is charged to expenses of the Authority in the accompanying Statement of Activities.

6. INTERFUND BALANCES AND TRANSFERS

The composition of inter-fund balances as of December 31, 2010, is as follows:

A. Due to / from Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Governmental activities:		
General Fund	Non major fund	\$ 1,675
General Fund	SPLOST III	1,189
Capital Improvements	General Fund	16,141
Non major fund	General Fund	4,577
Non major fund	Capital Improvements	187,800
Total governmental activities		211,382
Business-type activities:		
Stormwater Utility	General Fund	312,960
Total		<u>\$ 524,342</u>

The outstanding balances between funds primarily result from the time lag between the dates that (1) inter-fund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All inter-fund balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers to / from Other Funds

Transfers between funds during the year ended December 31, 2010, were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Non major governmental fund	General Fund	\$ 40,000
		<u>\$ 40,000</u>

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

7. LONG-TERM DEBT

A. Primary Government

At December 31, 2010, the capital lease obligation of the primary government was as follows:

Lease purchase contract for land acquisition in the amount of \$1,800,000, payable in semi-annual installments of \$244,184, including interest at 3.71% through August, 2013.	\$ 1,374,501
Less current portion	<u>(441,432)</u>
	<u>\$ 933,069</u>

7. **LONG-TERM DEBT (CONTINUED)**

The above capital lease requires principal and interest payments until maturity as follows:

	Principal	Interest	Total
2011	\$ 441,432	\$ 46,937	\$ 488,369
2012	457,961	30,408	488,369
2013	475,108	13,261	488,369
	<u>\$ 1,374,501</u>	<u>\$ 90,606</u>	<u>\$ 1,465,107</u>

The capital lease is collateralized by land with a book value of \$1,824,754 at December 31, 2010. Semi-annual payments (\$244,184 each) during the year on the above lease and the final annual payment (\$13,888) on two public works vehicles were paid by SPLOST III Fund during the year. An additional final annual payment (\$10,237) on a public safety vehicle was paid by the General Fund during the year. The aggregate principal reduction for 2010 resulting from all such payments was \$447,790.

Changes in primary government long-term debt during the year are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities:</u>					
Capital Lease(s)	\$ 1,822,291	\$ -	\$ (447,790)	\$ 1,374,501	\$ 441,432
Compensated Absences	93,245	-	(35,743)	57,502	57,502
	<u>\$ 1,915,536</u>	<u>\$ -</u>	<u>\$ (483,533)</u>	<u>\$ 1,432,003</u>	<u>\$ 498,934</u>

B. Component Unit – Holly Springs Downtown Development Authority

In August 2009, the Holly Springs Downtown Development Authority (the "Authority"), refinanced the outstanding principal balance (\$1,311,421) of its term loan dated October 26, 2006, in the original principal amount of \$1,350,000 with proceeds from a new \$1,300,000 promissory note. Proceeds from the original term loan in 2006 were used to purchase land as part of the redevelopment of the downtown area. Under terms of the new 2009 promissory note, outstanding borrowings bear interest at 6.08% annually, require semi-annual principal and interest payments of \$185,506 through August, 2013, and are collateralized by an intergovernmental agreement between the Authority and the City whereby the City has agreed to transfer to the Authority amounts sufficient to repay the 2009 borrowings. The taxing power of the City is pledged to its obligations under the intergovernmental agreement.

7. **LONG-TERM DEBT (CONTINUED)**

Changes in component unit long-term debt during the year are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Component unit:</u>					
Promissory Note	\$ 1,300,000	\$ -	\$ (296,410)	\$ 1,003,590	\$ 314,705

At December 31, 2010, borrowings outstanding of \$1,003,590 under the new 2009 promissory note require principal and interest payments as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 314,705	\$ 56,307	\$ 371,012
2012	334,130	36,882	371,012
2013	354,755	16,257	371,012
	<u>\$ 1,003,590</u>	<u>\$ 109,446</u>	<u>\$ 1,113,036</u>

Payments during 2010 of principal and interest in the amount of \$371,012 were paid by the SPLOST III Fund on behalf of the Authority and are reflected as housing and development expenditures in the accompanying financial statements. In 2009, such payments were paid by the General Fund.

8. **RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance to cover these risks. There were no significant reductions of insurance coverage compared to the prior year. Settled claims have not exceeded the commercial excess coverage in any of the past three years.

Risk Pools

The City is a member of the Georgia Interlocal Risk Management Agency (GIRMA), a public entity risk pool currently operating as a common risk management and insurance program for member local governments. Insurance coverage and deductible options for property, casualty, and crime under the policy are selected by City management based on anticipated needs. As part of this risk pool, the City is required to pay all premiums, applicable deductibles and assessments billed by GIRMA, as well as follow loss reduction and prevention procedures established by GIRMA. GIRMA's responsibility includes paying claims and representing the City in defense and settlement of claims. GIRMA's basis for estimating the liabilities for unpaid claims is "incurred but not reported" ("IBNR") as determined by an actuary. The City has not compiled a record of the claims paid up to the applicable deductible in the prior year or the current fiscal year. The City is unaware of any claims of liability (up to the applicable deductible) which were outstanding and unpaid at December 31, 2010. No provision has been made in the financial statements for the year ended December 31, 2010, for any estimate of potential unpaid claims. The City believes such amounts, if any, would not be material to the accompanying financial statements.

9. RETIREMENT PLANS

A. Pension Plan

The City's defined benefit pension plan, City of Holly Springs Retirement Plan (CHSRP), provides retirement, disability and death benefits to plan members and beneficiaries. CHSRP is affiliated with Georgia Municipal Employees' Benefit System (GMEBS), an agent multiple-employer pension plan administered by the Georgia Municipal Association. The GMEBS assigns the authority to establish and amend the benefit and contributions provisions of the plan to the respective employer entities; for the CHSRP, that authority rests with the City of Holly Springs, Georgia. Georgia Municipal Association has issued a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained by contacting the Georgia Municipal Association or by calling (404) 688-0472.

Funding Policy - The City is required to contribute an actuarially determined amount annually to the CHSRP. The recommended contribution for the plan year beginning January 1, 2011 of \$69,721 is 5.31% of annual covered payroll, and includes the annual required contribution, administrative fees and an adjustment for timing contributions over twelve months. The contribution amount is determined using actuarial methods and assumptions approved by the GMEBS Board of Trustees and meets applicable State of Georgia funding standards. Plan members are not required to contribute to the plan. Employees are eligible after one year of employment and are vested after five years of service. City managers employed on or after March 31, 2008, are eligible and become vested immediately upon employment. All plan costs are paid by the City.

Membership

As of July 1, 2010, Plan membership consisted of the following:

Retired participants and beneficiaries	1
Vested former participants	15
Active participants	30
Total	<u>46</u>

Annual Pension Cost - The City's actual contribution for 2010 of \$64,960 was based, in part, on the previous recommended contribution for the plan year beginning October 1, 2009. Annual required contributions are determined using the "projected unit credit" actuarial cost method and "closed level dollar" amortization method for remaining unfunded liability. The remaining amortization period varies for the bases.

The asset valuation method utilizes the sum of the actuarial value at the beginning of the year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at the end of the year. The actuarial value is adjusted, if necessary, to be within 50% of market value for 2009, 44% of market value for 2010, 38% for 2011, 32% for 2012, 26% for 2013, and 20% of market value for 2014 and later years.

The actuarial assumptions included (a) an investment rate of return of 7.75%, (b) inflation of 3.5%, and (c) projected salary increases of 3.5% plus age and service based merit increases. The actuarial value of CHSRP assets was determined using an "asset smoothing technique" which gradually incorporates investment performances that exceed or fall short of the expected investment rate of return of 7.75%.

9. RETIREMENT PLANS (CONTINUED)

Trend Information for CHSRP
(Based on results of the October 1, 2009 actuarial valuation)

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset/ Obligation
12/31/2010	\$ 61,783	100%	\$ -
12/31/2009	38,273	100	-
12/31/2008	34,198	100	-

The City's annual pension cost and net pension asset/obligation for 2010 were as follows:

Annual required contribution	\$ 59,285
Interest on net pension obligation	-
Adjustment to annual required contribution	<u>2,498</u>
Annual pension cost	61,783
Administrative expenses	<u>3,177</u>
	64,960
Contribution made	<u>(64,960)</u>
Change in net pension asset/obligation	-
Net pension asset/obligation, beginning of year	<u>-</u>
Net pension asset/obligation, end of year	<u>\$ -</u>

As of the most recent valuation date of July 1, 2010, the funded status of the plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
7/1/2010	\$275,904	\$388,074	\$112,170	71.1%	\$1,290,625	8.69%

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

During 2010, the GMEBS changed its valuation date for the City from October 1 to July 1. The effect of this change was not material to the outcome of the valuation or the City's financial statements. The City recognizes the majority of its pension expenditures in the General Fund.

B. Deferred Compensation Plan:

The City offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Participation in the plan is open to the City's current employees. The City has elected to obtain an outside service provider for this plan. The City serves as the plan administrator.

9. RETIREMENT PLANS (CONTINUED)

In accordance with Section 457 of the Internal Revenue Code, plan assets are held in trust for the exclusive benefit of participants and their beneficiaries. Investments are managed by the Plan's trustee under one of the investment options, or a combination thereof. Accordingly, the assets and liabilities of the deferred compensation plan are not included in the accompanying financial statements. During the year ending December 31, 2010, employees contributed \$34,061 to the plan. The City does not contribute to the plan.

10. JOINT VENTURE

The City, in conjunction with other cities and counties in the Atlanta Metropolitan area, is a member of the Atlanta Regional Commission (ARC). Membership in the ARC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34 which provides for the organizational structure of the ARC. The ARC Board membership includes the chief elected official of each county and municipality in the area. Georgia law also provides that the members are liable for any debts or obligations of the ARC (O.C.G.A. 50-8-39.1). Separate financial statements can be provided by contacting the ARC directly at:

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

11. HOTEL/MOTEL TAX REVENUES AND TOURISM EXPENDITURES

The City has levied a 3% lodging tax. During the year ended December 31, 2010, taxes of \$4,666 were collected. In accordance with state law, \$4,666 was required to be spent promoting tourism, conventions and trade shows. During the year ended December 31, 2010, there were no expenditures for these purposes; however, City management expects to incur expenses in 2011 in excess of this amount.

12. COMMITMENTS AND CONTINGENCIES

There are legal actions pending or threatened against the City in the ordinary course of business, which seek remedies or damages. Although no assurance can be given with respect to the ultimate outcome of these matters, the City believes that any liability that may finally be determined with respect to any of these matters should not have a material adverse effect on the accompanying financial statements or the City's ability to meet its obligations.

The City routinely enters into various contracts and agreements in the ordinary course of business. Such commitments are not considered material to the accompanying financial statements.

13. RESERVED FUND BALANCE / DEFICIT FUND BALANCES

Major fund reservations are disclosed on the face of the statements. Nonmajor funds have unreserved fund balances for the following purposes:

Capital Projects	<u>\$ (17,173)</u>
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13. RESERVED FUND BALANCE / DEFICIT FUND BALANCES (CONTINUED)

The Capital Improvements Fund, a major fund, had a deficit fund balance of \$(211,857) at December 31, 2010. The City expects to generate future revenues to offset these deficits. In addition, the City's General Fund has sufficient surplus to provide for the deficit fund balance in the event that sufficient revenues cannot be generated.

14. PRIOR PERIOD ADJUSTMENTS

The City has determined that prior period adjustments are required to properly reflect certain income in the year it was earned. As a result of these adjustments, fund balances at December 31, 2009, are restated as follows:

Nonmajor Funds

Fund Balance, December 31, 2009, as previously reported	\$ 311,965
Adjustment to properly reflect grant income as earned in 2009	9,468
Fund Balance, December 31, 2009, as restated	<u>\$ 321,433</u>

SPLOST III Fund

Fund Balance, December 31, 2009, as previously reported	\$ 1,341,583
Adjustment to properly reflect intergovernmental revenue as earned in 2009	94,298
Fund Balance, December 31, 2009, as restated	<u>\$ 1,435,881</u>

The prior period adjustments described above also impact beginning net assets from governmental activities on the government-wide financial statements. Accordingly, net assets at December 31, 2009, are restated as follows:

Net Assets, December 31, 2009, as previously reported	\$ 19,716,319
Adjustment to properly reflect grant income as earned in 2009	9,468
Adjustment to properly reflect intergovernmental revenue as earned in 2009	94,298
Net Assets, December 31, 2009, as restated	<u>\$ 19,820,085</u>

15. RESTRICTED ASSETS

Restricted assets at December 31, 2010, include cash in the following funds:

<u>Governmental activities:</u>	
General Fund - law enforcement	\$ 6,415
SPLOST III Fund - streets, new city hall, downtown development	1,024,676
Non-major funds - for purposes of grants received	30,006
Non-major fund - tourism, conventions, trade shows	5,975
Total restricted cash	<u>\$ 1,067,072</u>

CITY OF HOLLY SPRINGS, GEORGIA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues				
Property taxes	\$ 2,117,412	\$ 2,233,742	\$ 2,534,326	\$ 300,584
Franchise taxes	390,000	390,000	502,270	112,270
Business taxes	364,330	252,249	303,995	51,746
Licenses and permits	310,700	310,700	160,951	(149,749)
Intergovernmental	-	-	16,845	16,845
Charges for services	34,500	37,280	22,650	(14,630)
Fines and forfeitures	380,000	380,000	259,543	(120,457)
Interest	8,750	8,750	3,819	(4,931)
Other revenues	9,700	32,419	57,783	25,364
Total revenues	3,615,392	3,645,140	3,862,182	217,042
Expenditures				
General government	701,768	711,818	678,204	33,614
Judicial	304,827	292,534	189,273	103,261
Public safety	2,125,472	2,138,945	2,195,195	(56,250)
Public works	215,434	219,584	220,494	(910)
Housing and development	377,906	393,454	366,715	26,739
Debt service:				
Principal	-	-	9,662	(9,662)
Interest	-	-	575	(575)
Contingency	50,000	50,000	-	50,000
Total expenditures	3,775,407	3,806,335	3,660,118	96,217
Excess of revenues over (under) expenditures	(160,015)	(161,195)	202,064	313,259
Other financing sources (uses)				
Transfers in	200,015	201,195	-	(201,195)
Transfers out	(40,000)	(40,000)	(40,000)	-
Total other financing sources (uses)	160,015	161,195	(40,000)	(201,195)
Net change in fund balance	-	-	162,064	162,064
Fund balance, beginning of year	1,360,542	1,360,542	1,360,542	-
Fund balance, end of year	<u>\$ 1,360,542</u>	<u>\$ 1,360,542</u>	<u>\$ 1,522,606</u>	<u>\$ 162,064</u>

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

**CITY OF HOLLY SPRINGS, GEORGIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010**

A. BUDGETS AND BUDGETARY CONTROL

The applicable statutes of the State of Georgia require the City to operate under an annual balanced budget adopted by resolution. A budget is defined as being balanced when the sum of estimated net revenues and appropriated fund balance is equal to appropriations. Annual budgets are adopted for the General Fund and all special revenue funds. The budget is adopted on a basis consistent with generally accepted accounting principles, and on the same basis of accounting used by each fund to which the budget applies. Each fund's appropriated budget is prepared on a detailed line-item basis. Revenues are budgeted by source and expenditures are budgeted by department, which constitutes the legal level of control. Budget revisions at this level are subject to final review by the City Council. Revisions to the budget were made throughout the year.

During the year ended December 31, 2010, General Fund expenditures in two departments exceeded appropriated amounts as shown in the preceding budgetary comparison statement. However, management operated overall under budgeted expenditures by \$96,217. The following expenditure categories in the General Fund exceeded the budgeted amount:

<u>Department</u>	<u>Excess</u>
Public safety, including debt service	<u>\$66,487</u>
Public works	<u>\$ 910</u>

These expenditure overages resulted from unanticipated costs, and were funded by greater than anticipated revenues or available fund balance.

**CITY OF HOLLY SPRINGS, GEORGIA
SCHEDULE OF FUNDING PROGRESS FOR THE
CITY OF HOLLY SPRINGS RETIREMENT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2010**

Funded Status

The table below sets forth required supplementary information to be disclosed in the Schedule of Funding Progress for the City. The items presented are based on the actuarial valuation date:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
7/1/2010	\$275,904	\$388,074	\$112,170	71.1%	\$1,290,625	8.69%
10/1/2009	241,871	340,221	98,350	71.1	1,257,139	7.82
9/1/2008	179,072	242,972	63,900	73.7	800,883	7.98
9/1/2007	130,199	213,402	83,203	61.0	956,399	8.70
9/1/2006	97,008	115,712	18,704	83.8	840,630	2.22
9/1/2005	85,675	132,617	46,942	64.6	582,026	8.07

Effect of plan changes on the actuarial accrued liability

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

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

Effect of plan changes on recommended contributions

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

With the exception of changing the valuation date from October 1 to July 1, the plan provisions valued and the actuarial assumptions and cost methods are the same as those used to determine the contribution requirement for the preceding year. This change did not materially affect the current year recommended contribution.

The actuarial assumptions used are disclosed in Note 9 to the financial statements.

CITY OF HOLLY SPRINGS, GEORGIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2010

	Special Revenue Funds			
	Parks and Recreation	Hotel/Motel	Multiple Grant	Capital Grant
Assets				
Cash	\$ 253,893	\$ 5,975	\$ 22,451	\$ 7,555
Accounts receivable	25,456	368	-	-
Due from other governments	-	-	15,684	14,865
Due from other funds	192,377	-	-	-
Total assets	\$ 471,726	\$ 6,343	\$ 38,135	\$ 22,420
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 1,239	\$ -	\$ -	\$ 24,729
Due to other funds	1,675	-	-	-
Deferred revenue	-	-	-	14,864
Total liabilities	2,914	-	-	39,593
Fund Balances (Deficit):				
Reserved for:				
Capital projects	-	-	-	-
Unreserved, reported in:				
Special revenue funds	468,812	6,343	38,135	(17,173)
Total fund balances (deficit)	468,812	6,343	38,135	(17,173)
Total liabilities and fund balances	\$ 471,726	\$ 6,343	\$ 38,135	\$ 22,420
				\$ 538,624

CITY OF HOLLY SPRINGS, GEORGIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2010

	Special Revenue Funds				Total
	Parks and Recreation	Hotel/Motel	Multiple Grant	Capital Grant	
Revenues					
Selective sales taxes	\$ 226,420	\$ 4,666	\$ -	\$ -	\$ 231,086
Intergovernmental	-	-	160,192	58,069	218,261
Charges for services	6,438	-	-	-	6,438
Interest	193	7	60	23	283
Total revenues	<u>233,051</u>	<u>4,673</u>	<u>160,252</u>	<u>58,092</u>	<u>456,068</u>
Expenditures					
Current:					
Health and welfare	-	-	160,192	-	160,192
Culture and recreation	25,938	-	270	-	26,208
Housing and development	-	-	-	116,266	116,266
Capital Outlay - Culture and recreation	18,718	-	-	-	18,718
Total expenditures	<u>44,656</u>	<u>-</u>	<u>160,462</u>	<u>116,266</u>	<u>321,384</u>
Excess of revenues over (under) expenditures	188,395	4,673	(210)	(58,174)	134,684
Other financing sources:					
Transfers in	-	-	-	40,000	40,000
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>40,000</u>
Net change in fund balances	188,395	4,673	(210)	(18,174)	174,684
Fund balances, beginning of year, as restated	<u>280,417</u>	<u>1,670</u>	<u>38,345</u>	<u>1,001</u>	<u>321,433</u>
Fund balances (deficit), end of year	<u>\$ 468,812</u>	<u>\$ 6,343</u>	<u>\$ 38,135</u>	<u>\$ (17,173)</u>	<u>\$ 496,117</u>

INTERNAL CONTROL AND COMPLIANCE SECTION

RL Jennings & Company, PC
Accountants and Consultants

61 Maddox Circle
E. Ellijay, GA 30540
Mailing Address:
PO Box 2683
Ellijay, GA 30540
706-276-3700
Fax 706-276-3710

Member of
American Institute of
Certified Public Accountants
Georgia Society of
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 Honorable Mayor and Members
of the City Council
City of Holly Springs, 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 City of Holly Springs, Georgia as of and for the year ended December 31, 2010, which collectively comprise the City of Holly Springs, Georgia's basic financial statements and have issued our report thereon dated June 28, 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 City of Holly Springs, 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 City of Holly Springs, Georgia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Holly Springs, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting: 2010-02, 2008-1 and 2008-2. 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 City of Holly Springs, 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses: 2010-01.

We noted certain matters that we reported to management of City of Holly Springs, Georgia, in a separate letter dated June 28, 2011.

City of Holly Springs, Georgia's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit City of Holly Springs, 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.

A handwritten signature in cursive script that reads "R. L. Jennings & Company, PC".

Ellijay, Georgia
June 28, 2011

**CITY OF HOLLY SPRINGS, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2010**

We consider the following deficiencies to be an instance of noncompliance or significant deficiencies in internal control:

Current Year Finding

2010-01 – Use of Uniform Chart of Accounts for Local Governments in Georgia (Noncompliance)

Criteria: Since 2001 local governments must adopt and use the Uniform Chart of Accounts for Local Governments in Georgia in their accounting records; audited financial statements, including Comprehensive Annual Financial Reports (CAFR's); and reports to state agencies. They are also required to classify their transactions in conformity with the fund, balance sheet, revenue, and expenditure classification descriptions contained in this chart of accounts. The chart requires and provides for a consistent and uniform format for financial reporting and accounting. The chart is also a useful resource on matters related to budgeting.

Condition/Context: We are aware that the Uniform Chart of Accounts is not currently used by the City. The chart of accounts that is currently in use has inconsistencies and departures from the Uniform Chart of Accounts making it difficult to consistently record and classify transactions within funds and between funds.

Effect: Inconsistencies in recording and classifying transactions within funds and between funds make preparation of year-end audited financial reports and reports to state agencies more difficult, complex and time consuming. Additionally, errors in recording or classifying transactions may occur and remain undetected resulting in inaccuracies in financial reports and financial data used by management for decision making.

Cause: Financial personnel of the City did not completely or consistently follow the guidance found in the Uniform Chart of Accounts for Local Governments in Georgia.

Recommendation: We recommend current financial management implement the Uniform Chart of Accounts as quickly as possible in order to reduce the possibility of errors in financial reporting and in data used by management for decision making purposes.

Response: The City concurs with this recommendation. The City of Holly Springs is currently using a general ledger software application that was not designed for use by local municipal governments. Management intends to crosswalk the account names and numbers from the Uniform Chart of Accounts for use on the current software application until the City of Holly Springs can purchase a governmental software application in the future.

2010-02 – Timely Deposit of Cash Receipts (Internal Control)

Criteria: Safeguarding City resources is an important feature of internal control, and cash is a critical component of the City's resources. Internal controls for safeguarding cash must include procedures that insure cash receipts are deposited timely to the City's bank accounts.

Condition/Context: During the course of our audit, we noted that cash received on December 30, 2010, in the amount of \$435,100 was not deposited into the bank until January 18, 2011.

Effect: Failure to timely deposit cash receipts can result in loss or misplacement of the check, misappropriation of the funds, and loss of use and benefit of the funds to the City.

Cause: Financial personnel of the City did not adhere to sound cash management and controls in the handling of this cash receipt.

Recommendation: We recommend that financial management insure that City policies include proper internal controls over the protection of cash including, but not limited to, the timely deposit of cash receipts. Personnel involved in processing cash receipts or in handling cash should be trained on the proper controls over cash and made aware of the City's policies regarding cash receipts and the necessity of timely bank deposits.

Response: The City agrees with this recommendation. The City has instituted daily bank deposits in June, 2011 to ensure that funds received are processed and deposited into each applicable bank account in a timely fashion.

Repeat findings from prior years

2008-01 Lack of Segregation of Duties (Internal Control)

Criteria: Segregation of employees' duties is common practice in an effective internal control structure. Policies should be in place requiring the segregation of duties involving cash receipts, cash disbursements, payroll, general ledger and bank reconciliation.

Condition/Context: During the course of our audit, we noted that certain of these critical duties had previously been combined and assigned to available employees.

Effect: Without proper segregation of duties within these functions, there is increased risk that City assets could be misappropriated or that errors could occur in the accounting records and remain undetected and uncorrected.

Cause: The limited number of employees working in the office and the resulting overlapping of duties causes segregation of duties to be difficult. Additionally, employee turn over can result in duties being performed by available personnel.

Recommendation: To the extent feasible, duties should be segregated to maintain the best control system possible. Responsibilities for preparing payroll, processing cash receipts, reconciling bank accounts and maintaining the general ledger should be segregated to the extent possible. Segregation of duties could be improved if different employees performed these separate duties. In situations where additional employees are not available, management should look for and consider alternative solutions to achieve the greatest possible segregation of duties. Continued Council involvement in the City's finances is encouraged to strengthen internal controls.

Response: Due to lack of sufficient staff in the Finance Department, the City of Holly Springs utilizes elected officials to sign all checks and approve purchases over certain dollar thresholds. Duties in the Finance Department are rotated and the staff is cross-trained on all functions.

2008-02 Material Adjustments and Maintenance of General Ledger (Internal Control)

Criteria: The City is responsible for preparing annual financial statements in accordance with generally accepted accounting principles (GAAP). GAAP requires the use of accrual or modified accrual basis of accounting, as applicable.

Condition/Context: Audit adjustments, both numerous and significant in amount, were required in order to prepare the City's year-end financial statements in accordance with GAAP. Such adjustments included, but were not limited to, the prior period adjustment disclosed in Note 14 to the City's financial statements as of December 31, 2009. Numerous and significant adjustments were also necessary in 2010.

Effect: Failure to properly and timely record adjustments to financial records could result in critical financial decisions being made and based upon inaccurate financial data.

Cause: Certain routine and basic adjustments required according to GAAP and necessary for the preparation of year-end financial statements were not completed prior to our audit.

Recommendation: We recommend recording adjustments to financial records on a timely basis so that accurate data is available to management for decision making and other purposes. At year end, asset and liability accounts, along with certain critical revenue and expenditure accounts, should be analyzed and adjusted as necessary in order to facilitate the timely completion of the annual audit and year end financial statements.

Response: Management agrees with this comment. The Finance Director will work with the staff to ensure that all entries are made in a timely fashion and will make sure that the general ledger is maintained in accordance with all applicable pronouncements from the Governmental Accounting Standards Board (GASB)

STATE SECTION

CITY OF HOLLY SPRINGS, GEORGIA
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
FOR THE YEAR ENDED DECEMBER 31, 2010

Project	Estimated Cost		Expenditures		Estimated % of Completion
	Original	Current	Prior Years	Current Year	
Special Use Sales Tax Fund - III					
Streets and sidewalks	\$ 3,407,000	\$ 3,407,000	\$ 2,234,654	\$ 435,201	78%
New city hall	2,600,000	2,600,000	185,882	860,823	40%
Downtown square and streetscapes	1,602,705	1,602,705	-	-	0%
Public safety and public works vehicles and equipment	219,000	219,000	190,852	15,635	94%
	<u>\$ 7,828,705</u>	<u>\$ 7,828,705</u>	<u>\$ 2,611,388</u>	<u>\$ 1,311,659</u>	
				<u>\$ 3,923,047</u>	

The above schedule has been prepared on the modified accrual basis of accounting.