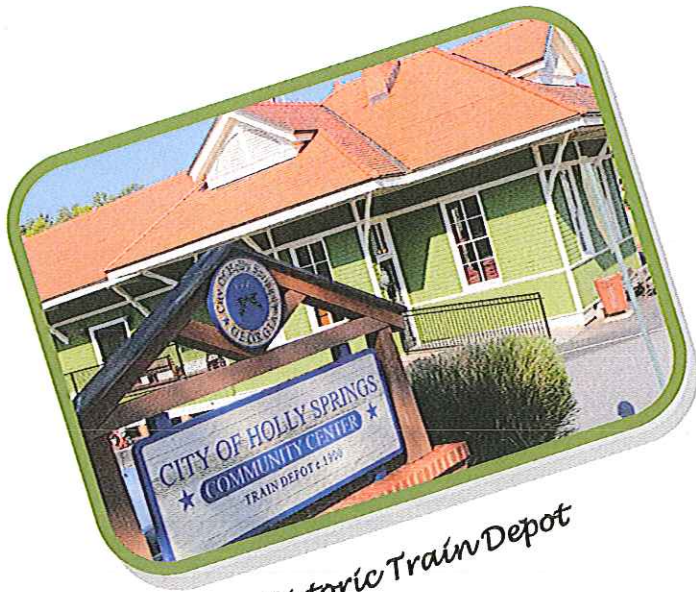


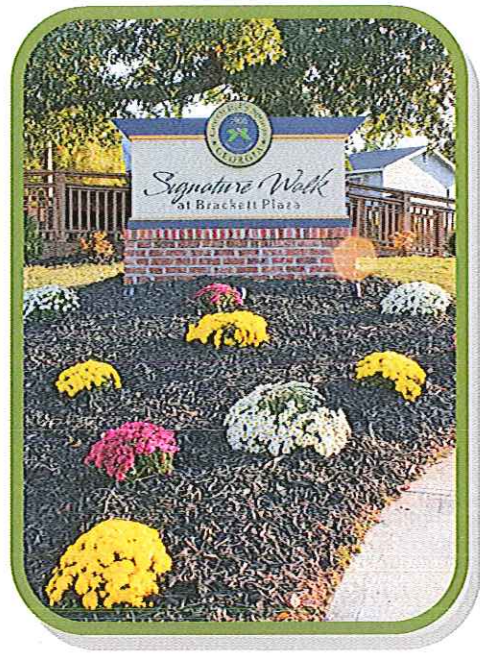
**CITY OF HOLLY SPRINGS, GEORGIA**  
**FINANCIAL REPORT**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2011**



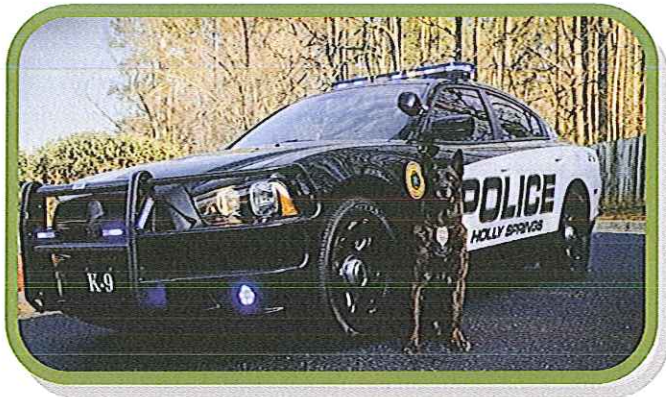




*Historic Train Depot*



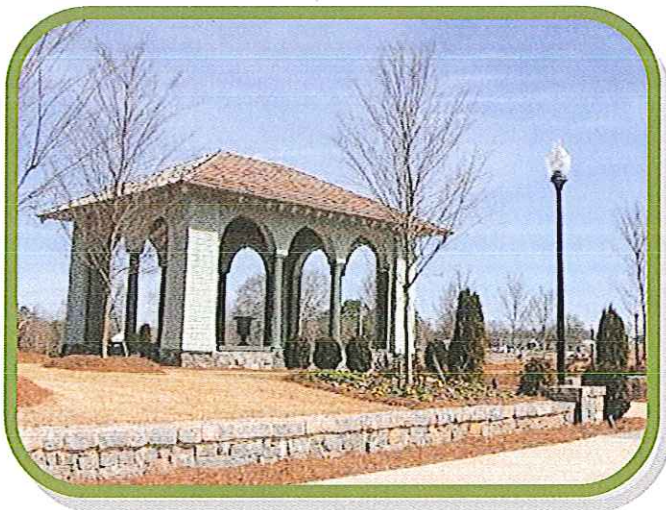
*Brackett Plaza*



*Holly Springs Police K9 Division*



*Stream Cleanup*



*Harmony on the Lakes*



*Aquatic Center  
Groundbreaking*



**CITY OF HOLLY SPRINGS, GEORGIA**  
**TABLE OF CONTENTS**  
**DECEMBER 31, 2011**

---

**FINANCIAL SECTION**

Independent Auditor's Report .....	1
Management's Discussion and Analysis .....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	11
Statement of Activities .....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	13
Reconciliation of the Governmental Funds Balance Sheet to the	
Statement of Net Assets .....	14
Statement of Revenues, Expenditures and Changes in	
Fund Balances – Governmental Funds .....	15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and	
Changes in Fund Balances to the Statement of Activities .....	16
Statement of Net Assets – Proprietary Fund .....	17
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund .....	18
Statement of Cash Flows – Proprietary Fund .....	19
Notes to Financial Statements .....	20
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance -	
Budget and Actual – General Fund .....	41
Notes to Required Supplementary Information .....	42
Schedule of Funding Progress for the City of Holly Springs Retirement Plan .....	43
Combining and Individual Fund Statements and Schedules:	
Nonmajor Governmental Funds -	
Combining Balance Sheet .....	44
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances .....	45

**INTERNAL CONTROL AND 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 .....	46
Schedule of Findings and Responses .....	48

**STATE SECTION**

Schedule of Projects Constructed with Special Purpose Local Option Sales Tax .....	49
--	----

---

## FINANCIAL SECTION

---



**RL Jennings & Company, PC**  
Certified Public Accountants

R.. Lee Jennings, CFCA, CPA  
Mona Evans, CPA  
Thomas H. Evans, Jr., CPA  
Sherry L. Estes, CPA  
Lisa J. Hoyle, CPA  
Katherine S. Washington, CPA

61 Maddox Circle, East Ellijay  
Post Office Box 2683, Ellijay, GA 30540  
706-276-3700  
Fax 706-276-3710  
www.elljaycpa.com  
www.facebook.com/RLJ.elljay

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, 2011, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, 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, 2011, and the respective changes in financial position, and, where applicable, cash flows 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 22, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, budgetary comparison information on page 41, and the Schedule of Funding Progress for the City of Holly Springs Retirement Plan on page 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Holly Springs, Georgia's financial statements as a whole. The combining and individual nonmajor fund statements and schedules on pages 44 and 45 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 49 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 as a whole.



Ellijay, Georgia  
June 22, 2012



**City of Holly Springs, Georgia**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2011**

As the management of the City of Holly Springs, Georgia (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2011. The audit is required by Georgia law. A Statement of Net Assets and the Statement of Activities provides a picture of the activities of the City. Fund Financial Statements provide a more detailed view of the City's services and the revenue dedicated to provide them.

## FINANCIAL HIGHLIGHTS

Key financial highlights for 2011 are as follows:

- The City's combined net assets increased \$1,291,241 (6.05%) to \$22,619,957 from \$21,328,716 in 2010 (as restated).
- Combined revenue decreased \$228,347 (3.57%) to \$6,174,872 from \$6,403,219 in 2010, of which governmental activities totaled \$5,909,164 and business-type activities totaled \$265,708.
- Overall expenses increased \$60,971 (1.26%) to \$4,883,631 from \$4,822,660 in 2010, of which governmental activities totaled \$4,810,557 and business-type activities totaled \$73,074.
- As of December 31, 2011, the City's governmental funds reported combined ending fund balances of \$3,945,197. At December 31, 2011, \$1,345,528 or 34.11% is available for use (unassigned fund balance).

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Government-wide financial statements are designed to provide readers with a broad overview of the City's operations, in a manner similar to private-sector business. All governmental and business-type activities are consolidated to arrive at a total for the primary government.

There are two government-wide statements: 1) The Statement of Net Assets and 2) The Statement of Activities.

### The Statement of Net Assets

The Statement of Net Assets presents information on all of the City's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

### The Statement of Activities

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (i.e. uncollected taxes and earned but unused accrued vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include the general government, judicial, public safety, public works, health and welfare, culture and recreation and housing and development. The business-type activities include the stormwater utility.

**City of Holly Springs, Georgia**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2011**

Component units include legally separate entities that meet the criteria for inclusion in the City's financial statements discussed in the notes to the financial statements, Note 1. The City includes one component unit in its government-wide financial statements: the Holly Springs Downtown Development Authority.

The government-wide financial statements can be found on pages 11 and 12 of this report.

#### **FUND FINANCIAL STATEMENTS**

The Fund Financial statements begin on page 13 and provide detailed information about the City's funds. Some funds are required to be established by state law and by bond covenants. However, the City establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

##### **Governmental Funds**

Most of the basic services provided by the City are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term flows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities in the government-wide statements.

The City maintains three governmental fund types: the General Fund, Special Revenue Funds and Capital Projects Funds. Only three individual funds are considered to be major funds – the General Fund, Capital Improvements Fund and SPLOST III Fund. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found on pages 13 through 16 of this report.

##### **Proprietary Funds**

Proprietary funds are used to account for activities that operate similar to those of commercial enterprises found in the private sector. The City maintains the Stormwater Utility Fund as an enterprise fund. Proprietary funds provide the same type of information as the government-wide financial statements but in greater detail.

The basic proprietary fund financial statements can be found on pages 17 through 19 of this report.

##### **Notes to Financial Statements**

The notes to the financial statements provide additional information that is essential to gain a full understanding of the data provided in the government-wide and fund financial statements.

The notes to financial statements can be found on pages 20 through 40 of this report.



**City of Holly Springs, Georgia**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2011**

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees as well as a Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund. This schedule compares the original and final adopted budget of the General Fund of the City of Holly Springs to the actual revenues and expenditures.

The required supplementary information, including related notes, can be found on pages 41 through 43 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets (governmental and business-type activities) totaled \$22,619,957 at December 31, 2011.

Combined net assets include \$15,405,460 invested in capital assets (e.g. land, infrastructure, buildings, equipment, and other), less accumulated depreciation and any related debt outstanding that was needed to build or acquire the assets. The City uses these assets to provide services to the citizens and the businesses in the City; consequently, these net assets are not available for future spending. The city has \$1,459,236 of restricted net assets that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The City has \$5,755,261 in unrestricted net assets at December 31, 2011.

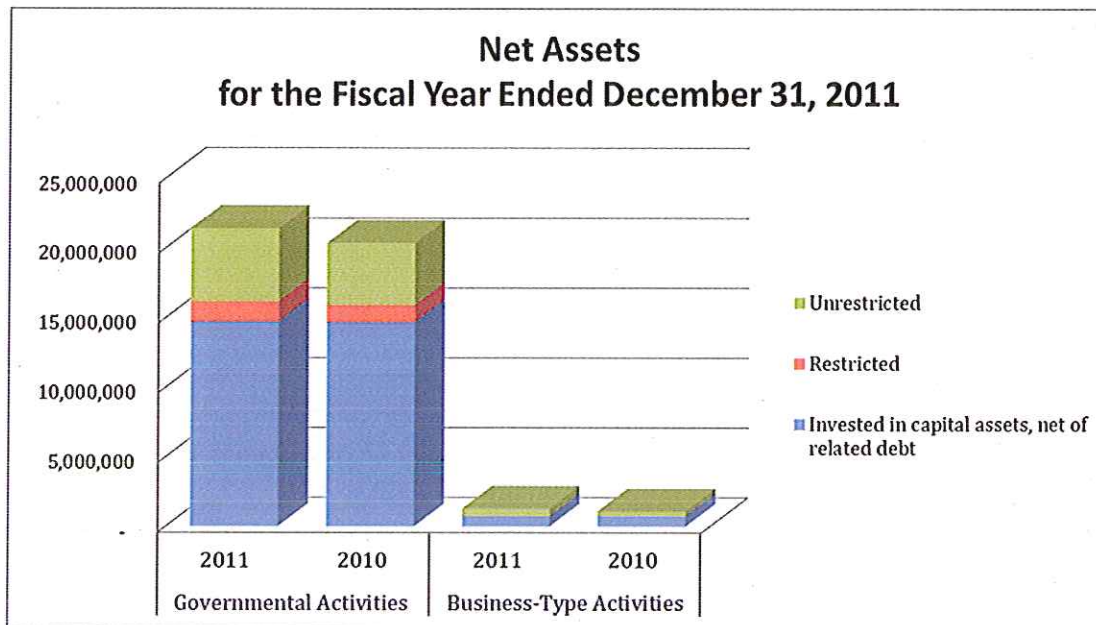
Condensed Statement of Net Assets

The table below presents the City's condensed Statement of Net Assets as of December 31, 2011:

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 7,314,156	\$ 6,282,073	\$ 530,051	\$ 330,714	\$ 7,844,207	\$ 6,612,787
Capital assets	15,756,110	15,988,197	749,678	758,950	16,505,788	16,747,147
Total assets	\$ 23,070,266	\$ 22,270,270	\$ 1,279,729	\$ 1,089,664	\$ 24,349,995	\$ 23,359,934
Current liabilities	\$ 1,142,141	\$ 1,023,652	-	\$ 2,569	\$ 1,142,141	\$ 1,026,221
Non-current liabilities	587,897	933,069	-	-	587,897	933,069
Total liabilities	1,730,038	1,956,721	-	2,569	1,730,038	1,959,290
Net assets:						
Invested in capital assets, net of related debt	14,655,782	14,613,696	749,678	758,950	15,405,460	15,372,646
Restricted	1,459,236	1,242,434	-	-	1,459,236	1,242,434
Unrestricted	5,225,210	4,457,419	530,051	328,145	5,755,261	4,785,564
Total net assets	21,340,228	20,313,549	1,279,729	1,087,095	22,619,957	21,400,644
Total liabilities and net assets	\$ 23,070,266	\$ 22,270,270	\$ 1,279,729	\$ 1,089,664	\$ 24,349,995	\$ 23,359,934

As of December 31, 2011 the City of Holly Springs is able to present positive balances in net assets for the governmental and business-type activities.

**City of Holly Springs, Georgia**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2011**



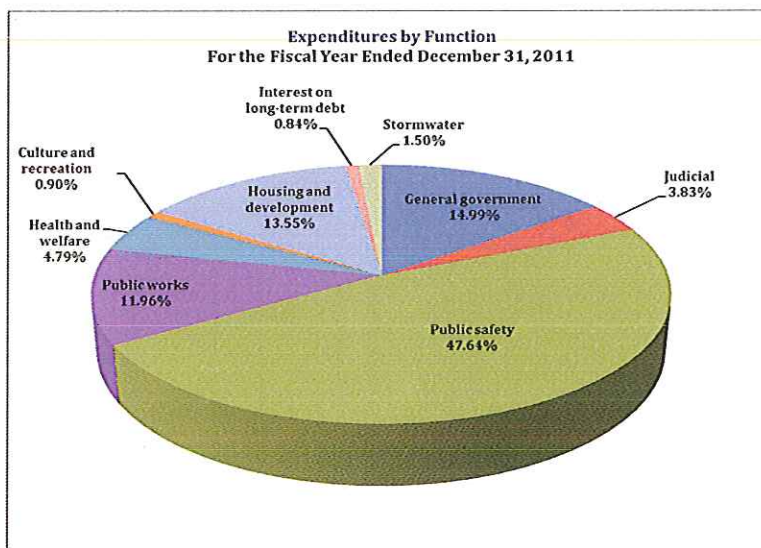
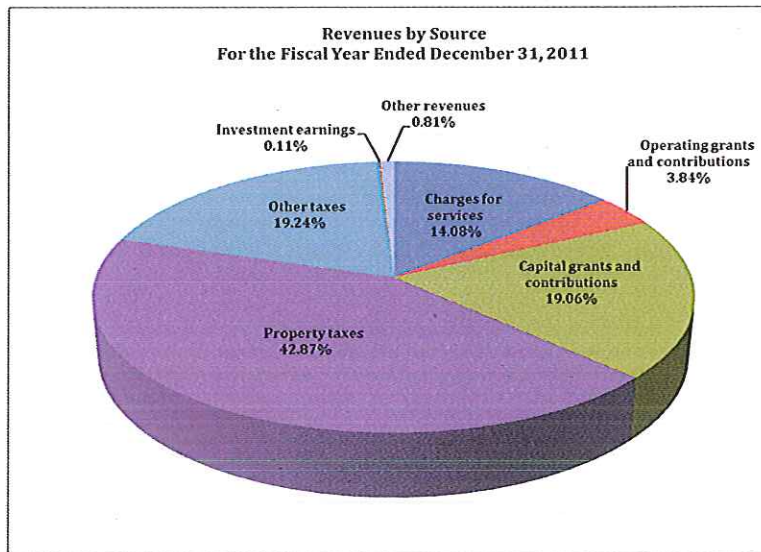
Condensed Statement of Activities

The table below presents the City's Condensed Statement of Activities for the year ended December 31, 2011.

	Governmental Activities		Business-Type Activities		Total	
Revenues	2011	2010	2011	2010	2011	2010
Program Revenues:						
Charges for services	\$ 603,766	\$ 505,733	\$ 265,465	\$ 358,911	\$ 869,231	\$ 864,644
Operating grants and contributions	237,074	177,037	-	-	237,074	177,037
Capital grants and contributions	1,176,675	1,677,508	-	-	1,176,675	1,677,508
General Revenues:						
Property taxes	2,647,071	2,553,574	-	-	2,647,071	2,553,574
Other taxes	1,188,053	1,037,351	-	-	1,188,053	1,037,351
Investment earnings	6,589	4,322	243	40	6,832	
Other revenues	49,936	88,743	-	-	49,936	88,743
Total Revenues	5,909,164	6,044,268	265,708	358,951	6,174,872	6,403,219
Expenses						
General government	732,277	692,663	-	-	732,277	692,663
Judicial	187,181	190,427	-	-	187,181	190,427
Public safety	2,326,383	2,266,681	-	-	2,326,383	2,266,681
Public works	584,016	528,658	-	-	584,016	528,658
Health and welfare	234,056	160,192	-	-	234,056	160,192
Culture and recreation	44,086	41,577	-	-	44,086	41,577
Housing and development	661,674	864,632	-	-	661,674	864,632
Interest on long-term debt	40,884	57,140	-	-	40,884	57,140
Stormwater	-	-	73,074	20,690	73,074	20,690
Total Expenses	4,810,557	4,801,970	73,074	20,690	4,883,631	4,822,660
Increase (decrease) in net assets before transfers	1,098,607	1,242,298	192,634	338,261	1,291,241	1,580,559
Transfers in (out)	-	(748,834)	-	748,834	-	-
Change in net assets	1,098,607	493,464	192,634	1,087,095	1,291,241	1,580,559
Beginning net assets as restated	20,241,621	19,820,085	1,087,095	-	21,328,716	-
Ending net assets	\$ 21,340,228	\$ 20,313,549	\$ 1,279,729	\$ 1,087,095	\$ 22,619,957	\$ 1,580,559



**City of Holly Springs, Georgia**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2011**



### Governmental Activities

The governmental activities of the City increased net assets by \$1,098,607. The primary focus of the governmental activities of the City was to maintain and improve city-wide infrastructure as well as to provide public safety, judicial services, health and welfare services, parks and recreation opportunities, and community development and zoning services for our residents.

### Revenues

Property tax revenues increased by \$93,497 (3.66%) due to growth in the City's digest. Charges for services increased \$98,033 (19.38%) due to an increase in court fine revenue and building inspection fees during the fiscal year. Operating Grants and Contributions increased \$60,037 (33.91%) due to increased funding from the Atlanta Regional Commission (ARC) for Cherokee FOCUS (pass-through grant). Capital grants and contributions decreased \$500,833 (29.86%) due to a reduction in grant funding for the downtown sidewalk project. Other taxes increased \$150,702 (14.53%) primarily due to the increase in the insurance premium tax realized in 2011 as a direct result of the decennial census.

**City of Holly Springs, Georgia**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2011**

Expenses

Public safety expenses increased \$59,702 (2.63%) primarily due to the increase in the Cherokee County Fire District taxes which is attributable to the increase in the millage rate assessed by Cherokee County and collected by the City of Holly Springs. Public works expenses increased \$55,358 (10.47%) due to the addition of seasonal workers to maintain city rights-of-way. Health and welfare expenses increased \$73,864 (46.11%) as a direct result of increased funding from the ARC for the pass-through grant to Cherokee FOCUS. Housing and development expenses decreased \$202,958 (23.47%) due to a reduction in workforce in the Community Development Department and decreased funding for the downtown sidewalk project in 2011.

**FUND FINANCIAL ANALYSIS**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

As of December 31, 2011, the City's governmental funds reported combined ending fund balances of \$3,945,197.

Major Governmental Funds

The General Fund is the operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$2,242,855, which was comprised of nonspendable fund balance of \$65,788, committed fund balance of \$619,682 and unassigned fund balance of \$1,557,385. In 2010 the General Fund had a fund balance of \$1,522,606. Included in General Fund operations for 2011 were \$35,000 of net transfers to the Capital Grant Fund for local match on the Livable Centers Initiative (LCI) streetscapes grant for downtown.

The Capital Improvements Fund is a capital projects fund that accounts for the receipt and disbursement of private donations used for the acquisition or construction of major capital assets and capital improvements. The Capital Improvements Fund had a deficit fund balance of \$211,857 as of December 31, 2011 and 2010. The City appropriated the transfer of funds in its 2012 Parks and Recreation Fund budget to eliminate the deficit fund balance.

The SPLOST III Fund is a capital projects fund of the City. The purpose of this fund is to account for the collection of special purpose local option sales tax (SPLOST) and the construction of approved capital projects and the associated retirement of debt. At the end of the current fiscal year, the restricted fund balance of the SPLOST III Fund was \$1,392,609. In 2010 the SPLOST III Fund had a fund balance of \$1,215,129.

Non-Major Governmental Funds

Special Revenue Funds are used to account for the City's collection and disbursement of specific revenues that are legally restricted for specified purposes. The City has three non-major special revenue funds: the Parks and Recreation Fund, Hotel/Motel Tax Fund and Multiple Grant Fund.

Capital Projects Funds are used to account for the City's acquisition and construction of major capital assets and capital improvements to city infrastructure. The City has one non-major capital projects fund: the Capital Grant Fund.



**City of Holly Springs, Georgia**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2011**

Non-major governmental funds revenues totaled \$545,756 for the fiscal year ending December 31, 2011. Non-major governmental fund expenditures totaled \$323,798. Fund balance for all non-major governmental funds was \$521,590. Non-major fund balances increased \$25,473. There were no significant changes in non-major fund balances during 2011.

**Proprietary Funds**

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. The City has one enterprise fund: the Stormwater Utility Fund.

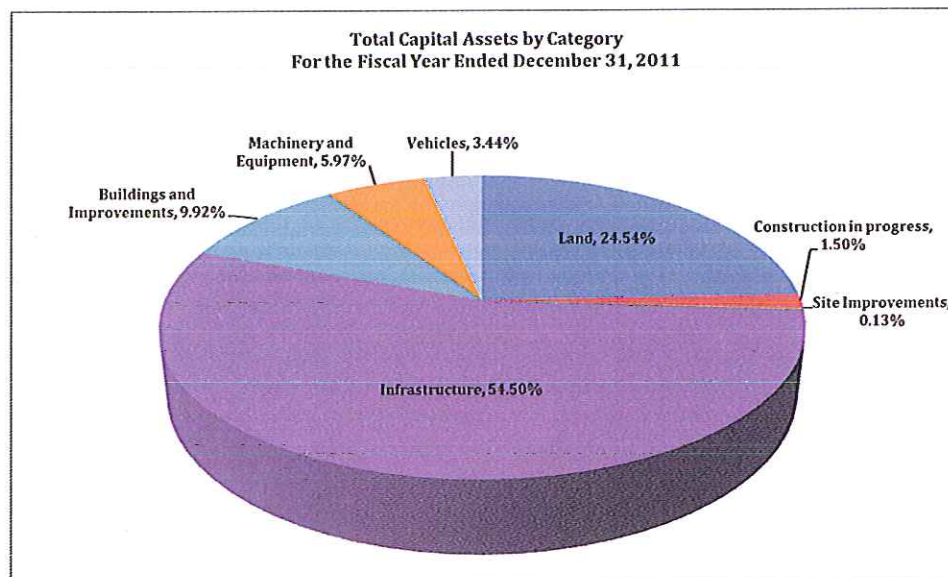
**GENERAL FUND BUDGETARY HIGHLIGHTS**

The City's comparison of actual revenues and expenditures to the adopted budget can be found on page 41 of the annual report. Actual expenditures in public safety and public works exceeded budget due to the acquisition of police cars and a public works vehicle near fiscal year end. Proceeds of \$167,259 from the issuance of a new capital lease covered the cost of acquiring the vehicles.

**CAPITAL ASSETS**

The table below represents capital assets, net of accumulated depreciation:

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 4,049,854	\$ 4,048,854	-	-	\$ 4,049,854	\$ 4,048,854
Construction in Progress	243,390	189,412	4,760	-	248,150	189,412
Site Improvements	21,706	24,240	-	-	21,706	24,240
Infrastructure	8,258,469	8,409,993	737,156	748,727	8,995,625	9,158,720
Buildings and Improvements	1,636,963	1,668,639	-	-	1,636,963	1,668,639
Machinery and Equipment	977,252	977,386	7,762	10,223	985,014	987,609
Vehicles	568,477	669,673	-	-	568,477	669,673
Total:	<u>\$ 15,756,111</u>	<u>\$ 15,988,197</u>	<u>\$ 749,678</u>	<u>\$ 758,950</u>	<u>\$ 16,505,789</u>	<u>\$ 16,747,147</u>



**City of Holly Springs, Georgia**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2011**

**LONG-TERM DEBT**

The table below represents long-term debt outstanding:

	Governmental Activities		Business-Type Activities		Total	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Capital Leases	\$ 1,100,328	\$ 1,374,501	\$ -	\$ -	\$ 1,100,328	\$ 1,374,501
Total:	<u>\$ 1,100,328</u>	<u>\$ 1,374,501</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,100,328</u>	<u>\$ 1,374,501</u>

At December 31, 2011, the City reported long-term debt of \$1,100,328 exclusive of interest expense. Such debt includes the new capital lease for \$167,259 issued in 2011 to acquire police cars and a vehicle in public works. The City has no general obligation debt outstanding.

The Holly Springs Downtown Development Authority issued debt in 2009 and 2011 to acquire property for redevelopment within the City. See Note 7B in the notes to the financial statements for additional information.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Mayor and Council in conjunction with the staff of the City of Holly Springs have continued to aggressively address the current and future needs of the City by focusing on sound financial management, the use of current resources for capital expenditures and an extensive budgeting process. The City's General Fund budget for fiscal year 2012 is \$3,825,000. This is a decrease of \$48,010 from the prior year. The budget for fiscal year 2012 decreased from fiscal year 2011 due to the anticipated reduction in revenues and decreases in budgeted operating expenditures.

The City does not anticipate significant growth in 2012 due to the general slowdown of the national economy. However, the city does anticipate growth in the commercial sector at exits 11 and 14 on Interstate 575 due to the construction of an outlet mall at exit 10 as well as the Cherokee County Aquatics Center at exit 11.

**FINANCIAL CONTACT**

This financial report is designed to provide a general overview of the City of Holly Springs' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to; Robert H. Logan, CPA at City of Holly Springs, P.O. Box 990, Holly Springs, GA 30142. Please visit our website at [www.hollyspringsga.us](http://www.hollyspringsga.us) for additional information.



**CITY OF HOLLY SPRINGS, GEORGIA**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2011**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
<b>Assets</b>				
Cash	\$ 4,077,202	\$ 248,580	\$ 4,325,782	\$ 24,827
Restricted cash	1,450,734	-	1,450,734	-
Restricted investments	400,000	-	400,000	25,000
Property taxes receivable	518,415	-	518,415	-
Stormwater fees receivable	82,754	-	82,754	-
Accounts receivable, net	460,317	-	460,317	56
Fines receivable, net	58,138	-	58,138	-
Due from primary government	-	-	-	21,958
Due from other governments	248,279	-	248,279	-
Internal balances	(277,471)	277,471	-	-
Prepaid expenses	65,788	4,000	69,788	-
Deposit	230,000	-	230,000	-
Capital assets:				
Non-depreciable	4,293,244	4,760	4,298,004	1,877,442
Depreciable, net of accumulated depreciation	11,462,866	744,918	12,207,784	278,634
<b>Total assets</b>	<b>\$ 23,070,266</b>	<b>\$ 1,279,729</b>	<b>\$ 24,349,995</b>	<b>\$ 2,227,917</b>
<b>Liabilities</b>				
Accounts payable	\$ 72,979	\$ -	\$ 72,979	\$ -
Accrued and other liabilities	79,836	-	79,836	21,598
Due to component unit	21,958	-	21,958	-
Due to other governments	298,341	-	298,341	-
Deferred revenue	103,791	-	103,791	-
Compensated absences	52,805	-	52,805	-
Capital leases and promissory notes, current portion	512,431	-	512,431	352,315
Capital leases and promissory notes, non-current portion	587,897	-	587,897	786,570
<b>Total liabilities</b>	<b>1,730,038</b>	<b>-</b>	<b>1,730,038</b>	<b>1,160,483</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	14,655,782	749,678	15,405,460	1,017,191
Restricted for:				
Capital projects	1,416,843	-	1,416,843	-
Other purposes	42,393	-	42,393	-
Unrestricted	5,225,210	530,051	5,755,261	50,243
<b>Total net assets</b>	<b>21,340,228</b>	<b>1,279,729</b>	<b>22,619,957</b>	<b>1,067,434</b>
<b>Total liabilities and net assets</b>	<b>\$ 23,070,266</b>	<b>\$ 1,279,729</b>	<b>\$ 24,349,995</b>	<b>\$ 2,227,917</b>

*The accompanying notes are an integral part of this statement.*

**CITY OF HOLLY SPRINGS, GEORGIA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

Functions/Programs	Program Revenues					Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions	Primary Government		
			Grants and Contributions			Governmental Activities	Business-type Activities	Component Unit Development Authority
<b>Primary Government:</b>								
<b>Governmental Activities:</b>								
General government	\$ 732,277	\$ 74,092	\$ 2,550	\$ -	\$ -	\$ (655,635)	\$ -	\$ (655,635)
Judicial	187,181	-	-	-	-	(187,181)	-	(187,181)
Public safety	2,326,383	320,919	-	-	-	(2,005,464)	-	(2,005,464)
Public works	584,016	-	-	100,772	-	(483,244)	-	(483,244)
Health and welfare	234,056	-	234,524	-	-	468	-	468
Culture and recreation	44,086	5,213	-	-	-	(38,873)	-	(38,873)
Housing and development	661,674	203,542	-	1,075,903	-	617,771	-	617,771
Interest	40,884	-	-	-	-	(40,884)	-	(40,884)
Total governmental activities	4,810,557	603,766	237,074	1,176,675	-	(2,793,042)	-	(2,793,042)
<b>Business-type Activities:</b>								
Stormwater Utility	73,074	265,465	-	-	-	-	192,391	192,391
Total primary government	\$ 4,883,631	\$ 869,231	\$ 237,074	\$ 1,176,675	\$ -	(2,793,042)	192,391	(2,600,651)
<b>Component Unit:</b>								
Downtown Development Authority	\$ 83,808	\$ 21,504	\$ 381,109	\$ -	\$ -			\$ 318,805
General revenues:								
Property taxes						2,647,071	-	2,647,071
Franchise taxes						429,737	-	429,737
Business taxes						513,649	-	513,649
Selective sales tax						244,667	-	244,667
Other revenues						49,936	-	49,936
Unrestricted investment earnings						6,589	243	6,832
Total general revenues and transfers						3,891,649	243	3,891,892
Change in net assets						1,098,607	192,634	1,291,241
Net assets, beginning of year, as restated						20,241,621	1,087,095	21,328,716
Net assets, end of year						\$ 21,340,228	\$ 1,279,729	\$ 22,619,957
								\$ 1,067,434

The accompanying notes are an integral part of this statement.



**CITY OF HOLLY SPRINGS, GEORGIA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2011**

	<u>General</u>	<u>Capital Improvements</u>	<u>SPLOST III</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash	\$ 3,788,247	\$ 78,667	\$ 1,182,813	\$ 478,209	\$ 5,527,936
Investments	400,000	-	-	-	400,000
Property taxes receivable	518,415	-	-	-	518,415
Stormwater fees receivable	82,754	-	-	-	82,754
Accounts receivable	396,772	-	155,064	27,481	579,317
Fines receivable	116,138	-	-	-	116,138
Due from other governments	16,393	-	209,797	22,089	248,279
Due from other funds	-	-	-	-	-
Prepaid items	65,788	-	-	-	65,788
<b>Total assets</b>	<u>\$ 5,384,507</u>	<u>\$ 78,667</u>	<u>\$ 1,547,674</u>	<u>\$ 527,779</u>	<u>\$ 7,538,627</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 69,840	\$ -	\$ -	\$ 3,139	\$ 72,979
Accrued and other liabilities	65,695	-	-	-	65,695
Due to component unit	21,958	-	-	-	21,958
Due to other governments	7,817	290,524	-	-	298,341
Due to other funds	277,471	-	-	-	277,471
Deferred revenue	2,698,871	-	155,065	3,050	2,856,986
<b>Total liabilities</b>	<u>3,141,652</u>	<u>290,524</u>	<u>155,065</u>	<u>6,189</u>	<u>3,593,430</u>
<b>Fund Balances (Deficit):</b>					
Nonspendable	65,788	-	-	-	65,788
Restricted	-	-	1,392,609	66,627	1,459,236
Committed	619,682	-	-	-	619,682
Assigned	-	-	-	454,963	454,963
Unassigned	1,557,385	(211,857)	-	-	1,345,528
<b>Total fund balances (deficit)</b>	<u>2,242,855</u>	<u>(211,857)</u>	<u>1,392,609</u>	<u>521,590</u>	<u>3,945,197</u>
<b>Total liabilities and fund balances</b>	<u>\$ 5,384,507</u>	<u>\$ 78,667</u>	<u>\$ 1,547,674</u>	<u>\$ 527,779</u>	<u>\$ 7,538,627</u>

*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, 2011**

---

Total fund balances - governmental funds	\$ 3,945,197
--	--------------

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.	15,756,110
--	------------

obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	2,753,195
--	-----------

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.	(177,000)
---	-----------

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
---	---------

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	\$ (14,141)	
Capital leases payable	(1,100,328)	
Compensated absences	(52,805)	(1,167,274)

Total net assets - governmental activities	\$ 21,340,228
--	---------------

*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, 2011**

	General	Capital Improvements	SPLOST III	Nonmajor Governmental	Total Governmental Funds
<b>Revenues</b>					
Property taxes	\$ 2,618,844	\$ -	\$ -	\$ -	\$ 2,618,844
Franchise taxes	429,737	-	-	-	429,737
Business taxes	513,649	-	-	-	513,649
Selective sales taxes	-	-	-	244,667	244,667
Licenses and permits	245,884	-	-	-	245,884
Intergovernmental	2,550	-	1,130,492	294,068	1,427,110
Charges for services	30,410	-	-	5,213	35,623
Fines and forfeitures	284,208	-	-	-	284,208
Interest	6,589	-	1,416	88	8,093
Other revenues	47,276	-	-	1,720	48,996
<b>Total revenues</b>	<b>4,179,147</b>	<b>-</b>	<b>1,131,908</b>	<b>545,756</b>	<b>5,856,811</b>
<b>Expenditures</b>					
Current:					
General government	707,668	-	-	-	707,668
Judicial	186,549	-	-	-	186,549
Public safety	2,187,997	-	-	-	2,187,997
Public works	272,116	-	-	-	272,116
Health and welfare	-	-	-	234,298	234,298
Culture and recreation	-	-	-	28,712	28,712
Housing and development	270,948	-	381,109	6,573	658,630
Capital outlay:					
Public safety	164,652	-	-	-	164,652
Public works	44,385	-	84,950	53,216	182,551
Culture and recreation	-	-	-	999	999
Debt service:					
Principal	-	-	441,432	-	441,432
Interest	-	-	46,937	-	46,937
<b>Total expenditures</b>	<b>3,834,315</b>	<b>-</b>	<b>954,428</b>	<b>323,798</b>	<b>5,112,541</b>
Excess of revenues over (under) expenditures	344,832	-	177,480	221,958	744,270
<b>Other financing sources (uses)</b>					
Proceeds from capital leases	167,259	-	-	-	167,259
Proceeds from sale of capital assets	11,673	-	-	-	11,673
Transfers in	231,485	-	-	35,000	266,485
Transfers out	(35,000)	-	-	(231,485)	(266,485)
<b>Total other financing sources (uses)</b>	<b>375,417</b>	<b>-</b>	<b>-</b>	<b>(196,485)</b>	<b>178,932</b>
Net change in fund balances	720,249	-	177,480	25,473	923,202
Fund balances (deficit), beginning of year	1,522,606	(211,857)	1,215,129	496,117	3,021,995
Fund balances (deficit), end of year	\$ 2,242,855	\$ (211,857)	\$ 1,392,609	\$ 521,590	\$ 3,945,197

*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, 2011**

---

Net change in fund balances - total governmental funds	\$ 923,202
--	------------

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of capitalizable assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which such assets charged to capital outlays exceeded depreciation in the current year.

Capital outlays	\$ 348,202	
Depreciation expense	<u>(497,627)</u>	(149,425)

Proceeds from the sale of capital assets provide current financial resources to governmental funds; however, such proceeds are offset by the cost and accumulated depreciation of such assets and the resulting gain or loss on disposal is recorded in the Statement of Activities. This is the amount by which proceeds exceeded the resulting gain.

(10,734)

The issuance of long-term debt provides current financial resources to governmental funds; however, such issuance has no affect on net assets in the Statement of Activities.

(167,259)

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.

441,432

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.

75,413

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	(24,000)	
Compensated absences	4,697	
Accrued interest	<u>5,281</u>	<u>(14,022)</u>

Change in net assets - governmental activities	<u>\$ 1,098,607</u>
--	---------------------

*The accompanying notes are an integral part of this statement.*



**CITY OF HOLLY SPRINGS, GEORGIA**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUND**  
**DECEMBER 31, 2011**

	<u>Stormwater Utility</u>
<b>Assets</b>	
<b>Current:</b>	
Cash	\$ 248,580
Due from General Fund	277,471
Prepaid items	<u>4,000</u>
Total current assets	<u>530,051</u>
<b>Capital assets:</b>	
Capital assets not depreciated	4,760
Capital assets depreciated, net	<u>744,918</u>
Total capital assets	<u>749,678</u>
<b>Total Assets</b>	<u><u>\$ 1,279,729</u></u>
 <b>Liabilities and Net Assets</b>	
<b>Liabilities</b>	<u>\$ -</u>
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt	749,678
Unrestricted	<u>530,051</u>
Total net assets	<u>1,279,729</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 1,279,729</u></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, 2011**

	<u>Stormwater Utility</u>
<b>Operating Revenues</b>	
Charges for services - stormwater fees	\$ 265,465
Total operating revenues	<u>265,465</u>
<b>Operating Expenses</b>	
Personal services	51,627
Contractual and professional services	5,000
Supplies	371
Repairs and maintenance	1,104
Other operating expenses	940
Depreciation expense	<u>14,032</u>
Total operating expenses	<u>73,074</u>
Operating income	<u>192,391</u>
<b>Nonoperating revenue</b>	
Interest income	<u>243</u>
Total nonoperating revenue	<u>243</u>
Change in net assets	192,634
Net assets, beginning of year	<u>1,087,095</u>
Net assets, end of year	<u><u>\$ 1,279,729</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, 2011**

	<u>Stormwater Utility</u>
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 296,950
Payments to employees	(47,623)
Payments to suppliers	<u>(13,984)</u>
Net cash provided by operating activities	<u>235,343</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchases of capital assets	<u>(4,760)</u>
Cash (used) by capital and related financing activities	<u>(4,760)</u>
<b>Cash Flows from Investing Activities</b>	
Interest received	<u>243</u>
Cash provided by investing activities	<u>243</u>
Net increase in cash	230,826
Cash, beginning of year	<u>17,754</u>
Cash, end of year	<u><u>\$ 248,580</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 192,391
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	14,032
Decrease in due from General Fund	35,489
(Increase) in prepaids	(4,000)
(Decrease) in accounts payable	<u>(2,569)</u>
Net cash provided by operating activities	<u><u>\$ 235,343</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, 2011**

---

**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 promoting development through revitalization of 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 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 its legally separate *component unit* for which the primary government is financially accountable.



CITY OF HOLLY SPRINGS, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

---

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.

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.

**CITY OF HOLLY SPRINGS, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

---

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

The Special Purpose Local Option Sales Tax (SPLOST III) Fund is used to account for the revenues provided by a 2006 referendum authorizing a one percent Special Purpose Local Option Sales Tax for Cherokee County to be shared with the City. Such revenues are to be used for streets and sidewalks, new city hall, downtown square and streetscapes, public safety and public works vehicles and equipment, and the retirement of associated debt.

The City reports the following major proprietary fund:

The Stormwater Utility Fund accounts for the revenues derived from stormwater charges to customers and used for stormwater management activities.

Additionally, the City reports the following fund types:

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

Capital projects funds account for financial resources used to acquire, construct, and maintain capital projects for use by the City.

**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.



**CITY OF HOLLY SPRINGS, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

---

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the Stormwater Utility enterprise fund are charges for stormwater management services provided. Operating expenses of the enterprise fund include the cost of these services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**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.

**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. 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

**CITY OF HOLLY SPRINGS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

---

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

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. Investments are reported at fair value as determined by quoted market prices.

For purposes of the Statement of Cash Flows, all highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

**E. 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 fund balance classified as nonspendable, which indicates they do not constitute "available, spendable financial resources" even though they are a component of net current assets.

**F. Capital Assets**

Capital assets of governmental activities, which include land, buildings, vehicles, machinery and equipment, and infrastructure (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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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:

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



**CITY OF HOLLY SPRINGS, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

---

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

**G. 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.

**H. 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 reimbursements, as well as activity between funds representative of lending/borrowing arrangements, 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.

**I. Fund Balance**

The City has adopted GASB Statement No. 54, which establishes criteria for classifying fund balances in governmental fund financial statements. Fund balances are presented based on classifications that comprise a hierarchy which is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified prepaid items as being Nonspendable as these items are not resources in spendable form.

Restricted: This classification includes amounts that are restricted to specific purposes whereby constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City's special revenue and capital projects funds are legally restricted to expenditures for specific purposes.

**CITY OF HOLLY SPRINGS, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

---

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

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned: This classification includes amounts that are constrained by the City's intent to use for a specific purpose but are neither restricted nor committed. This intent can be expressed by (a) the City Council itself or (b) the Council delegating this responsibility to City management through the budgetary process. This classification also includes all remaining positive fund balance for all governmental funds other than the General Fund.

Unassigned: This classification includes the residual fund balance for the General Fund. It represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City's policy would be to use restricted fund balances first when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Otherwise, it is the City's policy to reduce committed amounts first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**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, the disclosure 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.



**CITY OF HOLLY SPRINGS, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

---

**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 are adopted on a modified accrual basis which is consistent with generally accepted accounting principles for governmental funds. Budgets are adopted for the General Fund and each special revenue fund. Capital project funds have project length budgets. Budget amounts are as originally adopted, or as amended by the City's council members. Material supplementary appropriations made during the year by City Council were for public safety purposes; others were immaterial. All annual appropriations lapse at year end.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not employed by the City.

**B. Excess of Expenditures over Appropriations**

During 2011, actual General Fund expenditures for public safety and public works exceeded the appropriated budget by \$158,907 and \$35,708, respectively, as shown in the accompanying budgetary comparison schedule. Expenditures in excess of budget resulted from unanticipated vehicle and equipment costs and were funded by greater than anticipated revenues, available fund balance and proceeds from lease purchase financing.

**3. CASH DEPOSITS AND INVESTMENTS**

Cash on the accompanying financial statements includes cash on hand, demand deposits and money market accounts on deposit with financial institutions. 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, 2011, the City had no cash deposits that were exposed to custodial credit risk.

Investments at December 31, 2011, consist of certificates of deposit placed with two FDIC insured financial institutions. The certificates bear interest at 0.75% and mature August 23, 2012.



**CITY OF HOLLY SPRINGS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

**4. RECEIVABLES**

The City bills and collects its own property taxes. Property taxes were levied on October 1, 2011, with bills being payable on or before December 20, 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 March 21, 2012 and May 21, 2012, respectively. Property taxes receivable at year end is estimated based on the tax levy, less amounts collected prior to December 31, 2011. The property taxes levied on October 1<sup>st</sup> were intended for use in the 2012 budget year. Therefore, the entire 2011 digest levy of \$2,392,704 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 \$316,796 were billed on behalf of the Stormwater Utility Fund by the General Fund in connection with its tax levy on October 1, 2011. Such fees are for the calendar year 2011 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 by the General Fund at year end are recorded in the due from/due to accounts of the General Fund and the Stormwater Utility Fund.

Accounts receivable consist primarily of franchise and excise taxes, along with other amounts due to the City as of December 31, 2011, for services rendered. Fines receivable represent adjudicated amounts outstanding at December 31, 2011. Fine surcharges of \$7,817 collected during 2011, but unremitted at year end, are recorded as due 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 at December 31, 2011, for the City's individual major funds and nonmajor funds in the aggregate are as follows:

	General	SPLOST III	Nonmajor Governmental	Total
Receivables:				
Property taxes	\$ 518,415	\$ -	\$ -	\$ 518,415
Stormwater fees	82,754	-	-	82,754
Accounts	396,772	155,064	27,481	579,317
Fines	116,138	-	-	116,138
Due from other governments	16,393	209,797	22,089	248,279
Total Receivables	<u>\$ 1,130,472</u>	<u>\$ 364,861</u>	<u>\$ 49,570</u>	<u>\$ 1,544,903</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 \$58,000, respectively.

**CITY OF HOLLY SPRINGS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

**5. CAPITAL ASSETS**

**A. Primary Government**

Capital asset activity for the year ended December 31, 2011, was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance (Restated)</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not depreciated:				
Land	\$ 4,048,854	\$ 1,000	\$ -	\$ 4,049,854
Construction in progress	189,412	53,978	-	243,390
Total capital assets not depreciated	<u>4,238,266</u>	<u>54,978</u>	<u>-</u>	<u>4,293,244</u>
Capital assets depreciated:				
Land improvements	29,308	-	-	29,308
Buildings and improvements	1,973,186	-	-	1,973,186
Vehicles <sup>(1)</sup>	988,001	139,289	(23,000)	1,104,290
Machinery and equipment <sup>(1)</sup>	1,555,218	69,747	-	1,624,965
Infrastructure <sup>(1)</sup>	<u>9,511,567</u>	<u>84,188</u>	<u>-</u>	<u>9,595,755</u>
Total capital assets depreciated	<u>14,057,280</u>	<u>293,224</u>	<u>(23,000)</u>	<u>14,327,504</u>
Less accumulated depreciation for:				
Land improvements	5,068	2,534	-	7,602
Buildings and improvements <sup>(1)</sup>	291,110	45,113	-	336,223
Vehicles <sup>(1)</sup>	419,142	128,937	(12,266)	535,813
Machinery and equipment <sup>(1)</sup>	546,829	100,885	-	647,714
Infrastructure <sup>(1)</sup>	<u>1,117,128</u>	<u>220,158</u>	<u>-</u>	<u>1,337,286</u>
Total accumulated depreciation	<u>2,379,277</u>	<u>497,627</u>	<u>(12,266)</u>	<u>2,864,638</u>
Total capital assets depreciated, net	<u>11,678,003</u>	<u>(204,403)</u>	<u>(10,734)</u>	<u>11,462,866</u>
Governmental activities capital assets, net	<u>\$ 15,916,269</u>	<u>\$ (149,425)</u>	<u>\$ (10,734)</u>	<u>\$ 15,756,110</u>

<sup>(1)</sup> Certain beginning balances above have been restated in order to properly reflect the disposal of capital assets in prior years not previously removed from the accounts. (See Note 14)

**CITY OF HOLLY SPRINGS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

**5. CAPITAL ASSETS (CONTINUED)**

<u>Business-type Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not depreciated:				
Construction in progress	\$ -	\$ 4,760	\$ -	\$ 4,760
Total capital assets not depreciated	-	4,760	-	4,760
Capital assets depreciated:				
Machinery and equipment	12,684	-	-	12,684
Infrastructure	867,851	-	-	867,851
Total capital assets depreciated	880,535	-	-	880,535
Less accumulated depreciation for:				
Machinery and equipment	2,461	2,461	-	4,922
Infrastructure	119,124	11,571	-	130,695
Total accumulated depreciation	121,585	14,032	-	135,617
Total capital assets depreciated, net	758,950	(14,032)	-	744,918
Business-type activities capital assets, net	<u>\$ 758,950</u>	<u>\$ (9,272)</u>	<u>\$ -</u>	<u>\$ 749,678</u>

Depreciation expense for the year ended December 31, 2011, was charged to functions/programs of the primary government as follows:

<u>Governmental Activities:</u>	
General government	\$ 22,490
Public safety	138,144
Public works	311,291
Culture and recreation	15,375
Housing and development	10,327
Total depreciation expense - Government activities	<u>\$ 497,627</u>
<u>Business-type Activities:</u>	
Stormwater	<u>\$ 14,032</u>



**CITY OF HOLLY SPRINGS, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**5. CAPITAL ASSETS (CONTINUED)**

**B. Component Unit – Holly Springs Downtown Development Authority**

Capital asset activity for the year ended December 31, 2011, was as follows:

<u>Development Authority:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not depreciated:				
Land	\$ 1,693,512	\$ 183,930	\$ -	\$ 1,877,442
Total capital assets not depreciated	<u>1,693,512</u>	<u>183,930</u>	<u>-</u>	<u>1,877,442</u>
Capital assets depreciated:				
Buildings and improvements	58,600	245,712	-	304,312
Furniture and fixtures	<u>10,901</u>	<u>-</u>	<u>-</u>	<u>10,901</u>
Total capital assets depreciated	<u>69,501</u>	<u>245,712</u>	<u>-</u>	<u>315,213</u>
Less accumulated depreciation for:				
Buildings and improvements	17,582	8,096	-	25,678
Furniture and fixtures	<u>10,901</u>	<u>-</u>	<u>-</u>	<u>10,901</u>
Total accumulated depreciation	<u>28,483</u>	<u>8,096</u>	<u>-</u>	<u>36,579</u>
Total capital assets depreciated, net	<u>41,018</u>	<u>237,616</u>	<u>-</u>	<u>278,634</u>
Total Development Authority capital assets, net	<u>\$ 1,734,530</u>	<u>\$ 421,546</u>	<u>\$ -</u>	<u>\$ 2,156,076</u>

Depreciation of \$8,096 for the year ended December 31, 2011, was charged to expenses of the Authority in the accompanying Statement of Activities.

**6. INTERFUND BALANCES AND TRANSFERS**

The composition of interfund balances as of December 31, 2011, is as follows:

**A. Due to/from Other Funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Stormwater Utility	General Fund	<u>\$ 277,471</u>

The outstanding balances between funds primarily result 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. All interfund balances are expected to be repaid within one year from the date of the financial statements.

**CITY OF HOLLY SPRINGS, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

---

**6. INTERFUND BALANCES AND TRANSFERS (CONTINUED)**

**B. Transfers to/from Other Funds**

Transfers between funds during the year ended December 31, 2011, were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Nonmajor governmental fund	\$ 231,485
Nonmajor governmental fund	General Fund	<u>35,000</u>
		<u><u>\$ 266,485</u></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, 2011, outstanding lease purchase contracts of the primary government (governmental activities) are as follows:

Lease contract for land purchase in the amount of \$1,800,000, payable in semi-annual installments of \$244,184, including interest at 3.71% through August, 2013.	\$ 933,069
Less current portion	<u>(457,961)</u>
	<u><u>\$ 475,108</u></u>

Lease contract for purchase of 4 public safety vehicles and equipment and 1 public works vehicle in the amount of \$167,259, payable in annual installments of \$58,390, including interest at 2.35% through October, 2014.	\$ 167,259
Less current portion	<u>(54,470)</u>
	<u><u>\$ 112,789</u></u>

**CITY OF HOLLY SPRINGS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

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

The lease contract for purchase of land is collateralized by land with a book value of \$1,824,754 at December 31, 2011. The contract terms require principal and interest payments until maturity as follows:

	Principal	Interest	Total
2012	\$ 457,961	\$ 30,408	\$ 488,369
2013	475,108	13,261	488,369
	<u>933,069</u>	<u>43,669</u>	<u>976,738</u>

The lease contract for purchase of vehicles and equipment is collateralized by vehicles with a book value of \$116,074 at December 31, 2011. The contract terms require principal and interest payments until maturity as follows:

	Principal	Interest	Total
2012	\$ 54,470	\$ 3,920	\$ 58,390
2013	55,739	2,651	58,390
2014	57,050	1,340	58,390
	<u>\$ 167,259</u>	<u>\$ 7,911</u>	<u>\$ 175,170</u>

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

Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One year
Lease purchase contracts <sup>(2)</sup>	\$ 1,374,501	\$ 167,259	\$ (441,432)	\$ 1,100,328	\$ 512,431
Compensated absences <sup>(1)</sup>	57,502	74,334	(79,031)	52,805	52,805
	<u>\$ 1,432,003</u>	<u>\$ 241,593</u>	<u>\$ (520,463)</u>	<u>\$ 1,153,133</u>	<u>\$ 565,236</u>

<sup>(1)</sup> Typically, the General Fund is used to liquidate the compensated absences liability

<sup>(2)</sup> Lease purchase payments of principal (\$441,432) and interest (\$46,937) during 2011 were made by the SPLOST III Fund.

**B. Component Unit – Holly Springs Downtown Development Authority**

In October, 2006, the Holly Springs Downtown Development Authority (the "Authority") purchased land as part of the redevelopment of the downtown area and borrowed \$1,350,000 to finance this purchase. Subsequently, in August, 2009, the Authority refinanced these borrowings with a new \$1,300,000 promissory note. 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.



**CITY OF HOLLY SPRINGS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

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

In March, 2011, the Authority entered into a promissory note agreement in the amount of \$450,000 to purchase land with an existing building for redevelopment purposes. The note bears interest at 4.39% and requires annual principal payments and semi-annual interest payments in varying amounts through March, 2016. The land and building with a book value of \$423,500 at December 31, 2011, are collateral to the note.

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

<u>Development Authority:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One year</u>
Promissory notes	\$ 1,003,590	\$ 450,000	\$ (314,705)	\$ 1,138,885	\$ 352,315

At December 31, 2011, borrowings outstanding of \$688,885 under the 2009 promissory note require principal and interest payments as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 334,130	\$ 36,882	\$ 371,012
2013	354,755	16,257	371,012
	<u>\$ 688,885</u>	<u>\$ 53,139</u>	<u>\$ 742,024</u>

At December 31, 2011, borrowings outstanding of \$450,000 under the 2011 promissory note require principal and interest payments as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 18,185	\$ 19,676	\$ 37,861
2013	18,641	18,802	37,443
2014	19,053	17,963	37,016
2015	19,473	17,105	36,578
2016	374,648	8,315	382,963
	<u>\$ 450,000</u>	<u>\$ 81,861</u>	<u>\$ 531,861</u>

Payments during 2011 of principal and interest for the two promissory notes in the amount of \$381,109 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.

**CITY OF HOLLY SPRINGS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

---

**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 purchases 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.

**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, 2012 of \$75,333 is 6.81% 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. Elected officials and city managers are eligible and become vested immediately upon employment. All plan costs are paid by the City.

Plan Membership

As of July 1, 2011, Plan membership consisted of the following:

Retired participants and beneficiaries	2
Vested former participants	20
Active participants	<u>31</u>
Total	<u><u>53</u></u>

**Annual Pension Cost** - The City's actual contribution for calendar year 2011 of \$69,721 was based, in part, on the previous recommended contribution for the plan year beginning July 1, 2010. 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, with a net effective amortization period of 14 years.

**CITY OF HOLLY SPRINGS, GEORGIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

**9. RETIREMENT PLANS (CONTINUED)**

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) projected salary increases of 3.5% plus age and service based merit increases, and (c) cost of living adjustments of 0.00%. 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%.

Trend Information for the CHSRP  
(Based on results of the July 1, 2010 actuarial valuation)

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset/ Obligation
12/31/2011	\$ 66,490	100 %	\$ -
12/31/2010	61,783	100	-
12/31/2009	38,273	100	-

The City's annual pension cost and net pension asset/obligation for the year ended December 31, 2011, were determined as follows:

Annual required contribution	\$ 57,923
Interest on net pension obligation	-
Adjustment to annual required contribution	<u>8,567</u>
Annual pension cost	66,490
Administrative expenses	<u>3,231</u>
	69,721
Contribution made	<u>(69,721)</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>\$ -</u></u>



**CITY OF HOLLY SPRINGS, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

---

**9. RETIREMENT PLANS (CONTINUED)**

As of the most recent valuation date of July 1, 2011, the funded status of the CHSRP was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	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)
7/1/2011	\$ 356,464	\$ 549,601	\$ 193,137	64.86 %	\$ 1,086,781	17.77 %

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 for benefits.

There were no changes in methods or assumptions from the prior valuation.

**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.

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, 2011, employees contributed \$18,278 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

**CITY OF HOLLY SPRINGS, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

---

**11. HOTEL/MOTEL TAX REVENUES AND TOURISM EXPENDITURES**

The City has levied a 3% lodging tax. During the year ended December 31, 2011, taxes of \$4,253 were collected. In accordance with state law, \$4,253 is required to be spent promoting tourism, conventions and trade shows. During the year ended December 31, 2011, the City spent \$6,573 (154%) for these purposes.

**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 liability, if any, that may result from any of these matters would 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. FUND BALANCE / DEFICIT**

For the year ended December 31, 2011, the City adopted GASB Statement No. 54, which redefines how fund balances of governmental funds are presented in the financial statements. Accordingly, fund balances are classified as follows:

Nonspendable: Amounts that are either not in spendable form or they are legally or contractually required to be maintained intact.

Restricted: Amounts that can be spent only for specific purposes as imposed by state or federal laws or constraints imposed by grantors or creditors.

Committed: Amounts that can be spent only for specific purposes pursuant to constraints imposed by formal action of the City Council through resolution or ordinance.

Assigned: Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned: All amounts not included in other spendable classifications for the General Fund and negative residual fund balances of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

The details of fund balances included in the accompanying Governmental Funds Balance Sheet at December 31, 2011, are as follows:

**CITY OF HOLLY SPRINGS, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**13. FUND BALANCE / DEFICIT (CONTINUED)**

**General Fund** – Prepaid items in the amount of \$65,788 are considered Nonspendable Fund Balance; amounts committed by formal action of the City Council for budget stabilization purposes of \$619,682 are considered Committed Fund Balance (See Note 15); and the residual General Fund balance of \$1,557,385 is classified as Unassigned Fund Balance.

**Capital Improvements Fund** – A fund deficit of \$211,857 resulting from the expenditure of cash resources in excess of revenues in prior years is considered to be Unassigned Fund Deficit. The City intends to transfer funds in 2012 from its Parks and Recreation Fund budget to eliminate this deficit.

**SPLOST III Fund** – The amount classified as Restricted Fund Balance of \$1,392,609 can be spent only for legally authorized and approved capital projects and retirement of associated debt. (See Note 1B)

**Other Nonmajor Funds** – Fund balance classifications of other nonmajor funds are as follows:

<u>Nonmajor Funds</u>	<u>Purpose</u>	<u>Fund Balance</u>
<b>Restricted Fund Balances:</b>		
<u>Special Revenue Funds:</u>		
Hotel/Motel	Promote tourism, conventions and trade shows	\$ 4,032
Multiple Grant	Purposes specified by grantors of monies received from various federal and state agencies	38,361
<u>Capital Projects Fund:</u>		
Capital Grant	Construction of capital projects	24,234
Total Restricted Fund Balances		<u>\$ 66,627</u>
<b>Assigned Fund Balance:</b>		
<u>Special Revenue Fund:</u>		
Parks and Recreation	Acquire and maintain parks and recreation facilities	<u>\$ 454,963</u>

**14. PRIOR PERIOD ADJUSTMENTS**

The City has determined that a prior period adjustment is required in order to properly reflect the disposal of capital assets in prior years not previously removed from the accounts in the government-wide statements. As a result of this adjustment, net assets at December 31, 2010, from governmental activities are restated as follows:

Net Assets, December 31, 2010, as previously reported	\$ 20,313,549
Adjustment for disposal of capital assets, net of depreciation	<u>(71,928)</u>
Net Assets, December 31, 2010, as restated	<u>\$ 20,241,621</u>



**CITY OF HOLLY SPRINGS, GEORGIA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

---

**15. RESTRICTED ASSETS**

Restrictions on cash and investments in the government-wide Statement of Net Assets at December 31, 2011, are as follows:

Governmental activities:

Cash:

General Fund - for law enforcement	\$ 1,535
General Fund - for budget stabilization purposes	219,682
SPLOST III Fund - for streets/sidewalks, downtown development and other purposes (See Note 1B)	1,182,813
Non-major funds - for purposes of grants received	43,157
Non-major fund - for tourism, conventions, and trade shows	<u>3,547</u>
Total restricted cash	<u>\$ 1,450,734</u>

Investments - for budget stabilization purposes	<u>\$ 400,000</u>
---	-------------------

In 2008, the City Council adopted the City of Holly Springs Financial Management Program (the Program). Section II G of the Program provides for a fund balance reserve in the General Fund for working capital to cover expenditures caused by unforeseen emergencies or revenue shortfalls, and to eliminate short-term borrowing for cash flow purposes. The Program also provides that this reserve shall accumulate and be maintained at approximately sixteen percent (16%) of budgeted expenditures of the General Fund. On August 15, 2011, the City Council formally approved the opening of two new bank accounts in which to maintain the budget stabilization resources fund. In the event City management anticipates the need to tap into the budget stabilization resources fund, the City Council must give formal approval for the withdrawal and use of the funds. Each year, with the adoption of the General Fund budget, the balance of the budget stabilization resources fund is evaluated by City management to ensure that the balance approximates sixteen percent (16%) of the approved General Fund budgeted expenditures.

**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, 2011**

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
<b>Revenues</b>				
Property taxes	\$ 2,425,459	\$ 2,301,510	\$ 2,618,844	\$ 317,334
Franchise taxes	350,000	350,000	429,737	79,737
Business taxes	254,000	246,000	513,649	267,649
Licenses and permits	165,050	180,250	245,884	65,634
Intergovernmental	-	-	2,550	2,550
Charges for services	19,500	29,750	30,410	660
Fines and forfeitures	355,000	373,000	284,208	(88,792)
Interest	3,500	6,000	6,589	589
Other revenues	5,000	24,500	47,276	22,776
<b>Total revenues</b>	<b>3,577,509</b>	<b>3,511,010</b>	<b>4,179,147</b>	<b>668,137</b>
<b>Expenditures</b>				
General government	740,826	753,826	707,668	46,158
Judicial	202,906	202,907	186,549	16,358
Public safety	2,100,642	2,193,742	2,352,649	(158,907)
Public works	273,293	280,793	316,501	(35,708)
Culture and recreation	-	-	-	-
Housing and development	344,842	344,842	270,948	73,894
Contingency	85,000	61,900	-	61,900
<b>Total expenditures</b>	<b>3,747,509</b>	<b>3,838,010</b>	<b>3,834,315</b>	<b>3,695</b>
Excess of revenues over (under) expenditures	(170,000)	(327,000)	344,832	671,832
<b>Other financing sources (uses)</b>				
Proceeds from capital leases	-	-	167,259	167,259
Proceeds from sale of capital assets	5,000	75,000	11,673	(63,327)
Transfers in	200,000	200,000	231,485	31,485
Transfers out	(35,000)	(35,000)	(35,000)	-
<b>Total other financing sources (uses)</b>	<b>170,000</b>	<b>240,000</b>	<b>375,417</b>	<b>135,417</b>
Net change in fund balance	-	(87,000)	720,249	807,249
Fund balance, beginning of year	1,522,606	1,522,606	1,522,606	-
Fund balance, end of year	\$ 1,522,606	\$ 1,435,606	\$ 2,242,855	\$ 807,249

*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, 2011**

---

**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, 2011, 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 \$3,695 in the General Fund. The departments with expenditures in excess of budget are as follows:

<u>Department</u>	<u>Excess</u>
Public safety	\$ 158,907
Public works	\$ 35,708

These expenditure excesses, which resulted from unanticipated vehicle and equipment costs, were funded by greater than anticipated revenues, available fund balance and proceeds from lease purchase financing.



**CITY OF HOLLY SPRINGS, GEORGIA  
SCHEDULE OF FUNDING PROGRESS FOR THE  
CITY OF HOLLY SPRINGS RETIREMENT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2011**

***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)
7/1/2011	\$ 356,464	\$ 549,601	\$ 193,137	64.86 %	\$ 1,086,781	17.77 %
7/1/2010	275,904	388,074	112,170	71.10	1,290,625	8.69
10/1/2009	241,871	340,221	98,350	71.09	1,257,139	7.82
9/1/2008	179,072	242,972	63,900	73.70	800,883	7.98
9/1/2007	130,199	213,402	83,203	61.01	956,399	8.70
9/1/2006	97,008	115,712	18,704	83.84	840,630	2.22

***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 and cost methods are the same as those used in the preceding valuation.

***Effect of plan changes on recommended contributions***

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

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

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, 2011**

	Special Revenue			Capital Projects	Total
	Parks and Recreation	Hotel/Motel	Multiple Grant	Capital Grant	
<b>Assets</b>					
Cash	\$ 431,505	\$ 3,547	\$ 18,923	\$ 24,234	\$ 478,209
Accounts receivable	26,630	851	-	-	27,481
Due from other governments	-	-	19,438	2,651	22,089
<b>Total assets</b>	<b>\$ 458,135</b>	<b>\$ 4,398</b>	<b>\$ 38,361</b>	<b>\$ 26,885</b>	<b>\$ 527,779</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 3,139	\$ -	\$ -	\$ -	\$ 3,139
Deferred revenue	33	366	-	2,651	3,050
<b>Total liabilities</b>	<b>3,172</b>	<b>366</b>	<b>-</b>	<b>2,651</b>	<b>6,189</b>
<b>Fund Balances:</b>					
Restricted	-	4,032	38,361	24,234	66,627
Assigned	454,963				454,963
<b>Total fund balances</b>	<b>454,963</b>	<b>4,032</b>	<b>38,361</b>	<b>24,234</b>	<b>521,590</b>
<b>Total liabilities and fund balances</b>	<b>\$ 458,135</b>	<b>\$ 4,398</b>	<b>\$ 38,361</b>	<b>\$ 26,885</b>	<b>\$ 527,779</b>

**CITY OF HOLLY SPRINGS, GEORGIA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Special Revenue			Capital Projects	
	Parks and Recreation	Hotel/Motel	Multiple Grant	Capital Grant	Total
<b>Revenues</b>					
Selective sales taxes	\$ 240,414	\$ 4,253	\$ -	\$ -	\$ 244,667
Intergovernmental	-	-	234,470	59,598	294,068
Charges for services	5,213	-	-	-	5,213
Interest	-	9	54	25	88
Miscellaneous revenues	1,720	-	-	-	1,720
<b>Total revenues</b>	<b>247,347</b>	<b>4,262</b>	<b>234,524</b>	<b>59,623</b>	<b>545,756</b>
<b>Expenditures</b>					
Current:					
Health and welfare	-	-	234,298	-	234,298
Culture and recreation	28,712	-	-	-	28,712
Housing and development	-	6,573	-	-	6,573
Capital outlay:					
Public works	-	-	-	53,216	53,216
Culture and recreation	999	-	-	-	999
<b>Total expenditures</b>	<b>29,711</b>	<b>6,573</b>	<b>234,298</b>	<b>53,216</b>	<b>323,798</b>
Excess of revenues over (under) expenditures	217,636	(2,311)	226	6,407	221,958
<b>Other financing sources (uses):</b>					
Transfers in	-	-	-	35,000	35,000
Transfers (out)	(231,485)	-	-	-	(231,485)
<b>Total other financing sources (uses)</b>	<b>(231,485)</b>	<b>-</b>	<b>-</b>	<b>35,000</b>	<b>(196,485)</b>
Net change in fund balances	(13,849)	(2,311)	226	41,407	25,473
Fund balances (deficit), beginning of year	468,812	6,343	38,135	(17,173)	496,117
Fund balances, end of year	\$ 454,963	\$ 4,032	\$ 38,361	\$ 24,234	\$ 521,590



## **INTERNAL CONTROL AND COMPLIANCE SECTION**

---

**RL Jennings & Company, PC**  
Certified Public Accountants

R.. Lee Jennings, CFCA, CPA  
Mona Evans, CPA  
Thomas H. Evans, Jr., CPA  
Sherry L. Estes, CPA  
Lisa J. Hoyle, CPA  
Katherine S. Washington, CPA

61 Maddox Circle, East Ellijay  
Post Office Box 2683, Ellijay, GA 30540  
706-276-3700  
Fax 706-276-3710  
www.ellijaycpa.com  
www.facebook.com/RLJ.ellijay

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 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, 2011, which collectively comprise the City of Holly Springs, Georgia's basic financial statements and have issued our report thereon dated June 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of City of Holly Springs, Georgia is responsible for establishing and maintaining effective 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: 2008-01. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.



Ellijay, Georgia  
June 22, 2012



**CITY OF HOLLY SPRINGS, GEORGIA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

---

We consider the following finding to be a significant deficiency in internal control:

Repeat finding 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 critical duties in these areas have 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.

## STATE SECTION

---

CITY OF HOLLY SPRINGS, GEORGIA  
SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX  
FOR THE YEAR ENDED DECEMBER 31, 2011

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	\$ 2,669,855	\$ 84,950	81%
New city hall	2,600,000	2,600,000	1,046,705	869,478	74%
Downtown square and streetscapes	1,602,705	1,602,705	-	-	0%
Public safety and public works vehicles and equipment	219,000	219,000	206,487	206,487	94%
	<u>\$ 7,828,705</u>	<u>\$ 7,828,705</u>	<u>\$ 3,923,047</u>	<u>\$ 954,428</u>	
				<u>\$ 4,877,475</u>	

**Note to Schedule:**

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