CITY OF FAIRMOUNT, GEORGIA

FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2010

CITY OF FAIRMOUNT, GEORGIA

FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and
Members of the City Council
City of Fairmount, Georgia**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Fairmount, Georgia as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Fairmount, Georgia's management. Our responsibility is to express opinions on these financial statements based on our audit.

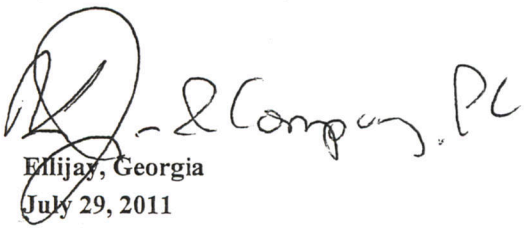
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Fairmount, Georgia, as of December 31, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund 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 July 29, 2011, on our consideration of the City of Fairmount, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairmount, Georgia's financial statements as a whole. The accompanying schedule of projects constructed with special purpose local 0ption sales tax is presented for purposes of additional analysis as required by Official Code of Georgia 48-8-121, and is not a required part of the financial statements. 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
July 29, 2011

CITY OF FAIRMOUNT, GEORGIA

STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	$ 744,276	$ 128,774	$ 873,050
Certificates of deposit	106,352	212,704	319,056
Accounts receivable, net	243,571	5,034	248,605
Due from other governments	25,400	-	25,400
Internal balances	58,408	(58,408)	-
Inventories	-	25,387	25,387
Prepaid items	16,357	4,222	20,579
Capital assets, not being depreciated	555,210	314,937	870,147
Capital assets, net of accumulated depreciation	1,242,817	1,870,909	3,113,726
Intangible assets, net of amortization	-	9,812	9,812
Total assets	$ 2,992,391	$ 2,513,371	$ 5,505,762
Liabilities And Net Assets			
Liabilities:			
Accounts payable	$ 14,140	$ 1,112	$ 15,252
Accrued liabilities	12,276	2,694	14,970
Deferred revenue	1,290	307,500	308,790
Customer deposits	-	800	800
Long-term liabilities, due in more than one year	1,632	-	1,632
Total liabilities	29,338	312,106	341,444
Net Assets:			
Investment in capital assets	1,798,027	2,185,846	3,983,873
Restricted for capital projects	384,366	-	384,366
Unrestricted	780,660	15,419	796,079
Total net assets	2,963,053	2,201,265	5,164,318
Total liabilities and net assets	$ 2,992,391	$ 2,513,371	$ 5,505,762

The notes to the financial statements are an integral part of this statement.

CITY OF FAIRMOUNT, GEORGIA

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental activities							
General government	$ 206,578	$ 10,191	$ 1,723	$ 43,037	$ (151,627)	$ -	$ (151,627)
Judicial	20,743	-	-	-	(20,743)	-	(20,743)
Public safety	225,726	108,541	-	-	(117,185)	-	(117,185)
Public works	107,662	1,300	198	112,772	6,608	-	6,608
Culture and recreation	74,476	2,251	-	21,519	(50,706)	-	(50,706)
Housing and development	3,870	522	-	-	(3,348)	-	(3,348)
Total governmental activities	639,055	122,805	1,921	177,328	(337,001)	-	(337,001)
Business-type activities							
Water and sewerage	127,479	72,429	-	-	-	(55,050)	(55,050)
Solid waste	10,722	9,959	-	-	-	(763)	(763)
Total business-type activities	138,201	82,388	-	-	-	(55,813)	(55,813)
Total	$ 777,256	$ 205,193	$ 1,921	$ 177,328	(337,001)	(55,813)	(392,814)
General revenues							
Property taxes					248,260	-	248,260
General and selective sales taxes					321,802	-	321,802
Franchise taxes					114,329	-	114,329
Business taxes					26,666	-	26,666
Unrestricted investment earnings					1,430	3,115	4,545
Miscellaneous					8,952	-	8,952
Transfers					(12,093)	12,093	-
Total general revenues and transfers					709,346	15,208	724,554
Change in net assets					372,345	(40,605)	331,740
Net assets, beginning of year					2,590,708	2,241,870	4,832,578
Net assets, end of year					$ 2,963,053	$ 2,201,265	$ 5,164,318

The notes to the financial statements are an integral part of this statement.

CITY OF FAIRMOUNT, GEORGIA

GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2010

Assets	General	SPLOST	Other Governmental Fund	Total Governmental Funds
Cash and cash equivalents	$ 358,738	$ 384,366	$ 1,172	$ 744,276
Certificate of deposit	106,352	-	-	106,352
Property taxes receivable, net	121,860	-	-	121,860
Other taxes receivable, net	100,039	-	-	100,039
Accounts receivable, net	21,672	-	-	21,672
Due from other governments	25,400	-	-	25,400
Due from other funds	58,408	-	-	58,408
Prepaid items	16,357	-	-	16,357
Total assets	$ 808,826	$ 384,366	$ 1,172	$ 1,194,364
Liabilities And Fund Balances				
Liabilities:				
Accounts payable	$ 14,140	$ -	$ -	$ 14,140
Accrued liabilities	12,276	-	-	12,276
Deferred revenue	122,448	-	-	122,448
Total liabilities	148,864	-	-	148,864
Fund Balances:				
Reserved for prepaid items	16,357	-	-	16,357
Unreserved	643,605	384,366	-	1,027,971
Unreserved, reported in:				
Nonmajor special revenue fund	-	-	1,172	1,172
Total fund balances	659,962	384,366	1,172	1,045,500
Total liabilities and fund balances	$ 808,826	$ 384,366	$ 1,172	$ 1,194,364

The notes to the financial statements are an integral part of this statement.

CITY OF FAIRMOUNT, GEORGIA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

Total fund balances - governmental funds (page 5)	$	1,045,500
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. The cost of these assets is $2,402,898, and the accumulated depreciation is $604,871.		1,798,027
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds. In contrast, such revenues are reported in the statement of activities when earned.		121,158
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Compensated absences (sick pay and vacation)		(1,632)
Net assets of governmental activities in the statement of net assets (page 3)	$	2,963,053

The notes to the financial statements are an integral part of this statement.

CITY OF FAIRMOUNT, GEORGIA

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

	General	SPLOST	Other Governmental Fund	Total Governmental Funds
Revenues				
Property taxes	$ 129,984	$ -	$ -	$ 129,984
Sales taxes	297,830	-	-	297,830
Franchise taxes	114,329	-	-	114,329
Other taxes	50,638	-	-	50,638
Licenses and permits	10,647	-	-	10,647
Intergovernmental	97	176,760	-	176,857
Charges for services	3,617	-	-	3,617
Fines and forfeitures	107,369	-	1,172	108,541
Investment earnings	1,430	568	-	1,998
Contributions	1,824	-	-	1,824
Miscellaneous revenues	8,952	-	-	8,952
Total revenues	726,717	177,328	1,172	905,217
Expenditures				
Current:				
General government	191,276	-	-	191,276
Judicial	20,743	-	-	20,743
Public safety	216,063	-	-	216,063
Public works	83,885	-	-	83,885
Culture and recreation	51,666	-	-	51,666
Housing and development	3,870	-	-	3,870
Capital outlay:				
General government	6,955	-	-	6,955
Public works	-	10,683	-	10,683
Culture and recreation	-	-	-	-
Total expenditures	574,458	10,683	-	585,141
Excess of revenues over expenditures	152,259	166,645	1,172	320,076
Other financing sources (uses)				
Transfers in	572	-	-	572
Transfers out	(12,665)	-	-	(12,665)
Total other financing sources (uses)	(12,093)	-	-	(12,093)
Net change in fund balances	140,166	166,645	1,172	307,983
Fund balances, beginning of year	519,796	217,721	-	737,517
Fund balances, end of year	$ 659,962	$ 384,366	$ 1,172	$ 1,045,500

The notes to the financial statements are an integral part of this statement.

CITY OF FAIRMOUNT, GEORGIA

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

Net change in fund balances - total governmental funds (page 7)			$ 307,983
Amounts reported for governmental activities in the statement of activities are different because:			
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. The following is the amount by which depreciation expense exceeded capital outlays in the current period.			
Capital outlays	$ 17,638		
Depreciation expense	(69,920)		(52,282)
Governmental funds do not present revenues that will not be collected for several months after the City's year ends and, therefore, are not considered "available" to pay current obligations. Those revenues are deferred in the governmental funds. In contrast, such revenues are reported in the statement of activities when earned. Deferred revenues increased by this amount in the current period.			118,276
Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in governmental funds. These activities consist of:			
Increase in compensated absences			(1,632)
Change in net assets of governmental activities (page 4)			$ 372,345

The notes to the financial statements are an integral part of this statement.

CITY OF FAIRMOUNT, GEORGIA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE FISCALYEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Revenues				
Property taxes	$ 115,140	$ 115,140	$ 129,984	$ 14,844
General sales taxes	260,000	260,000	273,858	13,858
Selective sales taxes	20,000	20,000	23,972	3,972
Franchise taxes	130,000	130,000	114,329	(15,671)
Business taxes	57,300	57,300	50,638	(6,662)
Licenses and permits	10,000	10,000	10,647	647
Intergovernmental	100,000	100,000	97	(99,903)
Charges for services	550	550	3,617	3,067
Fines and forfeitures	92,000	92,000	107,369	15,369
Interest earnings	300	300	1,430	1,130
Contributions	300	300	1,824	1,524
Miscellaneous revenues	5,000	5,000	8,952	3,952
Total revenues	790,590	790,590	726,717	(63,873)
Expenditures				
Current:				
General government	290,364	290,364	191,276	99,088
Judicial	22,316	22,316	20,743	1,573
Public safety	206,812	206,812	216,063	(9,251)
Public works	91,455	91,455	83,885	7,570
Culture and recreation	58,586	58,586	51,666	6,920
Housing and development	5,075	5,075	3,870	1,205
Capital outlay:				
General government	119,287	119,287	6,955	112,332
Total expenditures	793,895	793,895	574,458	219,437
Excess (deficiency) of revenues Over expenditures	(3,305)	(3,305)	152,259	155,564
Other financing sources (uses)				
Transfers in	-	-	572	572
Transfers (out)	-	-	(12,665)	(12,665)
Total other financing sources (uses)	-	-	(12,093)	(12,093)
Net change in fund balances	(3,305)	(3,305)	140,166	143,471
Fund balance, beginning of year	519,796	519,796	519,796	-
Fund balance, end of year	$ 516,491	$ 516,491	$ 659,962	$ 143,471

The notes to the financial statements are an integral part of this statement.

CITY OF FAIRMOUNT, GEORGIA

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	Enterprise Funds		
	Water and Sewer Fund	Other Enterprise Fund	Total
Assets			
Current assets:			
Cash and cash equivalents	$ 128,774	$ -	$ 128,774
Certificates of deposit	212,704	-	212,704
Accounts receivable, net	5,034	-	5,034
Inventories	25,387	-	25,387
Prepaid items	4,222	-	4,222
Total current assets	376,121	-	376,121
Noncurrent assets:			
Capital assets:			
Land and construction in progress	314,937	-	314,937
Other capital assets, net of depreciation	1,857,743	13,166	1,870,909
Intangible assets, net of amortization	9,812	-	9,812
Total noncurrent assets	2,182,492	13,166	2,195,658
Total assets	$ 2,558,613	$ 13,166	$ 2,571,779
Liabilities And Net Assets			
Current liabilities:			
Accounts payable	$ 1,112	$ -	$ 1,112
Accrued liabilities	2,267	427	2,694
Due to other funds	58,408	-	58,408
Total current liabilities	61,787	427	62,214
Noncurrent liabilities:			
Deferred revenue	307,500	-	307,500
Customer deposits	800	-	800
Total noncurrent liabilities	308,300	-	308,300
Total liabilities	370,087	427	370,514
Net Assets:			
Invested in capital assets	2,172,680	13,166	2,185,846
Unrestricted	15,846	(427)	15,419
Total net assets	2,188,526	12,739	2,201,265
Total liabilities and net assets	$ 2,558,613	$ 13,166	$ 2,571,779

The notes to the financial statements are an integral part of this statement.

CITY OF FAIRMOUNT, GEORGIA

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

	Enterprise Funds		
	Water and Sewer Fund	Other Enterprise Fund	Total
Operating revenues:			
Water charges	$ 10,034	$ -	$ 10,034
Sewer charges	51,804	-	51,804
Solid waste charges	-	9,959	9,959
Water tap fees	3,750	-	3,750
Sewer tap fees	6,200	-	6,200
Miscellaneous	641	-	641
Total operating revenues	72,429	9,959	82,388
Operating expenses:			
Personal services	21,786	6,784	28,570
Contractual and professional services	6,518	2,972	9,490
Repairs and maintenance	4,798	121	4,919
Supplies and expenses	16,857	173	17,030
Other operating expenses	17,542	-	17,542
Depreciation and amortization	59,978	672	60,650
Total operating expenses	127,479	10,722	138,201
Operating income (loss)	(55,050)	(763)	(55,813)
Nonoperating revenues (expenses):			
Interest income	3,115	-	3,115
Total nonoperating revenues (expenses)	3,115	-	3,115
Income (Loss) before transfers	(51,935)	(763)	(52,698)
Transfers in	14,192	1,191	15,383
Transfers out	(1,763)	(1,527)	(3,290)
Change in net assets	(39,506)	(1,099)	(40,605)
Net assets, beginning of year	2,228,032	13,838	2,241,870
Net assets, end of year	$ 2,188,526	$ 12,739	$ 2,201,265

The notes to the financial statements are an integral part of this statement.

CITY OF FAIRMOUNT, GEORGIA

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

	Enterprise Funds		
	Water and Sewerage Fund	(Nonmajor) Solid Waste Fund	Total
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Receipts from customers	$ 73,141	$ 9,959	$ 83,100
Payments to suppliers and service providers	(47,229)	(3,265)	(50,494)
Payments to employees	(19,519)	(6,358)	(25,877)
Net cash provided by (used in) operating activities	6,393	336	6,729
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Interest receipts	255	-	255
Net cash provided by (used in) investing activities	255	-	255
CASH FLOWS (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(29,627)	-	(29,627)
Net cash provided by (used in) financing activities	(29,627)	-	(29,627)
CASH FLOWS (USED IN) NON-CAPITAL AND RELATED FINANCING ACTIVITIES			
Operating subsidies and transfers from other funds	14,192	1,191	15,383
Operating subsidies and transfers to other funds	(1,763)	(1,527)	(3,290)
Net cash provided by (used in) financing activities	12,429	(336)	12,093
Net decrease in cash and cash equivalents	(10,550)	-	(10,550)
Cash, beginning of year	139,324	-	139,324
Cash, end of year	$ 128,774	$ -	$ 128,774
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating (loss)	$ (55,050)	$ (763)	$ (55,813)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	57,106	672	57,778
Amortization	2,872	-	2,872
Decrease in accounts receivable	1,887	-	1,887
Decrease in prepaid items	53	-	53
(Increase) in inventories	(2,075)	-	(2,075)
Increase in accounts payable	508	-	508
Increase in accrued liabilities	2,267	427	2,694
Increase in customer deposits	75	-	75
Decrease in deferred revenue	(1,250)	-	(1,250)
Net cash provided by (used in) operating activities	$ 6,393	$ 336	$ 6,729

The notes to the financial statements are an integral part of this statement.

CITY OF FAIRMOUNT, GEORGIA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of City of Fairmount, 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 City's proprietary funds apply all Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November, 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The more significant of the City's accounting polices are described below.

A. Reporting Entity

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The City's financial statements include the accounts of all operations. The criteria for including organizations within the City's reporting entity, as set forth in Governmental Accounting Standards Board's Statement No. 14 (GASB 14), "The Financial Reporting Entity", is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. As of December 31, 2010, there are no component units included in the financial statements of the City.

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City of Fairmount, Georgia (the "primary government").

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Separate financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

C. Measurement Focus, Basis of Accounting and Basis of 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 and the fiduciary 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Special Purpose Local Option Sales Tax Fund (SPLOST) is used to account for the revenues and expenditures relating to the 2006 1% Special Purpose Local Option Sales Tax and the 2001 1% Special Purpose Local Option Sales Tax.

The City reports the following major proprietary fund:

The Water and Sewerage Fund is used to account for the receipts from services billed to customers and the payment of costs of collection.

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 this same limitation. The City has elected not to follow subsequent private-sector guidance.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the enterprise fund is charges to customers for sales and services provided. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Budgets

Formal budgetary accounting is employed as a management control device for the General Fund. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for the General Fund. The same basis of accounting is used to reflect actual revenues and expenditures/expenses recognized on a generally accepted accounting principle basis. The City's Mayor must approve any amendments to the budget.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

F. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year as well as all other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

G. Inventories

Inventories consist of supplies and are stated at cost. Inventories are accounted on the first-in, first-out (FIFO) method of accounting for inventories. The City uses the purchases method of accounting for inventories; in which materials and supplies are recorded as expenses when purchased and are adjusted as inventory when accounted for at interval periods during the year or at year-end.

H. 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.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB 34, infrastructure assets acquired prior to July 1, 2004, have been capitalized as of December 31, 2010. Capital assets are defined by the City as assets with an initial, individual cost of $1,000 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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Asset Category	*Years*
Buildings	50
Building improvements	20
Land improvements	50
Vehicles	2 - 15
Machinery and equipment	3 - 15
Infrastructure	30 - 50

J. Intangible Assets

Intangible assets consists of water assessment study and plan with a cost of $14,359. The intangible costs are amortized over the estimated term of their usefulness of 5 years. For the year ended December 31, 2010, the amount of amortization included in expense was $2,872.

K. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits during the year. The City has a policy to pay the unpaid accumulated vacation and sick pay when employees separate from service. Therefore, a liability has been accrued for accumulated unpaid benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

L. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

M. Fund Equity

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

N. Use of Estimates

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

NOTE 2. LEGAL COMPLIANCE - BUDGETS

A. Budgets and Budgetary Accounting

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. Each fund's appropriated budget is prepared on a detailed line-item basis. Revenues are budgeted by source. Expenditures are budgeted by line item. This legal level of control is at the departmental level. Budget revisions at this level are subject to final review by the City Council. During the current fiscal year, there were no revisions made to the original budget.

Annual budgets are adopted for all governmental funds and proprietary 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. An operating budget is adopted for the proprietary Water and Sewerage Fund for administrative control purposes.

B. Excess Expenditures over Appropriations

For the year ended December 31, 2010 expenditures exceeded budget in the General Fund, as follows:

Department	*Excess*
Public safety	$ 9,251

The expenditures exceeded budget in the above General Fund departments due to the following:

Public safety – the cost of workers compensation insurance was not allocated to the departments during the budget process.

Revenues sufficient to provide for the excess expenditures were made available in the General Fund.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. DEPOSITS AND INVESTMENTS

State statutes authorize the City to invest in obligations of the State of Georgia or other states; obligations issued by the U.S. government; obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States; obligations of any corporation of the U.S. government; prime banker's acceptances; the local government investment pool established by state law; repurchase agreements; and obligations of other political subdivisions of the State of Georgia.

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

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.

NOTE 4. RECEIVABLES

Receivables at December 31, 2010, for the City's individual funds in the aggregate are as follows:

	General Fund	Water and Sewer Fund	Total
Receivables:			
Property Taxes	$ 121,860	$ -	$ 121,860
Franchise	98,352	-	98,352
Beer and wine tax	1,687	-	1,687
Local option sales tax	25,400	-	25,400
Sewer	-	5,034	5,034
Fines	43,344	-	43,344
Gross receivables	290,643	5,034	295,677
Less allowance for uncollectibles	(21,672)	-	(21,672)
Net receivables	$ 268,971	$ 5,034	$ 274,005

The City bills and collects its own property taxes. Both the 2009 and the 2010 property tax digests were levied in the current year. The 2009 digest was levied on January 5, 2010, with bills payable on or before March 8, 2010 and the 2010 digest was levied on December 15, 2010, which bills payable on or before February 15, 2011. After the due dates, property relating to unpaid bills is subject to lien and penalties and interest are assessed. Property tax receivables consist of digest bills not yet collected as of year-end. The property taxes relating to the 2009 and prior year digests that are collected during the year and those collected within 60 days subsequent to year-end are recognized as revenues in the current year. Receivables estimated to be collected subsequent to February 28, 2011 are deferred and recorded as revenue when received. The tax levy for the 2010 digest levy is intended for use in the

NOTE 4. RECEIVABLES (concluded)

2011 calendar year, the year in which they tax is due. Therefore, the entire levy was included in deferred revenue on the fund-level financial statements.

NOTE 5. CAPITAL ASSETS

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

	Beginning of Year	Increases	Decreases	End of Year
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 502,702	$ -	$ -	$ 502,702
Construction in progress	41,825	10,683	-	52,508
Total capital assets, not being depreciated	544,527	10,683	-	555,210
Capital assets, being depreciated:				
Infrastructure	624,943	-	-	624,943
Buildings and improvements	757,329	5,500	-	762,829
Machinery and equipment	285,125	1,455	-	286,580
Vehicles	173,336	-	-	173,336
Total capital assets, being depreciated	1,840,733	6,955	-	1,847,688
Less accumulated depreciation for:				
Infrastructure	93,033	22,271	-	115,304
Buildings and improvements	119,864	21,526	-	141,390
Machinery and equipment	170,382	18,308	-	188,690
Vehicles	151,672	7,815	-	159,487
Total accumulated depreciation	534,951	69,920	-	604,871
Total capital assets, being depreciated, net	1,305,782	(62,965)	-	1,242,817
Governmental activities capital assets, net	$ 1,850,309	$ (52,282)	$ -	$ 1,798,027

NOTE 5. CAPITAL ASSETS (concluded)

Business-type activities:				
Capital assets not being depreciated:				
Land	$ 303,726	$ -	$ -	$ 303,726
Construction in progress	-	11,211	-	11,211
Total capital assets not being depreciated	303,726	11,211	-	314,937
Capital assets, being depreciated:				
Land improvements	18,013	-	-	18,013
Infrastructure	2,509,541	-	-	2,509,541
Equipment and vehicles	131,802	18,416	-	150,218
Total capital assets, being depreciated	2,659,356	18,416	-	2,677,772
Less accumulated depreciation for:				
Land improvements	4,175	672	-	4,847
Infrastructure	660,570	49,975	-	710,545
Equipment and vehicles	84,340	7,131	-	91,471
Total accumulated depreciation	749,085	57,778	-	806,863
Total capital assets being depreciated, net	1,910,271	(39,362)	-	1,870,909
Business-type activities capital assets, net	$ 2,213,997	$ (28,151)	$ -	$ 2,185,846

Depreciation expense was charged to functions/programs of the City is as follows:

Governmental activities:	
General government	$ 15,302
Public safety	8,031
Public works	23,777
Culture and recreation	22,810
Total depreciation expense - governmental activities	$ 69,920
Business-type activities:	
Water and Sewerage	$ 57,106
Solid waste management	672
Total depreciation expense - business-type activities	$ 57,778

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2010, is as follows:

Due to/from other funds:

Receivable fund	Payable fund	Amount
General Fund	Water and Sewer Fund	$ 58,408

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

Interfund transfers:

Transfers In	Transfers Out	Amount
General	Water and Sewer	$ 572
Water and Sewer	General	12,665
Water and Sewer	Nonmajor enterprise fund	1,527
Nonmajor enterprise fund	Water and Sewer	1,191
		$ 15,955

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.

NOTE 7. JOINT VENTURE

The City of Fairmount, Georgia in conjunction with cities and counties in the fifteen (15) county Northwest Georgia areas are members of the Northwest Georgia Regional Development Commission (NWGRC). Membership in a regional development center is automatic for each municipality and county in the state. The official Code of Georgia Section 50-8-34 (Georgia Planning Act of 1989) provides for the organizational structure of the regional development centers (RDCs), and was amended in 2008 to consolidate the existing RDCs into fewer larger organizations called Regional Commissions (RCs). Each county and municipality in the state is required by law to pay minimum annual dues to the RDC. The City paid no annual dues to the RDC for the year ended December 31, 2010 because currently all dues are paid on the City's behalf by Gordon County. An RDC Board membership includes the chief elected official of each county and the chief elected official of each municipality. The County board members and municipal board members from the same County elect one member of the Board who is a resident (but not an elected or appointed official or employee of the County or municipality) to serve as the non-public Board member from a County.

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RDCs (later transferred to RCs) as "public agencies and instrumentalities of their members". Georgia law also provides that the member governments are liable for any debts or obligations of an RC beyond its resources, (O.C.G.A. 50-8-39.1). Separate financial statements can be provided by contacting the RC directly.

NOTE 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; and natural disasters for which, except as described in the following paragraph, the City carries commercial insurance in amounts deemed prudent by City management.

The City participates in the Georgia Interlocal Risk Management Agency Property and Liability Insurance Fund and the Georgia Municipal Association Worker's Compensation Self-Insurance Fund, public entity risk pools currently operating as common risk management and insurance programs for member local governments.

As part of these risk pools, the City is obligated to pay all contributions and assessments as prescribed by the pools, to cooperate with the pools' agents and attorneys, to follow loss reduction procedures established by the funds, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss.

The City is also to allow the pools' agents and attorneys to represent the City in investigation, settlement discussions and all levels of litigation arising out of any claim made against the City within the scope of loss protection furnished by the funds.

The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member government contract and in accordance with the workers' compensation law of Georgia. The funds are to pay all costs taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

There have been no significant reductions of insurance coverage from coverage in the prior year, and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Grant Contingencies – The City has received Federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to the disallowance of certain expenditures previously reimbursed by those agencies. Based upon prior experience, City management believes such disallowances, if any, will not be significant.

Commitments - The City routinely enters into agreements and commitments during the year in the ordinary course of business. Such agreements do not give rise to assets or liabilities considered material.

CITY OF FAIRMOUNT, GEORGIA

SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

Project	Estimated Cost		Expenditures			Estimated % of Completion
	Original	Current	Prior Years	Current Year	Total	
Paid from SPLOST Fund (a capital projects fund):						
SPLOST 2001						
Recreation Projects						
City Park	$ 100,000	$ 100,000	$ 265,134	$ -	$ 265,134	100%
Community Recreation center	250,000	293,998	295,222	-	295,222	100%
Road, Street, and Sidewalk Projects						
Drainage	30,000	30,000	30,000	-	30,000	100%
Backhoe	42,623	42,623	42,623	-	42,623	100%
Various streets	172,308	172,308	367,264	-	367,264	100%
Phase 2 Streets and Storm Water	174,736	169,501	204,997	-	204,997	100%
	$ 769,667	$ 808,430	$ 1,205,240	$ -	$ 1,205,240	
SPLOST 2006						
Recreation	$ 100,000	$ 100,000	$ 61,351	$ -	$ 61,351	61%
Roads, streets, and sidewalks	400,000	400,000	76,456	10,683	87,139	22%
Water and sewer improvements	121,427	121,427	-	-	-	0%
Government buildings	200,000	200,000	24,457	-	24,457	12%
	$ 821,427	$ 821,427	$ 162,264	$ 10,683	$ 172,947	

Note A: **The SPLOST schedule has been prepared on the modified accrual basis of accounting.**

INTERNAL CONTROL AND COMPLIANCE

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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
of City of Fairmount, Georgia**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Fairmount, Georgia, as of and for the year ended December 31, 2010, which collectively comprise the City of Fairmount, Georgia's basic financial statements and have issued our report thereon dated July 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Fairmount, 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 Fairmount, Georgia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fairmount, 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 that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over reporting (Finding 06-01). 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 Fairmount, 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 *Governmental Auditing Standards.*

We noted certain matters that we reported to management of City of Fairmount, Georgia, in a separate letter dated July 29, 2011.

City of Fairmount, 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 Fairmount, 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.

& Company, PC

Ellijay, Georgia
July 29, 2011

CITY OF FAIRMOUNT, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

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

Repeat finding from the prior year:

06-01 LACK OF SEGREGATION OF DUTIES

Criteria: Segregation of employees' duties is a 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 the audit, we noted many of critical duties are combined and given to the available employees. Presently, a single individual prepares the deposit slip, (and occasionally opens the mail and collects the cash receipts), prepares check disbursements, reconciles bank accounts, performs all payroll duties as well as maintains the general ledger.

Effect: Without some segregation of duties within these functions, there is increased exposure that someone could intentionally or unintentionally misappropriate assets of the City.

Cause: The limited number of employees working in the office and the resulting overlapping of duties causes segregation of duties to be difficult.

Recommendation: To the extent possible, duties should be segregated to maintain the best control system possible. We feel segregation of duties could be improved if different employees performed the separate duties of processing cash receipts and cash disbursements, and maintaining the general ledger. In situations where additional personnel are not available, an effort should be made to divide the duties of the available personnel in such a manner as to achieve the greatest possible segregation of duties. Increased council involvement in the City's finances is also encouraged to strengthen internal controls. When these suggestions are implemented, the City's system of internal control will be enhanced, so that the risk of employee misappropriation of assets is reduced.

Response: The lack of segregation of duties is a recurring item that due to the limited number of employees is difficult to accomplish. The Council plans to continue close involvement with the City's finances to aid in this matter.