CITY OF FAIRMOUNT, GEORGIA

FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

CITY OF FAIRMOUNT, GEORGIA

FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

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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, 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 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 aggregate remaining fund information of the City of Fairmount, Georgia, as of December 31, 2011, and the respective changes in financial position, and, where applicable, cash flows 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 June 30, 2012, 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 option 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 is the responsibility of management and was 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 30, 2012

CITY OF FAIRMOUNT, GEORGIA

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash	$ 591,186	$ 194,988	$ 786,174
Certificates of deposit	107,870	215,738	323,608
Accounts receivable, net	173,750	1,993	175,743
Due from other governments	27,668	-	27,668
Internal balances	73,183	(73,183)	-
Inventories	-	18,431	18,431
Prepaid items	4,925	4,925	9,850
Capital assets, not being depreciated	712,914	314,937	1,027,851
Capital assets, net of accumulated depreciation	1,440,948	1,922,069	3,363,017
Intangible assets, net of amortization	-	6,940	6,940
Total assets	$ 3,132,444	$ 2,606,838	$ 5,739,282
Liabilities And Net Assets			
Liabilities:			
Accounts payable	$ 28,982	$ 304	$ 29,286
Accrued liabilities	14,447	1,819	16,266
Deferred revenue	770	307,500	308,270
Customer deposits	-	59,275	59,275
Long-term liabilities, due in more than one year	5,845	-	5,845
Total liabilities	50,044	368,898	418,942
Net Assets:			
Investment in capital assets	2,153,862	2,237,006	4,390,868
Restricted for:			
Capital projects	254,255	-	254,255
Public safety	1,161	-	1,161
Unrestricted	673,122	934	674,056
Total net assets	3,082,400	2,237,940	5,320,340
Total liabilities and net assets	$ 3,132,444	$ 2,606,838	$ 5,739,282

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, 2011

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	$ 203,657	$ 10,130	$ -	$ 52,878	$ (140,649)	$ -	$ (140,649)
Judicial	27,345	-	-	-	(27,345)	-	(27,345)
Public safety	275,219	104,014	-	-	(171,205)	-	(171,205)
Public works	88,594	661	100	146,232	58,399	-	58,399
Culture and recreation	78,941	7,741	-	9,904	(61,296)	-	(61,296)
Housing and development	4,387	1,535	-	-	(2,852)	-	(2,852)
Total governmental activities	678,143	124,081	100	209,014	(344,948)	-	(344,948)
Business-type activities							
Water and sewerage	158,339	90,155	-	-	-	(68,184)	(68,184)
Solid waste	11,323	1,775	-	-	-	(9,548)	(9,548)
Total business-type activities	169,662	91,930	-	-	-	(77,732)	(77,732)
Total	$ 847,805	$ 216,011	$ 100	$ 209,014	(344,948)	(77,732)	(422,680)
General revenues							
Property taxes					103,966	-	103,966
General and selective sales taxes					296,369	-	296,369
Franchise taxes					120,892	-	120,892
Business taxes					41,513	-	41,513
Unrestricted investment earnings					1,857	3,163	5,020
Miscellaneous					10,942	-	10,942
Transfers					(111,244)	111,244	-
Total general revenues and transfers					464,295	114,407	578,702
Change in net assets					119,347	36,675	156,022
Net assets, beginning of year					2,963,053	2,201,265	5,164,318
Net assets, end of year					$ 3,082,400	$ 2,237,940	$ 5,320,340

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

CITY OF FAIRMOUNT, GEORGIA

GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2011

Assets	General Fund	SPLOST Fund	Nonmajor Fund - Confiscated Assets Fund	Total Governmental Funds
Cash	$ 443,015	$ 147,010	$ 1,161	$ 591,186
Certificate of deposit	107,870	-	-	107,870
Property taxes receivable, net	40,913	-	-	40,913
Other taxes receivable, net	109,643	-	-	109,643
Accounts receivable, net	23,194	-	-	23,194
Due from other governments	27,668	-	-	27,668
Due from other funds	73,183	-	-	73,183
Prepaid items	4,925	-	-	4,925
Total assets	$ 830,411	$ 147,010	$ 1,161	$ 978,582
Liabilities And Fund Balances				
Liabilities:				
Accounts payable	$ 3,023	$ 25,959	$ -	$ 28,982
Accrued liabilities	14,447	-	-	14,447
Deferred revenue	102,472	-	-	102,472
Total liabilities	119,942	25,959	-	145,901
Fund Balances:				
Nonspendable	4,925	-	-	4,925
Assigned	100,000	-	-	100,000
Restricted	-	121,051	1,161	122,212
Unassigned	605,544	-	-	605,544
Total fund balances	710,469	121,051	1,161	832,681
Total liabilities and fund balances	$ 830,411	$ 147,010	$ 1,161	$ 978,582

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, 2011

Total fund balances - governmental funds (page 5)	$	832,681
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 $2,835,827, and the accumulated depreciation is $681,965.		**2,153,862**
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.		**101,702**
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)		**(5,845)**
Net assets of governmental activities in the statement of net assets (page 3)	$	3,082,400

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, 2011

	General Fund	SPLOST Fund	Nonmajor Fund - Confiscated Assets Fund	Total Governmental Funds
Revenues				
Property taxes	$ 123,422	$ -	$ -	$ 123,422
Sales taxes	296,369	-	-	296,369
Franchise taxes	120,892	-	-	120,892
Other taxes	41,513	-	-	41,513
Licenses and permits	11,553	-	-	11,553
Intergovernmental	12,223	196,296	-	208,519
Charges for services	8,514	-	-	8,514
Fines and forfeitures	104,014	-	-	104,014
Investment earnings	1,856	495	1	2,352
Contributions	100	-	-	100
Miscellaneous revenues	10,942	-	-	10,942
Total revenues	731,398	196,791	1	928,190
Expenditures				
Current:				
General government	185,476	-	-	185,476
Judicial	26,845	-	-	26,845
Public safety	260,958	-	12	260,970
Public works	63,425	-	-	63,425
Culture and recreation	55,504	-	-	55,504
Housing and development	4,387	-	-	4,387
Capital outlay:				
General government	53,035	123,631	-	176,666
Public works	-	202,074	-	202,074
Public safety	31,261	-	-	31,261
Culture and recreation	-	23,157	-	23,157
Total expenditures	680,891	348,862	12	1,029,765
Excess of revenues over expenditures	50,507	(152,071)	(11)	(101,575)
Other financing sources (uses)				
Transfers out	-	(111,244)	-	(111,244)
Total other financing sources (uses)	-	(111,244)	-	(111,244)
Net change in fund balances	50,507	(263,315)	(11)	(212,819)
Fund balances, beginning of year	659,962	384,366	1,172	1,045,500
Fund balances, end of year	$ 710,469	$ 121,051	$ 1,161	$ 832,681

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, 2011

Net change in fund balances - total governmental funds (page 7)			$ (212,819)
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	$ 432,929		
Depreciation expense	(77,094)		355,835
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 decreased by this amount in the current period.			(19,456)
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			(4,213)
Change in net assets of governmental activities (page 4)			$ 119,347

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, 2011

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Revenues				
Property taxes	$ 119,640	$ 119,640	$ 123,422	$ 3,782
General sales taxes	260,000	260,000	275,219	15,219
Selective sales taxes	24,000	24,000	21,150	(2,850)
Franchise taxes	100,600	100,600	120,892	20,292
Business taxes	51,800	51,800	41,513	(10,287)
Licenses and permits	6,500	6,500	11,553	5,053
Intergovernmental	4,000	4,000	12,223	8,223
Charges for services	3,650	3,650	8,514	4,864
Fines and forfeitures	116,500	116,500	104,014	(12,486)
Interest earnings	1,500	1,500	1,856	356
Contributions	100	100	100	-
Miscellaneous revenues	5,100	5,100	10,942	5,842
Total revenues	693,390	693,390	731,398	38,008
Expenditures				
Current:				
General government:				
Legislative	8,418	8,418	5,575	2,843
Executive - mayor	9,866	9,866	11,062	(1,196)
Executive - administration	23,234	23,234	20,274	2,960
Elections	2,650	2,650	3,082	(432)
Financial administration	144,780	144,780	107,242	37,538
General government buildings	5,300	5,300	7,211	(1,911)
Customer support	45,766	45,766	31,030	14,736
Judicial:				
Municipal court	26,128	26,128	26,845	(717)
Public safety:				
Police administration	121,006	121,006	74,064	46,942
Custody of prisoners	5,000	5,000	2,340	2,660
Traffic patrol	155,408	155,408	182,836	(27,428)
Animal control	300	300	-	300
Fire protection	-	-	1,718	(1,718)
Public works:				
Streets	40,730	40,730	36,779	3,951
Street lighting	23,250	23,250	23,755	(505)
Cemetary	3,500	3,500	2,891	609
Culture and recreation:				
Community center	12,470	12,470	9,150	3,320
Park and recreation	14,350	14,350	5,250	9,100
Pavillion	1,100	1,100	261	839
Scout hut	900	900	799	101
Tate/Central Park	5,300	5,300	5,886	(586)
Library	33,860	33,860	34,158	(298)

continued

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, 2011

concluded

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Housing and development:				
Building inspection	5,411	5,411	4,387	1,024
Capital outlay:				
General government:				
Financial administration	76,959	76,959	-	76,959
General government buildings	56,000	56,000	53,035	2,965
Public safety:				
Police administration	28,000	28,000	31,261	(3,261)
Public works:				
Streets	20,000	20,000	-	20,000
Culture and recreation:				
Park and recreation	20,000	20,000	-	20,000
Total expenditures	889,686	889,686	680,891	208,795
Excess (deficiency) of revenues Over expenditures	(196,296)	(196,296)	50,507	246,803
Other financing sources (uses)				
Transfers in	196,296	196,296	-	(196,296)
Total other financing sources (uses)	196,296	196,296	-	(196,296)
Net change in fund balances	-	-	50,507	50,507
Fund balance, beginning of year	659,962	659,962	659,962	-
Fund balance, end of year	$ 659,962	$ 659,962	$ 710,469	$ 50,507

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, 2011

	Enterprise Funds		
	Water and Sewer Fund	Nonmajor Fund - Solid Waste Fund	Total
Assets			
Current assets:			
Cash	$ 194,988	$ -	$ 194,988
Certificates of deposit	215,738	-	215,738
Accounts receivable, net	1,932	61	1,993
Due from other funds	61		61
Inventories	18,431	-	18,431
Prepaid items	4,925	-	4,925
Total current assets	436,075	61	436,136
Noncurrent assets:			
Capital assets:			
Land and construction in progress	314,937	-	314,937
Other capital assets, net of depreciation	1,909,575	12,494	1,922,069
Intangible assets, net of amortization	6,940	-	6,940
Total noncurrent assets	2,231,452	12,494	2,243,946
Total assets	$ 2,667,527	$ 12,555	$ 2,680,082
Liabilities And Net Assets			
Current liabilities:			
Accounts payable	$ 304	$ -	$ 304
Accrued liabilities	1,819	-	1,819
Due to other funds	73,183	61	73,244
Total current liabilities	75,306	61	75,367
Noncurrent liabilities:			
Deferred revenue	307,500	-	307,500
Customer deposits	59,275	-	59,275
Total noncurrent liabilities	366,775	-	366,775
Total liabilities	442,081	61	442,142
Net Assets:			
Invested in capital assets	2,224,512	12,494	2,237,006
Unrestricted	934	-	934
Total net assets	2,225,446	12,494	2,237,940
Total liabilities and net assets	$ 2,667,527	$ 12,555	$ 2,680,082

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, 2011

	Enterprise Funds		
	Water and Sewer Fund	Nonmajor Fund - Solid Waste Fund	Total
Operating revenues:			
Water charges	$ 16,505	$ -	$ 16,505
Sewer charges	43,858	-	43,858
Solid waste charges	-	1,775	1,775
Water tap fees	28,542	-	28,542
Sewer tap fees	1,250	-	1,250
Total operating revenues	90,155	1,775	91,930
Operating expenses:			
Personal services	40,113	7,713	47,826
Contractual and professional services	1,277	2,835	4,111
Repairs and maintenance	7,970	44	8,014
Materials and supplies	8,757	60	8,817
Insurance	14,072	-	14,072
Utilities	19,973	-	19,973
Other expenses	3,894	-	3,894
Depreciation and amortization	62,284	671	62,955
Total operating expenses	158,339	11,323	169,662
Operating income (loss)	(68,184)	(9,548)	(77,732)
Nonoperating revenues (expenses):			
Interest income	3,163	-	3,163
Total nonoperating revenues (expenses)	3,163	-	3,163
Income (Loss) before transfers	(65,021)	(9,548)	(74,569)
Transfers in	113,019	11,078	124,097
Transfers out	(11,078)	(1,775)	(12,853)
Change in net assets	36,920	(245)	36,675
Net assets, beginning of year	2,188,526	12,739	2,201,265
Net assets, end of year	$ 2,225,446	$ 12,494	$ 2,237,940

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, 2011

	Enterprise Funds		
	Water and Sewer Fund	Nonmajor Fund - Solid Waste Fund	Total
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Receipts from customers	$ 93,732	$ 1,714	$ 95,446
Payments to suppliers and service providers	(50,497)	(2,939)	(53,436)
Payments to employees	(40,561)	(8,140)	(48,701)
Net cash provided by (used in) operating activities	2,674	(9,365)	(6,691)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES			
Interest receipts	129	-	129
Net cash provided by investing activities	129	-	129
CASH FLOWS (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds held in escrow for soil and erosion	58,000	-	58,000
Net cash provided by financing activities	58,000	-	58,000
CASH FLOWS (USED IN) NON-CAPITAL AND RELATED FINANCING ACTIVITIES			
Operating subsidies and transfers from other funds	16,550	11,140	27,690
Operating subsidies and transfers to other funds	(11,139)	(1,775)	(12,914)
Net cash provided by financing activities	5,411	9,365	14,776
Net decrease in cash	66,214	-	66,214
Cash, beginning of year	128,774	-	128,774
Cash, end of year	$ 194,988	$ -	$ 194,988
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating (loss)	$ (68,184)	$ (9,548)	$ (77,732)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	59,413	671	60,084
Amortization	2,871	-	2,871
(Increase) decrease in accounts receivable	3,102	(61)	3,041
(Increase) decrease in prepaid items	(703)	-	(703)
(Increase) decrease in inventories	6,956	-	6,956
Increase (decrease) in accounts payable	(808)	-	(808)
Increase (decrease) in accrued liabilities	(448)	(427)	(875)
Increase in customer deposits	475	-	475
Net cash provided by (used in) operating activities	$ 2,674	$ (9,365)	$ (6,691)
Noncash Capital and Related Financing Activities:			
Acquisition of capital assets provided by SPLOST funds	$ 111,244	$ -	$ 111,244

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

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, 2011, 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.

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2011. 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.

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

Asset Category	Years
Infrastructure	20 to 50
Buildings and improvements	15 to 50
Machinery and equipment	3 to 15
Vehicles	5

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2011, 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, if any existing, 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, if any existing, 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.

M. Fund Equity

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

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

- *Nonspendable* – This classification includes amount that cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

- *Restricted* – This classification includes amounts that are restricted to specific purposes when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- *Committed* – This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council.
- *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 (i.e., an appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget). 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. However, an assignment of fund balance can not cause a deficit in unassigned fund balance to occur.
- *Unassigned* – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

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

- Committed
- Assigned
- Unassigned

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

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, 2011, expenditures exceeded budget in the General Fund, were as follows:

Department	Variance
Executive – mayor	$ 1,196
Elections	432
General government buildings	1,911
Municipal court	717
Traffic control	27,428
Fire protection	1,718
Street lighting	505
Tate/Central Park	586
Library	298
Capital outlay – police administration	3,261

Expenditures in excess of budget resulted from unanticipated costs and were funded by greater than anticipated revenues and available fund balance.

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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, 2011, for the City's individual funds in the aggregate are as follows:

	General Fund	Water and Sewer Fund	Solid Waste Fund	Total
Receivables:				
Property Taxes	$ 40,913	$ -	$ -	$ 40,913
Franchise	107,630	-	-	107,630
Beer and wine tax	2,013	-	-	2,013
Local option sales tax	27,322	-	-	27,322
Fines	81,123	-	-	81,123
Water	-	1,388	-	1,388
Sewer	-	544	-	544
Solid waste	-	-	61	61
Gross receivables	259,001	1,932	61	260,994
Less allowance for uncollectibles	(57,929)	-		(57,929)
Net receivables	$ 201,072	$ 1,932	$ 61	$ 203,065

The City bills and collects its own property taxes. The 2011 digest was levied on October 26, 2011, with bills payable on or before January 1, 2012. After the due dates, property relating to unpaid bills is subject to lien and penalties and interest are assessed. Property tax receivables are estimated based on the tax levy, less amounts collected prior to year-end. The property taxes levied for the 2011 digest were intended for use in the 2012 budget year. Therefore, the entire 2011 digest levy of $91,434 is included in deferred revenue on the governmental balance sheet. Receivables for prior year digest levies not collected within 60 days of year-end are deferred and recorded as revenue when received. In addition to the City's levy of property taxes, the county government owed the City for unremitted collections of mobile home, motor vehicle, and intangible taxes totaling $346 at December 31, 2011.

NOTE 5. CAPITAL ASSETS

A. Capital asset activity for the year ended December 31, 2011 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	52,508	183,740	(26,036)	210,212
Total capital assets, not being depreciated	555,210	183,740	(26,036)	712,914
Capital assets, being depreciated:				
Infrastructure	624,943	55,032	26,036	706,011
Buildings and improvements	762,829	162,896	-	925,725
Machinery and equipment	286,580	-	-	286,580
Vehicles	173,336	31,261	-	204,597
Total capital assets, being depreciated	1,847,688	249,189	26,036	2,122,913
Less accumulated depreciation for:				
Infrastructure	115,304	24,297	-	139,601
Buildings and improvements	141,390	23,469	-	164,859
Machinery and equipment	188,690	18,057	-	206,747
Vehicles	159,487	11,271	-	170,758
Total accumulated depreciation	604,871	77,094	-	681,965
Total capital assets, being depreciated, net	1,242,817	172,095	26,036	1,440,948
Governmental activities capital assets, net	$ 1,798,027	$ 355,835	$ -	$ 2,153,862

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NOTE 5. CAPITAL ASSETS (concluded)

	Beginning of Year	Increases	Decreases	End of Year
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	314,937	-	-	314,937
Capital assets, being depreciated:				
Land improvements	18,013	-	-	18,013
Infrastructure	2,509,541	111,244	-	2,620,785
Equipment and vehicles	150,218	-	-	150,218
Total capital assets, being depreciated	2,677,772	111,244	-	2,789,016
Less accumulated depreciation for:				
Land improvements	4,847	671	-	5,518
Infrastructure	710,545	51,975	-	762,520
Equipment and vehicles	91,471	7,438	-	98,909
Total accumulated depreciation	806,863	60,084	-	866,947
Total capital assets being depreciated, net	1,870,909	51,160	-	1,922,069
Business-type activities capital assets, net	$ 2,185,846	$ 51,160	$ -	$ 2,237,006

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	$ 17,212
Public safety	11,426
Public works	25,169
Culture and recreation	23,287
Total depreciation expense - governmental activities	$ 77,094
Business-type activities:	
Water and Sewerage	$ 59,413
Solid waste management	671
Total depreciation expense - business-type activities	$ 60,084

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

Due to/from other funds:

Receivable fund	Payable fund	Amount
General Fund	Water and Sewer Fund	$ 73,183

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
Water and Sewer	SPLOST Fund	$ 111,244
Water and Sewer	Nonmajor enterprise fund	1,775
Nonmajor enterprise fund	Water and Sewer	11,078
		$ 124,097

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. FUND EQUITY

Components of Fund Equity in the Governmental Funds

The General Fund reflects a portion of fund balance as "nonspendable" for the purpose of prepaid insurance totaling $4,925, as reflected in the current assets of the fund. In addition, the General Fund reflects a portion of fund balance as "assigned" to the subsequent year's budget in the amount of $100,000. The SPLOST Fund reflects fund balance in the amount of $254,255 as "restricted" for purposes of capital projects. The nonmajor fund reflects a balance of $1,161 as "restricted" for purposes of legislative acts for public safety.

NOTE 8. 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 Commission (NWGRC). Membership in a regional commission 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

NOTE 8. JOINT VENTURE (concluded)

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 RC for the year ended December 31, 2011 because currently all dues are paid on the City's behalf by Gordon County. An RC 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 at: Northwest Regional Commission, P.O. Box 1798, 1 Jackson Hill Drive, Rome, GA 30162.

NOTE 9. 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 10. COMMITMENTS AND CONTINGENCIES

Grant Contingencies – The City has received state grants in previous years 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.

SUPPLEMENTARY INFORMATION

CITY OF FAIRMOUNT, GEORGIA

SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

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	$ 23,157	$ 84,508	85%
Roads, streets, and sidewalks	400,000	400,000	87,139	202,074	289,213	72%
Water and sewer improvements	121,427	121,427	-	111,244	111,244	92%
Government buildings	200,000	200,000	24,457	123,631	148,088	74%
	$ 821,427	$ 821,427	$ 172,947	$ 460,106	$ 633,053	

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, 2011, which collectively comprise the City of Fairmount, Georgia's basic financial statements and have issued our report thereon dated June 30, 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 Fairmount, Georgia, is responsible for establishing and maintaining effective 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, and is identified as 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.*

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.

Ellijay, Georgia
June 30, 2012

CITY OF FAIRMOUNT, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

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.**