CITY OF FAIRMOUNT, GEORGIA

FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2012

CITY OF FAIRMOUNT, GEORGIA

FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of City of Fairmount, Georgia, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2012, 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 accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairmount, Georgia's basic financial statements. 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 basic financial statements.

The schedule of projects constructed with special purpose local option sales tax is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of projects constructed with special purpose local option sales tax is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Fairmount, Georgia's internal control over financial reporting and compliance.

R L Jennings & Associates, PC

Ellijay, Georgia
June 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL REPORT
CITY OF FAIRMOUNT, GEORGIA
DECEMBER 31, 2012

Our discussion and analysis of City of Fairmount's financial performance provides an overview of the City's financial activities for the fiscal year ending December 31, 2012. Please review in conjunction with the City's financial statements.

REVIEWING THE ANNUAL REPORT:

The annual report covers multiple financial statements. The Statement of Net Position and the Statement of Activities supply data about the activities of the City as a whole and provide thorough information regarding the City's finances. For government activities, these statements show how services were financed and what remains for future spending. Fund financial statements show city operations in more detail than government-wide statements as they provide information about the City's most important funds.

FINANCIAL HIGHLIGHTS

Due to this year's operations, the City's Net Position are as follows: Net Position of business-type activities was **$2,150,802** compared to **$2,237,940** in 2011 and Net Position of governmental activities was **$3,415,003** compared to **$3,098,967** in 2011.

- The current year's governmental activities expenses totaled **$696,788** as compared to **$678,143** in 2011, an increase of **$18,645**, due largely to an increase in public works expenditures. The City generated **$1,012,824** in revenues for governmental programs compared to **$908,734** in the previous year, due largely to an increase in gain on sale of equipment in the amount of **$82,473**.

- For business-type activities, revenues were **$91,285** compared to **$95,093** in 2011. Expenses were **$178,423** compared to **$169,662** in 2011. Of these revenues, **$86,670** was generated by water and sewer department operations and **$1,607** was generated by sanitation management operations.

- The yearly cost for all city functions/programs was **$875,211** compared to **$847,805** in 2011.

THE CITY AS A WHOLE ANALYSIS

Since the Statement of Net Position and the Statement of Activities provide facts about the City as a whole, the statements can help determine if a city has improved or deteriorated as a result of the year's activities. All assets and liabilities are included in the statements using the accrual basis of accounting. The accrual method is comparable to the accounting used by most private corporations. All current year revenues and expenses are included. It does not matter when cash is paid or received.

These statements give an account of the City's net position and *any* changes in that position. However, to truly judge the condition of the City, some non-financial factors must be considered. For example, a change in the tax base could greatly affect the statements.

The Statement of Net Position and the Statement of Activities divide the City into two types of activities:

1) **Governmental** activities: The cities basic services are accounted for in this section, including fire, public works, parks and general administration. Property taxes, franchise fees, business licenses, and local option sales taxes finance the majority of these activities.
2) **Business-type activities:** Items included in this section are services *for* which the City charges a fee to help cover all or most of the cost of the service it provides. The water and sewer system are reported here.

DETAILING THE MOST IMPORTANT FUNDS

The fund financial statements cover detailed information about the most important funds of the City. Certain funds are mandated by State law and by Bond agreements. Other funds are established to manage money, meet legal requirements or for certain taxes or grants.

- **Government Funds:** Basic services are reported in government funds. This section details how money flows in and out of the funds and covers the balances left at year-end that are left on hand for disbursement. Government funds are reported using an accounting method called modified accrual accounting. This method measures cash and financial assets that can easily be converted to cash. The governmental fund statements supply a detailed short-range view of general government operations and basic services. Governmental fund data allows a city to determine the financial resources that can be spent in the long-term to finance the cities programs.

- **Proprietary Funds:** Proprietary funds are those funds the City charges for services it provides, both to City units and outside customers. Proprietary funds are reported in the Statement of Net Position and the Statement of Activities. The City's enterprise funds, a component of proprietary funds, are the same as the business-type activities we report in the government-wide statements, but they give more detailed information such as cash flow. Another component of proprietary funds are internal service funds. Internal service funds cover activities that provide supplies and services for City programs.

THE CITY AS A WHOLE

The largest component of the City's net position is its investment in capital assets (i.e. land, infrastructure, buildings, equipment, and other). Outstanding debt exists on these assets in the form of capital leases and revenue bonds. Restricted net position represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The City has net position at year-end that is restricted for the purposes of debt service and construction of capital projects. The remaining portion of net position is unrestricted, which can be used to finance governmental operations.

The largest component of the City's assets in the business-type activities is water and sewer infrastructure. There is no long-term debt on the system.

The City's combined net position is **$5,565,805** compared to **$5,336,907** in 2011. However, net position and expenses from governmental and business-type activities must be reviewed separately. Table 1 focuses on the net position and Table 2 focuses on the changes in net position of the City's governmental and business-type activities.

TABLE 1: NET POSITION

	Governmental Activities		Business Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	$ 1,217,589	$ 978,582	$ 275,281	$ 362,892	$ 1,492,870	$ 1,341,474
Capital Assets	2,254,475	2,170,429	2,186,602	2,243,946	4,441,077	4,414,375
TOTAL ASSETS	**$ 3,472,064**	**$ 3,149,011**	**$ 2,461,883**	**$ 2,606,838**	**$ 5,933,947**	**$ 5,755,849**
Current Liabilities	$ 53,666	$ 44,199	$ 311,081	$ 368,898	$ 364,747	$ 413,097
Long-Term Liabilities	3,395	5,845	-	-	3,395	5,845
TOTAL LIABILITIES	**57,061**	**50,044**	**311,081**	**368,898**	**368,142**	**418,942**
Net Investment in Capital Assets	2,254,475	2,170,429	2,186,602	2,243,946	4,441,077	4,414,375
Restricted	149,194	255,416	-	-	149,194	255,416
Unrestricted	1,011,334	673,122	(35,800)	(6,006)	975,534	667,116
TOTAL NET POSITION	**3,415,003**	**3,098,967**	**2,150,802**	**2,237,940**	**5,565,805**	**5,336,907**
TOTAL LIABILITIES AND NET POSITION	**$ 3,472,064**	**$ 3,149,011**	**$ 2,461,883**	**$ 2,606,838**	**$ 5,933,947**	**$ 5,755,849**

TABLE 2 - CHANGES IN NET POSITION

	Governmental Activities		Business Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Program Revenues:						
Charges for Services	$ 136,248	$ 124,081	$ 88,277	$ 91,930	$ 224,525	$ 216,011
Operating grants	7,882	100	-	-	7,882	100
Capital grants/contributions	217,179	209,014	-	-	217,179	209,014
General Revenues						-
Property Taxes	100,866	103,966	-	-	100,866	103,966
Other Taxes	465,523	458,774	-	-	465,523	458,774
Other General	85,126	12,799	3,008	3,163	88,134	15,962
TOTAL REVENUES	**1,012,824**	**908,734**	**91,285**	**95,093**	**1,104,109**	**1,003,827**
Program Expenditures:						
General Government	194,580	203,657	-	-	194,580	203,657
Judicial	27,173	27,345	-	-	27,173	27,345
Public Safety	275,905	275,219	-	-	275,905	275,219
Public Works	121,094	88,594	-	-	121,094	88,594
Culture & Recreation	73,876	78,941	-	-	73,876	78,941
Housing & Development	4,160	4,387	-	-	4,160	4,387
Water & Sewer	-	-	166,439	158,339	166,439	158,339
Solid Waste	-	-	11,984	11,323	11,984	11,323
Total Expenses	**696,788**	**678,143**	**178,423**	**169,662**	**875,211**	**847,805**
CHANGE IN NET POSITION	316,036	230,591	(87,138)	(74,569)	228,898	156,022
Transfers In (Out)	-	(111,244)	-	111,244	-	-
NET POSITION, BEGINNING	3,082,400	2,963,053	2,237,940	2,201,265	5,320,340	5,164,318
PRIOR PERIOD RESTATEMENT	16,567	-	-	-	16,567	-
NET POSITION, ENDING	**$ 3,415,003**	**$ 3,082,400**	**$ 2,150,802**	**$ 2,237,940**	**$ 5,565,805**	**$ 5,320,340**

The City's net position for Governmental Activities was **$3,415,003** this year compared to **$3,098,967** last year. Unrestricted net position was **$1,011,334** this year, compared to **$673,122** last year. Unrestricted net position is what can be used to finance every-day operations without restrictions set by legislation, debt covenants, or other legal regulations.

The net position of the City's Business-type Activities was **$2,150,802** this year compared to **$2,237,940** last year. Unrestricted Net Position was **$(35,800)** compared to **$(6,006)** last year.

Total revenues for the current year were **$1,104,109** compared to **$1,003,827** last year. The total yearly cost of all programs and services were **$875,211** compared to **$847,805** last year.

Table 3 details the cost of the City's major programs as well as each program's net cost (total cost less revenues generated by the program). The net cost indicates the financial burden that was shifted to the city's taxpayers by each of these programs.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost (Revenue) of Services	
	2012	2011	2012	2011
General Government	$ 194,580	$ 203,657	$ 101,654	$ 140,649
Judicial	$ 27,173	$ 27,345	$ 27,173	$ 27,345
Public Safety	$ 275,905	$ 275,219	$ 161,514	$ 171,205
Public Works	$ 121,094	$ 88,594	$ (19,634)	$ (58,399)
Culture and Recreation	$ 73,876	$ 78,941	$ 62,172	$ 61,296
Housing & Development	$ 4,160	$ 4,387	$ 2,600	$ 2,852
TOTALS	$ 696,788	$ 678,143	$ 335,479	$ 344,948

GOVERNMENTAL FUNDS

This year the governmental fund revenues were **$936,035** compared to **$928,190** last year, an increase of $7,845. This year's governmental fund expenditures were **$783,284** compared to **$1,029,765** last year, due primarily to a decrease in capital project expenditures for water system improvements occurring in FY2011. Fund balance was **$948,919** as compared to **$713,695** last year.

BUSINESS-TYPE ACTIVITIES

This year's Business-type activities operating revenues (see Table 2) were **$88,277** compared to **$91,930** last year. This year's operating expenditures were **$178,423** compared to **$169,662** last year. The decrease in revenues was largely due to a reduction in installations for new customers. The increase in expenses was due in part to an increase in personnel expenditures.

BUDGETARY HIGHLIGHTS:

The City Council revisits the budget several times during the year. The current year's budgets were defined as follows:

TABLE 4

2012 BUDGET

	ORIGINAL	AMENDED	O/A VARIANCE *	2012 ACTUAL EXPENSES
GENERAL	$ 834,975	$ 823,977	$ (10,998)	$ 608,541
WATER AND SEWER	92,596	92,596	-	166,439
SOLID WASTE	12,055	12,055	-	11,984
TOTAL	$ 939,626	$ 928,628	$ (10,998)	$ 786,964

***O/A refers to the variance between the Original Budget and the Amended**

As a whole, the city operated under budget by **$141,664** in expenditures. The General Fund revenues were **$125,769** under actual expenses, mainly due to a reduction in capital outlay expenditures. The Water and Sewer Fund revenues were **$79,769** under actual expenses, which was largely due to depreciation expense of **$62,646**. The Solid Waste Fund revenues were **$10,377** under expenses primarily because of personnel expenditures.

2012 ANALYSIS OF PROJECTS IN PROGRESS - the new city hall construction project which began in FY2011 continued during FY2012.

CITY FUNDS

At year end, the City reported cash balances of **$1,244,476** compared to **$1,109,782** last year. Included in cash balances are certificates of deposit in the amount of **$327,976.**

CAPITAL ASSETS

At the close of the year, the City had invested **$6,140,325** in Capital Assets such as land, buildings and improvements, equipment and infrastructure. These figures are before depreciation. Last year Capital Assets before depreciation were **$5,939,780.** After depreciation of **$1,703,316** the end of year total was **$4,437,009**. (See the note disclosure in Note 5 for more detailed information.)

ECONOMIC ISSUES/UPCOMING YEARLY BUDGETS

City officials considered many issues when establishing the upcoming year's budget, tax rates, and fees. The City included the new city hall project.

CONTACT INFORMATION

This report has been created to give our citizens, taxpayers, customers, and creditors a summary of city finances and to show allocation of the money it receives. If you have any questions regarding this report, or if you need additional financial information, please contact:

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CITY OF FAIRMOUNT, GEORGIA

STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash	$ 889,860	$ 26,640	$ 916,500
Certificates of deposit	109,325	218,651	327,976
Accounts receivable, net	151,984	9,286	161,270
Due from other governments	59,042	-	59,042
Internal balances	2,413	(2,413)	-
Inventories	-	18,152	18,152
Prepaid items	4,965	4,965	9,930
Capital assets, not being depreciated	783,084	303,726	1,086,810
Capital assets, net of accumulated depreciation	1,471,391	1,878,808	3,350,199
Intangible assets, net of amortization	-	4,068	4,068
Total assets	$ 3,472,064	$ 2,461,883	$ 5,933,947
Liabilities And Net Position			
Liabilities:			
Accounts payable	$ 27,897	$ 8	$ 27,905
Accrued liabilities	13,711	2,023	15,734
Deferred revenue	12,058	307,500	319,558
Customer deposits	-	1,550	1,550
Long-term liabilities, due in more than one year	3,395	-	3,395
Total liabilities	57,061	311,081	368,142
Net Position:			
Net investment in capital assets	2,254,475	2,186,602	4,441,077
Restricted for:			
Capital projects	147,196	-	147,196
Public safety	1,998	-	1,998
Unrestricted	1,011,334	(35,800)	975,534
Total net position	3,415,003	2,150,802	5,565,805
Total liabilities and net position	$ 3,472,064	$ 2,461,883	$ 5,933,947

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, 2012

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 Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Governmental activities							
General government	$ 194,580	$ 9,800	$ 5,882	$ 77,244	$ (101,654)	$ -	$ (101,654)
Judicial	27,173	-	-	-	(27,173)	-	(27,173)
Public safety	275,905	112,391	2,000	-	(161,514)	-	(161,514)
Public works	121,094	2,000	-	138,728	19,634	-	19,634
Culture and recreation	73,876	10,497	-	1,207	(62,172)	-	(62,172)
Housing and development	4,160	1,560	-	-	(2,600)	-	(2,600)
Total governmental activities	696,788	136,248	7,882	217,179	(335,479)	-	(335,479)
Business-type activities							
Water and sewerage	166,439	86,670	-	-	-	(79,769)	(79,769)
Solid waste	11,984	1,607	-	-	-	(10,377)	(10,377)
Total business-type activities	178,423	88,277	-	-	-	(90,146)	(90,146)
Total	$ 875,211	$ 224,525	$ 7,882	$ 217,179	(335,479)	(90,146)	(425,625)
General revenues							
Property taxes					100,866	-	100,866
General and selective sales taxes					306,555	-	306,555
Franchise taxes					113,119	-	113,119
Business taxes					45,849	-	45,849
Unrestricted investment earnings					2,003	3,008	5,011
Miscellaneous					650	-	650
Gain on disposition of equipment					82,473	-	82,473
Total general revenues					651,515	3,008	654,523
Change in net position					316,036	(87,138)	228,898
Net position, beginning of year, as restated					3,098,967	2,237,940	5,336,907
Net position, end of year					$ 3,415,003	$ 2,150,802	$ 5,565,805

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

CITY OF FAIRMOUNT, GEORGIA

GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2012

Assets	General Fund	SPLOST Fund	Nonmajor Fund - Confiscated Assets Fund	Total Governmental Funds
Cash	$ 718,952	$ 168,910	$ 1,998	$ 889,860
Certificate of deposit	109,325	-	-	109,325
Property taxes receivable, net	21,240	-	-	21,240
Other taxes receivable, net	101,804	-	-	101,804
Accounts receivable, net	30,455	-	-	30,455
Due from other governments	54,805	4,237	-	59,042
Due from other funds	2,413	-	-	2,413
Prepaid items	4,965	-	-	4,965
Total assets	$ 1,043,959	$ 173,147	$ 1,998	$ 1,219,104
Liabilities And Fund Balances				
Liabilities:				
Accounts payable	$ 1,946	$ 25,951	$ -	$ 27,897
Accrued liabilities	13,711	-	-	13,711
Deferred revenue	228,577	-	-	228,577
Total liabilities	244,234	25,951	-	270,185
Fund Balances:				
Nonspendable	4,965	-	-	4,965
Assigned	100,000	-	-	100,000
Restricted	-	147,196	1,998	149,194
Unassigned	694,760	-	-	694,760
Total fund balances	799,725	147,196	1,998	948,919
Total liabilities and fund balances	$ 1,043,959	$ 173,147	$ 1,998	$ 1,219,104

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 POSITION FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

Total fund balances - governmental funds (page 10)	$	948,919
Amounts reported for governmental activities in the statement of net position 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 $3,030,397, and the accumulated depreciation is $775,922.		**2,254,475**
Certain receivables such as property taxes and fines, 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.		**215,004**
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		**(3,395)**
Net position of governmental activities in the statement of net position (page 8)	$	3,415,003

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, 2012

Revenues	General Fund	SPLOST Fund	Nonmajor Fund - Confiscated Assets Fund	Total Governmental Funds
Property taxes	$ 106,962	$ -	$ -	$ 106,962
Sales taxes	306,555	-	-	306,555
Franchise taxes	119,968	-	-	119,968
Other taxes	45,849	-	-	45,849
Licenses and permits	11,160	-	-	11,160
Intergovernmental	22,189	200,679	-	222,868
Charges for services	8,025	-	-	8,025
Fines and forfeitures	104,226	-	853	105,079
Investment earnings	2,003	193	-	2,196
Contributions	2,000	-	-	2,000
Miscellaneous revenues	5,373	-	-	5,373
Total revenues	734,310	200,872	853	936,035
Expenditures				
Current:				
General government	184,631	-	-	184,631
Judicial	27,673	-	-	27,673
Public safety	263,856	-	16	263,872
Public works	78,319	-	-	78,319
Culture and recreation	49,902	-	-	49,902
Housing and development	4,160	-	-	4,160
Capital outlay:				
General government	-	67,190	-	67,190
Public works	-	106,487	-	106,487
Culture and recreation	-	1,050	-	1,050
Total expenditures	608,541	174,727	16	783,284
Excess of revenues over expenditures	125,769	26,145	837	152,751
Other financing sources (uses)				
Proceeds from sale of donated equipment	82,473	-	-	82,473
Total other financing sources (uses)	82,473	-	-	82,473
Net change in fund balances	208,242	26,145	837	235,224
Fund balances, beginning of year, as restated	591,483	121,051	1,161	713,695
Fund balances, end of year	$ 799,725	$ 147,196	$ 1,998	$ 948,919

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, 2012

Net change in fund balances - total governmental funds (page 12)		$ 235,224
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	$ 174,570	
Depreciation expense	(90,524)	84,046
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.		(5,684)
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:		
Decrease in compensated absences		2,450
Change in net position of governmental activities (page 9)		$ 316,036

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, 2012

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Revenues				
Property taxes	$ 89,875	$ 107,838	$ 106,962	$ (876)
General sales taxes	275,000	286,062	286,062	-
Selective sales taxes	21,500	20,493	20,493	-
Franchise taxes	110,400	113,118	119,968	6,850
Business taxes	44,500	45,849	45,849	-
Licenses and permits	9,050	11,160	11,160	-
Intergovernmental	4,900	22,189	22,189	-
Charges for services	5,800	7,244	8,025	781
Fines and forfeitures	93,550	117,393	104,226	(13,167)
Interest earnings	200	2,003	2,003	-
Contributions	100	-	2,000	2,000
Miscellaneous revenues	5,100	8,155	5,373	(2,782)
Total revenues	659,975	741,504	734,310	(7,194)
Expenditures				
Current:				
General government:				
Legislative	9,529	9,529	8,483	1,046
Executive - mayor	9,712	11,700	10,733	967
Executive - administration	21,831	21,850	20,358	1,492
Elections	2	2	-	2
Financial administration	137,179	132,729	102,185	30,544
General government buildings	9,828	10,187	7,119	3,068
Customer support	46,296	46,296	35,753	10,543
Judicial:				
Municipal court	31,531	32,392	27,673	4,719
Public safety:				
Police administration	122,028	97,061	69,385	27,676
Custody of prisoners	5,000	3,000	2,700	300
Traffic patrol	168,398	185,427	183,087	2,340
Police property	10,000	8,500	7,520	980
Animal control	50	-	-	-
Fire protection	-	1,164	1,164	-
Public works:				
Streets	51,602	48,351	47,887	464
Street lighting	26,750	30,250	27,732	2,518
Cemetary	3,400	3,400	2,700	700
Culture and recreation:				
Community center	11,850	11,850	8,867	2,983
Park and recreation	4,950	4,950	2,464	2,486
Pavillion	600	600	411	189
Scout hut	1,000	1,000	764	236
Tate/Central Park	5,200	5,500	5,104	396
Library	35,269	35,269	32,292	2,977

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, 2012

concluded

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Housing and development:				
Building inspection	4,595	4,595	4,160	435
Capital outlay:				
General government:				
Financial administration	18,375	18,375	-	18,375
General government buildings	100,000	100,000	-	100,000
Public safety:				
Police administration	-	-	-	-
Public works:				
Streets	-	-	-	-
Culture and recreation:				
Park and recreation	-	-	-	-
Total expenditures	834,975	823,977	608,541	215,436
Excess (deficiency) of revenues Over expenditures	(175,000)	(82,473)	125,769	208,242
Other financing sources (uses)				
Proceeds from sale of donated equipment	75,000	82,473	82,473	-
Total other financing sources (uses)	75,000	82,473	82,473	-
Net change in fund balances	(100,000)	(0)	208,242	208,242
Fund balance, beginning of year, as restated	591,483	591,483	591,483	-
Fund balance, end of year	$ 491,483	$ 591,483	$ 799,725	$ 208,242

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

CITY OF FAIRMOUNT, GEORGIA

PROPRIETARY FUNDS
STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Enterprise Funds		
	Water and Sewer Fund	Nonmajor Fund - Solid Waste Fund	Total
Assets			
Current assets:			
Cash	$ 26,640	$ -	$ 26,640
Certificates of deposit	218,651	-	218,651
Accounts receivable, net	9,286	-	9,286
Inventories	18,152	-	18,152
Prepaid items	4,965	-	4,965
Total current assets	277,694	-	277,694
Noncurrent assets:			
Capital assets:			
Land and construction in progress	303,726	-	303,726
Other capital assets, net of depreciation	1,866,986	11,822	1,878,808
Intangible assets, net of amortization	4,068	-	4,068
Total noncurrent assets	2,174,780	11,822	2,186,602
Total assets	$ 2,452,474	$ 11,822	$ 2,464,296
Liabilities And Net Position			
Current liabilities:			
Accounts payable	$ 8	$ -	$ 8
Accrued liabilities	2,023	-	2,023
Due to other funds	2,413	-	2,413
Total current liabilities	4,444	-	4,444
Noncurrent liabilities:			
Deferred revenue	307,500	-	307,500
Customer deposits	1,550	-	1,550
Total noncurrent liabilities	309,050	-	309,050
Total liabilities	313,494	-	313,494
Net Position:			
Net investment in capital assets	2,174,779	11,822	2,186,601
Unrestricted	(35,800)	-	(35,800)
Total net position	2,138,980	11,822	2,150,802
Total liabilities and net position	$ 2,452,474	$ 11,822	$ 2,464,296

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 POSITION
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

	Enterprise Funds		
	Water and Sewer Fund	Nonmajor Fund - Solid Waste Fund	Total
Operating revenues:			
Water charges	$ 25,592	$ -	$ 25,592
Sewer charges	58,971	-	58,971
Solid waste charges	-	1,607	1,607
Water tap fees	857	-	857
Sewer tap fees	1,250	-	1,250
Total operating revenues	86,670	1,607	88,277
Operating expenses:			
Personal services	50,138	8,159	58,297
Contractual and professional services	1,667	3,151	4,818
Repairs and maintenance	6,900	-	6,900
Materials and supplies	338	3	341
Insurance	14,854	-	14,854
Utilities	24,877	-	24,877
Other expenses	5,019	-	5,019
Depreciation and amortization	62,646	671	63,317
Total operating expenses	166,439	11,984	178,423
Operating income (loss)	(79,769)	(10,377)	(90,146)
Nonoperating revenues:			
Interest income	3,008	-	3,008
Total nonoperating revenues	3,008	-	3,008
Income (Loss) before transfers	(76,761)	(10,377)	(87,138)
Transfers in	1,607	11,312	12,919
Transfers out	(11,312)	(1,607)	(12,919)
Change in net position	(86,466)	(672)	(87,138)
Net position, beginning of year	2,225,446	12,494	2,237,940
Net position, end of year	$ 2,138,980	$ 11,822	$ 2,150,802

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, 2012

	Enterprise Funds		
	Water and Sewer Fund	Nonmajor Fund - Solid Waste Fund	Total
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Receipts from customers	$ 79,591	$ 1,669	$ 81,260
Payments to suppliers and service providers	(53,712)	(3,154)	(56,866)
Payments to employees	(49,934)	(8,159)	(58,093)
Net cash provided by (used in) operating activities	(24,055)	(9,644)	(33,699)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES			
Interest receipts	95	-	95
Net cash provided by investing activities	95	-	95
CASH FLOWS (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital asset acquisition	(5,974)	-	(5,974)
Repayment of funds held in escrow for soil and erosion	(58,000)	-	(58,000)
Net cash provided by financing activities	(63,974)	-	(63,974)
CASH FLOWS (USED IN) NON-CAPITAL AND RELATED FINANCING ACTIVITIES			
Interfund loans received	61	-	61
Repayment of interfund loans	(70,770)	(61)	(70,831)
Transfers from other funds	1,607	11,312	12,919
Transfers to other funds	(11,312)	(1,607)	(12,919)
Net cash provided by financing activities	(80,414)	9,644	(70,770)
Net decrease in cash	(168,348)	-	(168,348)
Cash, beginning of year	194,988	-	194,988
Cash, end of year	$ 26,640	$ -	$ 26,640
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating (loss)	$ (79,769)	$ (10,377)	$ (90,146)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	59,774	671	60,445
Amortization	2,872	-	2,872
(Increase) decrease in accounts receivable	(7,354)	62	(7,292)
(Increase) decrease in prepaid items	(40)	-	(40)
(Increase) decrease in inventories	279	-	279
Increase (decrease) in accounts payable	(296)	-	(296)
Increase (decrease) in accrued liabilities	204		204
Increase in customer deposits	275	-	275
Net cash provided by (used in) operating activities	$ (24,055)	$ (9,644)	$ (33,699)
Noncash Capital and Related Financing Activities	$ -	$ -	$ -

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 more significant of the City's accounting policies are described below.

A. The 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 City's 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, 2012, 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 position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund 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.

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*. The comparison of direct expenses and program revenues identifies the extent to which each program function is self-financing or draws from the general revenues of the City.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

The Special Purpose Local Option Sales Tax Fund (SPLOST Fund) 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.

All proprietary funds are accounted for using the *accrual basis of accounting*. These funds account for operations that are primarily financed by user charges. The *economic resources measurement focus* concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. 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.

E. 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."

F. 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.

G. 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.

H. 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, 2012. 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)

I. 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, 2012, the amount of amortization included in expense was $2,872.

J. 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.

K. 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 position. 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.

L. 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 position."

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.
- *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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

- *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 Position – Net position represents the difference between assets and liabilities. Investment 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 position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

M. 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

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.

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, 2012, for the City's individual funds in the aggregate are as follows:

	General Fund	Water and Sewer Fund	SPLOST Fund	Total
Receivables:				
Property Taxes	$ 21,240	$ -	$ -	$ 21,240
Franchise	100,667	-	-	100,667
Miscellaneous taxes	1,661	-	-	1,661
Local option sales tax	54,281	-	4,237	58,518
Fines	95,493	-	-	95,493
Water	-	2,715	-	2,715
Sewer	-	6,571	-	6,571
Solid waste	-	-	-	-
Gross receivables	273,342	9,286	4,237	286,865
Less allowance for uncollectible	(65,038)	-		(65,038)
Net receivables	$ 208,304	$ 9,286	$ 4,237	$ 221,827

The City bills and collects its own property taxes. The 2012 digest was levied in October 2012, with bills payable on or before December 20, 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 2012 digest were intended for use in the 2013 budget year. Therefore, the entire 2012 digest levy of $94,867 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 $524 at December 31, 2012.

NOTE 5. CAPITAL ASSETS

A. Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning of Year	Increases	Prior period restatement	End of Year
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 502,702	$ -	$ -	$ 502,702
Construction in progress	210,212	70,170	-	280,382
Total capital assets, not being depreciated	712,914	70,170	-	783,084
Capital assets, being depreciated:				
Infrastructure	706,011	81,243	-	787,254
Buildings and improvements	925,725	23,157	-	948,882
Machinery and equipment	286,580	-	-	286,580
Vehicles	204,597	-	20,000	224,597
Total capital assets, being depreciated	2,122,913	104,400	20,000	2,247,313
Less accumulated depreciation for:				
Infrastructure	139,601	26,663	-	166,264
Buildings and improvements	164,859	30,122	-	194,981
Machinery and equipment	206,747	17,947	-	224,694
Vehicles	170,758	15,792	3,433	189,983
Total accumulated depreciation	681,965	90,524	3,433	775,922
Total capital assets, being depreciated, net	1,440,948	13,876	16,567	1,471,391
Governmental activities capital assets, net	$ 2,153,862	$ 84,046	$ 16,567	$ 2,254,475

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NOTE 5. CAPITAL ASSETS (concluded)

	Beginning of Year	Increases	Reclassifications	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	-	(11,211)	303,726
Capital assets, being depreciated:				
Land improvements	18,013	-	-	18,013
Infrastructure	2,620,785	5,975	11,211	2,637,971
Equipment and vehicles	150,218	-	-	150,218
Total capital assets, being depreciated	2,789,016	5,975	11,211	2,806,202
Less accumulated depreciation for:				
Land improvements	5,518	672	-	6,190
Infrastructure	762,520	52,337	-	814,857
Equipment and vehicles	98,909	7,438	-	106,347
Total accumulated depreciation	866,947	60,447	-	927,394
Total capital assets being depreciated, net	1,922,069	(54,472)	11,211	1,878,808
Business-type activities capital assets, net	$ 2,237,006	$ (54,472)	$ -	$ 2,182,534

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

Governmental activities:	
General government	$ 10,406
Public safety	14,037
Public works	42,107
Culture and recreation	23,974
Total depreciation expense - governmental activities	$ 90,524
Business-type activities:	
Water and Sewerage	$ 59,776
Solid waste management	671
Total depreciation expense - business-type activities	$ 60,447

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	$ 2,413

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 Fund	Nonmajor enterprise fund	$ 1,607
Nonmajor enterprise fund	Water and Sewer Fund	11,312
		$ 12,919

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. CHANGES IN LONG-TERM LIABILITIES

The following represents the changes in long-term liabilities from the previous year:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Compensated absences	$ 5,845	$ -	$ 2,450	$ 3,395	$ -

Compensated absences are generally liquidated in the fund in which the liabilities were incurred, largely the General Fund.

NOTE 8. 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 $4,965, 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 $147,196 as "restricted" for purposes of capital projects. The nonmajor fund reflects a balance of $1,998 as "restricted" for purposes of legislative acts for public safety.

NOTE 9. 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 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, 2012 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 7be provided by contacting the RC directly at: Northwest Regional Commission, P.O. Box 1798, 1 Jackson Hill Drive, Rome, GA 30162.

NOTE 10. 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 11. 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.

NOTE 12. PRIOR PERIOD RESTATEMENT

Governmental fund financial statements
The City has determined that a restatement to the beginning fund balance of the General Fund is necessary to properly report fines revenues not collected within 60 days as unavailable revenue. Additionally, franchise revenue was determined to be unavailable as a current resource due to the intent to be used to finance the subsequent year's budget. Therefore, both revenues were restated as deferred revenue in the prior period, and deemed to be a current resource of the current year. This adjustment resulted in changes to the beginning fund balance of the General Fund as follows:

Fund balance, December 31, 2011, as originally reported	$ 710,469
Restatement for deferred fines revenue	(18,194)
Restatement for deferred franchise tax revenue	(100,792)
Fund balance, December 31, 2011, as restated	$ 591,483

Government-wide financial statements
In addition, the City has determined that a restatement to beginning net position of the Governmental Activities is necessary to restate capital assets for assets that met the criteria of capitalization in prior periods. This adjustment resulted in changes to the beginning net position as follows:

Net position, December 31, 2011, as originally reported	$ 3,082,400
Restatement for additions to capitalizable assets	16,567
Net position, December 31, 2011, as restated	$ 3,098,967

CITY OF FAIRMOUNT, GEORGIA

SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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	$ 84,508	$ 1,050	$ 85,558	86%
Roads, streets, and sidewalks	400,000	400,000	289,213	106,487	395,700	99%
Water and sewer improvements	121,427	121,427	111,244	-	111,244	92%
Government buildings	200,000	200,000	148,088	67,190	215,278	108%
	$ 821,427	$ 821,427	$ 633,053	$ 174,727	$ 807,780	

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

INTERNAL CONTROL AND COMPLIANCE

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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, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of City of Fairmount, Georgia, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise City of Fairmount, Georgia's basic financial statements and have issued our report thereon dated June 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Fairmount, Georgia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fairmount, Georgia's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Fairmount, Georgia's internal control.

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. 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.

Our consideration of internal control 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and responses that we consider to be a significant deficiency, and is identified as Finding 06-01.

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 Findings

City of Fairmount, Georgia's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. City of Fairmount, Georgia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This purpose of this report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of any audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose..

R L Jennings & Associates, PC

Ellijay, Georgia
June 30, 2013

CITY OF FAIRMOUNT, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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

Repeat finding from the prior year(s):

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.**