CITY OF FAIRMOUNT, GEORGIA

FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2013

CITY OF FAIRMOUNT, GEORGIA

FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

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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 aggregate remaining fund information of City of Fairmount, Georgia, as of and for the year ended December 31, 2013, 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 such 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 aggregate remaining fund information of the City of Fairmount, Georgia, as of December 31, 2013, 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 26, 2014, 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 26, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL REPORT
CITY OF FAIRMOUNT, GEORGIA
DECEMBER 31, 2013

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, 2013. 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 **$2,081,749** compared to **$2,150,802** in 2012 and Net Position of governmental activities was **$3,427,757** compared to **$3,415,003** in 2012.

- The current year's governmental activities expenses totaled **$641,630** as compared to **$696,788** in 2012, a decrease of **$55,158**, due largely to a decrease in public safety & public works. The City generated **$654,384** in revenues for governmental programs compared to **$1,012,824** in the previous year, due largely to a decrease in the City's LOST tax rate.

- For business-type activities, revenues were **$110,910** compared to **$91,285** in 2012. Expenses were **$179,963** compared to **$178,423** in 2012. Of these revenues, **$106,604** was generated by water and sewer department operations and **$4,306** was generated by sanitation management operations.

- The yearly cost for all city functions/programs was **$821,593** compared to **$875,211** in 2012.

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 **$5,509,506** compared to **$5,565,805** in 2012. 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	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	$ 973,455	$ 1,217,589	$ 270,054	$ 275,281	$ 1,243,509	$ 1,492,870
Capital Assets	2,501,735	2,254,475	2,123,285	2,186,602	4,625,020	4,441,077
TOTAL ASSETS	$ 3,475,190	$ 3,472,064	$ 2,393,339	$ 2,461,883	$ 5,868,529	$ 5,933,947
Current Liabilities	$ 47,433	$ 53,666	$ 311,590	$ 311,081	$ 359,023	$ 364,747
Long-Term Liabilities	-	3,395	-	-	-	3,395
TOTAL LIABILITIES	47,433	57,061	311,590	311,081	359,023	368,142
Investment in Capital Assets	2,501,735	2,254,475	2,123,285	2,186,602	4,625,020	4,441,077
Restricted	143,469	149,194	-	-	143,469	149,194
Unrestricted	782,553	1,011,334	(41,536)	(35,800)	741,017	975,534
TOTAL NET POSITION	3,427,757	3,415,003	2,081,749	2,150,802	5,509,506	5,565,805
TOTAL LIABILITIES AND NET POSITION	$ 3,475,190	$ 3,472,064	$ 2,393,339	$ 2,461,883	$ 5,868,529	$ 5,933,947

TABLE 2 - CHANGES IN NET POSITION

	Governmental Activities		Business Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Program Revenues:						
Charges for Services	$ 152,544	$ 136,248	$ 110,910	$ 88,277	$ 263,454	$ 224,525
Operating grants	5,947	7,882	-	-	5,947	7,882
Capital grants/contributions	81,944	217,179	-	-	81,944	217,179
General Revenues						
Property Taxes	131,802	100,866	-	-	131,802	100,866
Other Taxes	281,103	465,523	-	-	281,103	465,523
Other General	1,044	85,126	-	3,008	1,044	88,134
TOTAL REVENUES	654,384	1,012,824	110,910	91,285	765,294	1,104,109
Program Expenditures:						
General Government	183,186	194,580	-	-	183,186	194,580
Judicial	31,263	27,173	-	-	31,263	27,173
Public Safety	258,937	275,905	-	-	258,937	275,905
Public Works	102,801	121,094	-	-	102,801	121,094
Culture & Recreation	60,855	73,876	-	-	60,855	73,876
Housing & Development	4,588	4,160	-	-	4,588	4,160
Water & Sewer	-	-	168,326	166,439	168,326	166,439
Solid Waste	-	-	11,637	11,984	11,637	11,984
Total Expenses	641,630	696,788	179,963	178,423	821,593	875,211
Transfers In (Out)	-	-	-	-	-	-
CHANGE IN NET POSITION	12,754	316,036	(69,053)	(87,138)	(56,299)	228,898
NET POSITION, BEGINNING	3,415,003	3,082,400	2,150,802	2,237,940	5,565,805	5,320,340
PRIOR PERIOD RESTATEMENT	-	16,567	-	-	-	16,567
NET POSITION, ENDING	$ 3,427,757	$ 3,415,003	$ 2,081,749	$ 2,150,802	$ 5,509,506	$ 5,565,805

The City's net position for Governmental Activities was **$3,427,757** this year compared to **$3,415,003** last year. Unrestricted net position was **$782,553** this year, compared to **$1,011,334** 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 **$2,081,749** this year compared to **$2,150,802** last year. Unrestricted Net Position was **$(41,536)** compared to **$(35,800)** last year.

Total revenues for the current year were **$765,294** compared to **$1,104,109** last year. The total yearly cost of all programs and services were **$821,593** compared to **$875,211** 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	
	2013	2012	2013	2012
General Government	$ 183,186	$ 194,580	$ 102,507	$ 101,654
Judicial	31,263	27,173	31,263	27,173
Public Safety	258,937	275,905	132,915	161,514
Public Works	102,801	121,094	83,457	(19,634)
Culture and Recreation	60,855	73,876	51,794	62,172
Housing & Development	4,588	4,160	(741)	2,600
TOTALS	$ 641,630	$ 696,788	$ 401,195	$ 335,479

GOVERNMENTAL FUNDS

This year the governmental fund revenues were **$627,839** compared to **$936,035** last year, a decrease of $308,196. This year's governmental fund expenditures were **$888,270** compared to **$783,284** last year, due primarily to an increase in capital project expenditures for municipal building occurring in FY2013. Fund balance was **$688,488** as compared to **$948,919** last year.

BUSINESS-TYPE ACTIVITIES

This year's Business-type activities operating revenues (see Table 2) were **$110,910** compared to **$88,277** last year. This year's operating expenditures were **$179,963** compared to **$178,423** last year. The increase in revenues was largely due to service charges for water and sewer. 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

2013 BUDGET

	ORIGINAL	AMENDED	O/A VARIANCE*	ACTUAL EXPENSES
GENERAL	$ 749,949	$ 810,429	$ 60,480	$ 810,429
WATER AND SEWER	109,305	109,305	-	168,326
SOLID WASTE	12,089	12,089	-	11,637
TOTAL	$ 871,343	$ 931,823	$ 60,480	$ 990,392

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

As a whole, the revenues and expenditures did not exceed the amended budget amounts for 2013. The General Fund revenues were **$254,706** under actual expenses, mainly due to the new city hall construction project. The Water and Sewer Fund revenues were **$61,722** under actual expenses, which was largely due to depreciation expense of **$62,646.** The Solid Waste Fund revenues were **$7,331** under expenses primarily because of personnel expenditures.

2013 ANALYSIS OF PROJECTS IN PROGRESS - the new city hall construction project which began in FY2011 continued during FY2013.

CITY FUNDS

At year end, the City reported cash balances of **$1,032,703** compared to **$1,244,476** last year. Included in cash balances are certificates of deposit in the amount of **$329,520.**

CAPITAL ASSETS

At the close of the year, the City had invested **$6,462,225** in Capital Assets such as land, buildings and improvements, equipment and infrastructure. These figures are before depreciation. Last year Capital Assets before depreciation were **$6,140,325.** After depreciation of **$1,838,402** the end of year total was **$4,623,823.** (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.

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, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash	$ 683,160	$ 20,023	$ 703,183
Certificates of deposit	109,840	219,680	329,520
Accounts receivable, net	152,852	9,950	162,802
Due from other governments	19,582	-	19,582
Internal balances	2,414	(2,414)	-
Inventories	-	17,967	17,967
Prepaid items	5,607	4,848	10,455
Capital assets, not being depreciated	1,096,159	303,726	1,399,885
Capital assets, net of accumulated depreciation	1,405,576	1,818,362	3,223,938
Intangible assets, net of amortization	-	1,197	1,197
Total assets	3,475,190	2,393,339	5,868,529
Liabilities And Net Position			
Liabilities:			
Accounts payable	19,022	83	19,105
Accrued liabilities	14,335	2,682	17,017
Unearned revenue	13,456	307,500	320,956
Customer deposits	-	1,325	1,325
Short-term liabilities	620	-	620
Total liabilities	47,433	311,590	359,023
Net Position:			
Net investment in capital assets	2,501,735	2,123,285	4,625,020
Restricted for:			
Capital projects	141,471	-	141,471
Public safety	1,998	-	1,998
Unrestricted	782,553	(41,536)	741,017
Total net position	$ 3,427,757	$ 2,081,749	$ 5,509,506

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, 2013

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	$ 183,186	$ 11,647	$ 5,897	$ 63,135	$ (102,507)	$ -	$ (102,507)
Judicial	31,263	-	-	-	(31,263)	-	(31,263)
Public safety	258,937	125,972	50	-	(132,915)	-	(132,915)
Public works	102,801	535	-	18,809	(83,457)	-	(83,457)
Culture and recreation	60,855	9,061	-	-	(51,794)	-	(51,794)
Housing and development	4,588	5,329	-	-	741	-	741
Total governmental activities	641,630	152,544	5,947	81,944	(401,195)	-	(401,195)
Business-type activities							
Water and sewerage	168,326	106,604	-	-	-	(61,722)	(61,722)
Solid waste	11,637	4,306	-	-	-	(7,331)	(7,331)
Total business-type activities	179,963	110,910	-	-	-	(69,053)	(69,053)
Total	$ 821,593	$ 263,454	$ 5,947	$ 81,944	(401,195)	(69,053)	(470,248)
General revenues							
Property taxes					131,802	-	131,802
General and selective sales taxes					125,493	-	125,493
Franchise taxes					118,470	-	118,470
Business taxes					37,140	-	37,140
Unrestricted investment earnings					1,044	-	1,044
Total general revenues					413,949	-	413,949
Change in net position					12,754	(69,053)	(56,299)
Net position, beginning of year					3,415,003	2,150,802	5,565,805
Net position, end of year					$ 3,427,757	$ 2,081,749	$ 5,509,506

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

CITY OF FAIRMOUNT, GEORGIA

GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2013

Assets	General Fund	SPLOST Fund	Nonmajor Fund - Confiscated Assets Fund	Total Governmental Funds
Cash	$ 547,454	$ 133,708	$ 1,998	$ 683,160
Certificate of deposit	109,840	-	-	109,840
Property taxes receivable, net	17,264	-	-	17,264
Other taxes receivable, net	102,368	-	-	102,368
Accounts receivable, net	33,220	-	-	33,220
Due from other governments	11,819	7,763	-	19,582
Due from other funds	2,414	-	-	2,414
Prepaid items	5,607	-	-	5,607
Total assets	$ 829,986	$ 141,471	$ 1,998	$ 973,455
Liabilities				
Liabilities:				
Accounts payable	$ 19,022	$ -	$ -	$ 19,022
Accrued liabilities	14,335	-	-	14,335
Unearned revenue	13,456	-	-	13,456
Total liabilities	46,813	-	-	46,813
Deferred Inflows of Resources				
Deferred property taxes	115,567	-	-	115,567
Unavailable municipal court fines	27,882	-	-	27,882
Unavailable franchise taxes	94,705	-	-	94,705
Total deferred inflows of resources	238,154	-	-	238,154
Fund Balances				
Nonspendable	5,607	-	-	5,607
Restricted	-	141,471	1,998	143,469
Assigned	254,706	-	-	254,706
Unassigned	284,706	-	-	284,706
Total fund balances	545,019	141,471	1,998	688,488
Total liabilities, deferred inflows of resources and fund balances	$ 829,986	$ 141,471	$ 1,998	$ 973,455

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, 2013

Total fund balances - governmental funds (page 10)	$	688,488
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 $3,352,297, and the accumulated depreciation is $850,562.		2,501,735
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.		238,154
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		(620)
Net position of governmental activities in the statement of net position (page 8)	$	3,427,757

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, 2013

	General Fund	SPLOST Fund	Nonmajor Fund - Confiscated Assets Fund	Total Governmental Funds
Revenues				
Property taxes	$ 113,356	$ -	$ -	$ 113,356
Sales taxes	125,493	-	-	125,493
Franchise taxes	112,797	-	-	112,797
Business taxes	37,140	-	-	37,140
Licenses and permits	16,827	-	-	16,827
Intergovernmental	15,725	72,000	-	87,725
Charges for services	3,610	-	-	3,610
Fines and forfeitures	123,456	-	-	123,456
Investment earnings	1,044	116	-	1,160
Contributions	150	-	-	150
Miscellaneous revenues	6,125	-	-	6,125
Total revenues	555,723	72,116	-	627,839
Expenditures				
Current:				
General government	167,414	-	-	167,414
Judicial	31,237	-	-	31,237
Public safety	246,667	-	-	246,667
Public works	74,115	-	-	74,115
Culture and recreation	37,828	-	-	37,828
Housing and development	4,588	-	-	4,588
Capital outlay:				
General government	248,580	33,211	-	281,791
Public works	-	44,630	-	44,630
Total expenditures	810,429	77,841	-	888,270
Excess of expenditures over revenues	(254,706)	(5,725)	-	(260,431)
Other financing sources (uses)				
Transfers in	108	-	-	108
Transfers out	(108)	-	-	(108)
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(254,706)	(5,725)	-	(260,431)
Fund balances, beginning of year	799,725	147,196	1,998	948,919
Fund balances, end of year	$ 545,019	$ 141,471	$ 1,998	$ 688,488

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, 2013

Net change in fund balances - total governmental funds (page 12)			$ (260,431)
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	$ 321,900		
Depreciation expense	(74,640)		247,260
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.			23,150
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			2,775
Change in net position of governmental activities (page 9)			$ 12,754

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 FISCAL YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Revenues				
Property taxes	$ 91,830	$ 111,217	$ 113,356	$ 2,139
General sales taxes	120,000	107,038	103,493	(3,545)
Selective sales taxes	22,000	18,455	22,000	3,545
Franchise taxes	118,300	112,797	112,797	-
Business taxes	44,000	37,140	37,140	-
Licenses and permits	9,050	16,827	16,827	-
Intergovernmental	9,801	17,864	15,725	(2,139)
Charges for services	5,585	2,750	3,610	860
Fines and forfeitures	95,000	123,456	123,456	-
Investment earnings	550	1,044	1,044	-
Contributions	100	150	150	-
Miscellaneous revenues	4,900	6,985	6,125	(860)
Total revenues	521,116	555,723	555,723	-
Expenditures				
Current:				
General government:				
Legislative	4,015	3,084	3,084	-
Executive - mayor	10,743	10,328	10,328	-
Executive - administration	20,280	19,578	19,578	-
Elections	2,000	1,887	1,887	-
Financial administration	128,097	99,864	99,864	-
General government buildings	112,500	11,536	11,536	-
Customer support	43,012	21,137	21,137	-
Judicial:				
Municipal court	30,845	31,237	31,237	-
Public safety:				
Police administration	64,330	61,783	61,783	-
Custody of prisoners	4,000	4,580	4,580	-
Traffic patrol	183,670	172,059	172,059	-
Police property	5,000	8,245	8,245	-
Animal control	25	-	-	-
Fire protection	-	-	-	-
Public works:				
Streets	54,942	48,000	48,000	-
Street lighting	26,550	23,415	23,415	-
Cemetery	3,000	2,700	2,700	-
Culture and recreation:				
Community center	9,690	7,844	7,844	-
Park and recreation	9,300	4,054	4,054	-
Pavilion	600	447	447	-
Scout hut	975	687	687	-
Tate/Central Park	5,200	4,922	4,922	-
Library	26,580	19,874	19,874	-

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 FISCAL YEAR ENDED DECEMBER 31, 2013

concluded

	Budgeted Amounts			Variance with Final
	Original	Final	Actual	Budget
Housing and development:				
Building inspection	$ 4,595	$ 4,588	$ 4,588	$ -
Capital outlay:				
General government:				
Financial administration	-	8,826	8,826	-
General government buildings	-	239,754	239,754	-
Public safety:				
Police administration	-	-	-	-
Public works:				
Streets	-	-	-	-
Culture and recreation:				
Park and recreation	-	-	-	-
Total expenditures	749,949	810,429	810,429	-
Excess (deficiency) of revenues Over expenditures	(228,833)	(254,706)	(254,706)	-
Other financing sources (uses)				
Proceeds from sale of donated equipment	60,000	-	-	-
Total other financing sources (uses)	60,000	-	-	-
Net change in fund balances	(168,833)	(254,706)	(254,706)	-
Fund balance, beginning of year	491,483	591,483	799,725	-
Fund balance, end of year	$ 322,650	$ 336,777	$ 545,019	$ -

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, 2013

	Enterprise Funds		
	Water and Sewer Fund	Nonmajor Fund - Solid Waste Fund	Total
Assets			
Current assets:			
Cash	$ 20,023	$ -	$ 20,023
Certificates of deposit	219,680	-	219,680
Accounts receivable, net	9,950	-	9,950
Inventories	17,967	-	17,967
Prepaid items	4,848	-	4,848
Total current assets	272,468	-	272,468
Noncurrent assets:			
Capital assets:			
Land and construction in progress	303,726	-	303,726
Other capital assets, net of depreciation	1,807,212	11,150	1,818,362
Intangible assets, net of amortization	1,197	-	1,197
Total noncurrent assets	2,112,135	11,150	2,123,285
Total assets	2,384,603	11,150	2,395,753
Liabilities And Net Position			
Current liabilities:			
Accounts payable	83	-	83
Accrued liabilities	2,054	628	2,682
Due to other funds	2,414	-	2,414
Total current liabilities	4,551	628	5,179
Noncurrent liabilities:			
Unearned revenue	307,500	-	307,500
Customer deposits	1,325	-	1,325
Total noncurrent liabilities	308,825	-	308,825
Total liabilities	313,376	628	314,004
Net Position:			
Net investment in capital assets	2,112,135	11,150	2,123,285
Unrestricted	(40,908)	(628)	(41,536)
Total net position	$ 2,071,227	$ 10,522	$ 2,081,749

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, 2013

	Enterprise Funds		
	Water and Sewer Fund	Nonmajor Fund - Solid Waste Fund	Total
Operating revenues:			
Water charges	$ 35,951	$ -	$ 35,951
Sewer charges	68,757	-	68,757
Solid waste charges	-	4,306	4,306
Water tap fees	851	-	851
Sewer tap fees	1,045	-	1,045
Total operating revenues	106,604	4,306	110,910
Operating expenses:			
Personal services	48,051	8,132	56,183
Contractual and professional services	1,395	2,793	4,188
Repairs and maintenance	10,657	-	10,657
Materials and supplies	645	40	685
Insurance	14,660	-	14,660
Utilities	24,391	-	24,391
Other expenses	5,881	-	5,881
Depreciation and amortization	62,646	672	63,318
Total operating expenses	168,326	11,637	179,963
Operating income (loss)	(61,722)	(7,331)	(69,053)
Income (Loss) before transfers	(61,722)	(7,331)	(69,053)
Transfers in	4,306	10,337	14,643
Transfers out	(10,337)	(4,306)	(14,643)
Change in net position	(67,753)	(1,300)	(69,053)
Net position, beginning of year	2,138,980	11,822	2,150,802
Net position, end of year	$ 2,071,227	$ 10,522	$ 2,081,749

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, 2013

	Enterprise Funds		
	Water and Sewer Fund	Nonmajor Fund - Solid Waste Fund	Total
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Receipts from customers	$ 105,715	$ 4,306	$ 110,021
Payments to suppliers and service providers	(57,252)	(2,833)	(60,085)
Payments to employees	(48,020)	(7,504)	(55,524)
Net cash provided by (used in) operating activities	443	(6,031)	(5,588)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES			
Interest receipts	1,385	-	1,385
Net cash provided by investing activities	1,385	-	1,385
CASH FLOWS (USED IN) NON-CAPITAL AND RELATED FINANCING ACTIVITIES			
Repayment of interfund loans	(2,414)	-	(2,414)
Transfers from other funds	4,306	10,337	14,643
Transfers to other funds	(10,337)	(4,306)	(14,643)
Net cash (used in) provided by financing activities	(8,445)	6,031	(2,414)
Net decrease in cash	(6,617)	-	(6,617)
Cash, beginning of year	26,640	-	26,640
Cash, end of year	$ 20,023	$ -	$ 20,023
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating (loss)	$ (61,722)	$ (7,331)	$ (69,053)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	59,774	672	60,446
Amortization	2,872	-	2,872
(Increase) decrease in accounts receivable	(664)	-	(664)
(Increase) decrease in prepaid items	117	-	117
(Increase) decrease in inventories	185	-	185
Increase (decrease) in accounts payable	75	-	75
Increase (decrease) in accrued liabilities	31	628	659
(Decrease) in customer deposits	(225)	-	(225)
Net cash provided by (used in) operating activities	$ 443	$ (6,031)	$ (5,588)

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

CITY OF FAIRMOUNT, GEORGIA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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, 2013, 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.

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, 2013. 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, 2013, 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. Deferred Outflows / Inflows of Resources

In preparing the accompanying financial statements, the City has implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and No. 65, Items Previously Reported as Assets and Liabilities. These new standards establish accounting and financial reporting for deferred outflows / inflows of resources and the concept of net position as the residual of all other elements presented in a statement of financial position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Items which qualify to be reported within this element include property taxes levied in 2013 for the 2014 budget and certain unavailable revenues under the current financial resources measurement focus. Accordingly, such items appear in the governmental funds balance sheet as deferred inflows of resources and will be recognized as an inflow of resources in 2014 or the period in which the amounts become available.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, consisting of removing or changing the specific use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed.
- *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 cannot 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. Net investment in capital assets, 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. It is the City's policy to use restricted net position first, when both restricted and unrestricted net position is available.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

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 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. CASH 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 bankers 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 cash deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover cash deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all cash 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, 2013, for the City's individual funds in the aggregate are as follows:

	General Fund	Water and Sewer Fund	SPLOST Fund	Total
Receivables:				
Property Taxes	$ 17,264	$ -	$ -	$ 17,264
Franchise	100,864	-	-	100,864
Miscellaneous taxes	2,982	-	-	2,982
Local option sales tax	10,342	-	7,763	18,105
Fines	80,942	-	-	80,942
Water	-	2,990	-	2,990
Sewer	-	6,960	-	6,960
Solid waste	-	-	-	-
Gross receivables	212,394	9,950	7,763	230,107
Less allowance for uncollectible	(47,723)	-		(47,723)
Net receivables	$ 164,671	$ 9,950	$ 7,763	$ 182,384

The City bills and collects its own property taxes. The 2013 digest was levied in October 2013, with bills payable on or before December 20, 2013. 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 2013 digest were intended for use in the 2014 budget year. Therefore, the entire 2013 digest levy of $115,567 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 $1,477 at December 31, 2013.

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NOTE 5. CAPITAL AND INTANGIBLE ASSETS

A. Capital and intangible asset activity for the year ended December 31, 2013 was as follows:

	Beginning of Year	Increases	Reclassifications & Deletions	End of Year
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 502,702	$ 113,266	$ -	$ 615,968
Construction in progress	280,382	199,809	-	480,191
Total capital assets not being depreciated	783,084	313,075	-	1,096,159
Capital assets, being depreciated:				
Infrastructure	787,254	-	-	787,254
Buildings and improvements	948,882	-	-	948,882
Machinery and equipment	286,580	8,825	-	295,405
Vehicles	224,597	-	-	224,597
Total capital assets being depreciated	2,247,313	8,825	-	2,256,138
Less accumulated depreciation for:				
Infrastructure	166,264	24,229	-	190,493
Buildings and improvements	194,981	21,699	-	216,680
Machinery and equipment	224,694	14,641	-	239,335
Vehicles	189,983	14,071	-	204,054
Total accumulated depreciation	775,922	74,640	-	850,562
Total capital assets being depreciated, net	1,471,391	(65,815)	-	1,405,576
Governmental activities capital assets, net	$ 2,254,475	$ 247,260	$ -	$ 2,501,735

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

General government	$ 15,294
Public safety	12,270
Public works	24,049
Culture and recreation	23,027
Total depreciation expense - governmental activities	$ 74,640

NOTE 5. CAPITAL AND INTANGIBLE ASSETS (concluded)

	Beginning of Year	Increases	Reclassifications & Deletions	End of Year
Business-type Activities:				
Capital assets not being depreciated:				
Land	$ 303,726	$ -	$ -	$ 303,726
Construction in progress	-	-	-	-
Total capital assets not being depreciated	303,726	-	-	303,726
Capital assets, being depreciated:				
Land improvements	18,013	-	-	18,013
Infrastructure	2,637,971	-	-	2,637,971
Equipment and vehicles	150,218	-	-	150,218
Total capital assets being depreciated	2,806,202	-	-	2,806,202
Less accumulated depreciation for:				
Land improvements	6,190	672	-	6,862
Infrastructure	814,857	52,336	-	867,193
Equipment and vehicles	106,347	7,438	-	113,785
Total accumulated depreciation	927,394	60,446	-	987,840
Total capital assets being depreciated, net	1,878,808	(60,446)	-	1,818,362
Business-type activities capital assets, net	$ 2,182,534	$ (60,446)	$ -	$ 2,122,088
Intangible assets being amortized:				
Intangible water studies	$ 14,359	$ -	$ -	$ 14,359
Less accumulated amortization for:				
Land improvements	10,291	2,872	-	13,162
Total intangible assets being amortized, net	$ 4,068	$ (2,872)	$ -	$ 1,197

Depreciation and amortization expense was charged to functions/programs of the business-type activities of the primary government as follows:

Water and Sewerage	$ 59,774
Solid waste management	672
Total depreciation expense - business-type activities	$ 60,446
Water and Sewerage	
Total amortization expense - business-type activities	$ 2,872

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2013, is as follows:

Due to/from other funds:

Receivable fund	Payable fund	Amount
General Fund	Water and Sewer Fund	$ 2,414

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	$ 4,306
Nonmajor enterprise fund	Water and Sewer Fund	10,337
		$ 14,643

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 SHORT-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Compensated absences	$ 3,395	$ -	$ 2,775	$ 620	$ 620

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 $5,607, as reflected in the current assets of the fund. In addition, the SPLOST Fund reflects fund balance in the amount of $141,471 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. The General Fund reflects a portion of fund balance as "assigned" to the subsequent year's budget in the amount of $254,706.

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, 2013 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.

CITY OF FAIRMOUNT, GEORGIA

SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

Project	Estimated Cost		Expenditures			Estimated % of Completion
	Original	Current	Prior Years	Current Year	Total	
Paid from SPLOST Fund (a capital projects fund):						
SPLOST 2006						
Recreation	$ 100,000	$ 100,000	$ 85,558	$ -	$ 85,558	86%
Roads, streets, and sidewalks	400,000	400,000	395,700	44,630	440,330	110%
Water and sewer improvements	121,427	121,427	111,244	-	111,244	92%
Government buildings	200,000	200,000	215,278	33,211	248,489	124%
	$ 821,427	$ 821,427	$ 807,780	$ 77,841	$ 885,621	

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

INTERNAL CONTROL AND COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S 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 aggregate remaining fund information of City of Fairmount, Georgia, as of and for the year ended December 31, 2013, 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 26, 2014.

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 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 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

The 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 an 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 26, 2014

CITY OF FAIRMOUNT, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

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 our audit, we noted that certain critical duties in these areas have been combined and assigned to available employees.

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

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

Recommendation: To the extent possible, duties should be segregated to maintain the best control system possible. Responsibilities for preparing payroll, processing cash receipts, reconciling bank accounts and maintaining the general ledger should be segregated to the extent possible. Segregation of duties could be improved if different employees performed these separate duties. In situations where additional 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.