

CITY OF FAIRMOUNT, GEORGIA

FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2008

CITY OF FAIRMOUNT, GEORGIA  
 FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

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## FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Fairmount, Georgia as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fairmount, Georgia's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

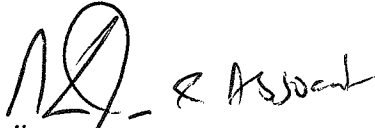
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fairmount, Georgia, as of December 31, 2008, and the respective changes in financial position, and cash flows, where applicable thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2009, on our consideration of the City of Fairmount, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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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 of the City of Fairmount, Georgia. The schedule of projects constructed with special purpose Local Option Sales Tax has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Ellijay, Georgia  
June 29, 2009

CITY OF FAIRMOUNT, GEORGIA

STATEMENT OF NET ASSETS

DECEMBER 31, 2008

Assets	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>Current:</b>			
Cash and cash equivalents	\$ 601,673	\$ 89,476	\$ 691,149
Accounts receivable, net	253,155	5,659	258,814
Due from other governments	45,798	-	45,798
Internal balances	58,408	(58,408)	-
Prepaid items	4,554	4,554	9,108
Inventory	-	21,522	21,522
<b>Noncurrent:</b>			
<b>Capital Assets:</b>			
Land	502,702	303,726	806,428
Other capital assets, net of depreciation	1,299,425	1,969,940	3,269,365
<b>Total assets</b>	<b>\$ 2,765,715</b>	<b>\$ 2,336,469</b>	<b>\$ 5,102,184</b>
<b>Liabilities And Net Assets</b>			
<b>Liabilities:</b>			
<b>Current:</b>			
Accounts payable	\$ 2,399	\$ -	\$ 2,399
Accrued liabilities	15,095	-	15,095
Deferred revenue	-	327,800	327,800
<b>Total liabilities</b>	<b>17,494</b>	<b>327,800</b>	<b>345,294</b>
<b>Net Assets:</b>			
Investment in capital assets, net of related debt	1,802,127	2,273,666	4,075,793
Restricted for capital projects	163,080	-	163,080
Unrestricted	783,014	(264,997)	518,017
<b>Total net assets</b>	<b>2,748,221</b>	<b>2,008,669</b>	<b>4,756,890</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,765,715</b>	<b>\$ 2,336,469</b>	<b>\$ 5,102,184</b>

*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, 2008

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Business-type Activities	Total
			Capital Grants and Contributions	Primary Government			
Primary government							
Governmental activities							
General government	\$ 237,493	\$ 11,226	\$ -	\$ 15,032	\$ (211,235)	\$ -	\$ (211,235)
Public safety	209,284	103,901	-	-	(105,383)	-	(105,383)
Public works	111,128	2,700	-	8,186	(100,242)	-	(100,242)
Culture and recreation	51,990	5,482	-	89,192	42,684	-	42,684
Judicial	7,306	-	-	-	(7,306)	-	(7,306)
Housing and development	3,310	1,477	-	-	(1,833)	-	(1,833)
Total governmental activities	620,511	124,786	-	112,410	(383,315)	-	(383,315)
Business-type activities							
Water and sewerage	139,591	78,443	-	-	-	(61,148)	(61,148)
Solid waste	3,628	1,260	-	-	-	(2,368)	(2,368)
Total business-type activities	143,219	79,703	-	-	-	(63,516)	(63,516)
Total primary government	\$ 763,730	\$ 204,489	\$ -	\$ 112,410	(383,315)	(63,516)	(446,831)
General revenues							
Property taxes					125,676	-	125,676
Sales taxes					320,766	-	320,766
Franchise taxes					108,158	-	108,158
Other taxes					76,949	-	76,949
Grants not specific to specific programs					9,121	-	9,121
Miscellaneous					1,934	-	1,934
Unrestricted investment earnings					387	840	1,227
Transfers					139,607	(139,607)	-
Total general revenues and transfers					782,598	(138,767)	643,831
Change in net assets					399,283	(202,283)	197,000
Net assets, beginning of year					2,348,938	2,210,952	4,559,890
Net assets, end of year					\$ 2,748,221	\$ 2,008,669	\$ 4,756,890

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

CITY OF FAIRMOUNT, GEORGIA

GOVERNMENTAL FUNDS  
BALANCE SHEET  
DECEMBER 31, 2008

Assets	General	SPLOST	Total Governmental Funds
Cash and cash equivalents	\$ 438,593	\$ 163,080	\$ 601,673
Property taxes receivable, net	120,059	-	120,059
Other taxes receivable, net	105,984	-	105,984
Accounts receivable, net	27,112	-	27,112
Due from other governments	45,798	-	45,798
Due from other funds	58,408	-	58,408
Prepaid items	4,554	-	4,554
<b>Total assets</b>	<b>\$ 800,508</b>	<b>\$ 163,080</b>	<b>\$ 963,588</b>
<b>Liabilities And Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 2,399	\$ -	\$ 2,399
Accrued liabilities	15,095	-	15,095
Deferred revenue	35,618	-	35,618
<b>Total liabilities</b>	<b>53,112</b>	<b>-</b>	<b>53,112</b>
Fund Balances:			
Unreserved	747,396	163,080	910,476
<b>Total fund balances</b>	<b>747,396</b>	<b>163,080</b>	<b>910,476</b>
<b>Total liabilities and fund balances</b>	<b>\$ 800,508</b>	<b>\$ 163,080</b>	<b>\$ 963,588</b>

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



CITY OF FAIRMOUNT, GEORGIA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

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Total fund balances, governmental funds (page 5)	\$	910,476
Amounts reported for governmental activities in the Statement of Net Assets (page 3) are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities column of the Statement of Net Assets.		1,802,127
Governmental Funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.		<u>35,618</u>
Net assets of governmental activities in the Statement of Net Assets (page 3)	\$	<u><u>2,748,221</u></u>

*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, 2008

	General	SPLOST	Total
Revenues			
Property taxes	\$ 100,604	\$ -	\$ 100,604
Sales taxes	320,766	-	320,766
Franchise taxes	108,158	-	108,158
Other taxes	76,949	-	76,949
Licenses and permits	12,703	-	12,703
Intergovernmental	9,121	112,410	121,531
Charges for services	2,727	-	2,727
Fines and forfeitures	103,874	-	103,874
Interest	-	387	387
Other revenues	7,416	-	7,416
<b>Total revenues</b>	<b>742,318</b>	<b>112,797</b>	<b>855,115</b>
Expenditures			
Current:			
General government	209,750	-	209,750
Judicial	7,306	-	7,306
Public safety	194,461	-	194,461
Public works	82,489	-	82,489
Culture and recreation	30,845	-	30,845
Housing and development	3,310	-	3,310
Capital outlay:			
General government	-	1,625	1,625
Culture and recreation	-	9,642	9,642
Public safety	27,700	-	27,700
Public works	-	885	885
<b>Total expenditures</b>	<b>555,861</b>	<b>12,152</b>	<b>568,013</b>
Excess (deficiency) of revenues Over expenditures	186,457	100,645	287,102
Other financing sources (uses)			
Transfers in	149,164	-	149,164
Transfers out	(1,696)	(7,861)	(9,557)
<b>Total other financing sources (uses)</b>	<b>147,468</b>	<b>(7,861)</b>	<b>139,607</b>
<b>Net change in fund balances</b>	<b>333,925</b>	<b>92,784</b>	<b>426,709</b>
Fund balances, beginning of year	413,471	70,296	483,767
<b>Fund balances, end of year</b>	<b>\$ 747,396</b>	<b>\$ 163,080</b>	<b>\$ 910,476</b>

*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, 2008

Net change in fund balances - total governmental funds (page 7) \$ 426,709

Amounts reported for governmental activities in the Statement of Activities (page 4) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	34,792	
Depreciation expense	(77,150)	(42,358)

Governmental Funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 25,072

The cost, net of accumulated depreciation, of assets disposed of is removed from the capital assets accounts in the statement of net assets and offset against the proceeds, if any, resulting in a gain (loss) in the statement of activities. (10,140)

Change in net assets of governmental activities (page 4) \$ 399,283

*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, 2008

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 132,500	\$ 132,500	\$ 100,604	\$ (31,896)
Sales taxes	340,000	340,000	320,766	(19,234)
Franchise taxes	96,000	96,000	108,158	12,158
Other taxes	68,000	68,000	76,949	8,949
Licenses and permits	39,100	39,100	12,703	(26,397)
Intergovernmental	8,000	8,000	9,121	1,121
Charges for services	3,150	3,150	2,727	(423)
Fines and forfeitures	120,000	120,000	103,874	(16,126)
Interest	-	-	-	-
Other revenues	15,120	15,120	7,416	(7,704)
<b>Total revenues</b>	<b>821,870</b>	<b>821,870</b>	<b>742,318</b>	<b>(79,552)</b>
<b>Expenditures</b>				
Current:				
General government	287,820	287,820	209,750	78,070
Judicial	7,200	7,200	7,306	(106)
Public safety	196,394	196,394	194,461	1,933
Public works	91,975	91,975	82,489	9,486
Culture and recreation	30,403	30,403	30,845	(442)
Housing and development	5,100	5,100	3,310	1,790
Capital outlay:				
General government	200,000	200,000	-	200,000
Public safety	26,744	26,744	27,700	(956)
<b>Total expenditures</b>	<b>845,636</b>	<b>845,636</b>	<b>555,861</b>	<b>289,775</b>
Excess (deficiency) of revenues Over expenditures	(23,766)	(23,766)	186,457	210,223
<b>Other financing sources (uses)</b>				
Transfers in	-	-	149,164	149,164
Transfers (out)	-	-	(1,696)	(1,696)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>147,468</b>	<b>147,468</b>
Net change in fund balances	(23,766)	(23,766)	333,925	357,691
Fund balance, beginning of year	413,471	413,471	413,471	-
<b>Fund balance, end of year</b>	<b>\$ 389,705</b>	<b>\$ 389,705</b>	<b>\$ 747,396</b>	<b>\$ 357,691</b>

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

CITY OF FAIRMOUNT, GEORGIA

PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2008

	Enterprise Funds		Total
	Water and Sewer Fund	(Nonmajor) Solid Waste Fund	
Assets			
Current assets:			
Cash and cash equivalents	\$ 89,476	\$ -	\$ 89,476
Accounts receivable, net	5,659	-	5,659
Prepaid items	4,554	-	4,554
Inventory	21,522	-	21,522
Total current assets	<u>121,211</u>	<u>-</u>	<u>121,211</u>
Noncurrent assets:			
Capital assets:			
Land	303,726	-	303,726
Other capital assets, net of depreciation	1,955,430	14,510	1,969,940
Total capital assets, net	<u>2,259,156</u>	<u>14,510</u>	<u>2,273,666</u>
Total assets	<u>\$ 2,380,367</u>	<u>\$ 14,510</u>	<u>\$ 2,394,877</u>
Liabilities And Net Assets			
Current liabilities:			
Due to other funds	\$ 58,408	\$ -	\$ 58,408
Deferred revenue	327,800	-	327,800
Total current liabilities	<u>386,208</u>	<u>-</u>	<u>386,208</u>
Total liabilities	<u>386,208</u>	<u>-</u>	<u>386,208</u>
Net Assets:			
Invested in capital assets, net of related debt	2,259,156	14,510	2,273,666
Unrestricted	(264,997)	-	(264,997)
Total net assets	<u>1,994,159</u>	<u>14,510</u>	<u>2,008,669</u>
Total liabilities and net assets	<u>\$ 2,380,367</u>	<u>\$ 14,510</u>	<u>\$ 2,394,877</u>

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

CITY OF FAIRMOUNT, GEORGIA  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES AND  
 CHANGES IN FUND NET ASSETS  
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

	Business-type Activities - Enterprise Funds		Total
	Water and Sewerage Fund	(Nonmajor) Solid Waste Fund	
Operating revenues:			
Water	\$ 12,049	\$ -	\$ 12,049
Sewer	65,605	-	65,605
Solid waste	-	1,260	1,260
Miscellaneous	789	-	789
Total operating revenues	<u>78,443</u>	<u>1,260</u>	<u>79,703</u>
Operating expenses:			
Personal services	18,237	-	18,237
Repairs and maintenance	20,024	-	20,024
Supplies and expenses	39,578	133	39,711
Other operating expenses	1,314	2,823	4,137
Depreciation and amortization	60,438	672	61,110
Total operating expenses	<u>139,591</u>	<u>3,628</u>	<u>143,219</u>
Operating income (loss)	<u>(61,148)</u>	<u>(2,368)</u>	<u>(63,516)</u>
Nonoperating revenues (expenses):			
Interest income	840	-	840
Total nonoperating revenues (expenses)	<u>840</u>	<u>-</u>	<u>840</u>
Income (Loss) before transfers	<u>(60,308)</u>	<u>(2,368)</u>	<u>(62,676)</u>
Transfers:			
Transfers in	387	1,696	2,083
Transfers out	(141,690)	-	(141,690)
Total transfers	<u>(141,303)</u>	<u>1,696</u>	<u>(139,607)</u>
Change in net assets	(201,611)	(672)	(202,283)
Net assets, beginning of year	<u>2,195,770</u>	<u>15,182</u>	<u>2,210,952</u>
Net assets, end of year	<u>\$ 1,994,159</u>	<u>\$ 14,510</u>	<u>\$ 2,008,669</u>

*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, 2008

	Enterprise Funds		Total
	Water and Sewerage Fund	(Nonmajor) Solid Waste Fund	
CASH FLOWS PROVIDED BY (USED IN)			
OPERATING ACTIVITIES			
Receipts from customers	\$ 79,132	\$ 1,260	\$ 80,392
Receipts from other operating	789	-	789
Payments to suppliers and service providers	(65,248)	(2,956)	(68,204)
Payments to employees	(18,237)	-	(18,237)
Net cash provided by (used in) operating activities	(3,564)	(1,696)	(5,260)
CASH FLOWS PROVIDED BY (USED IN)			
INVESTING ACTIVITIES			
Interest receipts	840	-	840
Net cash provided by (used in) investing activities	840	-	840
CASH FLOWS (USED IN) CAPITAL AND RELATED			
FINANCING ACTIVITIES			
Principal paid on debt	(72,087)	-	(72,087)
Net cash provided by (used in) financing activities	(72,087)	-	(72,087)
CASH FLOWS (USED IN) NON-CAPITAL AND RELATED			
FINANCING ACTIVITIES			
Operating subsidies and transfers to other funds	(141,303)	1,696	(139,607)
Net cash provided by (used in) financing activities	(141,303)	-	(141,303)
Net decrease in cash and cash equivalents	(216,114)	-	(216,114)
Cash, beginning of year	305,590	-	305,590
Cash, end of year	\$ 89,476	\$ -	\$ 89,476
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating (loss)	\$ (61,148)	\$ (2,368)	\$ (63,516)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	58,997	672	59,669
Amortization	1,442	-	1,442
Decrease in accounts receivable	1,503	-	1,503
(Increase) in prepaid items	(66)	-	(66)
(Increase) in inventory	(4,267)	-	(4,267)
Decrease in customer deposits	(25)	-	(25)
Net cash provided by (used in) operating activities	\$ (3,564)	\$ (1,696)	\$ (5,260)

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

# CITY OF FAIRMOUNT, GEORGIA

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of City of Fairmount, Georgia (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The City's proprietary funds apply all Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November, 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The more significant of the City's accounting policies are described below.

#### A. Reporting Entity

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The City's financial statements include the accounts of all operations. The criteria for including organizations within the City's reporting entity, as set forth in Governmental Accounting Standards Board's Statement No. 14 (GASB 14), "The Financial Reporting Entity", is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. As of December 31, 2008, there are no component units included in the financial statements of the City.

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

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.



## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

#### C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, sales taxes, franchise taxes, licenses, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

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

The City reports the following major proprietary fund:

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### C. Measurement Focus, Basis of Accounting, and Basis of Presentation (Concluded)

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

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

#### D. Budgets

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

#### E. Cash and Cash Equivalents

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

#### F. Inter-fund 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."

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### G. Inventory

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

#### H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

#### I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB 34, infrastructure assets acquired prior to July 1, 2004, have been capitalized as of December 31, 2008. 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:

<u>Asset Category</u>	<u>Years</u>
Buildings	50
Building improvements	20
Leasehold improvements	50
Vehicles	2 - 15
Machinery and equipment	3 - 15

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

#### 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. Prior to year-end, the City pays this liability to the employees and therefore no liability exists at December 31, 2008.

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

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

#### L. Fund Equity

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

#### 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.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 2. LEGAL COMPLIANCE - BUDGETS

#### A. Budgets and Budgetary Accounting

The applicable statutes of the State of Georgia require the City to operate under an annual balanced budget adopted by resolution. A budget is defined as being balanced when the sum of estimated net revenues and appropriated fund balance is equal to appropriations. Each fund's appropriated budget is prepared on a detailed line-item basis. Revenues are budgeted by source. Expenditures are budgeted by line item. This constitutes the legal level of control. Budget revisions at this level are subject to final review by the City Council. During the current fiscal year, there were no revisions made to the original budget.

Annual budgets are adopted for all governmental funds and proprietary funds. The budget is adopted on a basis consistent with generally accepted accounting principles, and on the same basis of accounting used by each fund to which the budget applies. An operating budget is adopted for the proprietary Water and Sewerage Fund for administrative control purposes.

#### B. Excess Expenditures over Appropriations

For the year ended December 31, 2008 expenditures exceeded budget in the General Fund, as follows:

Judicial	\$	106
Culture and recreation		442
Public safety		956

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

Judicial - increase in expected costs of solution fees for traffic court.

Culture and recreation - increased costs for utilities and supplies for the library and community center.

Public safety - the acquisition cost of a police vehicle exceeding the budgeted cost.

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

### 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. DEPOSITS AND INVESTMENTS (CONCLUDED)

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, 2008, for the City's individual funds in the aggregate are as follows:

	<u>General Fund</u>	<u>Water and Sewerage Fund</u>	<u>Total</u>
Receivables:			
Property Taxes	\$ 120,059	\$ -	\$ 120,059
Franchise	104,448	-	104,448
Beer and wine tax	1,536	-	1,536
Local option sales tax	45,798	-	45,798
Sewer	-	5,659	5,659
Fines	54,224	-	54,224
Gross receivables	<u>326,065</u>	<u>5,659</u>	<u>331,724</u>
Less allowance for uncollectibles	(27,112)	-	(27,112)
Net receivables	<u>\$ 298,953</u>	<u>\$ 5,659</u>	<u>\$ 304,612</u>

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 4. RECEIVABLES (CONCLUDED)

Property taxes were levied on December 19, 2008. Bills are payable on or before February 19, 2009, after which the applicable property is subject to lien and penalties and interest as assessed. The City bills and collects its own property taxes. Property taxes levied for 2008 are recorded as receivables. The property taxes collected during the year ended December 31, 2008 and those collected by February 28, 2009 are recognized as revenues in the year ended December 31, 2008. Net receivables estimated to be collected subsequent to February 28, 2009 are recorded as revenue when received. Prior year levies were recorded using substantially the same principles, and remaining receivables are reevaluated annually. Unpaid property taxes were attached as an enforceable lien on property on April 17, 2009.



## NOTES TO FINANCIAL STATEMENTS

### NOTE 5. CAPITAL ASSETS

A. Capital asset activity for the year ended December 31, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 502,702	\$ -	\$ -	\$ 502,702
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>502,702</u>	<u>-</u>	<u>-</u>	<u>502,702</u>
Capital assets, being depreciated:				
Infrastructure	614,181	-	-	614,181
Buildings and improvements	750,237	7,092	-	757,329
Leasehold improvements	12,776	-	12,776	-
Machinery and equipment	218,085	-	-	218,085
Vehicles	145,636	27,700	-	173,336
Total capital assets, being depreciated	<u>1,740,915</u>	<u>34,792</u>	<u>12,776</u>	<u>1,762,931</u>
Less accumulated depreciation for:				
Infrastructure	49,343	21,733	-	71,076
Buildings and improvements	77,189	21,264	-	98,453
Leasehold improvements	2,508	128	2,636	-
Machinery and equipment	140,827	14,081	-	154,908
Vehicles	119,125	19,944	-	139,069
Total accumulated depreciation	<u>388,992</u>	<u>77,150</u>	<u>2,636</u>	<u>463,506</u>
Total capital assets, being depreciated, net	<u>1,351,923</u>	<u>(42,358)</u>	<u>10,140</u>	<u>1,299,425</u>
Governmental activities capital assets, net	<u>\$ 1,854,625</u>	<u>\$ (42,358)</u>	<u>\$ 10,140</u>	<u>\$ 1,802,127</u>

Assets disposed of during the year consisted of the abandonment of leasehold improvements with an original cost, net of depreciation, of \$10,140.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 303,726	\$ -	\$ -	\$ 303,726
Total capital assets not being depreciated	<u>303,726</u>	<u>-</u>	<u>-</u>	<u>303,726</u>
Capital assets, being depreciated:				
Land improvements	18,013	-	-	18,013
Infrastructure	2,509,541	-	-	2,509,541
Equipment and vehicles	131,802	-	-	131,802
Total capital assets, being depreciated	<u>2,659,356</u>	<u>-</u>	<u>-</u>	<u>2,659,356</u>
Less accumulated depreciation for:				
Land improvements	2,831	672	-	3,503
Infrastructure	559,862	50,354	-	610,216
Equipment and vehicles	67,054	8,643	-	75,697
Total accumulated depreciation	<u>629,747</u>	<u>59,669</u>	<u>-</u>	<u>689,416</u>
Total capital assets being depreciated, net	<u>2,029,609</u>	<u>(59,669)</u>	<u>-</u>	<u>1,969,940</u>
Business-type activities capital assets, net	<u>\$ 2,333,335</u>	<u>\$ (59,669)</u>	<u>\$ -</u>	<u>\$ 2,273,666</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS (CONCLUDED)

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

Governmental activities:	
General government	\$ 17,009
Public safety	14,823
Public works	27,754
Culture and recreation	17,564
Total depreciation expense - governmental activities	\$ 77,150
Business-type activities:	
Water and Sewerage	\$ 58,997
Solid waste management	672
	\$ 59,669

NOTE 6. LONG-TERM DEBT

BUSINESS-TYPE ACTIVITIES - NOTES PAYABLE

During March 2008, the Water and Sewerage Fund paid off early the debt owed to Georgia Environmental Facilities Authority for advances to provide for the construction of a water distribution system. No interest was incurred on the loan, having a 0% interest rate.

The following is a summary of long-term debt activity for the year ended December 31, 2008:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<del>Business-type Activities</del>					
Note Payable - GEFA Water	\$ 72,087	\$ -	\$ (72,087)	\$ -	\$ -

NOTES TO FINANCIAL STATEMENTS

NOTE 7. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2008, is as follows:

Due to/from other funds:

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

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

Interfund transfers:

Transfers In	Transfers Out	Amount
Water Fund	SPLOST Fund	\$ 387
Nonmajor Solid Waste Fund	General Fund	1,696
General Fund	Water Fund	141,690
General Fund	SPLOST Fund	7,474
		\$ 151,247

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.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 8. JOINT VENTURE

The City of Fairmount, Georgia in conjunction with cities and counties in the ten (10) county Northwest Georgia areas are members of the Coosa Valley Regional Development Center (RDC). Membership in a regional development center is automatic for each municipality and county in the state. The official Code of Georgia Section 50-8-34 (Georgia Planning Act of 1989) provides for the organizational structure of the RDC's. Each county and municipality in the state is required by law to pay minimum annual dues to the RDC. The City paid no annual dues to the RDC for the year ended December 31, 2008 because currently all dues are paid on the City's behalf by Gordon County. An RDC Board membership includes the chief elected official of each county and the chief elected official of each municipality. The County board members and municipal board members from the same County elect one member of the Board who is a resident (but not an elected or appointed official or employee of the County or municipality) to serve as the non-public Board member from a County.

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

### NOTE 9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which, except as described in the following paragraph, the City carries commercial insurance in amounts deemed prudent by City management.

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

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

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9. RISK MANAGEMENT (CONCLUDED)

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

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

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

### NOTE 10. COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

#### Grant Contingencies

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

#### Commitments

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

COMPLIANCE SECTION

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Georgia Society of  
Certified Public Accountants

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Fairmount, Georgia as of and for the year ended December 31, 2008, which collectively comprise the City of Fairmount, Georgia's basic financial statements and have issued our report thereon dated June 29, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Fairmount, Georgia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fairmount, Georgia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fairmount, Georgia's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Fairmount, Georgia's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Fairmount, Georgia's financial statements that is more than inconsequential will not be prevented or detected by the City of Fairmount, Georgia's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be a significant deficiencies in internal control over financial reporting (Findings 06-01, 06-02, 06-03, 07-01, and 07-02).



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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Fairmount, Georgia's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding O6-01 to be a material weakness.


#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Fairmount, Georgia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

We noted certain matters that we reported to management of City of Fairmount, Georgia, in a separate letter dated June 29, 2009.

City of Fairmount, Georgia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City of Fairmount, Georgia's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Ellijay, Georgia  
June 29, 2009

CITY OF FAIRMOUNT, GEORGIA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

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We consider the following deficiencies to be significant deficiencies in internal control:

*Repeat findings from the prior year:*

O6-01 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.

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*Repeat findings from the prior year (Continued):*

06-02 Maintenance of General Ledger

*Criteria:* The City is responsible for preparing annual financial statements in accordance with generally accepted accounting principles (GAAP). Recording transactions on an accrual basis (or where applicable, the modified accrual basis) is in accordance with GAAP and provides more meaningful financial information.

*Condition/Context:* Although the year-end financial statements are prepared on the appropriate accrual basis (modified accrual basis, where applicable), the City maintains its general ledger on a cash basis throughout the year. The City has relied on the external auditors in the past to provide the information for certain accrual entries, including taxes receivable, intergovernmental receivables, accounts receivable (billed and unbilled), accounts payable, accrued expenses, and deferred revenues.

*Effect:* Failure to record accruals of revenue and expenditures (expenses) distorts the financial information that is provided to management and the City Council, and may lead to critical financial decisions being made on erroneous data.

*Cause:* There is no routine preparation or reconciliation of detailed account balances for the accrual adjusting entries in order to post to the appropriate general ledger accounts.

*Recommendation:* We realize the cash basis method of accounting is easy to administer and understand. We also understand that the procedure to maintain the City's general ledger on the accrual/modified accrual basis throughout the year can be a time consuming task. Thus, we suggest that you implement a procedure in which books are kept on a cash basis, and accrual adjustments are made only at year-end. Interim financial information could then be maintained on the cash basis to simplify the monthly reporting procedures. This practice would enable the City to enjoy the best features of both methods: properly adjusted accrual financial reporting for year-end accounting, and more easily produced interim financial statements for monthly reporting to the City Council.

*Response:* The City agrees with this finding and will implement the recording of accrual adjustments into the City's accounts at year-end.

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*Repeat findings from the prior year (Continued):*

O6-03 Necessary Accounting Expertise

*Criteria:* Current accounting pronouncements require that local governments be capable of preparing or reviewing financial statements and having the skills and competencies necessary to prevent, detect, and correct misstatements.

*Condition/Context:* The City is not in compliance with this pronouncement.

*Effect:* The effect of this condition is that there is a control deficiency in the preparation and review of the financial statements that would prevent, detect, and correct misstatements in the financial statements. Although the auditor prepares the financial statements, that does not eliminate the control deficiency.

*Cause:* As in other cities of similar size, this level of knowledge is not typically needed on a day to day basis. In the past, the City has relied upon the auditors to prepare the financial statements. Therefore, the City has not employed persons with the skills and expertise of preparing the financial statements and taking responsibility for their accuracy.

*Recommendation:* We recommend that the City consider having an outside consultant review the financial statements prior to issuance to comply with this accounting pronouncement.

*Response:* The City agrees with this finding and plans to explore their options.

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*Repeat findings from prior year (Continued):*

07-01 Lack of a Perpetual Inventory System

*Criteria:* Perpetual inventory systems allows management to compare expected inventory results to actual physical inventory and allows management to evaluate how well the physical inventory has been controlled.

*Condition/Context:* During the course of the audit, we noted the City does not have a manual or automated approach to maintaining and recording the inventory of water system supplies and materials. Presently, there is no subsidiary ledger or module maintained in order to reconcile to the physical inventory count.

*Effect:* The absence of periodic inventory counts and comparison to perpetual inventory records is a serious weakness in the system of controls and has the potential for allowing abuse including fraud and other defalcation to exist and not be detected.

*Cause:* The City does not have an implemented inventory system that tracks all pertinent information of providing up-to-date listing of on-hand inventory that can be reconciled to physical inventory counts.

*Recommendation:* A perpetual inventory system should be implemented in order to provide a method of tracking inventory and knowing the value and quantity of the water distribution system's inventory on hand at any time. The current balance of inventory is sustained daily by the addition of inventory to the account when goods are received and a deduction from the account when the inventory is requisitioned for use. Perpetual inventory systems allows management to compare expected inventory results to actual physical inventory and allows management to evaluate how well the physical inventory has been controlled. The implementation of this system will strengthen controls over inventory in order to reduce the risk of errors, misstatements, or fraud.

*Response:* The City agrees with this finding and is obtaining information to make a decision on the use of a perpetual inventory system.

07-02 Capital Assets

*Criteria:* The City has approximately \$4 million in capital assets at year-end, net of accumulated depreciation on those assets. Generally accepted accounting principles require that these assets be accounted for and, if applicable, depreciated on a systematic basis.

*Condition/Context:* The City has traditionally relied on the external auditors to maintain the detailed schedule of capital assets held by the City and, therefore, did not maintain its own detailed ledger of capital assets

*Effect:* Depreciation in not being recorded to the general ledger. Capital asset data that is reconciled to the general ledger is important for timely preparation of financial statements, and provides the information for accurate depreciation calculations.

*Cause:* The City has relied on the external auditors to maintain the capital asset date.

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*Repeat findings from prior year 07-02 (Continued):*

*Recommendation:* We recommend that the City maintain a current, detailed record of the capital assets for both governmental and business-type activities. Once completed, it is important to ensure that individuals are given responsibility to maintain the listing on an on-going basis. Depreciation expense should be allocated to the appropriate departments to result in a more accurate reporting of income and expense and the ability to see the true costs of each departmental operation.

*Response:* The City agrees with this finding and will implement the recording of depreciation into the City's accounts.

CITY OF FAIRMOUNT, GEORGIA

SCHEDULE OF PROJECTS CONSTRUCTED WITH  
SPECIAL PURPOSE LOCAL OPTION SALES TAX  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

Project	Estimated Cost		Expenditures		Estimated % of Completion
	Original	Current	Prior Years	Current Year	
Paid from Capital Projects Fund:					
SPLOST 2001					
Recreation Projects					
City Park	\$ 100,000	\$ 100,000	\$ 265,134	\$ -	\$ 265,134
Community Recreation center Road, Street, and Sidewalk Projects	250,000	293,998	295,222	-	295,222
Drainage	30,000	30,000	30,000	-	30,000
Backhoe	42,623	42,623	42,623	-	42,623
Various streets	172,308	172,308	367,264	-	367,264
Phase 2 Streets and Storm Water	174,736	169,501	204,997	-	204,997
	<u>\$ 769,667</u>	<u>\$ 808,430</u>	<u>\$ 1,205,240</u>	<u>\$ -</u>	<u>\$ 1,205,240</u>
SPLOST 2006					
Recreation	\$ 100,000	\$ 100,000	\$ 372	\$ 9,642	\$ 10,014
Roads, streets, and sidewalks	400,000	400,000	29,801	885	30,686
Water and sewer improvements	121,427	121,427	-	-	-
Government buildings	200,000	200,000	16,179	1,625	17,804
	<u>\$ 821,427</u>	<u>\$ 821,427</u>	<u>\$ 46,352</u>	<u>\$ 12,152</u>	<u>\$ 58,504</u>