

CITY OF FAIRMOUNT, GEORGIA

FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007

CITY OF FAIRMOUNT, GEORGIA

FINANCIAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor's Report	1
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet – Governmental Funds	5
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	6
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
General Fund – Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (GAAP Basis) and Actual	9
Statement of Net Assets – Proprietary Funds	10
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	11
Statement of Cash Flows – Proprietary Funds	12
Notes to Financial Statements	13- 28
INTERNAL CONTROL AND COMPLIANCE SECTION	
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	29 - 30
Schedule of Findings and Responses	31 - 34
STATE SECTION	
Schedule of Projects Constructed with Special Purpose Local Option Sales Tax	35



& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

R. Lee Jennings, CFCA, CPA
Edgar M. Land, CPA
Mona H. Evans, CPA

142 River Terrace - Ellijay, GA 30540
Phone: 706-276-3700 Fax: 706-276-3710
www.ellijaycpa.com

Bonnie G. Broady, CPA
Sherry L. Estes, CPA
Adam T. Shull, CPA

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fairmount, Georgia as of and for the year ended December 31, 2007, 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.

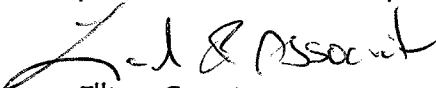
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2007, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2008, on our consideration of the City of Fairmount, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairmount, Georgia's 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 presented in all material respects in relation to the basic financial statements taken as a whole.



Ellijay, Georgia
March 31, 2008

FINANCIAL SECTION

CITY OF FAIRMOUNT, GEORGIA

STATEMENT OF NET ASSETS DECEMBER 31, 2007

Assets	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current:			
Cash and cash equivalents	\$ 153,983	\$ 305,590	\$ 459,573
Accounts receivable, net	227,376	7,162	234,538
Due from other governments	53,095	-	53,095
Internal balances	58,408	(58,408)	-
Prepaid items	4,488	4,488	8,976
Deferred loan fees	-	1,442	1,442
Inventory	-	17,255	17,255
Noncurrent:			
Capital Assets:			
Land	502,702	303,726	806,428
Other capital assets, net of depreciation	1,351,923	2,029,609	3,381,532
Total assets	\$ 2,351,975	\$ 2,610,864	\$ 4,962,839
Liabilities And Net Assets			
Liabilities:			
Current:			
Accrued liabilities	\$ 3,037	\$ -	\$ 3,037
Deferred revenue	-	327,825	327,825
Note payable, due within one year	-	3,650	3,650
Long-Term:			
Note payable	-	68,437	68,437
Total liabilities	3,037	399,912	402,949
Net Assets:			
Investment in capital assets, net of related debt	1,854,625	2,262,690	4,117,315
Restricted for capital projects	70,296	-	70,296
Unrestricted	424,017	(51,738)	372,279
Total net assets	2,348,938	2,210,952	4,559,890
Total liabilities and net assets	\$ 2,351,975	\$ 2,610,864	\$ 4,962,839

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, 2007

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions	Governmental Activities	Primary Government		Total
			-	-			-	Business-type Activities	
Primary government									
Governmental activities									
General government	\$ 198,348	\$ 32,587	\$ -	\$ 13,191	\$ (152,570)	\$ -	\$ -	\$ (152,570)	
Public safety	190,255	82,862	-	-	(107,393)	-	-	(107,393)	
Public works	123,805	-	9,346	130,927	16,468	-	-	16,468	
Culture and recreation	52,479	-	-	19,140	(33,339)	-	-	(33,339)	
Judicial	2,750	-	-	-	(2,750)	-	-	(2,750)	
Housing and development	2,900	-	-	-	(2,900)	-	-	(2,900)	
Total governmental activities	570,537	115,449	9,346	163,258	(282,484)	-	-	(282,484)	
Business-type activities									
Water and sewerage	143,936	88,450	-	89,881	-	34,395	-	34,395	
Solid waste	3,601	4,259	-	-	-	658	-	658	
Total business-type activities	147,537	92,709	-	89,881	-	35,053	-	35,053	
Total primary government	\$ 718,074	\$ 208,158	\$ 9,346	\$ 253,139	(282,484)	\$ 35,053	\$ 35,053	(247,431)	
General revenues									
Property taxes					138,817	-	-	138,817	
Sales taxes					325,579	-	-	325,579	
Franchise taxes					97,213	-	-	97,213	
Other taxes					74,408	-	-	74,408	
Miscellaneous					14,750	3,291	-	18,041	
Unrestricted investment earnings					15,367	3,729	-	19,096	
Transfers					(409,966)	409,966	-	-	
Total general revenues and transfers					256,168	416,986	-	673,154	
Change in net assets					(26,316)	452,039	-	425,723	
Net assets, beginning of year					2,375,254	1,758,913	-	4,134,167	
Net assets, end of year					\$ 2,348,938	\$ 2,210,952	\$ -	\$ 4,559,890	

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

CITY OF FAIRMOUNT, GEORGIA

GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2007

Assets	General	SPLOST	Total Governmental Funds
Cash and cash equivalents	\$ 83,687	\$ 70,296	\$ 153,983
Property taxes receivable, net	105,461	-	105,461
Other taxes receivable, net	94,193	-	94,193
Accounts receivable, net	27,722	-	27,722
Due from other governments	53,095	-	53,095
Due from other funds	58,408	-	58,408
Prepaid items	4,488	-	4,488
Total assets	<u>\$ 427,054</u>	<u>\$ 70,296</u>	<u>\$ 497,350</u>
Liabilities And Fund Balances			
Liabilities:			
Accrued liabilities	\$ 3,037	\$ -	\$ 3,037
Deferred revenue	10,546	-	10,546
Total liabilities	<u>13,583</u>	<u>-</u>	<u>13,583</u>
Fund Balances:			
Unreserved	413,471	70,296	483,767
Total fund balances	<u>413,471</u>	<u>70,296</u>	<u>483,767</u>
Total liabilities and fund balances	<u>\$ 427,054</u>	<u>\$ 70,296</u>	<u>\$ 497,350</u>

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, 2007

Total fund balances, governmental funds (page 5)	\$	483,767
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.		1,854,625
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>10,546</u>
Net assets of governmental activities in the Statement of Net Assets (page 3)	\$	<u><u>2,348,938</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, 2007

Revenues	General	SPLOST	Total
Property taxes	\$ 128,271	\$ -	\$ 128,271
Sales taxes	325,579	-	325,579
Franchise taxes	97,213	-	97,213
Other taxes	74,408	-	74,408
Licenses and permits	32,189	-	32,189
Intergovernmental	20,596	152,008	172,604
Charges for services	398	-	398
Fines and forfeitures	82,862	-	82,862
Interest	15,025	342	15,367
Other revenues	14,750	-	14,750
Total revenues	791,291	152,350	943,641
Expenditures			
Current:			
General government	182,088	-	182,088
Judicial	2,750	-	2,750
Public safety	176,993	-	176,993
Public works	103,678	-	103,678
Culture and recreation	35,212	-	35,212
Housing and development	2,900	-	2,900
Capital outlay:			
General government	175,772	-	175,772
Public works	-	246,468	246,468
Total expenditures	679,393	246,468	925,861
Excess (deficiency) of revenues Over expenditures	111,898	(94,118)	17,780
Other financing sources (uses)			
Transfers in	1,330	59,704	61,034
Transfers out	(470,658)	(342)	(471,000)
Total other financing sources (uses)	(469,328)	59,362	(409,966)
Net change in fund balances	(357,430)	(34,756)	(392,186)
Fund balances, beginning of year	770,901	105,052	875,953
Fund balances, end of year	\$ 413,471	\$ 70,296	\$ 483,767

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, 2007

Net change in fund balances - total governmental funds (page 7)	\$ (392,186)
---	--------------

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 capital outlays exceeded depreciation in the current period.

Capital outlays	422,240	
Depreciation expense	<u>(66,916)</u>	355,324

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>10,546</u>

Change in net assets of governmental activities (page 4)

<u>\$ (26,316)</u>

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, 2007

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Property taxes	\$ 123,500	\$ 123,500	\$ 128,271	\$ 4,771
Sales taxes	340,000	340,000	325,579	(14,421)
Franchise taxes	85,000	85,000	97,213	12,213
Other taxes	67,250	67,250	74,408	7,158
Licenses and permits	30,750	30,750	32,189	1,439
Intergovernmental	23,000	23,000	20,596	(2,404)
Charges for services	2,820	2,820	398	(2,422)
Fines and forfeitures	144,000	144,000	82,862	(61,138)
Interest	-	-	15,025	15,025
Other revenues	20,450	20,450	14,750	(5,700)
Total revenues	836,770	836,770	791,291	(45,479)
Expenditures				
Current:				
General government	268,548	268,548	182,088	86,460
Judicial	3,000	3,000	2,750	250
Public safety	191,843	191,843	176,993	14,850
Public works	89,586	89,586	103,678	(14,092)
Culture and recreation	40,372	40,372	35,212	5,160
Housing and development	3,000	3,000	2,900	100
Capital outlay:				
General government	255,271	255,271	175,772	79,499
Total expenditures	851,620	851,620	679,393	172,227
Excess (deficiency) of revenues Over expenditures	(14,850)	(14,850)	111,898	(126,748)
Other financing sources (uses)				
Transfers in	-	-	1,330	1,330
Transfers (out)	-	-	(470,658)	(470,658)
Total other financing sources (uses)	-	-	(469,328)	(469,328)
Net change in fund balances	(14,850)	(14,850)	(357,430)	(342,580)
Fund balance, beginning of year	770,901	770,901	770,901	-
Fund balance, end of year	\$ 756,051	\$ 756,051	\$ 413,471	\$ (342,580)

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, 2007

Assets	Enterprise Funds		Total
	Water and Sewer Fund	(Nonmajor) Solid Waste Fund	
Current assets:			
Cash and cash equivalents	\$ 305,590	\$ -	\$ 305,590
Accounts receivable, net	7,162	-	7,162
Prepaid items	4,488	-	4,488
Deferred loan fees	1,442	-	1,442
Inventory	17,255	-	17,255
Total current assets	335,937	-	335,937
Noncurrent assets:			
Capital assets:			
Land	303,726	-	303,726
Other capital assets, net of depreciation	2,014,427	15,182	2,029,609
Total capital assets, net	2,318,153	15,182	2,333,335
Total assets	\$ 2,654,090	\$ 15,182	\$ 2,669,272
Liabilities And Net Assets			
Current liabilities:			
Due to other funds	\$ 58,408	\$ -	\$ 58,408
Deferred revenue	327,825	-	327,825
Note payable, due within one year	3,650	-	3,650
Total current liabilities	389,883	-	389,883
Long-term liabilities:			
Note payable	68,437	-	68,437
Total long-term liabilities	68,437	-	68,437
Total liabilities	458,320	-	458,320
Net Assets:			
Invested in capital assets, net of related debt	2,247,508	15,182	2,262,690
Unrestricted	(51,738)	-	(51,738)
Total net assets	2,195,770	15,182	2,210,952
Total liabilities and net assets	\$ 2,654,090	\$ 15,182	\$ 2,669,272

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, 2007

	Business-type Activities - Enterprise Funds		Total
	Water and Sewerage Fund	(Nonmajor) Solid Waste Fund	
Operating revenues:			
Water	\$ 3,177	\$ -	\$ 3,177
Sewer	85,273	-	85,273
Solid waste	-	4,259	4,259
Miscellaneous	3,291	-	3,291
Total operating revenues	<u>91,741</u>	<u>4,259</u>	<u>96,000</u>
Operating expenses:			
Personal services	33,804	-	33,804
Repairs and maintenance	404	-	404
Supplies and expenses	33,216	-	33,216
Other operating expenses	4,220	2,929	7,149
Depreciation and amortization	63,909	672	64,581
Total operating expenses	<u>135,553</u>	<u>3,601</u>	<u>139,154</u>
Net operating income (loss)	<u>(43,812)</u>	<u>658</u>	<u>(43,154)</u>
Nonoperating revenues (expenses):			
Capital grants	89,881	-	89,881
Interest income	3,729	-	3,729
Interest expense	(8,383)	-	(8,383)
Total nonoperating revenues (expenses)	<u>85,227</u>	<u>-</u>	<u>85,227</u>
Income (Loss) before transfers	<u>41,415</u>	<u>-</u>	<u>42,073</u>
Transfers:			
Transfers in	411,296	-	411,296
Transfers out	-	(1,330)	(1,330)
Total transfers	<u>411,296</u>	<u>(1,330)</u>	<u>409,966</u>
Change in net assets	452,711	(672)	452,039
Net assets, beginning of year	<u>1,743,059</u>	<u>15,854</u>	<u>1,758,913</u>
Net assets, end of year	<u>\$ 2,195,770</u>	<u>\$ 15,182</u>	<u>\$ 2,210,952</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, 2007

	Enterprise Funds		Total
	Water and Sewerage Fund	(Nonmajor) Solid Waste Fund	
CASH FLOWS PROVIDED BY (USED IN)			
OPERATING ACTIVITIES			
Receipts from customers	\$ 91,065	\$ 4,259	\$ 95,324
Receipts from other operating	3,291	-	3,291
Payments to suppliers and service providers	(104,359)	(2,929)	(107,288)
Payments to employees	(33,804)	-	(33,804)
Payments for other operating	(9,112)	-	(9,112)
Net cash provided by (used in) operating activities	(52,919)	1,330	(51,589)
CASH FLOWS PROVIDED BY (USED IN)			
INVESTING ACTIVITIES			
Interest receipts	3,729	-	3,729
Net cash provided by (used in) investing activities	3,729	-	3,729
CASH FLOWS (USED IN) CAPITAL AND RELATED			
FINANCING ACTIVITIES			
Purchase and construction of capital assets	(76,650)	-	(76,650)
Capital grant received	97,875	-	97,875
Principal paid on debt	(460,332)	-	(460,332)
Interest and other charges	(14,977)	-	(14,977)
Net cash provided by (used in) financing activities	(454,084)	-	(454,084)
CASH FLOWS (USED IN) NON-CAPITAL AND RELATED			
FINANCING ACTIVITIES			
Operating subsidies and transfers to other funds	411,296	(1,330)	409,966
Net cash provided by (used in) financing activities	411,296	-	411,296
Net decrease in cash and cash equivalents	(91,978)	-	(91,978)
Cash, beginning of year	397,568	-	397,568
Cash, end of year	\$ 305,590	\$ -	\$ 305,590
Reconciliation of operating income (loss) to net			
cash provided by (used in) operating activities:			
Operating (loss)	\$ (43,812)	\$ 658	\$ (43,154)
Adjustments to reconcile operating income			
(loss) to net cash provided by (used in)			
operating activities:			
Depreciation	58,051	672	58,723
Amortization	5,858	-	5,858
Decrease in accounts receivable	2,590	-	2,590
(Increase) in prepaid items	(4,488)	-	(4,488)
Increase in customer deposits	25	-	25
(Decrease) in accounts payable	(71,143)	-	(71,143)
Net cash provided by (used in) operating activities	\$ (52,919)	\$ 1,330	\$ (51,589)

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

CITY OF FAIRMOUNT, GEORGIA

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007

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, 2007, 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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

D. Budgets

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

E. Cash and Cash Equivalents

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

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."

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2007. 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
Vehicles	2 - 15
Machinery and equipment	3 - 15
Infrastructure	30 - 50

I. 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, 2007.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

J. 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.

K. 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.

L. 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

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.

C. Excess Expenditures over Appropriations

For the year ended December 31, 2007 expenditures exceeded budget in the General Fund, as follows:

<u>Department</u>	<u>Excess</u>
Public Works	\$ 14,092

The expenditures exceeded budget in the above General Fund department due to the need of temporary employee's assistance within the public works department. 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, 2007, for the City's individual funds in the aggregate are as follows:

	General Fund	Water and Sewerage Fund	Total
Receivables:			
Property Taxes	\$ 105,461	\$ -	\$ 105,461
Franchise	94,193	-	94,193
Other Governments	53,095	-	53,095
Sewer	-	7,162	7,162
Fines	55,444	-	55,444
Gross receivables	308,193	7,162	315,355
Less allowance for uncollectibles	(27,722)	-	(27,722)
Net receivables	\$ 280,471	\$ 7,162	\$ 287,633

NOTES TO FINANCIAL STATEMENTS

NOTE 4. RECEIVABLES (CONCLUDED)

Property taxes were levied on November 7, 2007. Bills are payable on or before January 31, 2008, 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 2007 are recorded as receivables. The receivables collected during the year ended December 31, 2007, and collected by August 31, 2007, are recognized as revenues in the year ended December 31, 2007. Net receivables estimated to be collected subsequent to February 28, 2008 are recorded as revenue when received. Prior year levies were recorded using substantially the same principles, and remaining receivables are reevaluated annually.

Property taxes attached as an enforceable lien on property as of a date not yet determined.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS

A. Capital asset activity for the year ended December 31, 2007 was as follows:

	Beginning Balance	Increases	Reclassification	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 326,930	\$ 175,772	\$ -	\$ 502,702
Construction in progress	18,368	-	(18,368)	-
Total capital assets, not being depreciated	<u>345,298</u>	<u>175,772</u>	<u>(18,368)</u>	<u>502,702</u>
Capital assets, being depreciated:				
Infrastructure	371,056	224,757	18,368	614,181
Buildings and improvements	728,526	21,711	-	750,237
Leasehold improvements	12,776	-	-	12,776
Machinery and equipment	218,085	-	-	218,085
Vehicles	145,636	-	-	145,636
Total capital assets, being depreciated	<u>1,476,079</u>	<u>246,468</u>	<u>18,368</u>	<u>1,740,915</u>
Less accumulated depreciation for:				
Infrastructure	35,715	13,628	-	49,343
Buildings and improvements	57,333	19,856	-	77,189
Leasehold improvements	2,252	256	-	2,508
Machinery and equipment	125,450	15,377	-	140,827
Vehicles	101,326	17,799	-	119,125
Total accumulated depreciation	<u>322,076</u>	<u>66,916</u>	<u>-</u>	<u>388,992</u>
Total capital assets, being depreciated, net	<u>1,154,003</u>	<u>179,552</u>	<u>18,368</u>	<u>1,351,923</u>
Governmental activities capital assets, net	<u>\$ 1,499,301</u>	<u>\$ 355,324</u>	<u>\$ -</u>	<u>\$ 1,854,625</u>

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	2,472,649	36,892	-	2,509,541
Vehicles	142,221	6,836	(17,255)	131,802
Total capital assets, being depreciated	<u>2,632,883</u>	<u>43,728</u>	<u>(17,255)</u>	<u>2,659,356</u>
Less accumulated depreciation for:				
Land improvements	2,159	672	-	2,831
Infrastructure	510,026	49,836	-	559,862
Vehicles	58,839	8,215	-	67,054
Total accumulated depreciation	<u>571,024</u>	<u>58,723</u>	<u>-</u>	<u>629,747</u>
Total capital assets being depreciated, net	<u>2,061,859</u>	<u>(14,995)</u>	<u>(17,255)</u>	<u>2,029,609</u>
Business-type activities capital assets, net	<u>\$ 2,365,585</u>	<u>\$ (14,995)</u>	<u>\$ (17,255)</u>	<u>\$ 2,333,335</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	\$ 16,260
Public safety	13,262
Public works	20,127
Culture and recreation	17,267
Total depreciation expense - governmental activities	<u>\$ 66,916</u>
Business-type activities:	
Water and Sewerage	\$ 58,051
Solid waste management	672
	<u>\$ 58,723</u>

NOTE 6. LONG-TERM DEBT

BUSINESS-TYPE ACTIVITIES - NOTES PAYABLE

During 2007, the Water and Sewerage Fund paid off early the debt owed to Georgia Environmental Facilities Authority for sewerage line expansion. This amount was being repaid in quarterly installments beginning August 1, 1992 in the amount of \$8,823 each, which includes interest at the rate of 5.3% for 20 years. The original loan principal was \$433,571. The City paid \$8,383 in interest during fiscal year 2007.

As of December 31, 2007, the Water and Sewerage Fund owed \$72,087 to Georgia Environmental Facilities Authority for advances to provide for the construction of a water distribution system. The loan will begin repayment status beginning approximately May 2007 and will be payable in monthly payments of principal with 0% interest per annum over 20 years.

NOTES TO FINANCIAL STATEMENTS

NOTE 6. LONG-TERM DEBT (CONCLUDED)

The following is a summary of long-term debt activity for the year ended December 31, 2007:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-type Activities</u>					
Note Payable - GEFA Water	\$ 365,000	\$ -	\$ (292,913)	\$ 72,087	\$ 3,650
Note Payable - GEFA Sewer	167,419	-	(167,419)	-	-
	<u>\$ 532,419</u>	<u>\$ -</u>	<u>\$ (460,332)</u>	<u>\$ 72,087</u>	<u>\$ 3,650</u>

The City's future principal payments on the GEFA Water note payable are as follows:

Year	Amount
2008	\$ 3,650
2009	3,650
2010	3,650
2011	3,650
2012	3,650
2013-2027	53,837
Total	<u>\$ 72,087</u>

NOTE 7. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of inter-fund balances as of December 31, 2007, is as follows:

Due to/from other funds:

Receivable fund	Payable fund	Amount
General Fund	Water and Sewerage Fund	<u>\$ 58,408</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 7. INTER-FUND RECEIVABLES, PAYABLES AND TRANSFERS (CONCLUDED)

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.

Inter-fund transfers:

Transfers In	Transfers Out	Amount
Water Fund	General Fund	\$ 410,954
SPLOST Fund	General Fund	59,704
Water Fund	SPLOST Fund	342
General Fund	Nonmajor Solid Waste Fund	1,330
		\$ 472,330

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

NOTE 8. JOINT VENTURE

The City of Fairmount, Georgia in conjunction with cities and counties in the ten (10) county Northwest Georgia area 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, 2007 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 Inter-local Risk Management Agency Property and Liability Insurance Fund and the Association of City Commissioners of Georgia Group Self-Insurance Workers Compensation 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

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



& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

R. Lee Jennings, CFCA, CPA
Edgar M. Land, CPA
Mona H. Evans, CPA

142 River Terrace - Ellijay, GA 30540
Phone: 706-276-3700 Fax: 706-276-3710
www.ellijaycpa.com

Bonnie G. Broady, CPA
Sherry L. Estes, CPA
Adam T. Shull, CPA

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 the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of City of Fairmount, Georgia as of and for the year ended December 31, 2007, which collectively comprise the City of Fairmount, Georgia's basic financial statements and have issued our report thereon dated March 31, 2008. 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.

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, we believe that none of the significant deficiencies described above is 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 March 31, 2008.

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 and the City Council and is not intended to be and should not be used by anyone other than these specified parties.


Zaid & Associates, CPAs

Ellijay, Georgia
March 31, 2008

CITY OF FAIRMOUNT, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

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.

Repeat findings from the prior year (Continued):

O6-02 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.

Repeat findings from the prior year (Concluded):

06-03 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.

Current year finding:

07-01 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 is 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.

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, 2007

Project	Estimated Cost		Expenditures		Estimated % of Completion
	Original	Current	Prior Years	Current Year	
Paid from Capital Projects Fund:					
SPLOST 2001					
Recreation	\$ 350,000	\$ 350,000	\$ 549,167	\$ 5,160	\$ 554,327
Roads, streets, and sidewalks	174,736	174,736	203,997	194,956	398,953
	<u>\$ 524,736</u>	<u>\$ 524,736</u>	<u>\$ 753,164</u>	<u>\$ 200,116</u>	<u>\$ 953,280</u>
SPLOST 2006					
Recreation	\$ 100,000	\$ 100,000	\$ -	\$ 372	\$ 372
Roads, streets, and sidewalks	400,000	400,000	-	29,801	29,801
Water improvements	121,427	121,427	-	-	-
Government buildings	200,000	200,000	-	16,179	16,179
	<u>\$ 821,427</u>	<u>\$ 821,427</u>	<u>\$ -</u>	<u>\$ 46,352</u>	<u>\$ 46,352</u>