CITY OF CLARKESVILLE, GEORGIA

ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2011

CITY OF CLARKESVILLE, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011

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Independent Auditors' Report

Honorable Mayor, Members of the
City Council, and City Manager
Of the City of Clarkesville, Georgia
Clarkesville, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Clarkesville, Georgia (the "City") as of December 31, 2011 and for the year then ended, 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'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 remaining fund information of the City of Clarkesville, Georgia as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated June 26, 2012 on our consideration of City's internal control over financial reporting and 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.

The Management's Discussion and Analysis on pages 3 through 11 and the Schedule of Funding Progress on page 37 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Expenditures of Special Purpose Local Option Sales Tax proceeds (as required by the Official Code of Georgia Annotated 48-8-21) as listed in the table of

contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Special Purpose Local Option Sales Tax proceeds 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.

Michael Mixon & Associates, CPAs, PC

Michael Mixon & Associates, CPAs, PC
Clarkesville, Georgia
June 26, 2012

As management of the City of Clarkesville, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2011. This narrative is intended to assist the reader in understanding significant issues and provide an overview of financial activities and identify changes in financial position. We encourage readers to consider this information presented herein, in conjunction with the additional information furnished in the financial statements, and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at December 31, 2011 by $9,765,429 (net position), of this amount, $3,672,721 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors. The City's total net position increased by $536,237 during the year ended December 31, 2011; with an increase in both governmental activities by $216,308 and business-type activities by $319,929.
- The City's governmental funds reported combined ending fund balances of $3,096,279, an increase of $281,689 in comparison with the prior year. This increase is mainly attributable to the receipt of SPLOST funds.
- The unrestricted fund balance for the General Fund at December 31, 2011 was $2,630,231 which was 151.8% of total General Fund expenditures for the year in comparison to the prior year of 141.4%. The unrestricted General Fund balance at December 31, 2010 was $2,488,534. In comparison to 2010, the General Fund balance increased by $144,029.
- The City's total long term debt experienced a net decrease of $116,486 during 2011. This decrease was due to principal payments at scheduled maturity dates throughout the year.

Overview of the Financial Statements

The annual financial statements consist of a series of financial statements. This narrative is intended to serve as an introduction to the basic financial statements. The City's basic financial statements comprise three components:

- Government Wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government Wide Financial Statements: The government wide financial statements are designed to provide readers with a broad overview of the City's finances. They are prepared using the accrual basis of accounting, which is the accounting method used in most private sector companies. There are

two government wide statements, the statement of net position and the statement of activities, which are described below:

1. The *Statement of Net Position* presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the City is improving or deteriorating.

2. The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes).

Both of the government wide financial statements distinguish between functions that are principally supported by taxes and intergovernmental revenues (governmental activities) and other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Governmental activities of the City include general government, public safety, public works, parks and recreation, and community development. Business-type activities include water, sewer, and sanitation services.

The government wide financial statements can be found on pages 12-13 of this report.

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements focus on the most significant funds, reporting on the City's operations in greater detail than the government wide statements. All of the City's funds can be divided into two categories: governmental and proprietary.

Governmental Funds: Most of the basic services provided by the City are financed through governmental funds and are essentially the same functions reported as governmental activities in the government wide financial statements. However, unlike the government wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. These statements assist the reader in determining whether there are adequate financial resources available to meet the current needs of the City.

Because the focus of governmental funds is short-term and the focus of the government wide financial statements is both short-term and long-term, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the

governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 3 individual governmental funds, the General Fund, the SPLOST V Capital Projects fund, and the Clarkesville Downtown Development Authority fund (DDA). The DDA fund is considered a non-major governmental fund and has been dormant for all of 2011.

The City adopts an annual appropriated budget for the General Fund. A budgetary comparison statement is provided for the General Fund to demonstrate compliance with budget.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

Proprietary Funds: The City maintains one type of proprietary funds, enterprise funds. Enterprise funds charge a fee for services to outside customers. The City uses one enterprise fund to account for its water, sewer, and sanitation activities. The City's enterprise fund statements are the same as the business-type actitivities reported in the government wide financial statements, but provide more detail.

The basic proprietary fund financial statements can be found on pages 18-20 of this report.

Notes to the Financial Statements: The notes to the financial statements provide additional information that is essential for the reader in order to obtain a full understanding of the data provided in the government wide and fund financial statements.

The notes to the financial statements can be found on pages 21-36 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligations to provide pension benefits to its employees.

The required supplementary information can be found on page 37of this report.

GOVERNMENT WIDE FINANCIAL ANALYSIS

As noted earlier, the net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $ 9,765,429 and $ 9,229,192 at December 31, 2011 and 2010 respectively. The following is a condensed version of the government wide statement of net position.

City of Clarkesville - Summary of Net Position
(dollars are in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and Other Assets	$ 4,174	$ 3,993	$ 687	$ 580	$ 4,861	$ 4,573
Capital Assets	1,805	1,909	7,313	7,382	9,118	9,291
Total Assets	5,979	5,902	8,000	7,962	13,979	13,864
Liabilities:						
Current and Other Liabilities	28	47	256	444	284	491
Long-Term Liabilities	-	27	2,854	2,948	2,854	2,975
Total Liabilities	28	74	3,110	3,392	3,138	3,466
Deferred Inflows of Resources:						
Unearned Property Tax Revenue	1,076	1,169	-	-	1,076	1,169
Total Deferred Inflows of Resources	1,076	1,169	-	-	1,076	1,169
Net Position:						
Invested in Capital Assets, net of Related Debt	1,779	1,844	4,314	4,304	6,093	6,148
Restricted for Capital Projects	-	-		200	-	200
Unrestricted	3,096	2,815	576	66	3,672	2,881
Total Net Position	$ 4,875	$ 4,659	$ 4,890	$ 4,570	$ 9,765	$ 9,229

The largest portion of the City's net position (62.4%) reflects its investment in capital assets such as land, buildings, utility systems, equipment, and infrastructure (roads, bridges, and other immovable assets), less any related debt used to acquire those assets that is still outstanding. These capital assets are used by the City to provide services to citizens. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net position $ 3,672,721 may be used to meet the City's ongoing obligations to citizens and creditors.

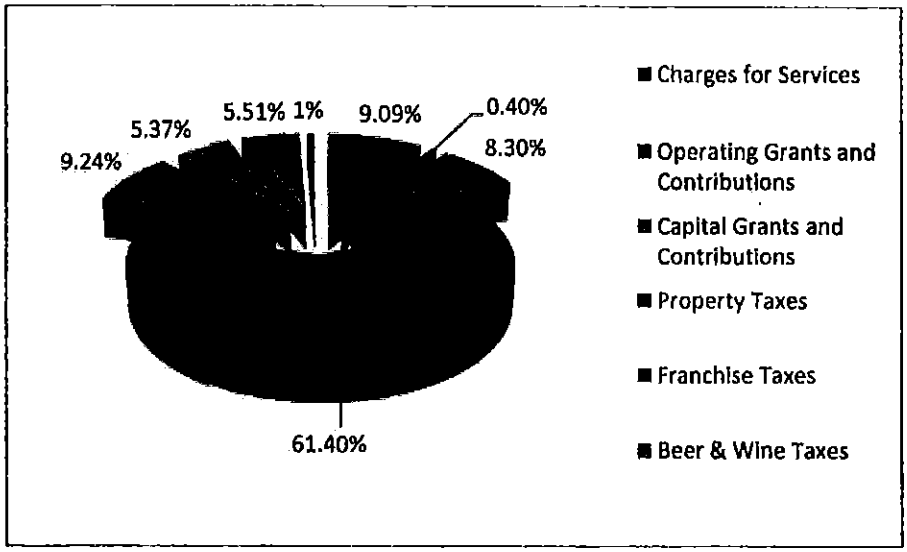
Governmental Activities: Governmental activities increased the City's net position by $216,308 and business-type activities increased the City's net position by $319,929. Although governmental activities had slight increases in tax revenues, careful and conservative spending in operating expenditures was mainly attributable to the overall increase. The increase in business-type activities net assets came predominately from intergovernmental revenues received by the Water, Sewer, and Sanitation fund.

The following condensed financial information was derived from the government wide statement of activities and summarizes changes in net position for the year ended December 31, 2011 and 2010. The following chart illustrates revenues of the governmental activities for the fiscal year:

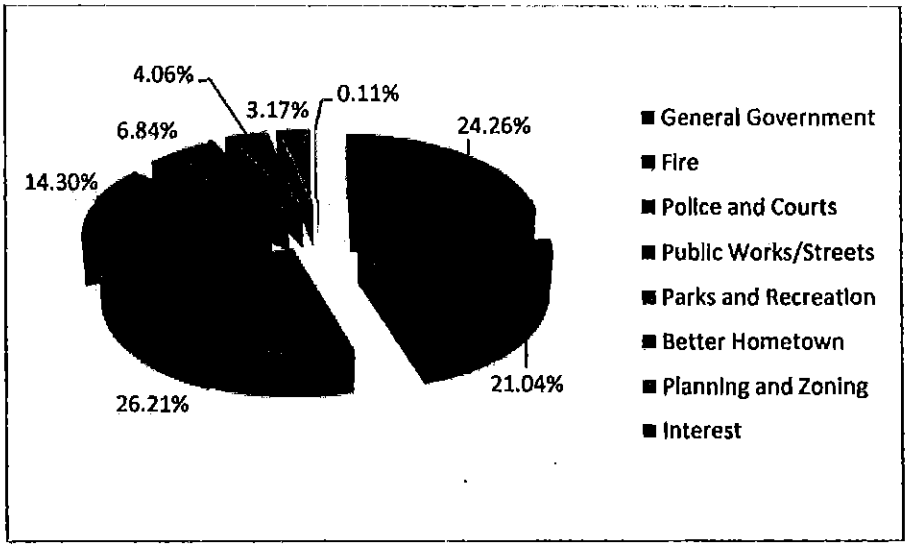
City of Clarkesville - Summary of Changes in Net Position
(dollars are in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues:						
Charges for Services	$ 183	$ 172	$ 1,696	$ 1,617	$ 1,879	$ 1,789
Operating Grants and Contributions	8	-	-	-	8	-
Capital Grants and Contributions	167	122	156	1,097	323	1,219
General Revenues:						
Property Taxes	1,236	1,216	-	-	1,236	1,216
Intangible and Transfer Taxes	5	7	-	-	5	7
Franchise Taxes	186	189	-	-	186	189
Beer & Wine Taxes	108	124	-	-	108	124
Insurance Premium Taxes	81	67	-	-	81	67
Other Taxes	25	15	-	-	25	15
Interest and Miscellaneous	14	78	275	11	289	89
Total Revenues	2,013	1,990	2,127	2,725	4,140	4,715
Expenses						
General Government	436	471	-	-	436	471
Fire	378	387	-	-	378	387
Police and Courts	471	470	-	-	471	470
Public Works/Streets	257	303	-	-	257	303
Parks and Recreation	123	138	-	-	123	138
Better Hometown	73	75	-	-	73	75
Planning and Zoning	57	53	-	-	57	53
Interest	2	3	-	-	2	3
Water, Sewer & Sanitation		-	1,807	2,105	1,807	2,105
Total Expenses	1,797	1,900	1,807	2,105	3,604	4,005
Transfers In(Out)	-	-	-	-	-	-
Change in Net Position	216	90	320	620	536	710
Beginning Net Position	4,659	4,569	4,570	3,950	9,229	8,519
Ending Net Position	$ 4,875	$ 4,659	$ 4,890	$ 4,570	$ 9,765	$ 9,229

The following chart illustrates revenues in percentages of governmental activities for the fiscal year:



The following chart illustrates the expenses in percentages of governmental activities for the fiscal year:



Governmental activities revenues totaled approximately $2,013,583 for fiscal year 2011. Property tax revenues make up the largest portion of these revenues accounting for 61% of total revenues. Although the 2011 gross property digest decreased by 4.75% in comparison to 2010, there was a

slight increase in property tax revenue in comparison to the prior year due to an inventory adjustment in industrial personal property taxes.

Governmental activities expenses totaled approximately $1,797,275 for fiscal year 2011. Of the expenses, 47% is related to public safety, with fire and police and courts making up 21% and 26% respectively. In addition, general government and public works accounted for 24% and 14% of total governmental expenses for the year.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to insure and demonstrate compliance with financial related legal requirements.

Governmental Funds: As previously mentioned, the focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current year, the City's governmental funds reported combined ending fund balances of $3,096,279. This total was a 10% increase from the prior year. Of this amount, $2,630,231 is available for spending in future years without restrictions. The remaining fund balance of $2,332 is a prepaid expense that is considered to be non-spendable in form, $462,604 is restricted for spending on capital projects under the SPLOST program and $1,112 is designated as a special revenue fund for the City of Clarkesville Downtown Development Authority.

Proprietary Funds: The proprietary fund statements share the same focus as the government wide statements, reporting both short-term and long-term information about the funds.

At year end, the Water, Sewer, and Sanitation Fund had an unrestricted net position of $576,442. Overall, the net position of this fund increased by $319,929. This increase is attributable to intergovernmental revenues received through a contract with the Georgia Environmental Finance Authority using American Recovery and Reinvestment Act funding for completion of the Waste Water Lab Building. Operating revenues for this fund in 2011 were $1,696,111.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, General Fund revenues were less than budgetary projections, however actual expenditures were also less than budgetary estimates. Although a loss was projected for the year, the City had a $312,394 positive change in the fund balance. Actual revenues were $9,171 lower than estimates due to a continued downturn in the economy. Expenditures were less than budgetary appropriations by $322,765 as a result of careful monitoring of expenditures.

CAPITAL ASSETS AND DEBT ADMINSTRATION

Capital Assets: The City's investment in capital assets for its governmental activities as of December 31, 2011, amounted to $ 1,805,456, net of depreciation. The investment includes land, plant and buildings, machinery, equipment and fixtures, and streets. The balance represents a $103,546 decrease from the prior year, caused by depreciation expense. There were a couple of additions in 2011 in the amount of $41,921 for public safety equipment and a heating and air unit for Better Hometown. The business-type activities had net capital assets of $7,313,459, net of depreciation as of December 31, 2011. This balance represents a $68,592 decrease from the prior year due to depreciation expense. However, with construction of the new waste water treatment plant completed in 2011 and the purchase of some new equipment, an additional $216,920 was added to the capital assets of the business-type activities.

Capital assets held by the City at the end of the 2011 are summarized as follows:

City of Clarkesville - Summary of Capital Assets, net of accumulated depreciation
(dollars are in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Capital Assets:						
Land and Improvements	$ 259	$ 259	$ 24	$ 24	$ 283	$ 283
Buildings	1,711	1,711	-	-	1,711	1,711
Machinery/Equipment	1,451	1,409	775	761	2,226	2,170
Infrastructure	115	115	-	-	115	115
Utility Systems	-	-	9,420	7,515	9,420	7,515
Construction in Progress	-	-	-	1,702	-	1,702
Total Capital Assets	3,536	3,494	10,219	10,002	13,755	13,496
Accumulated Depreciation	(1,731)	(1,585)	(2,906)	(2,620)	(4,637)	(4,205)
Net Capital Assets	$ 1,805	$ 1,909	$ 7,313	$ 7,382	$ 9,118	$ 9,291

Additional information on the City's capital assets can be found in Note 5, found on pages 30-31, of these financial statements.

Long-term Debt: At December 31, 2011, the City had $3,026,207 in total debt outstanding. Of this amount, $26,757 was for capital leases and $2,999,450 was debt related to the construction of the waste water treatment plant and the water tanks addition.

Additional information on the City's long-term debt can be found in Note 7, found on pages 31-33, of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Although we are hopeful for signs of improvement in the economy, the City's budget for FY 2012 remains very conservative. Capital outlays budgeted for the year is at a minimum and operating costs are expected to be at or below what was required for FY 2011.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Clarkesville's finances for our citizens, taxpayers, customers, investors, creditors, and other interested parties. Questions concerning any of this information should be addressed to the City Manager at P.O. Box 21, Clarkesville, Georgia 30523.

CITY OF CLARKESVILLE, GEORGIA
STATEMENT OF NET POSITION
DECEMBER 31, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	$ 2,776,323	$ 554,305	$ 3,330,628
Receivables, net			
Accounts	-	217,742	217,742
Interest	60,057	-	60,057
Taxes	551,598	-	551,598
Internal Balances	343,955	(343,955)	-
Prepaid Expenses	2,332	-	2,332
Investments	438,960	258,394	697,354
Capital Assets:			
Land, Improvements, and Construction in Progress	259,486	24,000	283,486
Other Capital Assets, net of Depreciation	1,545,970	7,289,459	8,835,429
Total Assets	5,978,681	7,999,945	13,978,626
LIABILITIES			
Accounts Payable	930	1,292	2,222
Accrued Liabilities	-	-	-
Customer Deposits Payable	-	108,752	108,752
Construction Loan	-	-	-
Capital Leases:			
Due Within One Year	26,757	-	26,757
Due Beyond One Year	-	-	-
Notes Payable:			
Due Within One Year	-	145,760	145,760
Due Beyond One Year	-	2,853,690	2,853,690
Total Liabilities	27,687	3,109,494	3,137,181
DEFERRED INFLOWS OF RESOURCES			
Unearned Property Tax Revenue	1,076,016	-	1,076,016
Total Deferred Inflows of Resources	1,076,016	-	1,076,016
NET POSITION			
Invested in Capital Assets, net of Related Debt	1,778,699	4,314,009	6,092,708
Restricted for Capital Projects	-	-	-
Unrestricted Net Position	3,096,279	576,442	3,672,721
Total Net Position	$ 4,874,978	$ 4,890,451	$ 9,765,429

The accompanying notes are an integral part of these financial statements.

CITY OF CLARKESVILLE, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total
Primary Government							
Governmental Activities							
General Government	$ 436,926	$ 80,296	$ -	$ 126,335	$ (230,295)	$ -	$ (230,295)
Public Safety:					-	-	-
Fire	377,810	41,250	-	27,569	(308,991)	-	(308,991)
Police and Courts	470,507	46,461	-	4,500	(419,546)	-	(419,546)
Public Works/Streets	256,501	1,200	-	9,050	(246,251)	-	(246,251)
Parks and Recreation	123,084	-	1,117	-	(121,967)	-	(121,967)
Community Development:							
Better Hometown	73,432	-	6,341	-	(67,091)	-	(67,091)
Planning and Zoning	56,926	13,901	-	-	(43,025)	-	(43,025)
Interest on Long-Term Debt	2,089	-	-	-	(2,089)	-	(2,089)
Total Governmental Activities	1,797,275	183,108	7,458	167,454	(1,439,255)	-	(1,439,255)
Business-Type Activities							
Water, Sewer, and Sanitation	1,807,326	1,696,111	-	156,238	-	45,023	45,023
Total Business-Type Activities	1,807,326	1,696,111	-	156,238	-	45,023	45,023
Total Primary Government	$ 3,604,601	$ 1,879,219	$ 7,458	$ 323,692	(1,439,255)	45,023	(1,394,232)
General Revenues							
Taxes:							
Property					1,236,386	-	1,236,386
Intangible and Transfer					4,798	-	4,798
Franchise					186,038	-	186,038
Beer and Wine					107,691	-	107,691
Insurance Premium					81,285	-	81,285
Business Taxes					25,031	-	25,031
Unrestricted Investment Earnings					14,187	6,985	21,172
Miscellaneous					147	267,921	268,068
Transfers					-	-	-
Total General Revenues and Transfers					1,655,563	274,906	1,930,469
Change in Net Position					216,308	319,929	536,237
Net Position - Beginning					4,658,670	4,570,522	9,229,192
Net Position - Ending					$ 4,874,978	$ 4,890,451	$ 9,765,429

The accompanying notes are an integral part of these financial statements.

CITY OF CLARKESVILLE, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General Fund	SPLOST V Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	$ 2,312,607	$ 462,604	$ 1,112	$ 2,776,323
Receivables, net	611,655	-	-	611,655
Due From Other Funds	343,955	-	-	343,955
Investments	438,960	-	-	438,960
Prepaid Expenses	2,332	-	-	2,332
TOTAL ASSETS	$ 3,709,509	$ 462,604	$ 1,112	$ 4,173,225
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	$ 930	$ -	$ -	$ 930
Accrued Liabilities	-	-	-	-
TOTAL LIABILITIES	930	-	-	930
DEFERRED INFLOWS OF RESOURCES				
Unearned Property Tax Revenue	1,076,016	-	-	1,076,016
TOTAL DEFERRED INFLOWS OF RESOURCES	1,076,016	-	-	1,076,016
FUND BALANCES				
Non-Spendable	2,332	-	-	2,332
Restricted for Capital Projects	-	462,604	-	462,604
Unrestricted, Unassigned Reported in:				
General Fund	2,630,231	-	-	2,630,231
Special Revenue Fund	-	-	1,112	1,112
TOTAL FUND BALANCES	2,632,563	462,604	1,112	3,096,279
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 3,709,509	$ 462,604	$ 1,112	

Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.	1,805,456
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.	(26,757)
Net Position of Governmental Activities	$ 4,874,978

The accompanying notes are an integral part of these financial statements.

CITY OF CLARKESVILLE, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Major Governmental Funds			
	General Fund	SPLOST V Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	$ 1,236,386	$ -	$ -	$ 1,236,386
Intangible and Transfer	4,798	-	-	4,798
Franchise	186,038	-	-	186,038
Beer and Wine	107,691	-	-	107,691
Insurance Premiums	81,285	-	-	81,285
Business Taxes	25,031	-	-	25,031
Licenses and Permits	74,965	-	-	74,965
Intergovernmental	40,835	134,077	-	174,912
Charges for Services	61,682	-	-	61,682
Fines and Forfeitures	46,461	-	-	46,461
Investment Earnings	10,604	3,582	1	14,187
Miscellaneous	147	-	-	147
TOTAL REVENUES	1,875,923	137,659	1	2,013,583
EXPENDITURES				
Current:				
General Government	385,240	-	-	385,240
Police and Courts	435,056	-	-	435,056
Fire	410,265	-	-	410,265
Streets and Sanitation	205,633	-	-	205,633
Parks and Recreation	120,350	-	-	120,350
Better Hometown	78,169	-	-	78,169
Planning and Zoning	56,927	-	-	56,927
Debt Service:				
Principal	38,165	-	-	38,165
Interest	2,089	-	-	2,089
TOTAL EXPENDITURES	1,731,894	-	-	1,731,894
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	144,029	137,659	1	281,689
OTHER FINANCING SOURCES AND USES				
Proceeds From Sale of Capital Assets	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES AND USES	-	-	-	-
NET CHANGES IN FUND BALANCES	144,029	137,659	1	281,689
FUND BALANCES - BEGINNING	2,488,534	324,945	1,111	2,814,590
FUND BALANCES - ENDING	$ 2,632,563	$ 462,604	$ 1,112	$ 3,096,279

The accompanying notes are an integral part of these financial statements.

CITY OF CLARKESVILLE, GEORGIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Net Change in Fund Balances - Total Governmental Funds	$	281,689
Amounts reported for governmental activities in the Statement of Activities are different because:		
Government funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation ($ 145,467) exceeded capital outlays ($ 41,921) in the current period.		(103,546)
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which proceeds ($ 0) exceed payments ($ 38,165).		38,165
Change in Net Position of Governmental Activities	$	216,308

The accompanying notes are an integral part of these financial statements.

CITY OF CLARKESVILLE, GEORGIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budget			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Taxes:				
Property	$ 1,187,137	$ 1,245,144	$ 1,236,386	$ (8,758)
Intangible and Transfer	4,500	8,700	4,798	(3,902)
Franchise	195,000	192,000	186,038	(5,962)
Beer and Wine	135,500	135,000	107,691	(27,309)
Insurance Premium	70,000	75,000	81,285	6,285
Business Taxes	21,000	22,000	25,031	3,031
Licenses and Permits	27,200	41,700	74,965	33,265
Intergovernmental	-	-	40,835	40,835
Charges for Services	81,500	70,550	61,682	(8,868)
Fines and Forfeitures	38,000	35,000	46,461	11,461
Investment Earnings	35,000	55,000	10,604	(44,396)
Other Revenues	17,500	5,000	147	(4,853)
TOTAL REVENUES	1,812,337	1,885,094	1,875,923	(9,171)
EXPENDITURES				
Current:				
General Government	404,539	428,239	385,240	42,999
Police and Courts	502,494	502,494	435,056	67,438
Fire	388,216	424,337	410,265	14,072
Streets and Sanitation	383,250	383,250	205,633	177,617
Parks and Recreation	130,963	130,963	120,350	10,613
Better Hometown	87,713	87,713	78,169	9,544
Planning and Zoning	57,363	57,363	56,927	436
Debt Service:				-
Principal	40,300	38,200	38,165	35
Interest	-	2,100	2,089	11
TOTAL EXPENDITURES	1,994,838	2,054,659	1,731,894	322,765
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(182,501)	(169,565)	144,029	313,594
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital assets	1,200	1,200	0	(1,200)
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	1,200	1,200	-	(1,200)
NET CHANGE IN FUND BALANCES	(181,301)	(168,365)	144,029	312,394
FUND BALANCES - BEGINNING	2,384,423	2,384,423	2,488,534	104,111
FUND BALANCES - ENDING	$ 2,203,122	$ 2,216,058	$ 2,632,563	$ 416,505

The accompanying notes are an integral part of these financial statements.

CITY OF CLARKESVILLE, GEORGIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Business-Type Activities - Enterprise Funds Water, Sewer, & Sanitation
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	$ 554,305
Accounts Receivable, net	217,742
Prepaid Expenses	-
Investments	258,394
TOTAL CURRENT ASSETS	1,030,441
NONCURRENT ASSETS	
Capital Assets:	
Land and Improvement	24,000
Construction In Progress	-
Depreciable Assets, net of Accumulated Depreciation	7,289,459
TOTAL NONCURRENT ASSETS	7,313,459
TOTAL ASSETS	8,343,900
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	1,292
Accrued Liabilities	-
Due to Other Funds	343,955
Customer Deposits Payble	108,752
Construction Loan	-
Capital Leases Payable	-
Notes Payable	145,760
TOTAL CURRENT LIABILITIES	599,759
NONCURRENT LIABILITIES	
Capital Leases	-
Notes Payable	2,853,690
TOTAL NONCURRENT LIABILITIES	2,853,690
TOTAL LIABILITIES	3,453,449
NET POSITION	
Invested in Capital Assets, net of Related Debt	4,314,009
Restricted for Capital Projects	-
Unrestricted	576,442
TOTAL NET POSITION	$ 4,890,451

The accompanying notes are an integral part of these financial statements.

CITY OF CLARKESVILLE, GEORGIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-Type Activities - Enterprise Funds
	Water, Sewer, & Sanitation
OPERATING REVENUES	
Water Fees	$ 1,163,525
Sewer Fees	377,447
Sanitation Fees	155,139
TOTAL OPERATING REVENUES	1,696,111
OPERATING EXPENSES	
General	186,801
Water Treatment Plant	380,059
Sewer Treatment Plant	292,024
Water Distribution	293,205
Waste Water Collection	165,513
Sanitation	85,339
Depreciation	285,512
TOTAL OPERATING EXPENSES	1,688,453
OPERATING INCOME (LOSS)	7,658
NON-OPERATING REVENUES (EXPENSES)	
Intergovernmental Revenue	156,238
Interest and Investment Revenue	6,985
Miscellaneous Revenue (Expenses)	267,921
Interest Expense	(118,873)
TOTAL NON-OPERATING REVENUES (EXPENSES)	312,271
INCOME (LOSS) BEFORE TRANSFERS	319,929
Transfers In	-
Transfers Out	-
CHANGE IN NET POSITION	319,929
NET POSITION - BEGINNING	4,570,522
NET POSITION - ENDING	$ 4,890,451

The accompanying notes are an integral part of these financial statements.

CITY OF CLARKESVILLE, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-Type Activities - Enterprise Funds
	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	$ 1,746,058
Payments to Suppliers	(467,042)
Payments to or on Behalf of Employees	(933,196)
NET CASH PROVIDED FOR OPERATING ACTIVITIES	345,820
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers From Other Funds	
Transfers to Other Funds	
Loans from Other Funds	(85,741)
NET CASH PROVIDED FOR NON-CAPITAL FINANCING ACTIVITIES	(85,741)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Grant Received for Capital Purchases	156,238
Proceeds from Notes Payable	59,994
Principal Payments on Note Payables	(128,944)
Principal Payments on Capital Lease Payables	(9,371)
Purchases of Capital Assets	(148,983)
Interest Paid	(118,873)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(189,939)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investments Purchased	(2,305)
Interest Earned	6,985
NET CASH USED FOR INVESTING ACTIVITIES	4,680
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	74,820
CASH AND CASH EQUIVALENTS - BEGINNING	479,485
CASH AND CASH EQUIVALENTS - ENDING	$ 554,305
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	$ 7,658
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation Expense	285,512
Changes in Assets and Liabilities:	
Receivables, net	49,947
Prepaid Expenses	6,518
Accounts Payables	(3,741)
Accrued Liabilities	(1,316)
Customer Deposit Payables	1,242
Net Cash Provided by Operating Activities	$ 345,820

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Clarkesville, Georgia (the "City") was incorporated, under the laws of the State of Georgia, in 1823 and operates under an elected Mayor-Council form of government. The City provides such services as police protection, fire services, parks and recreation amenities, planning and building inspection, municipal court services, public works, water and sewer services, sanitation services, and general and administrative services.

The financial statements of the City have been prepared in conformity with the accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

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 (the primary government) and its component units, an entity for which the government is considered to be financially accountable. Based on these criteria, the Clarkesville Downtown Development Authority ("DDA") is a component unit of the City; however the DDA did not adopt an annual budget in 2011 and was dormant for the year. Additional financial information on the DDA may be obtained from the City.

The Clarkesville Housing Authority administers Federal funding and/or other financing for improvement of housing conditions in the City. The five citizens who serve as the governing board are appointed by the City Council; however the City has no significant influence over the management, budget or policies of the Authority. As a result, the Authority is not a component unit of the City, but is considered a related organization and reports independently.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and business-type activities. 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. The statement of net position will include non-current assets and non-current liabilities. In addition, the government-wide statement of activities reflects depreciation expense on the City's capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are 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.

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 City reports the following major governmental funds:

The ***General Fund*** is the City's primary operating fund. It is used to account for resources traditionally associated with the City, which are not required legally or by sound financial management to be accounted for in a different fund.

The ***SPLOST V Capital Projects Fund*** accounts for the acquisition and construction of capital expenditures which are financed by the special purpose local option sales tax program V of the City, in an agreement with Habersham County.

The City aggregates other nonmajor governmental funds in a single column in the fund financial statements.

The City reports the following major enterprise funds:

The ***Water, Sewer, and Sanitation Fund*** accounts for the operation of the water and sewerage system and the activities associated with the collection of residential and commercial garbage. Activity is rendered on a user charge basis and the fund includes all revenues from sources applicable to the system's operations and all expenses of the operation.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement* focus and *the accrual basis* of accounting, as are the propriety fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Other taxes are recognized predominately when the underlying transaction occurs. 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 government considers revenues to be available if they are collected within sixty days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payments are due.

Property taxes, franchise taxes, business taxes, intergovernmental revenue, and interest associated with the current year are all considered to be susceptible to accrual and so have been recognized as revenues in the current year. All other revenue items are considered to be measurable and available only when cash is received by the City.

In accordance with GASB Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions," the corresponding assets (receivables) in non-exchange transactions are recognized in the period in which the underlying exchange occurs, when an enforceable legal claim has arisen, when all eligibility requirements have been met, or when resources are received, depending on the revenue source.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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.

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 government has elected not to follow subsequent private-sector guidance.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's enterprise fund are charges to customers for goods and services. Operating expenses of the enterprise funds include the costs of these goods 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

Annual appropriated budgets are adopted for all funds. The budgets for the proprietary funds are for management control purposes and are not required to be reported. Budgets are adopted on a modified accrual basis, which is consistent with generally accepted accounting principles for governmental funds, except the capital projects funds, which adopt project-length budgets. All appropriations lapse at year end. Encumbrance accounting – under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation – is not employed by the City.

E. DEPOSITS AND INVESTMENTS

Georgia statutes authorize the City to invest in the following: (1) obligations of Georgia or any other state; (2) obligations of the United States; (3) obligations fully insured or guaranteed by the United States government or one of its agencies; (4) obligations of any corporation of the United States government; (5) prime bankers' acceptances; (6) the State of Georgia local government investment pool; (7) repurchase agreements; and (8) obligations of any other political subdivisions of the State of Georgia. Any investment or deposit in excess of the federal depository insured amounts must be collateralized by an equivalent amount of state or U.S. obligations. For purposes of the statement of cash flows, all highly liquid investments with an original maturity of 3 months or less are considered to be cash equivalents. Investments are reported at fair value based on quoted market prices.

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposit with original maturities of 3 months or less from the date of acquisition.

F. RECEIVABLES

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the enterprise funds are recognized at the end of each fiscal year based on the amount of service provided prior to year end.

G. INTERFUND RECEIVABLES AND PAYABLES

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). 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".

H. INVENTORY

The City's policy is to expense parts as they are purchased; therefore, no inventory is recorded.

I. PREPAID EXPENSES

Prepaid expenses are recognized as expenses during the benefitting period in governmental funds.

J. 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. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized, but charged to operations when incurred. Upon sale or retirement of capital assets, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operation.

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

Asset	Years
Buildings	20-40
Utility plant and system	30-35
Machinery and equipment	5-7
Infrastructure and urban parks	15-40

K. COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned but unused vacation benefits up to a maximum of 360 hours which will be paid to the employees upon separation from service with the City. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when the employees separate from service with the City. Accumulated, unpaid vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

L. LONG-TERM OBLIGATIONS

In the government-wide financial statements and the propriety fund 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 propriety fund statement of net assets.

M. FUND EQUITY AND NET POSITION

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

Fund Balance

In accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

Non-spendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The City's non-spendable fund balance totaled $2,332 and is comprised of prepaid expenses, which are not in a spendable form. The City has not reported any amounts that are legally or contractually required to be maintained intact.

Restricted – includes amounts restricted by external sources such as creditors, laws of other governments, or by constitutional provision or enabling legislation.

Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to resolutions passed by the City Council, the City of Clarkesville's highest level of decision making authority, which include the language "committed for the purpose of". Commitments may be modified or rescinded only through adoption of a subsequent resolution, which shall refer to the original resolution by its number. A resolution committing amounts must

be adopted prior to the end of the fiscal year; however, the amount to be committed may be determined within 120 days of fiscal year end.

Assigned - includes amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Amounts may be assigned by the City Manager, under the authorization of the City Council, through a written memorandum. Amounts appropriated to eliminate a projected deficit in the subsequent fiscal year's budget shall constitute assignments and are documented by adoption of the City's annual operating budget. Equity amounts reported in special revenue funds or capital project funds not otherwise classified as non-spendable, restricted, or committed shall constitute assignments of fund balance.

Unassigned – includes amounts that do not fall into one of the above four categories. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The General Fund is the only fund that should report this category of fund balance.

For the purposes of fund balance classification, the City considers restricted amounts spent first when an expenditure is incurred for which both restricted and unrestricted fund balance is available. Additionally, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance can be used, then committed amounts are spent first, followed by assigned amounts, and then unassigned amounts.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on the use of assets either through enabling legislation adopted by the City Council or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other amounts reported under net position are reported as unrestricted.

N. MANAGEMENT ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to December 31, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at City Hall to obtain taxpayer comments.
3. Prior to December 31, the City Council approves the budget.
4. The City Manager is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any department must be approved by the City Council.

Expenditures may not legally exceed budgeted appropriations at the department level in the General Fund. The enterprise fund adopts a budget at the fund level for management purposes. During the year, the supplementary budgetary appropriations made were not material.

NOTE 3 - DEPOSITS AND INVESTMENTS

At December 31, 2011, the City had deposits with financial institutions, including certificates of deposits with maturity dates greater than three months. The amounts classified as investments at December 31, 2011 were as follows:

	Investment	Fair Value	Interest Rate Risk
Governmental Activities:	Certificates of Deposit	$ 438,960	Maturity - May 2012
Business-Type Activities:	Certificates of Deposit	258,394	Maturity - December 2012
Total Investments		$ 697,354	

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. The City has not formally adopted an investment policy to address interest rate risk.

Credit Risk - Georgia law and the City's investment policy allow investments in obligation of the State of Georgia and other states; obligations issued by the U.S. Government; obligations fully insured or guaranteed by the U.S. Government or by a government agency of the United States; obligations of any corporation of the U.S. Government; prime bankers acceptances; the local

government investment pool established by state law; repurchase agreements; and obligations of other political subdivisions of the State of Georgia.

Custodial Credit Risk – Deposits – 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 securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal and state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. The State of Georgia requires financial institutions to pledge securities at 110% of a local government's deposits. At December 31, 2011, all of the deposits of the City were fully collateralized in accordance with state statutes.

NOTE 4 – RECEIVABLES

The City receives property tax assessments from Habersham County, Georgia. Property taxes are levied on property values assessed as of January 1. Tax bills were levied on all real and personal property and mailed to taxpayers on October 7th, and were due and payable on or before February 28th. After that date, both penalty and interest are accrued until the taxes are collected. Property taxes attach an enforceable lien on property as of March 28th. Property taxes are recorded as receivables and deferred revenues when assessed.

Receivables as of year end for the City's individual major funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Water, Sewer, & Sanitation
Receivables:		
Taxes & Interest	$ 676,170	$ -
Accounts	-	217,742
Less allowance for Uncollectible	(64,515)	-
Net Total Receivables	$ 611,655	$ 217,742

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land and Improvements	$ 259,486	$ -	$ -	$ 259,486
Total assets, not being depreciated	259,486	-	-	259,486
Capital assets, being depreciated:				
Buildings	1,710,616	-	-	1,710,616
Machinery & Equipment	1,408,787	41,921	-	1,450,708
Infrastructure	115,000	-	-	115,000
Total assets, being depreciated	3,234,403	41,921	-	3,276,324
Less accumulated depreciation for:				
Buildings	(392,087)	(40,756)	-	(432,843)
Machinery & Equipment	(1,077,800)	(104,711)	-	(1,182,511)
Infrastructure	(115,000)	-	-	(115,000)
Total accumulated depreciation	(1,584,887)	(145,467)	-	(1,730,354)
Total assets, being depreciated, net	1,649,516	(103,546)	-	1,545,970
Governmental Activities Capital Assets, net	$ 1,909,002	$ (103,546)	$ -	$ 1,805,456

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, not being depreciated:				
Land and Improvements	$ 24,000	$ -	$ -	$ 24,000
Construction in Progress	1,701,740	-	(1,701,740)	-
Total assets, not being depreciated	1,725,740	-	(1,701,740)	24,000
Capital assets, being depreciated:				
Utility Systems	7,514,618	1,905,428	-	9,420,046
Machinery & Equipment	761,366	13,232	-	774,598
Total assets, being depreciated	8,275,984	1,918,660	-	10,194,644
Less accumulated depreciation for:				
Utility Systems	(2,240,147)	(231,616)	-	(2,471,763)
Machinery & Equipment	(379,526)	(53,896)	-	(433,422)
Total accumulated depreciation	(2,619,673)	(285,512)	-	(2,905,185)
Total assets, being depreciated, net	5,656,311	1,633,148	-	7,289,459
Business-Type Activities Capital Assets, net	$ 7,382,051	$ 1,633,148	$ (1,701,740)	$ 7,313,459

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

Governmental Activities:

General Government	$ 51,686
Public Safety:	
Fire	3,666
Police	35,450
Public Works/Streets	50,868
Parks & Recreation	2,734
Better Hometown	1,063
Total Depreciation Expense, Governmental Activities	$ 145,467

NOTE 6 – INTERFUND RECEIVABLES, PAYABLES, AND TRANFERS

During normal operations, the City will occasionally pay for goods and services or transfer monies between the general and enterprise fund (water, sewer, and sanitation). During 2011, monies were advanced to the enterprise fund to pay for capital assets. As of December 31, 2011, the enterprise fund owed the general fund $ 343,955.

NOTE 7 – LONG-TERM DEBT

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Capital Leases	$ 64,922	$ -	$ (38,165)	$ 26,757	$ 26,757
Business-Type Activities:					
Capital Leases	$ 9,371	$ -	$ (9,371)	$ -	$ -
Notes Payable	3,068,400	59,994	(128,944)	2,999,450	145,760
Business-Type Activities Long-term Liabilities	$ 3,077,771	$ 59,994	$ (138,315)	$ 2,999,450	$ 145,760

Governmental Activities

The City has entered into lease agreements as lessee, original amount $150,550, for financing the acquisition of police and fire vehicles for the general fund. These lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of the future minimum lease payments as of the date of inception. The assets acquired through capital leases are as follows:

Date	Type	Rate	Amount	Less Accumulated Depreciation	Total
5/31/2008	Equipment	3.69%	$ 95,100	$ (69,553)	$ 25,547
11/24/2009	Equipment	3.80%	55,450	(23,105)	32,345
Totals			$ 150,550	$ (92,658)	$ 57,892

Capital lease payables outstanding as of December 31, 2011 are as follows:

Lease	Interest Rate	Maturity Dates	Beginning Balance	Additions	Reductions	Ending Balance
003-0212012-002	3.69%	4/15/2012	$ 37,143	$ -	$ (24,534)	$ 12,609
003-0312012-004	3.80%	12/15/2012	27,779	-	(13,631)	14,148
Total Capital Lease Payables			$ 64,922	$ -	$ (38,165)	$ 26,757

Annual debt service requirements to maturity for the capital lease payables are as follows:

Year Ending December 31	Principal	Interest
2012	$ 26,757	$ 713
Total	$ 26,757	$ 713

Business-Type Activities

Capital Lease Payables

The City has several lease agreements as lessee, original amount $104,832, that qualify as capital leases for financing the acquisition of machinery and equipment for the water, sewer, and sanitation fund. The assets acquired through the capital lease are as follows:

Date	Type	Rate	Amount	Less Accumulated Depreciation	Total
4/16/2008	Equipment	4.89%	$ 51,409	$ (37,700)	$ 13,709
7/30/2008	Equipment	3.89%	23,462	(16,058)	7,404
6/30/2008	Equipment	3.87%	29,961	(21,265)	8,696
Totals			$ 104,832	$ (75,023)	$ 29,809

Capital lease payables outstanding as of December 31, 2011 are as follows:

Lease	Interest Rate	Maturity Dates	Beginning Balance	Additions	Reductions	Ending Balance
CNH Capital	4.89%	1/29/2011	$ 1,531	$ -	$ (1,531)	$ -
003-0312012-003	3.89%	10/15/2011	7,840	-	(7,840)	-
Total Capital Lease Payables			$ 9,371	$ -	$ (9,371)	$ -

Note Payables

The City's water, sewer, and sanitation fund has several Georgia Environmental Finance Authority (GEFA) loans for the construction of various water and sewer system projects. Note payables outstanding as of December 31, 2011 are as follows:

Loan	Interest Rate	Maturity Dates	Beginning Balance	Additions	Reductions	Ending Balance
99L17WQ	4.25%	1/1/2021	$ 652,822	$ -	$ (51,975)	$ 600,847
2004L23WS	4.08%	1/1/2030	1,947,572	-	(68,887)	1,878,685
CWSRF09-012	3.00%	7/1/1931	468,006	59,994	(8,082)	519,918
Total Note Payables			$ 3,068,400	$ 59,994	$ (128,944)	$ 2,999,450

Annual debt service requirements to maturity for the note payables are as follows:

Year Ending December 31	Principal	Interest	Total
2012	$ 145,760	$ 115,344	$ 261,104
2013	151,727	109,377	261,104
2014	157,880	103,225	261,105
2015	164,304	96,801	261,105
2016	170,972	90,133	261,105
2017-2021	905,508	340,843	1,246,351
2022-2026	727,900	183,130	911,030
2027-2031	575,399	38,753	614,152
Total	$ 2,999,450	$ 1,077,606	$ 4,077,056

NOTE 8 – PENSION PLAN

Plan Description

The City, as authorized by the City Council, has established a non-contributory defined benefit pension plan (The City of Clarkesville Retirement Plan), covering substantially all of the City's employees. The City's pension plan is administered through the Georgia Municipal Employee Benefit System (GMEBS), an agent multiple-employer pension plan administered by the Georgia Municipal Association. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The City Council has the governing authority to establish and amend from time to time, the contribution rates of the employer and its plan members. The Georgia Municipal Association issues a publicly available financial report that includes financial statements and required supplementary information for GMEBS. That report may be obtained by writing to Georgia Municipal Association, Risk Management and Employee Benefit Services, 201 Pryor Street, NW, Atlanta, Georgia 30303 or by calling (404)688-0472.

As of July 1, 2011, the date the most recent actuarial valuation, there were 73 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	12
Terminated vested participants not yet receiving benefits	23
Active employees	38
Total	73

Funding Policy

The plan is subject to minimum funding standards of the Georgia Public Retirement Systems Standards law. The Board of Trustees of GMEBS has adopted a recommended actuarial funding policy for the plan which meets state minimum requirements and will accumulate sufficient funds to provide the benefits under the plan. The funding policy for the plan is to contribute an amount equal to or greater than the recommended contribution described below. For fiscal year 2011, the actuarially determined contribution rate was 8.40% of covered payroll. For fiscal year 2012, based on July 1, 2011 actuarial valuation, the recommended contribution rate will be 7.30%.

Actuarial Information

For 2011, the City's actual contribution, which equaled the required contribution, was $114,956. The recommended contribution was determined as part of the July 1, 2010 actuarial valuation using the projected unit credit actuarial cost method. Actuarial assumptions include a 7.75% rate of return on investments and projected salary increases of 3.5% (all due to inflation). The period, and related method, for amortizing the initial unfunded actuarial accrued liability is 30 years from 1982 and current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provision and 30 years for actuarial assumptions and cost methods as a level dollar amount. These amortization periods are closed for this plan year. The actuarial value of the plan assets was determined using techniques that smooth the effects of the short-term volatility in the market value of investments over a five year period.

The information presented below is based on the annual actuarial valuation as of July 1, 2011.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2011	$ 1,323,415	$ 1,558,243	$ 234,828	84.93%	$ 1,342,420	17.49%

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about

the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of July 1, 2011.

Annual Pension Cost

The chart below shows the annual pension cost for the current year and prior two years along with the percentage actually contributed by the City.

Year Ended December 31	Annual Pension Cost (APC)	Actual Pension Contribution	Percentage of APC Contributed	Net Pension Obligation (Asset)
2011	$ 114,956	$ 114,956	100%	$ -
2010	108,440	108,440	100%	-
2009	83,892	83,892	100%	-

NOTE 9 - JOINT VENTURE

Under Georgia law, the City, in conjunction with other cities and counties in the northeast Georgia area, is a member of the Georgia Mountains Regional Commission (GMRC) and is required to pay annual dues thereto. During the year ended December 31, 2011, the City paid $1,884 in such dues. Membership in a GMRC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34, which provides for the organization structure of a regional commission. GMRC board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of the GMRC. Separate financial statements may be obtained from the Georgia Mountains Regional Commission, P.O. Box 1720, Gainesville, Georgia 30503.

NOTE 10 - RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Agency Property and Liability Insurance Fund and the Georgia Municipal Association Group Self-Insurance Workers Compensation Fund, a public entity risk pool 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 pool's agents and attorneys, to follow loss reduction procedures established by the funds, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss. The City is also to allow the pool's 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 worker's compensation law of Georgia. The funds are to pay all cost 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.

Settled claims in the past three (3) years have not exceeded insurance coverage.

NOTE 11 - CONTINGENT LIABILITIES

Litigation

The City is involved in pending lawsuits in the normal course of the City's business. Liability, if any, which might result from these proceedings, would not, in the opinion of management and legal counsel, have a material adverse effect on the financial position of the City.

Grant Contingencies

The City has received 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, management of the City believes such disallowances, if any, will not be significant.

NOTE 12 - HOTEL/MOTEL OCCUPANCY TAX

The City did not collect any hotel/motel tax during 2011.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CLARKESVILLE, GEORGIA
REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT PLAN
SCHEDULE OF FUNDING PROGRESS

Schedule of Funding Progress – Pension

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
7/1/2011	$ 1,323,415	$ 1,558,243	$ 234,828	84.93%	$ 1,342,420	17.49%
7/1/2010	1,238,321	1,548,114	309,793	79.99%	1,344,949	23.03%
10/1/2009	1,049,899	1,398,359	348,460	75.08%	1,202,474	28.98%

Note: See assumptions used for the Schedule of Funding Progress in Note 8 to the financial statements on pages 33-35.

SUPPLEMENTARY INFORMATION

CITY OF CLARKESVILLE, GEORGIA
SCHEDULE OF EXPENDITURES OF
SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original Estimated Cost	Current Estimated Cost	Prior Years Cumulative Expenditures	Current Year Expenditures	Total Cumulative Expenditures	Estimated Percentage of Completion
SPLOST V						
Water Development	$ 549,523	$ 549,523	$ -	$ -	$ -	0%
Sewer	400,000	400,000	-	-	-	0%
Roads and Bridges	120,000	120,000	-	-	-	0%
Public Safety	120,000	120,000	-	36,121	36,121	30%
Public Facilities	120,000	120,000	-	-	-	0%
TOTAL SPLOST V	$ 1,309,523	$ 1,309,523	$ -	$ 36,121	$ 36,121	

	Original Estimated Cost	Current Estimated Cost	Prior Years Cumulative Expenditures	Current Year Expenditures	Total Cumulative Expenditures	Estimated Percentage of Completion
SPLOST IV						
Water Development	$ 390,489	$ 390,489	$ 377,736	$ 12,753	$ 390,489	100%
Roads and Bridges	157,719	157,719	152,516	-	152,516	97%
Public Safety						
Fire	129,173	129,173	129,170	-	129,170	100%
Police	23,500	23,500	23,500	-	23,500	100%
TOTAL SPLOST IV	$ 700,881	$ 700,881	$ 682,922	$ 12,753	$ 695,675	

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Independent Auditors' 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

Honorable Mayor, Members of the
City Council, and City Manager
Of the City of Clarkesville, Georgia
Clarkesville, Georgia

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Clarkesville, Georgia (the "City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Mayor and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Michael Mixon & Associates, CPAs, PC

Michael Mixon & Associates, CPAs, PC
Clarkesville, Georgia
June 26, 2012