CITY OF CLARKESVILLE, GEORGIA

ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2012

CITY OF CLARKESVILLE, GEORGIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012

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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 City of Clarkesville, Georgia (the "City") as of December 31, 2012, and for the year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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 City of Clarkesville, Georgia as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 11 and the Schedule of Funding Progress on page 36, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City'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) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated June 27, 2013 on our consideration of the 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.

Michael Mixon & Associates, CPAs, PC

Michael Mixon & Associates, CPAs, PC
Clarkesville Georgia
June 27, 2013

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, 2012. 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, 2012 by $9,992,489 (net position), of this amount, $2,913,750 (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 $227,060 during the year ended December 31, 2012; with the increase in business-type activities of $492,405 offsetting a decrease in governmental activities.
- The City's governmental funds reported combined ending fund balances of $2,858,769, a decrease of $237,510 in comparison with the prior year. This decrease is mainly attributable to the transfer of SPLOST funds to pay off one of the Georgia Environmental Finance Authority (GEFA) loans for the Water, Sewer, and Sanitation Fund.
- The unrestricted fund balance for the General Fund at December 31, 2012 was $2,583,774 which was 143.6% of total General Fund expenditures for the year in comparison to the prior year of 151.8%. The unrestricted General Fund balance at December 31, 2011 was $2,630,231. In comparison to 2011, the General Fund balance decreased by $46,457.
- The City's total long term debt experienced a net decrease of $672,622 during 2012. This decrease was due to principal payments at scheduled maturity dates throughout the year and an early payoff of one of the GEFA loans. The early payoff of the GEFA loan resulted in interest expense savings to the City of $152,889 over the life of the loan.

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 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 2012.

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 activities 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 21-35 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 36 of 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 $ 9,992,489 and $ 9,765,429 at December 31, 2012 and 2011 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	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and Other Assets	$ 3,895	$ 4,174	$ 528	$ 687	$ 4,423	$ 4,861
Capital Assets	1,750	1,805	7,408	7,313	9,158	9,118
Total Assets	5,645	5,979	7,936	8,000	13,581	13,979
Liabilities:						
Current and Other Liabilities	10	28	331	256	341	284
Long-Term Liabilities	-	-	2,222	2,854	2,222	2,854
Total Liabilities	10	28	2,553	3,110	2,563	3,138
Deferred Inflows of Resources:						
Unearned Property Tax Revenue	1,025	1,076	-	-	1,025	1,076
Total Deferred Inflows of Resources	1,025	1,076	-	-	1,025	1,076
Net Position:						
Invested in Capital Assets, net of Related Debt	1,751	1,779	5,054	4,314	6,805	6,093
Restricted for Capital Projects	274	463	-	-	274	463
Unrestricted	2,585	2,633	329	576	2,914	3,209
Total Net Position	$ 4,610	$ 4,875	$ 5,383	$ 4,890	$ 9,993	$ 9,765

The largest portion of the City's net position (68%) 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 restricted net position of $273,883 is restricted by contracts or agreements with outside parties, by law, or by enabling legislation to be used for capital projects.

The remaining balance of unrestricted net position $2,913,750 may be used to meet the City's ongoing obligations to citizens and creditors.

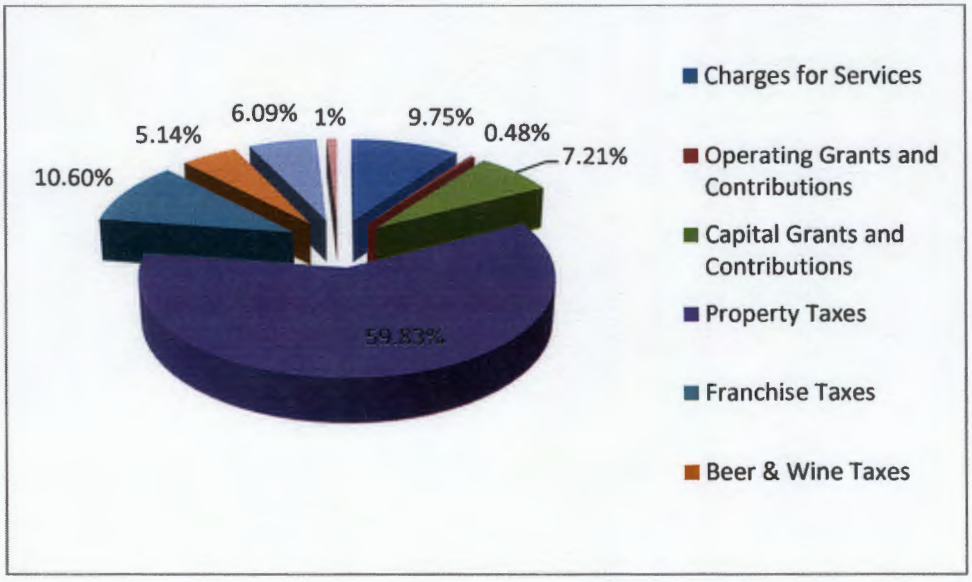
Governmental Activities: Governmental activities decreased the City's net position by $265,345 and business-type activities increased the City's net position by $492,405. In 2012, governmental activities had a decrease of $107,000 in property tax revenues and also transferred $325,000 to the water, sewer, and sanitation fund. These activities along with continued careful and conservative spending in operating expenditures resulted in only a $265,000 decrease in net position.

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, 2012 and 2011. The following chart illustrates revenues of the governmental activities for the fiscal year:

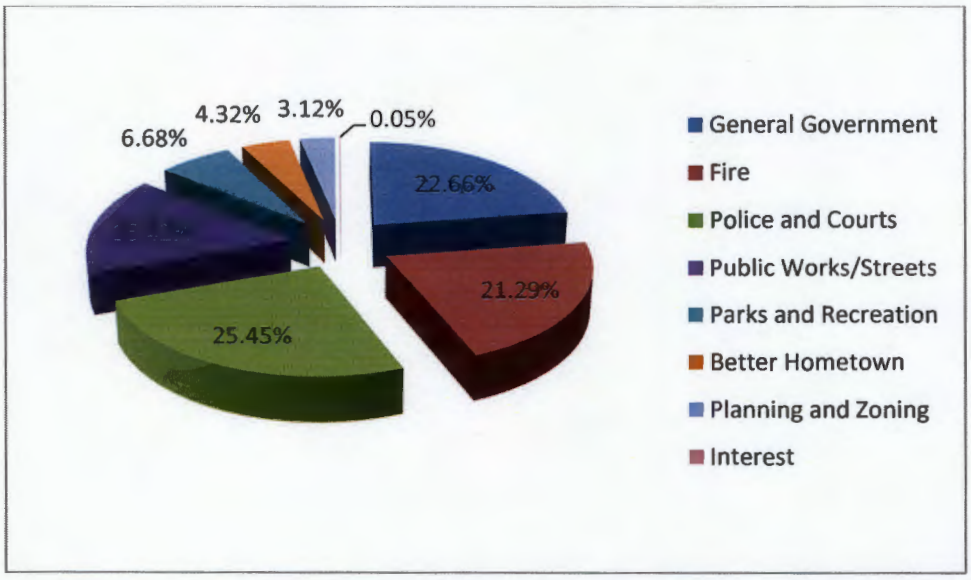
City of Clarkesville - Summary of Changes in Net Position
(dollars are in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues:						
Charges for Services	$ 184	$ 183	$ 1,767	$ 1,696	$ 1,951	$ 1,879
Operating Grants and Contributions	9	8	-	-	9	8
Capital Grants and Contributions	136	183	196	143	332	326
General Revenues:						
Property Taxes	1,129	1,236	-	-	1,129	1,236
Intangible and Transfer Taxes	5	5	-	-	5	5
Franchise Taxes	200	186	-	-	200	186
Beer & Wine Taxes	97	108	-	-	97	108
Insurance Premium Taxes	86	81	-	-	86	81
Other Taxes	24	25	-	-	24	25
Interest and Miscellaneous	17	11	4	275	21	286
Total Revenues	1,887	2,026	1,967	2,114	3,854	4,140
Expenses						
General Government	414	436	-	-	414	436
Fire	389	378	-	-	389	378
Police and Courts	465	471	-	-	465	471
Public Works/Streets	300	257	-	-	300	257
Parks and Recreation	122	123	-	-	122	123
Better Hometown	79	73	-	-	79	73
Planning and Zoning	57	57	-	-	57	57
Interest	1	2	-	-	1	2
Water, Sewer & Sanitation	-	-	1,799	1,807	1,799	1,807
Total Expenses	1,827	1,797	1,799	1,807	3,626	3,604
Transfers In(Out)	(325)	(13)	325	13	-	-
Change in Net Position	(265)	216	493	320	228	536
Beginning Net Position	4,875	4,659	4,890	4,570	9,765	9,229
Ending Net Position	$ 4,610	$ 4,875	$ 5,383	$ 4,890	$ 9,993	$ 9,765

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 $1,886,867 for fiscal year 2012. Property tax revenues make up the largest portion of these revenues accounting for 60% of total revenues. In 2012, the gross property tax digest decreased by 7.57% in comparison to 2011.

Governmental activities expenses totaled approximately $1,827,212 for fiscal year 2012. 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 23% and 16% 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 $2,858,769. This total was an 8% decrease from the prior year. Of this amount, $2,583,774 is available for spending in future years without restrictions. The remaining fund balance of $273,883 is restricted for spending on capital projects under the SPLOST program and $1,112 is assigned to 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 $328,864. Overall, the net position of this fund increased by $492,405. This increase is attributable to a reduction of total long term debt as a result of the early payoff of one of the GEFA loans. Operating revenues for this fund in 2012 were $1,767,157.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, several budget amendments were adopted by the City Council. These adjustments are included in the final budget column totals in the budgetary statement.

In 2012, General Fund revenues were a little more than budgetary projections; however actual expenditures were less than budgetary estimates. Although a loss was projected for the year, the City had an $88,402 positive change in the fund balance. Actual revenues were $8,656 higher than estimates due to conservative revenue budgeting practices which take into account the weak economy. Expenditures were less than budgetary appropriations by $79,746 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, 2012, amounted to $ 1,750,864, net of depreciation. The investment includes land, plant and buildings, machinery, equipment and fixtures, and streets. The balance represents a $54,592 decrease from the prior year, caused by depreciation expense. There were additions in 2012 in the amount of $90,525 for public safety and street equipment and improvements to the stage at Pitts Park. The business-type activities had net capital assets of $7,407,577, net of depreciation as of December 31, 2012. This balance represents a $94,118 increase from the prior year due to major additions in 2012 that included high service pumps and improvements to the water plant. Overall an additional $398,191 was added to the capital assets of the business-type activities.

Capital assets held by the City at the end of the 2012 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	
	2012	2011	2012	2011	2012	2011
Capital Assets:						
Land and Improvements	$ 259	$ 259	$ 24	$ 24	$ 283	$ 283
Buildings	1,731	1,711	-	-	1,731	1,711
Machinery/Equipment	1,520	1,451	813	775	2,333	2,226
Infrastructure	115	115	-	-	115	115
Utility Systems	-	-	9,789	9,420	9,789	9,420
Construction in Progress	-	-	-	-	-	-
Total Capital Assets	3,625	3,536	10,626	10,219	14,251	13,755
Accumulated Depreciation	(1,875)	(1,731)	(3,218)	(2,906)	(5,093)	(4,637)
Net Capital Assets	$ 1,750	$ 1,805	$ 7,408	$ 7,313	$ 9,158	$ 9,118

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, 2012, the City had $2,353,585 in total debt outstanding. The total debt outstanding is 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 31-32, 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 2013 remains very conservative. Operating costs are expected to be at or below what was required for 2012 and capital outlays planned for 2013 have been financed so that repayments for these outlays will begin in 2014.

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.

BASIC FINANCIAL STATEMENTS

CITY OF CLARKESVILLE, GEORGIA
STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Primary Government		
ASSETS	**Governmental Activities**	**Business-Type Activities**	**Total**
Cash and Cash Equivalents	$ 2,017,283	$ 556,400	$ 2,573,683
Receivables, net			
Accounts	-	362,097	362,097
Interest	45,255	-	45,255
Taxes	743,499	-	743,499
Internal Balances	648,808	(648,808)	-
Prepaid Expenses	-	-	-
Investments	439,728	259,042	698,770
Capital Assets:			
Land, Improvements, and Construction in Progress	259,486	24,000	283,486
Other Capital Assets, net of Depreciation	1,491,378	7,383,577	8,874,955
Total Assets	5,645,437	7,936,308	13,581,745
LIABILITIES			
Accounts Payable	10,606	87,465	98,071
Accrued Liabilities	-	-	-
Unearned Property Tax Revenue	1,025,198	-	1,025,198
Customer Deposits Payable	-	112,402	112,402
Construction Loan	-	-	-
Capital Leases:			
Due Within One Year	-	-	-
Due Beyond One Year	-	-	-
Notes Payable:			
Due Within One Year	-	131,312	131,312
Due Beyond One Year	-	2,222,273	2,222,273
Total Liabilities	1,035,804	2,553,452	3,589,256
NET POSITION			
Net Invested in Capital Assets	1,750,864	5,053,992	6,804,856
Restricted for Capital Projects	273,883	-	273,883
Unrestricted Net Position	2,584,886	328,864	2,913,750
Total Net Position	$ 4,609,633	$ 5,382,856	$ 9,992,489

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

CITY OF CLARKESVILLE, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Primary Government: Business-Type Activities	Net (Expense) Revenue and Changes in Net Position: Primary Government: Total
Primary Government							
Governmental Activities							
General Government	$ 414,485	$ 71,030	$ 2,500	113,779	$ (227,176)	$ -	$ (227,176)
Public Safety:					-	-	-
Fire	389,137	42,835	-	6,250	(340,052)	-	(340,052)
Police and Courts	464,963	60,846	338	6,250	(397,529)	-	(397,529)
Public Works/Streets	299,668	400	-	10,000	(289,268)	-	(289,268)
Parks and Recreation	121,946	-	419	-	(121,527)	-	(121,527)
Community Development:							
Better Hometown	79,373	-	5,354	-	(74,019)	-	(74,019)
Planning and Zoning	56,928	9,249	-	-	(47,679)	-	(47,679)
Interest on Long-Term Debt	712	-	-	-	(712)	-	(712)
Total Governmental Activities	1,827,212	184,360	8,611	136,279	(1,497,962)	-	(1,497,962)
Business-Type Activities							
Water and Sewer	1,710,360	1,612,093	-	196,010	-	97,743	97,743
Sanitation	88,790	155,064	-	-	-	66,274	66,274
Total Business-Type Activities	1,799,150	1,767,157	-	196,010	-	164,017	164,017
Total Primary Government	$ 3,626,362	$ 1,951,517	$ 8,611	$ 332,289	(1,497,962)	164,017	(1,333,945)
General Revenues							
Taxes:							
Property					1,129,182	-	1,129,182
Intangible and Transfer					4,956	-	4,956
Franchise					200,019	-	200,019
Beer and Wine					96,843	-	96,843
Insurance Premium					86,338	-	86,338
Business Taxes					23,943	-	23,943
Unrestricted Investment Earnings					2,799	3,388	6,187
Miscellaneous					13,537	-	13,537
Transfers					(325,000)	325,000	-
Total General Revenues and Transfers					1,232,617	328,388	1,561,005
Change in Net Position					(265,345)	492,405	227,060
Net Position - Beginning					4,874,978	4,890,451	9,765,429
Net Position - Ending					$ 4,609,633	$ 5,382,856	$ 9,992,489

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

CITY OF CLARKESVILLE, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General Fund	SPLOST Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	$ 1,742,288	$ 273,883	$ 1,112	$ 2,017,283
Receivables, net	788,754	-	-	788,754
Due From Other Funds	648,808	-	-	648,808
Investments	439,728	-	-	439,728
Prepaid Expenses	-	-	-	-
TOTAL ASSETS	$ 3,619,578	$ 273,883	$ 1,112	$ 3,894,573
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	$ 10,606	$ -	$ -	$ 10,606
Accrued Liabilities	-	-	-	-
Unearned Property Tax Revenue	1,025,198	-	-	1,025,198
TOTAL LIABILITIES	1,035,804	-	-	1,035,804
FUND BALANCES				
Non-Spendable	-	-	-	-
Restricted for Capital Projects	-	273,883	-	273,883
Assigned to:				
Downtown Development Authority	-	-	1,112	1,112
Unassigned Reported in:				
General Fund	2,583,774	-	-	2,583,774
TOTAL FUND BALANCES	2,583,774	273,883	1,112	2,858,769
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 3,619,578	$ 273,883	$ 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.	1,750,864
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.	-
Net Position of Governmental Activities	$ 4,609,633

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, 2012

	Major Governmental Funds		Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	SPLOST Capital Projects Fund		
REVENUES				
Taxes:				
Property	$ 1,129,182	$ -	$ -	$ 1,129,182
Intangible and Transfer	4,956	-	-	4,956
Franchise	200,019	-	-	200,019
Beer and Wine	96,843	-	-	96,843
Insurance Premiums	86,338	-	-	86,338
Business Taxes	23,943	-	-	23,943
Licenses and Permits	61,583	-	-	61,583
Intergovernmental	8,611	133,366	-	141,977
Charges for Services	61,931	-	-	61,931
Fines and Forfeitures	60,846	-	-	60,846
Investment Earnings	2,799	2,913	-	5,712
Miscellaneous	13,537	-	-	13,537
TOTAL REVENUES	1,750,588	136,279	-	1,886,867
EXPENDITURES				
Current:				
General Government	364,068	-	-	364,068
Police and Courts	446,904	22,153	-	469,057
Fire	380,436	22,152	-	402,588
Streets and Sanitation	261,336	-	-	261,336
Parks and Recreation	139,718	-	-	139,718
Better Hometown	78,213	-	-	78,213
Planning and Zoning	56,928	-	-	56,928
Debt Service:				
Principal	26,757	-	-	26,757
Interest	712	-	-	712
TOTAL EXPENDITURES	1,755,072	44,305	-	1,799,377
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(4,484)	91,974	-	87,490
OTHER FINANCING SOURCES AND USES				
Proceeds From Sale of Capital Assets	-	-	-	-
Transfers In	-	44,305	-	44,305
Transfers Out	(44,305)	(325,000)	-	(369,305)
TOTAL OTHER FINANCING SOURCES AND USES	(44,305)	(280,695)	-	(325,000)
NET CHANGES IN FUND BALANCES	(48,789)	(188,721)	-	(237,510)
FUND BALANCES - BEGINNING	2,632,563	462,604	1,112	3,096,279
FUND BALANCES - ENDING	$ 2,583,774	$ 273,883	$ 1,112	$ 2,858,769

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, 2012

Net Change in Fund Balances - Total Governmental Funds	$	(237,510)
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 ($ 145,117) exceeded capital outlays ($ 90,525) in the current period.		(54,592)
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 ($26,757).		26,757
Change in Net Position of Governmental Activities	$	(265,345)

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, 2012

	Budget			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Taxes:				
Property	$ 1,108,032	$ 1,108,032	$ 1,129,182	$ 21,150
Intangible and Transfer	5,500	5,500	4,956	(544)
Franchise	187,000	187,000	200,019	13,019
Beer and Wine	135,500	135,500	96,843	(38,657)
Insurance Premium	70,000	70,000	86,338	16,338
Business Taxes	25,000	25,000	23,943	(1,057)
Licenses and Permits	59,400	59,400	61,583	2,183
Intergovernmental	19,500	19,500	8,611	(10,889)
Charges for Services	61,000	81,000	61,931	(19,069)
Fines and Forfeitures	40,000	40,000	60,846	20,846
Investment Earnings	11,000	11,000	2,799	(8,201)
Other Revenues	-	-	13,537	13,537
TOTAL REVENUES	1,721,932	1,741,932	1,750,588	8,656
EXPENDITURES				
Current:				
General Government	357,645	374,395	364,068	10,327
Police and Courts	462,435	483,435	469,057	14,378
Fire	387,744	408,744	402,588	6,156
Streets and Sanitation	300,232	300,232	261,336	38,896
Parks and Recreation	124,475	145,225	139,718	5,507
Better Hometown	83,972	90,472	78,213	12,259
Planning and Zoning	49,120	49,120	56,928	(7,808)
Debt Service:				
Principal	27,500	26,788	26,757	31
Interest		712	712	-
TOTAL EXPENDITURES	1,793,123	1,879,123	1,799,377	79,746
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(71,191)	(137,191)	(48,789)	88,402
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital assets	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
NET CHANGE IN FUND BALANCES	(71,191)	(137,191)	(48,789)	88,402
FUND BALANCES - BEGINNING	2,203,122	2,216,058	2,632,563	416,505
FUND BALANCES - ENDING	$ 2,131,931	$ 2,078,867	$ 2,583,774	$ 504,907

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

CITY OF CLARKESVILLE, GEORGIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	Business-Type Activities - Enterprise Funds
	Water, Sewer, & Sanitation
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	$ 556,400
Accounts Receivable, net	362,097
Prepaid Expenses	-
Investments	259,042
TOTAL CURRENT ASSETS	1,177,539
NONCURRENT ASSETS	
Capital Assets:	
Land and Improvement	24,000
Construction In Progress	-
Depreciable Assets, net of Accumulated Depreciation	7,383,577
TOTAL NONCURRENT ASSETS	7,407,577
TOTAL ASSETS	8,585,116
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	87,465
Accrued Liabilities	-
Due to Other Funds	648,808
Customer Deposits Payble	112,402
Construction Loan	-
Capital Leases Payable	-
Notes Payable	131,312
TOTAL CURRENT LIABILITIES	979,987
NONCURRENT LIABILITIES	
Capital Leases	-
Notes Payable	2,222,273
TOTAL NONCURRENT LIABILITIES	2,222,273
TOTAL LIABILITIES	3,202,260
NET POSITION	
Net Invested in Capital Assets	5,053,992
Restricted for Capital Projects	-
Unrestricted	328,864
TOTAL NET POSITION	$ 5,382,856

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, 2012

	Business-Type Activities - Enterprise Funds	
	Water, Sewer, & Sanitation	
OPERATING REVENUES		
Water Fees	$	1,228,785
Sewer Fees		383,308
Sanitation Fees		155,064
TOTAL OPERATING REVENUES		1,767,157
OPERATING EXPENSES		
General		163,155
Water Treatment Plant		440,225
Sewer Treatment Plant		288,065
Water Distribution		295,294
Waste Water Collection		194,736
Sanitation		88,790
Depreciation		313,074
TOTAL OPERATING EXPENSES		1,783,339
OPERATING INCOME (LOSS)		(16,182)
NON-OPERATING REVENUES (EXPENSES)		
Intergovernmental Revenue		196,010
Interest and Investment Revenue		3,388
Miscellaneous Revenue (Expenses)		0
Interest Expense		(15,811)
TOTAL NON-OPERATING REVENUES (EXPENSES)		183,587
INCOME (LOSS) BEFORE TRANSFERS		167,405
Transfers In		325,000
Transfers Out		-
CHANGE IN NET POSITION		492,405
NET POSITION - BEGINNING		4,890,451
NET POSITION - ENDING	$	5,382,856

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, 2012

	Business-Type Activities - Enterprise Funds
	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	$ 1,622,802
Payments to Suppliers	(498,709)
Payments to or on Behalf of Employees	(881,733)
NET CASH PROVIDED FOR OPERATING ACTIVITIES	242,360
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers From Other Funds	-
Transfers to Other Funds	-
Loans from Other Funds	304,853
NET CASH PROVIDED FOR NON-CAPITAL FINANCING ACTIVITIES	304,853
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Grant Received for Capital Purchases	196,010
Transfers In From Other Funds	325,000
Proceeds from Notes Payable	-
Principal Payments on Note Payables	(645,865)
Principal Payments on Capital Lease Payables	-
Purchases of Capital Assets	(407,192)
Interest Paid	(15,811)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(547,858)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investments Purchased	(648)
Interest Earned	3,388
NET CASH USED FOR INVESTING ACTIVITIES	2,740
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,095
CASH AND CASH EQUIVALENTS - BEGINNING	554,305
CASH AND CASH EQUIVALENTS - ENDING	$ 556,400
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	$ (16,182)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation Expense	313,074
Changes in Assets and Liabilities:	
Receivables, net	(144,355)
Prepaid Expenses	-
Accounts Payables	86,173
Accrued Liabilities	-
Customer Deposit Payables	3,650
Net Cash Provided by Operating Activities	$ 242,360

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 2012 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 segment 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.

GASB Statement No. 34 required the City to report and depreciate new infrastructure assets effective with the year ended December 31, 2003. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are among the largest asset classes of the City. The City reported general infrastructure assets placed into service after January 1, 1986.

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 position.

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 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 reported as net investment in capital assets 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.

B. Budgetary Excesses

The General Fund had an excess of actual expenditures over budget in the amount of $7,808 for the planning and zoning functional area which resulted from higher than expected cost in unemployment expenses.

NOTE 3 – DEPOSITS AND INVESTMENTS

At December 31, 2012, 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, 2012 were as follows:

	Investment	Fair Value	Interest Rate Risk
Governmental Activities:	Certificates of Deposit	$ 439,728	Maturity – May 2013
Business-Type Activities:	Certificates of Deposit	259,042	Maturity - December 2013
Total Investments		$ 698,770	

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, 2012, 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 January 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 February 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	$ 853,269	$ -
Accounts	-	362,097
Less allowance for Uncollectible	(64,515)	-
Net Total Receivables	$ 788,754	$ 362,097

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 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	20,750	-	1,731,366
Machinery & Equipment	1,450,708	69,775	-	1,520,483
Infrastructure	115,000	-	-	115,000
Total assets, being depreciated	3,276,324	90,525	-	3,366,849
Less accumulated depreciation for:				
Buildings	(432,843)	(40,447)	-	(473,290)
Machinery & Equipment	(1,182,511)	(104,670)	-	(1,287,181)
Infrastructure	(115,000)	-	-	(115,000)
Total accumulated depreciation	(1,730,354)	(145,117)	-	(1,875,471)
Total assets, being depreciated, net	1,545,970	(54,592)	-	1,491,378
Governmental Activities Capital Assets, net	$ 1,805,456	$ (54,592)	$ -	$ 1,750,864

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, not being depreciated:				
Land and Improvements	$ 24,000	$ -	$ -	$ 24,000
Construction in Progress	-	-	-	-
Total assets, not being depreciated	24,000	-	-	24,000
Capital assets, being depreciated:				
Utility Systems	9,420,046	369,191	-	9,789,237
Machinery & Equipment	774,598	38,001	-	812,599
Total assets, being depreciated	10,194,644	407,192	-	10,601,836
Less accumulated depreciation for:				
Utility Systems	(2,471,763)	(258,934)	-	(2,730,697)
Machinery & Equipment	(433,422)	(54,140)	-	(487,562)
Total accumulated depreciation	(2,905,185)	(313,074)	-	(3,218,259)
Total assets, being depreciated, net	7,289,459	94,118	-	7,383,577
Business-Type Activities Capital Assets, net	$ 7,313,459	$ 94,118	$ -	$ 7,407,577

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

Governmental Activities:

General Government	$ 50,417
Public Safety:	
Fire	8,701
Police	36,927
Public Works/Streets	44,934
Parks & Recreation	2,978
Better Hometown	1,160
Total Depreciation Expense, Governmental Activities	$ 145,117

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 2012, monies were advanced to the enterprise fund to pay for capital assets and in December, $325,000 was advanced for the payoff of one of the Georgia Environmental Financing Authority loans. As of December 31, 2012, the enterprise fund owed the general fund $ 648,808.

NOTE 7 – LONG-TERM DEBT

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Capital Leases	$ 26,757	$ -	$ (26,757)	$ -	$ -
Business-Type Activities:					
Capital Leases	$ -	$ -	$ -	$ -	$ -
Notes Payable	2,999,450	-	(645,865)	2,353,585	131,287
Business-Type Activities Long-term Liabilities	$ 2,999,450	$ -	$ (645,865)	$ 2,353,585	$ 131,287

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	$ (88,573)	$ 6,527
11/24/2009	Equipment	3.80%	55,450	(34,195)	21,255
Totals			$ 150,550	$ (122,768)	$ 27,782

During 2012, the City paid the remaining balances of the capital lease payables outstanding as shown below:

Lease	Interest Rate	Maturity Dates	Beginning Balance	Additions	Reductions	Ending Balance
003-0212012-002	3.69%	4/15/2012	$ 12,609	$ -	$ (12,609)	$ -
003-0312012-004	3.80%	12/15/2012	14,148	-	(14,148)	-
Total Capital Lease Payables			$ 26,757	$ -	$ (26,757)	$ -

Business-Type Activities

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, 2012 are as follows:

Loan	Interest Rate	Maturity Dates	Beginning Balance	Additions	Reductions	Ending Balance
99L17WQ	4.25%	1/1/2021	$ 600,847	$ -	$ (54,219)	$ 546,628
2004L23WS	4.08%	1/1/2030	1,878,685	-	(71,728)	1,806,957
CWSRF09-012	3.00%	7/1/2031	519,918	-	(519,918)	-
Total Note Payables			$ 2,999,450	$ -	$ (645,865)	$ 2,353,585

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

Year Ending December 31	Principal	Interest	Total
2013	$ 131,313	$ 94,653	$ 225,966
2014	136,844	89,122	225,966
2015	142,628	83,338	225,966
2016	148,637	77,329	225,966
2017	154,954	71,012	225,966
2018-2022	736,088	255,667	991,755
2023-2027	610,199	125,133	735,332
2028-2030	292,922	13,109	306,031
Total	$ 2,353,585	$ 809,363	$ 3,162,948

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, 2012, the date the most recent actuarial valuation, there were 73 participants consisting of the following:

Retirees and beneficiaries currently receiving benefits	13
Terminated vested participants not yet receiving benefits	25
Active employees	35
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 2012, the actuarially determined contribution rate was 7.30% of covered payroll. For fiscal year 2013, based on July 1, 2012 actuarial valuation, the recommended contribution rate will be 8.27%.

Actuarial Information

For 2012, the City's actual contribution, which equaled the required contribution, was $99,642. The recommended contribution was determined as part of the July 1, 2011 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, 2012.

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
7/1/2012	$ 1,408,170	$ 1,705,844	$ 297,674	82.55%	$ 1,298,603	22.92%

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, 2012.

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)
2012	$ 99,642	$ 99,642	100%	$ -
2011	114,956	114,956	100%	-
2010	108,440	108,440	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, 2012, the City paid $1,900 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 2012.

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)
7/1/2012	$ 1,408,170	$ 1,705,844	$ 297,674	82.55%	$ 1,298,603	22.92%
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%

Note: See assumptions used for the Schedule of Funding Progress in Note 8 to the financial statements on pages 33-34.

SUPPLEMENTARY INFORMATION

CITY OF CLARKESVILLE, GEORGIA
SCHEDULE OF EXPENDITURES OF
SPECIAL PURPOSE LOCAL OPTION SALES TAX PROCEEDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	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	-	325,000	325,000	81%
Roads and Bridges	120,000	120,000	-	-	-	0%
Public Safety	120,000	120,000	36,121	44,305	80,426	67%
Public Facilities	120,000	120,000	-	-	-	0%
TOTAL SPLOST V	$ 1,309,523	$ 1,309,523	$ 36,121	$ 369,305	$ 405,426	

	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	$ 390,489	$ -	$ 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	$ 695,675	$ -	$ 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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financials audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Clarkesville, Georgia (the "City") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have our report thereon dated June 27, 2013.

Internal Control over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

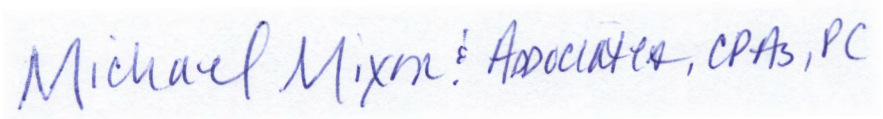
Compliance and Other Matters

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.*

Purpose of this Report

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



Michael Mixon & Associates, CPAs, PC
Clarkesville, Georgia
June 27, 2013